



SAN MIGUEL BREWERY HONG KONG LTD.

香港生力啤酒廠有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

ANNOUNCEMENT OF THE 2008 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of San Miguel Brewery Hong Kong Limited (the “Company”) submit herewith the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2008. The interim results have not been audited, but were reviewed by the Company’s Audit Committee.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2008	2007
		\$'000	\$'000
	Note		
Turnover	2,3	359,886	358,385
Cost of sales		(181,512)	(175,302)
Gross profit		178,374	183,083
Other revenue		8,372	9,437
Other net expenses		(212)	(59)
Selling and distribution expenses		(151,958)	(133,059)
Administrative expenses		(44,651)	(40,267)
Other operating expenses		(4,220)	(12,923)
(Loss)/profit from operations		(14,295)	6,212
Finance costs	4	(8,183)	(4,596)
(Loss)/profit before taxation	4	(22,478)	1,616
Income tax charge	5	(1,737)	(4,482)
Loss for the period	3	(24,215)	(2,866)
Attributable to:			
Equity shareholders of the Company		(23,453)	(3,707)
Minority interests		(762)	841
Loss for the period		(24,215)	(2,866)
Loss per share	7		
— Basic (cents)		6	1
— Diluted		N/A	N/A

CONSOLIDATED BALANCE SHEET — UNAUDITED

(Expressed in Hong Kong dollars)

		At 30 June 2008	At 31 December 2007
	Note	\$'000	\$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		1,428,191	1,328,148
— Investment properties		86,426	87,534
— Interests in leasehold land held for own use under operating leases		82,234	81,228
		1,596,851	1,496,910
Intangible assets		39,719	39,643
Goodwill		5,044	5,044
Other tangible assets		58,895	53,164
		1,700,509	1,594,761
Current assets			
Inventories		53,070	40,027
Trade and other receivables	8	89,736	96,248
Amounts due from holding companies and fellow subsidiaries		6,949	6,893
Current tax recoverable		—	71
Pledged deposits		—	18,696
Cash and cash equivalents		379,981	446,168
		529,736	608,103
Current liabilities			
Bank loans (unsecured)		(188,125)	(193,780)
Trade and other payables	9	(182,219)	(162,926)
Amounts due to holding companies and fellow subsidiaries		(10,015)	(19,110)
Current tax payable		(107)	—
		(380,466)	(375,816)
Net current assets		149,270	232,287
Total assets less current liabilities		1,849,779	1,827,048
Non-current liabilities			
Retirement benefit liabilities		(8,625)	(8,625)
Deferred tax liabilities		(69,915)	(63,960)
		(78,540)	(72,585)
NET ASSETS		1,771,239	1,754,463
CAPITAL AND RESERVES			
Share capital		186,785	186,785
Reserves		1,541,515	1,526,691
Total equity attributable to equity shareholders of the Company		1,728,300	1,713,476
Minority interests		42,939	40,987
TOTAL EQUITY		1,771,239	1,754,463

NOTES:

(Expressed in Hong Kong dollar thousands unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report is unaudited and has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”), including compliance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The interim financial report has been prepared in accordance with the same accounting policies adopted in the annual financial statements for the year ended 31 December 2007 except for the adoption of new Hong Kong Financial Reporting Standards (“HKFRS”) and Interpretation which are effective for accounting periods beginning on or after 1 January 2008 as set out below :

HK (IFRIC) 11	HKFRS 2 — Group and Treasury Share Transactions
HK (IFRIC) 12	Service Concession Arrangements

The adoption of the above new accounting standards, amendments and interpretations does not have any significant effect on the accounting policies or interim results and financial position of the Group.

The Group has not early adopted the following new or amended HKFRSs that have been issued but are not yet effective. The directors of the Company anticipate that the application of these HKFRSs will have no material impact on the financial statements of the Group.

HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKFRS 8	Operating Segments
HK(IFRIC) 13	Customer Loyalty Programmes

2 TURNOVER

The principal activities of the Group are the manufacture and distribution of bottled, canned and draught beers. As the Group’s turnover is entirely attributable to these activities, no analysis by activity is provided.

Turnover represents the invoiced value of products sold, net of discounts, returns, beer duty and consumption tax.

3 SEGMENT REPORTING

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

	Six months ended 30 June									
	PRC						Inter-segment		Consolidated	
	Hong Kong		(excluding Hong Kong)		Others		elimination			
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		(note)		(note)		(note)		(note)		(note)
Revenue from external customers	169,072	157,358	186,584	187,612	4,230	13,415	—	—	359,886	358,385
Other revenue from external customers	2,760	2,804	—	—	—	—	—	—	2,760	2,804
Total revenue	<u>171,832</u>	<u>160,162</u>	<u>186,584</u>	<u>187,612</u>	<u>4,230</u>	<u>13,415</u>	<u>—</u>	<u>—</u>	<u>362,646</u>	<u>361,189</u>
Segment results	(8,867)	(13,882)	(10,913)	14,346	(81)	(885)	—	—	(19,861)	(421)
Unallocated operating income and expenses									5,565	6,633
Finance costs									(8,182)	(4,596)
Income tax charge									(1,737)	(4,482)
Loss for the period									<u>(24,215)</u>	<u>(2,866)</u>

Note: Segment information relating to the geographical segment "Others" which was included in the geographical segment "Hong Kong" in 2007 has been separately reported. Comparative figures have been reclassified to conform with the current period's presentation.

4 LOSS/(PROFIT) BEFORE TAXATION

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Loss/(profit) before taxation is arrived at after charging/(crediting):		
(a) Finance costs		
Interest expenses on bank loans	7,637	4,505
Bank charges	546	91
	<u>8,183</u>	<u>4,596</u>
(b) Staff costs		
Retirement costs	4,529	5,687
Equity-settled share-based payment expenses	61	52
Salaries, wages and other benefits	50,142	53,636
	<u>54,732</u>	<u>59,375</u>

4 LOSS/(PROFIT) BEFORE TAXATION (Continued)

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
(c) Other items		
Amortisation		
— Land lease premium	1,221	1,281
— Other tangible assets	8,556	5,036
Depreciation		
— Property, plant and equipment	27,226	31,939
— Investment properties	1,108	1,324
Cost of inventories	178,692	172,092
Impairment losses		
— Trade and other receivables	33	6,428
Net foreign exchange gain	(1,440)	(1,451)
Write back of impairment losses		
— Other tangible assets	—	(2,519)
	<u> </u>	<u> </u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2008	2007
	\$'000	\$'000
Deferred tax		
— Origination and reversal of tax losses and temporary differences	1,737	—
— Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes	—	4,482
	<u> </u>	<u> </u>
Income tax charge	<u>1,737</u>	<u>4,482</u>

The provision for Hong Kong Profits Tax is calculated at 16.5% (six months ended 30 June 2007: 17.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the Company and certain other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the period or the entities sustained losses for taxation purposes.

No provision for overseas taxation has been made for the foreign subsidiaries because the accumulated tax losses brought forward exceed the estimated assessable profits for the period.

6 DIVIDENDS

Directors have resolved that no interim dividends will be declared for 2008. No dividends have been declared or paid during 2007.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of \$23,453,000 (six months ended 30 June 2007: \$3,707,000) and on 373,570,560 ordinary shares (at 30 June 2007: 373,570,560 ordinary shares), being the number of ordinary shares in issue during the period.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary share for both periods.

8 TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade debtors (net of impairment losses for bad and doubtful debts) with the following ageing analysis as of the balance sheet date:

	At 30 June 2008 \$'000	At 31 December 2007 \$'000
Current	40,840	37,393
Less than 1 month past due	6,104	722
1 to 3 months past due	98	926
More than 3 months but less than 12 months past due	188	521
More than 12 months past due	11,371	12,237
	<u>58,601</u>	<u>51,799</u>

Management has a credit policy in place and the exposures to those credit risks are monitored on an ongoing basis.

The credit terms given to the customers vary and are generally based on the financial strength of the individual customer. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

9 TRADE AND OTHER PAYABLES

Included in trade and other payables are trade creditors with the following ageing analysis as of the balance sheet date:

	At 30 June 2008 \$'000	At 31 December 2007 \$'000
Due within 1 month or on demand	58,645	51,320
Due after 1 month but within 3 months	178	535
Due after 3 months but within 6 months	462	653
Due over 6 months	—	392
	<u>59,285</u>	<u>52,900</u>

INTERIM RESULTS

The Group completed the first semester of 2008 with mixed results. While the Group's Hong Kong operations did extremely well, posting a 8.9% local volume growth over the prior year, this was not sufficient to offset the volume decline that we have been experiencing in the Group's South China operations.

The drop in volumes is attributable to several factors, including higher inflation rates, higher operating costs, greater competition and particularly bad weather-the worst the region has ever seen in recent memory.

These factors contributed to the 13.0% decline in consolidated local sales volume for the first six months of 2008.

Consolidated loss from operations for the six months ended 30 June 2008 was HK\$14.3 million, a reduction of HK\$20.5 million from the profit of HK\$6.2 million registered last year. The decline in volumes, combined with the continued increase in production cost contributed to the decline in profitability.

Consolidated loss attributable to equity shareholders for the first semester of 2008 is HK\$23.5 million, from HK\$3.7 million posted last year.

Given these results, the Group has adopted the appropriate strategies needed to successfully surmount the challenges-both old and new-that will affect its operating environment.

The Group remained cash positive with a net cash balance of HK\$191.9 million as of 30 June 2008. This was lower than last year's balance of HK\$271.1 million due to the expansion of the South China brewery in response to the future needs of the market and the Group's confidence in its business in South China.

Total net assets are at HK\$1,771.2 million, with a low debt-to-equity ratio of 0.11 and current ratio of 1.4 times.

Dividends

The directors have resolved that no dividends will be declared for the first six months ended 30 June 2008.

Business Review

Hong Kong Operations

Late-February saw the abolition of beer duties in Hong Kong. At the same time, wine excise duties of 40% were also abolished, thus heightening competition between the two categories, with wine posing a greater challenge to our share of the alcoholic beverage market.

Savings were passed in full to our wholesalers and retailers. Though the Group did not benefit from this zero tax regime directly, we are confident we will see positive effects on the total industry.

The Group's Hong Kong operations turned in a local sales volume growth of 8.9% over the same period in 2007, registering an overall 0.4%-point gain in market share (Source: AC Nielsen Retail Audit in June 2008) from December 2007. This was considerably better than the overall beer industry, which grew at 5.6% in the first six months of the year.

Sales of our San Miguel brand grew by 6.6%. Likewise, volumes of our imported premium brands and low-priced brands grew by 29.6% and 9.0% respectively. Volumes to Macau continued to post double-digit volume growth over the same period last year.

To start the year, the Group presented the ever-popular "San Miguel WildDayOut Grand Show" drawing in about 12,000 participants. This was then followed by a series of WildDayOut bar shows which further solidified the brand San Miguel communication platform directed specifically toward young consumers.

With the success of San Miguel's new ad "Hero", featuring celebrity endorser Mr. Jet Li, the ad continued to air through the first half of 2008.

For the remainder of 2008, the Group lined up a series of volume-generating programs. WildDayOut bar shows continue to engage consumers, while promotional activities leveraging on the 2008 Summer Olympics in Beijing are also creating excitement for the brand. Promotional activities celebrating Halloween and Christmas are also in the pipeline. All these programs and activities, together with an emphasis on the high standard of execution in the various sales channels, will continue to contribute to the Group's leadership position in Hong Kong.

South China Operations

Trading conditions in South China for the first six months of 2008 were extremely difficult. Both San Miguel (Guangdong) Brewery Company Limited ("SMGB") and Guangzhou San Miguel Brewery Company Limited ("GSMB") were severely affected by the poor weather conditions, economic downturn in South China and intense competition.

SMGB posted a double-digit volume decline during the first six months of 2008 compared to the same period last year. In a bid to adapt to the changing South China market, SMGB launched Dragon Bottled Draft in April 2008. This new product is expected to enhance the image of the Dragon brand and most importantly, to upgrade the total product portfolio mix of SMGB in response to the changing socio-demographic make-up of the market and the continuous price increases of raw materials. The launch was also strategically timed to take full advantage of the peak months of July, August and September.

To counter the effect of inflation of raw materials, SMGB also increased the price of Dragon Gold in January 2008 and of Dragon Platinum in June 2008.

Despite all the difficulties SMGB faced during the first half of 2008, SMGB is glad to report that the San Mig Light, Dragon Platinum and Dragon Gold produced in the brewery all garnered Gold Medals at the 47th Monde Selection in Brussels.

GSMB likewise experienced a double-digit sales volume decline in the first six months of 2008. To protect the bottom line amid rising product costs, GSMB implemented a price increase in San Miguel brands big bottles in June 2008.

Outlook

The outlook for the rest of the year is positive for the South China operations as the 2008 Summer Olympics in Beijing and the warmer weather are expected to drive consumption in the second half of 2008. Meanwhile, South China operations have promotional initiatives in the pipeline which will take advantage of this opportunity.

For San Miguel brands, there will be a focus on volume-generating promotional activities both in off-premise and on-premise outlets. On the other hand, Dragon Beer will launch a new campaign featuring new themed television commercials complemented with related market promotions to increase consumer interest and build brand awareness.

We are also happy to announce the re-introduction of Guang's Pineapple Beer in July 2008. This initiative is expected to contribute significantly to the growth in volumes of our South China Operations. Lastly, the bottom-line for the full year of 2008 will benefit from the price increases introduced in the first half of 2008 and price increases that have yet to be introduced in the second half of 2008.

While our results are somewhat wanting, we have taken significant steps to correct our course and get back on track for sustainable growth. We take this opportunity to reiterate our commitment to our shareholders and to work toward a more rewarding future.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed shares during the six months ended 30 June 2008.

CORPORATE GOVERNANCE

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2008, save for the deviation discussed below:

- All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.

PUBLICATION OF DETAILED INTERIM RESULTS

A detailed results announcement containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and the Company's website (<http://info.sanmiguel.com.hk>) in due course.

By order of the Board

Ramon S. Ang

Chairman

Hong Kong, 12 September 2008

As at the date of this announcement, the Board of the Company comprises the executive director, Mr. Peter K. Y. Tam, the non-executive directors, Mr. Ramon S. Ang (Chairman), Mr. Faustino F. Galang (Deputy Chairman), Mr. Carlos Antonio M. Berba, Ms. Minerva Lourdes B. Bibonia, Mr. Cheung Yuen Tak, Mr. Ferdinand K. Constantino, Ms. Jesusa Victoria Hernandez-Bautista and Mr. Francis H. Jardeleza; and the independent non-executive directors, Dr. The Hon. Sir. David K. P. Li, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago.