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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 2015 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 2015. The interim results are unaudited, but have been reviewed by the Company’s Audit Committee.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2015	2014
	<i>Note</i>	\$'000	\$'000
Turnover	3	272,271	355,679
Cost of sales		(160,368)	(204,053)
Gross profit		111,903	151,626
Other revenue		18,865	24,301
Other net income		1,335	237
Selling and distribution expenses		(99,704)	(107,971)
Administrative expenses		(39,823)	(38,167)
Other operating expenses		(4,277)	(4,738)
(Loss)/profit from operations		(11,701)	25,288
Finance costs	4(a)	(2,154)	(2,189)
(Loss)/profit before taxation	4	(13,855)	23,099
Income tax	5	—	(49)
(Loss)/profit for the period		(13,855)	23,050

		Six months ended 30 June	
		2015	2014
	<i>Note</i>	<i>\$'000</i>	<i>\$'000</i>
Attributable to:			
Equity shareholders of the Company		(14,641)	21,481
Non-controlling interests		786	1,569
(Loss)/profit for the period		(13,855)	23,050
(Loss)/earnings per share			
— Basic (cents)	7(a)	(3.9)	5.8
— Diluted (cents)	7(b)	N/A	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED*(Expressed in Hong Kong dollars)*

	Six months ended 30 June	
	2015	2014
	\$'000	\$'000
(Loss)/profit for the period	(13,855)	23,050
	-----	-----
Other comprehensive income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of subsidiaries outside Hong Kong	(111)	3,559
— monetary items that form part of the net investment in subsidiaries outside Hong Kong	123	(3,515)
	-----	-----
	12	44
	-----	-----
Total comprehensive income for the period	(13,843)	23,094
	=====	=====
Attributable to:		
Equity shareholders of the Company	(14,621)	21,234
Non-controlling interests	778	1,860
	-----	-----
Total comprehensive income for the period	(13,843)	23,094
	=====	=====

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

(Expressed in Hong Kong dollars)

		At 30 June 2015 \$'000	At 31 December 2014 \$'000
	<i>Note</i>		
Non-current assets			
Fixed assets			
— Property, plant and equipment		444,553	452,050
— Investment properties		81,385	82,750
— Interests in leasehold land held for own use under operating leases		85,218	86,509
		<u>611,156</u>	<u>621,309</u>
Intangible assets		5,187	5,187
Other tangible assets		142	—
		<u>616,485</u>	<u>626,496</u>
Current assets			
Inventories		49,225	51,425
Trade and other receivables	8	65,095	82,639
Amounts due from holding companies and fellow subsidiaries		12,088	11,490
Amount due from a related company		180	665
Bank deposits		32,977	27,054
Cash and cash equivalents		106,558	108,574
		<u>266,123</u>	<u>281,847</u>
Current liabilities			
Trade and other payables	9	(104,632)	(111,818)
Loan from an intermediate holding company		(25,438)	(50,904)
Amounts due to holding companies and fellow subsidiaries		(5,936)	(5,414)
Amounts due to related companies		(4,395)	(5,671)
		<u>(140,401)</u>	<u>(173,807)</u>
Net current assets		<u>125,722</u>	<u>108,040</u>
Total assets less current liabilities		<u>742,207</u>	<u>734,536</u>

	At 30 June 2015 \$'000	At 31 December 2014 \$'000
<i>Note</i>		
Non-current liabilities		
Loan from an intermediate holding company	(165,346)	(139,985)
Retirement benefit liabilities	(20,004)	(20,115)
Deferred tax liabilities	(2,487)	(2,487)
	<u>(187,837)</u>	<u>(162,587)</u>
NET ASSETS	<u>554,370</u>	<u>571,949</u>
CAPITAL AND RESERVES		
Share capital and other statutory capital reserves	252,524	252,524
Other reserves	329,029	347,386
	<u>581,553</u>	<u>599,910</u>
Total equity attributable to equity shareholders of the Company	581,553	599,910
Non-controlling interests	(27,183)	(27,961)
	<u>554,370</u>	<u>571,949</u>
TOTAL EQUITY	<u>554,370</u>	<u>571,949</u>

NOTES:

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

The interim financial report 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”). It was authorised for issue on 5 August 2015.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2014 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2015 annual financial statements. Details of these changes in accounting policies are set out in note 2.

Notwithstanding the negative net cash balances position of the Group, the Company’s intermediate holding company, namely San Miguel Brewery Inc., a listed company in the Republic of the Philippines, has committed to provide continuing support to enable the Group to operate as a going concern and meet its liabilities as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2014 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRSs”).

The interim financial report is unaudited but has been reviewed by the Company’s Audit Committee.

The financial information relating to the financial year ended 31 December 2014 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for the financial year but is derived from those financial statements. Statutory audited financial statements for the year ended 31 December 2014 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 17 February 2015.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments of HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 19, *Defined benefit plans: Employee contributions*
- *Annual improvements to HKFRSs 2010-2012 cycle*
- *Annual improvements to HKFRSs 2011-2013 cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 TURNOVER AND SEGMENT REPORTING

(a) 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, value added tax and consumption tax.

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment Reporting

(i) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods ended 30 June 2015 and 2014 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from						
external customers	182,751	275,035	89,520	80,644	272,271	355,679
Inter-segment						
revenue	86	86	—	—	86	86
Reportable						
segment revenue	182,837	275,121	89,520	80,644	272,357	355,765
Reportable segment						
(loss)/profit						
from operations	(19,230)	15,622	5,375	7,477	(13,855)	23,099
	Hong Kong		Mainland China		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2015	2014	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable						
segment assets	1,190,196	1,220,424	73,491	68,843	1,263,687	1,289,267
Reportable segment						
liabilities	266,137	275,170	440,693	439,661	706,830	714,831

3 TURNOVER AND SEGMENT REPORTING (Continued)

(b) Segment Reporting (Continued)

(ii) Reconciliation of reportable segment revenue, profit or loss, assets and liabilities

	Six months ended 30 June	
	2015	2014
	\$'000	\$'000
Revenue		
Reportable segment revenue	272,357	355,765
Elimination of inter-segment revenue	(86)	(86)
Consolidated turnover	<u>272,271</u>	<u>355,679</u>
(Loss)/profit		
Reportable segment (loss)/profit from operations	(13,855)	23,099
Elimination of inter-segment profits	—	—
Reportable segment (loss)/profit derived from Group's external customers and consolidated (loss)/profit before taxation	<u>(13,855)</u>	<u>23,099</u>
	At 30 June	At 31 December
	2015	2014
	\$'000	\$'000
Assets		
Reportable segment assets	1,263,687	1,289,267
Elimination of inter-segment receivables	(381,079)	(380,924)
Consolidated total assets	<u>882,608</u>	<u>908,343</u>
Liabilities		
Reportable segment liabilities	706,830	714,831
Elimination of inter-segment payables	(381,079)	(380,924)
	325,751	333,907
Deferred tax liabilities	2,487	2,487
Consolidated total liabilities	<u>328,238</u>	<u>336,394</u>

3 TURNOVER AND SEGMENT REPORTING *(Continued)*

(b) Segment Reporting *(Continued)*

(iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's fixed assets, intangible assets and other tangible assets ("specified non-current assets"). The geographic location of customers is based on the country of establishment of each customer. The geographic location of the specified non-current assets is based on the physical location of the assets, in the case of fixed assets and other tangible assets and, the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from external customers		Specified non-current assets	
	Six months ended 30 June		At 30 June	At 31 December
	2015	2014	2015	2014
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	144,919	219,132	586,537	596,271
Mainland China	46,159	52,771	29,948	30,225
Philippines	78,732	77,335	—	—
Others	2,461	6,441	—	—
	127,352	136,547	29,948	30,225
	272,271	355,679	616,485	626,496

4 (LOSS)/PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2015	2014
	\$'000	\$'000
(Loss)/profit before taxation is arrived at after charging:		
(a) Finance costs		
Interest expense on loan from an intermediate holding company wholly repayable within five years	2,084	2,115
Bank charges	70	74
	<u>2,154</u>	<u>2,189</u>
(b) Staff costs		
Retirement costs	6,071	6,174
Salaries, wages and other benefits	59,539	58,031
	<u>65,610</u>	<u>64,205</u>
(c) Other items:		
Amortisation on land lease premium	1,301	1,300
Depreciation		
— Property, plant and equipment	9,580	9,461
— Investment properties	1,365	1,360
Cost of inventories	158,790	202,383
Provision for impairment losses on trade and other receivables	160	223
	<u>160</u>	<u>223</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2015	2014
	\$'000	\$'000
Current tax — Outside Hong Kong		
— Provision for the period	—	(49)
	-----	-----
Deferred tax		
— Origination and reversal of temporary differences	—	—
	-----	-----
Income tax charge	—	(49)
	=====	=====

The statutory tax rate applicable to the Company and other Hong Kong subsidiaries was 16.5% (2014: 16.5%). No provision for Hong Kong Profits Tax for the six months ended 30 June 2015 has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the period or the entities sustained losses for taxation purposes.

The statutory tax rate applicable to the subsidiaries established in the People's Republic of China ("PRC") was 25% (2014: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

Provision for current tax outside Hong Kong for the six months ended 30 June 2015 and 2014 represented a withholding tax levied at 10% on interest income earned in the PRC by a subsidiary which is a non-PRC resident according to the relevant rules and regulations of the PRC.

6 DIVIDENDS

(i) Dividends payable to equity shareholders attributable to the interim period

	2015 \$'000	2014 \$'000
The Board resolved that no interim dividends will be declared for 2015 (2014: \$0.01 per ordinary share)	—	3,736

The interim dividend declared after the end of the reporting period had not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June 2015 \$'000	2014 \$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of \$0.01 per ordinary share (six months ended 30 June 2014: \$0.01 per ordinary share)	3,736	3,736

7 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company for the six months ended 30 June 2015 of \$14,641,000 (profit attributable to equity shareholders of the Company for the six months ended 30 June 2014: \$21,481,000) and on 373,570,560 ordinary shares (at 30 June 2014: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted (loss)/earnings per share

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

8 TRADE AND OTHER RECEIVABLES

The ageing of trade receivables (net of allowance for doubtful debts) as at the end of the reporting period is as follows:

	At 30 June 2015 \$'000	At 31 December 2014 \$'000
Current	40,955	53,930
Less than 1 month past due	7,084	8,667
1 to 3 months past due	693	3,161
More than 3 months but less than 12 months past due	1,375	1,689
More than 12 months past due	921	1,805
	<u>51,028</u>	<u>69,252</u>

The general credit period is payment by the end of the month following the month in which sales took place. Therefore, all the current balances above are within two months from the invoice date.

Management has a credit policy in place and the exposures to this credit risk is 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

The ageing of trade payables as at the end of the reporting period is as follows:

	At 30 June 2015 \$'000	At 31 December 2014 \$'000
Current and less than 1 month past due	43,667	42,359
1 to 3 months past due	1,672	4,616
3 to 6 months past due	93	331
More than 6 months past due	1,316	142
	<u>46,748</u>	<u>47,448</u>

The Group's general payment terms are one to two months from the invoice date. Therefore, the current and less than 1 month past due balances above are mostly within two to three months from the invoice date.

INTERIM RESULTS

San Miguel Brewery Hong Kong Limited and its subsidiaries (the “Group”) registered a consolidated loss of HK\$13.9 million for the first six months of the year (2014: consolidated profit of HK\$23.1 million). Net loss attributable to equity shareholders was HK\$14.6 million (2014: net profit of HK\$21.5 million).

The Group’s consolidated turnover was at HK\$272.3 million, down 23.5% from the same period in 2014. Gross profit was HK\$111.9 million, with a gross profit margin of 41.1%.

As of 30 June 2015, cash and cash equivalents, excluding bank loans, amounted to HK\$139.5 million (as at 31 December 2014: HK\$135.6 million). Meanwhile, total debt at the end of the period amounted to HK\$190.8 million (HK\$190.9 million as of 31 December 2014). Total net assets were HK\$554.4 million (HK\$571.9 million as of 31 December 2014), with a debt-to-equity ratio of 0.34 (31 December 2014: 0.33).

DIVIDENDS

The Board resolved that no dividends will be declared for the first six months of 2015.

BUSINESS REVIEW

Hong Kong Operations

As disclosed in a profit warning announcement last July 6, 2015, our Hong Kong operations registered volume losses in the first six months of the year due to the non-renewal of distribution agreements with Anheuser-Busch InBev China Sales Company Limited and Anheuser-Busch InBev International GmbH & Co KG in 2014. Prior to the profit warning, a disclosure was made on the same development on October 15, 2014. Compounding the net loss were operating costs associated with the sales and marketing operations of the discontinued products, which we had to absorb.

Keeping in line with our key strategy of maintaining a diversified brand portfolio, SMBHK quickly developed a new portfolio of premium, craft brands. Already, we have made big strides in beefing up our roster of brands. Last February, we entered into a distribution agreement with Mahou S.A. for the exclusive distribution of Mahou Cinco Estrellas. We also started selling the following brands: Angry Orchard Cider, Mac’s Great White, Rebel IPA, Samuel Adams Boston Lager, Spitfire Kentish Ale, Whitstable Bay Blonde and Whitstable Bay Pale Ale.

To strengthen our own beer brands, we launched San Miguel Cerveza Negra in July of 2014 and Red Horse Beer in February 2015. With the introduction of these brands, our aim is to create excitement in the market and increase our competitiveness in the premium segment.

Encouragingly, San Miguel Cerveza Negra was well received by the market. In the first half of 2015, the brand registered a 72% volume improvement over the prior semester.

To promote our flagship San Miguel Pale Pilsen, we continued to air the thematic TVC, “Real Friends”, which we complemented with our market-wide consumer promotion, “Dining with Friends”. To maximise visibility, both initiatives were supported by print, outdoor, and point-of-sale advertising.

San Mig Light and Kirin continued to register double-digit growth. To improve San Mig Light’s visibility and encourage product trial, we employed outdoor advertising and consumer promotions. We also sponsored various music and sports events. Meanwhile, to enhance the position of Japanese premium beer Kirin, an integrated advertising, public relations, digital and consumer promotion campaign entitled “Beauty of Japan” was launched.

South China Operations

Our two subsidiaries in South China posted significant improvements, ending the first half of the year with a double-digit increase in both consolidated sales volume and net sales revenue. We attribute this improvement to a higher average selling prices coupled with effective discount management for Guangzhou San Miguel Brewery Company Limited (“GSMB”), and the increase in the export business of San Miguel (Guangdong) Brewery Company Limited (“SMGB”).

Still a key component of GSMB’s going-to-market and distribution strategy is the Dealer Development Program, which affords us greater control of the value chain. As a result of our focus and the efficiency of the program, sales volumes in East, West, and North Guangdong have improved significantly.

To increase visibility for San Miguel Pale Pilsen and San Mig Light, we launched “Enjoy a Trip to Spain”, a market-wide consumer program we promoted through a point-of-sale visibility blitz and traditional and online communications. In addition, we released special packaging designs for both brands. GSMB also aired a television commercial for San Miguel Pale Pilsen to sustain awareness, particularly during the summer season.

Last April, GSMB revamped the carton packaging of all Dragon variants, to enhance shelf impact. More significantly, GSMB launched a new tagline for the brand, “Dragon Beer, the Good-Tasting Beer”, to reflect its new campaign platform. This was heavily supported by point-of-sale visibility activities.

SMGB, which serves as one of the production bases for San Miguel Brewing International’s export business, delivered double-digit growth in the first six months of 2015, compared to the same period last year.

There is still much that remains to be done to improve our South China operations. A calculated approach of balancing sales and profitability will continue to guide our operations as we move forward.

OUTLOOK

Overall, the Company maintains an optimistic outlook for the rest of the year despite setbacks and challenges encountered in the last year. We are confident that the programs we have in place, together with the commitment of our employees, will continue to bring our brands great success.

Management would like to thank the members of the board for their guidance, and our employees for their dedication and hard work. We extend our gratitude, too, to all our customers and business associates, for their continued patronage and trust.

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 2015.

CORPORATE GOVERNANCE

The Company has applied the principles set out in the Corporate Governance Code (the “CG Code”) as contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2015, save for the deviation discussed below:

- All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1 of the CG Code) 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, 5 August 2015

As at the date of this announcement, the Board of the Company comprises the executive director, Mr. Ramon G. Torralba, the non-executive directors, Mr. Ramon S. Ang (Chairman), Mr. Carlos Antonio M. Berba (Deputy Chairman), Ms. Chan Wen Mee, May (Michelle), Mr. Teruyuki Daino, Mr. Takashi Hayashi, Mr. Roberto N. Huang and Mr. Takeshi Wada; and the independent non-executive directors, Dr. the Hon. Sir David K. P. Li, Mr. Ng Wai Sun, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago.