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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 RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors of San Miguel Brewery Hong Kong Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2019, together with the comparative figures for the previous financial year. The annual results have been reviewed by the Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	<i>Note</i>	2019 \$'000	2018 \$'000 <i>(Note)</i>
Revenue	3	580,050	584,609
Cost of sales		(321,204)	(330,670)
Gross profit		258,846	253,939
Other net income	4	26,972	40,001
Selling and distribution expenses		(190,156)	(189,968)
Administrative expenses		(80,127)	(80,803)
Other operating expenses		(7,747)	(7,859)
Impairment losses for property, plant and equipment		—	(80,000)
Profit/(loss) from operations		7,788	(64,690)
Finance costs	5(a)	(4,478)	(6,170)
Profit/(loss) before taxation	3,5	3,310	(70,860)
Income tax credit/(charge)	6	4,990	(3,228)
Profit/(loss) for the year		8,300	(74,088)

CONSOLIDATED INCOME STATEMENT *(Continued)**for the year ended 31 December 2019**(Expressed in Hong Kong dollars)*

	<i>Note</i>	2019 \$'000	2018 \$'000 <i>(Note)</i>
Attributable to:			
Equity shareholders of the Company		11,583	(73,556)
Non-controlling interests		(3,283)	(532)
Profit/(loss) for the year		8,300	(74,088)
Earnings/(loss) per share			
— Basic (cents)	7(a)	3	(20)
— Diluted (cents)	7(b)	N/A	N/A

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2019

(Expressed in Hong Kong dollars)

	2019	2018
	\$'000	\$'000
		<i>(Note)</i>
Profit/(loss) for the year	8,300	(74,088)
	-----	-----
Other comprehensive income for the year (after tax)		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong and monetary items that form part of the net investment in subsidiaries outside Hong Kong	(1,225)	(2,171)
	-----	-----
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gains and losses of defined benefit retirement plan	8,252	(7,884)
	-----	-----
	7,027	(10,055)
	-----	-----
Total comprehensive income for the year	15,327	(84,143)
	=====	=====
Attributable to:		
Equity shareholders of the Company	18,279	(84,933)
Non-controlling interests	(2,952)	790
	-----	-----
Total comprehensive income for the year	15,327	(84,143)
	=====	=====

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2019

(Expressed in Hong Kong dollars)

	<i>Note</i>	2019 \$'000	2018 \$'000 (Note)
Non-current assets			
Property, plant and equipment		352,764	362,211
Investment properties		121,613	125,497
		474,377	487,708
Intangible assets		4,771	4,771
		479,148	492,479
Current assets			
Inventories		51,027	42,209
Trade and other receivables	8	51,399	50,866
Amounts due from holding companies and fellow subsidiaries		19,595	24,087
Amount due from a related company		1,492	3,661
Bank deposits		22,661	36,718
Cash and cash equivalents		106,732	81,091
		252,906	238,632
Current liabilities			
Trade and other payables	9	(83,301)	(77,515)
Loan from an intermediate holding company		(51,115)	(51,394)
Amounts due to holding companies and fellow subsidiaries		(9,410)	(7,878)
Amounts due to related companies		(8,632)	(7,037)
Lease liabilities		(932)	—
Current tax payable		(894)	(313)
		(154,284)	(144,137)
Net current assets		98,622	94,495

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)**at 31 December 2019**(Expressed in Hong Kong dollars)*

	2019	2018
	\$'000	\$'000
		<i>(Note)</i>
Total assets less current liabilities	577,770	586,974
	-----	-----
Non-current liabilities		
Loan from an intermediate holding company	(51,115)	(64,243)
Retirement benefit liabilities	(10,741)	(17,697)
Deferred tax liabilities	—	(4,366)
	-----	-----
	(61,856)	(86,306)
	-----	-----
NET ASSETS	515,914	500,668
	=====	=====
CAPITAL AND RESERVES		
Share capital	252,524	252,524
Other reserves	291,560	273,634
	-----	-----
Total equity attributable to equity		
shareholders of the Company	544,084	526,158
Non-controlling interests	(28,170)	(25,490)
	-----	-----
TOTAL EQUITY	515,914	500,668
	=====	=====

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

NOTES TO THE ANNUAL RESULTS

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

The unaudited financial information relating to the year ended 31 December 2019 and the financial information relating to the year ended 31 December 2018 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2018, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance ("Companies Ordinance") is as follows:

The financial statements for the year ended 31 December 2019 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on these financial statements for the year ended 31 December 2018. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The statutory financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. The statutory financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the statutory financial statements is the historical cost basis.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of these developments have had a material effect on how the Group's results and the 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.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases — incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

HKFRS 16 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to assess the effect that leases have on the financial position, financial performance and cash flows of an entity.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under HKAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) *New definition of a lease*

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

HKFRS 16, Leases *(Continued)*

(a) New definition of a lease (Continued)

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases. Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets which are exempt. As far as the Group is concerned, these newly capitalised leases are primarily in relation to property, plant and equipment.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 2.62%.

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16 which the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

HKFRS 16, Leases (Continued)

(b) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 \$'000
Operating lease commitments at 31 December 2018	2,447
Less: commitments relating to leases exempt from capitalisation:	
– Short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(366)
	2,081
Less: total future interest expenses	(42)
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	2,039

The right-of-use assets (“ROU assets”) in relation to leases previously classified as operating leases have been recognised as if HKFRS 16 had always been applied since the commencement date of the lease (other than discounting using the relevant incremental borrowing rate at the date of initial application of HKFRS 16). The Group recognised the ROU assets of \$1,958,000 and the lease liability of \$2,039,000 at the date of initial application of HKFRS 16. The difference between the ROU assets and the lease liabilities of \$81,000 is recognised as an adjustment to the opening balance of equity.

(c) Lessor accounting

The Group leases out a number of items of properties as the lessor of operating leases. The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are the manufacture and distribution of bottled, canned and draught beers.

Revenue represents the invoiced value of products sold, net of discounts, returns, value added tax and consumption tax.

(b) Segment reporting

The Group manages its businesses by geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

- The Hong Kong operations mainly comprise the manufacture and distribution of own brewed beer products and distribution of imported beer products in Hong Kong and overseas.
- The Mainland China operations mainly comprise the manufacture and distribution of own brewed beer products in the southern part of the People's Republic of China ("PRC") and overseas.

All of the Group's revenue is generated from the manufacture and distribution of bottled, canned and draught beers.

(i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets. Segment liabilities include trade creditors and accruals attributable to the manufacture and distribution activities of the individual segments and retirement benefit liabilities managed directly by the segment and other current liabilities with the exception of deferred tax liabilities.

The measure used for reportable segment profit or loss is "adjusted EBIT" i.e. adjusted earnings before interest and taxes, where "interest": is regarded as including interest income from bank deposits and interest expense on loan from an intermediate holding company. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as net foreign exchange losses. Inter-segment sales are priced at cost plus a profit margin.

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

(i) Segment results, assets and liabilities (Continued)

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 years ended 31 December 2019 and 2018 is set out below:

	Hong Kong		Mainland China		Total	
	2019	2018	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
		(Note)		(Note)		(Note)
Revenue from external customers	384,663	390,548	195,387	194,061	580,050	584,609
Inter-segment revenue	327	321	—	—	327	321
Reportable segment revenue	384,990	390,869	195,387	194,061	580,377	584,930
Reportable segment (loss)/profit before taxation from operations (adjusted EBIT)	(1,989)	(81,415)	7,780	14,502	5,791	(66,913)
Interest income from bank deposits	1,252	1,681	325	280	1,577	1,961
Interest expense on loans	(4,303)	(6,040)	—	—	(4,303)	(6,040)
Depreciation and amortisation for the year	(20,270)	(23,203)	(3,801)	(2,369)	(24,071)	(25,572)
(Provision for)/reversal of impairment losses recognised in profit or loss in respect of:						
— Property, plant and equipment	—	(80,000)	—	—	—	(80,000)
— trade and other receivables	(1)	(400)	5	1	4	(399)
Reportable segment assets	997,973	1,012,981	117,848	103,271	1,115,821	1,116,252
Additions to non-current segment assets during the year	7,275	12,944	3,531	6,167	10,806	19,111
Reportable segment liabilities	170,940	188,432	428,967	422,786	599,907	611,218

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

3 REVENUE AND SEGMENT REPORTING (Continued)

(b) Segment reporting (Continued)

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

	2019 \$'000	2018 \$'000
Revenue		
Reportable segment revenue	580,377	584,930
Elimination of inter-segment revenue	(327)	(321)
Consolidated revenue	<u>580,050</u>	<u>584,609</u>
Profit/(loss)		
Reportable segment profit/(loss) from operations	5,791	(66,913)
Interest income from bank deposits	1,577	1,961
Net foreign exchange gains	282	132
Interest on lease liabilities	(37)	—
Interest expenses on loan from an intermediate holding company	(4,303)	(6,040)
Consolidated profit/(loss) before taxation	<u>3,310</u>	<u>(70,860)</u>
Assets		
Reportable segment assets	1,115,821	1,116,252
Elimination of inter-segment receivables	(383,767)	(385,141)
Consolidated total assets	<u>732,054</u>	<u>731,111</u>
Liabilities		
Reportable segment liabilities	599,907	611,218
Elimination of inter-segment payables	(383,767)	(385,141)
Deferred tax liabilities	216,140	226,077
Consolidated total liabilities	<u>216,140</u>	<u>230,443</u>

3 REVENUE 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 non-current 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 property, plant and equipment, investment properties and leasehold land, 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	
	2019	2018	2019	2018
	\$'000	\$'000	\$'000	\$'000
				(Note)
Hong Kong (place of domicile)	267,792	276,625	448,158	462,456
Mainland China	93,693	94,585	30,990	30,023
Philippines	210,663	205,655	—	—
Others	7,902	7,744	—	—
	312,258	307,984	30,990	30,023
	580,050	584,609	479,148	492,479

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

3 REVENUE AND SEGMENT REPORTING (Continued)

(c) Major customers

The Group's customer base is diversified and includes one customer (2018: one customer), with whom transactions have exceeded 10% of the Group's revenues. Revenue from sales to these customers during the report period are set out as below.

	2019 \$'000	2018 \$'000
Largest customer (arose from both Hong Kong and the Mainland China segments)	210,749	205,749
— Percentage of total revenue	36%	35%

4 OTHER NET INCOME

	2019 \$'000	2018 \$'000
Rental income from investment properties	23,706	22,465
Interest income from bank deposits	1,577	1,961
Net gain on disposal of non-current assets	913	894
Net foreign exchange gains	282	132
Advertising and promotion subsidy	—	14,175
Others	494	374
	26,972	40,001

5 PROFIT/(LOSS) BEFORE TAXATION

Profit/(loss) before taxation is arrived at after charging/(crediting):

	2019 \$'000	2018 \$'000 (Note)
(a) Finance costs		
Interest expense on loan from an intermediate holding company	4,303	6,040
Interest on lease liabilities	37	—
Bank charges	138	130
	<u>4,478</u>	<u>6,170</u>
(b) Staff costs		
Retirement costs		
— Defined contribution retirement plans	6,199	6,621
— Defined benefit retirement plan	5,263	4,918
	<u>11,462</u>	<u>11,539</u>
Salaries, wages and other benefits	122,952	123,067
	<u>134,414</u>	<u>134,606</u>

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

5 PROFIT/(LOSS) BEFORE TAXATION (Continued)

Profit/(loss) before taxation is arrived at after charging/(crediting): (Continued)

	2019 \$'000	2018 \$'000
(c) Other items		
Depreciation		
— Property, plant and equipment *	19,332	20,863
— Investment properties	4,739	4,709
Cost of inventories	318,340	328,601
Total minimum lease payments previously classified as operating lease under HKAS 17*		
— Land and buildings	—	1,659
— Other assets	—	305
Expenses relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	830	—
Rental receivable from investment properties less direct outgoings of \$7,860,000 (2018: \$7,951,000)	(15,846)	(14,514)
Auditors' remuneration	3,306	3,295
Net (reversal of)/provision for impairment of trade and other receivables	(4)	399
	<u> </u>	<u> </u>

* The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. After initial recognition of right-of-use assets at 1 January 2019, the Group as a lessee is required to recognise the depreciation of right-of-use assets, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. Under this approach, the comparative information is not restated. See note 2.

6 TAXATION IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2019 \$'000	2018 \$'000
Current tax — Hong Kong		
Provision for the year	601	918
Over-provision in prior year	(20)	—
	<u>581</u>	<u>918</u>
Deferred tax		
Origination and reversal of temporary differences	(5,571)	2,310
	<u>(4,990)</u>	<u>3,228</u>

The provision for Hong Kong Profits Tax for 2019 is calculated at 16.5% (2018: 16.5%) of the estimated assessable profits for the year, except for one subsidiary of the Group which is a qualifying corporation under the two-tiered Profits Tax rate regime.

For this subsidiary, the first \$2 million of assessable profits are taxed at 8.25% and the remaining assessable profits are taxed at 16.5%. The provision for Hong Kong Profits Tax for this subsidiary was calculated at the same basis in 2018.

The statutory tax rate applicable to the subsidiaries established in the PRC was 25% (2018: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purpose.

7 EARNINGS/(LOSS) PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of \$11,583,000 (2018: loss of \$73,556,000) and on 373,570,560 (2018: 373,570,560) ordinary shares, being the number of ordinary shares in issue throughout the year.

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is not presented as the Company did not have dilutive potential ordinary shares for both years presented.

8 TRADE AND OTHER RECEIVABLES

Credit limits are offered to customers following a financial assessment and an established payment record. Security in the form of mortgages, cash deposits or bank guarantees is obtained from certain customers. Customers who are considered to have higher credit risk are required to trade on a cash basis. Credit control staff monitors trade receivables and follow up collections.

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

	2019	2018
	\$'000	\$'000
Current	29,709	32,964
Less than 1 month past due	5,829	5,140
1 to 3 months past due	2,106	1,095
More than 3 months but less than 12 months past due	1,360	910
More than 12 months past due	367	252
	39,371	40,361

According to the Group's credit policy, the general credit period is payment by the end of the month following the month in which sales take place. Therefore, all the current balances above are within two months from the invoice date.

9 TRADE AND OTHER PAYABLES

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

	2019	2018
	\$'000	\$'000
Current and less than 1 month past due	39,894	32,200
1 to 3 months past due	3,904	984
3 to 6 months past due	312	43
More than 6 months past due	135	200
	44,245	33,427

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

FINANCIAL RESULTS

The Group registered a consolidated profit of HK\$8.3 million in 2019 (2018: consolidated loss of HK\$74.1 million). Net profit attributable to equity shareholders for 2019 reached HK\$11.6 million (2018: net loss of HK\$73.6 million).

The Group's consolidated revenue was HK\$580.1 million, 0.8% lower than the same period in 2018. Gross profit reached HK\$258.8 million, 1.9% better than the HK\$253.9 million in 2018, with a gross profit margin of 44.6%.

As of 31 December 2019, cash and cash equivalents and bank deposits amounted to HK\$129.4 million (HK\$117.8 million as of 31 December 2018).

Loans as of 31 December 2019 totaled HK\$102.2 million, 11.6% lower than the HK\$115.6 million debt reported the prior year. Total net assets stood at HK\$515.9 million (HK\$500.7 million as of 31 December 2018), with a loan-to-equity ratio of 0.20 (31 December 2018: 0.23).

DIVIDENDS

No final dividends will be declared for the year ended 31 December 2019.

BUSINESS REVIEW

Hong Kong Operations

The social unrest that began in the second half of 2019 has considerably affected the lifestyle and consumption habits of people in Hong Kong, and have had significant repercussions on the local economy. Inbound tourism dropped by 14% compared to 2018. Hong Kong's economy contracted, entering into a recession in the third quarter of 2019. The beer industry shrunk by 5%, with the mainstream beer segment the most affected. Because of the unrest, consumption shifted from on-premise outlets to off-premise.

Our sales volumes were better than the industry average, with volumes declining by 1%. It was in the tourism-dependent segments of on-premise in the second half of 2019 that the decline was most evident. This was however offset by a 2% increase in our export volume, which allowed our Hong Kong operations to maintain total volume performance over the previous year.

In the local market, the Company improved its market share by responding quickly and decisively to shifting market dynamics, even as we also ensured that our diversified portfolio of brands was available to serve different market segments. As Hong Kong consumers shifted to consuming beer at home, the Company organized two rounds of the San Miguel market-wide lucky draw promotion. Tactical advertising on television and on the internet ensured high awareness, participation, and consumption. A series of premium redemption promotions were organized throughout the year to push volumes in convenience stores.

The Hong Kong Tourism Board cancelled last year's Hong Kong Dragon Boat Carnival, of which San Miguel is the exclusive beer sponsor.

San Mig Light continued to perform well, registering double-digit volume and revenue growth across all channels compared to last year. In the premium, specialty, and craft beer segment, San Miguel Cerveza Negra also registered double-digit volume and revenue growth.

In the lower-priced segment, our brand Blue Ice Beer was able to increase its market share, following efforts to improve the brand's image. The brand revamped its secondary packaging and launched a retail chain-wide lucky draw promotion in April 2019, leveraging on two key messages, "Extremely Refreshing" and "Top 5 Beer Brands in Hong Kong".

The Company also saw growth in sales and revenue in Macau, as well as in other export markets.

South China Operations

Our consolidated South China operations continued to register sales volume growth and positive profit performance.

Guangzhou San Miguel Brewery Company Limited ("GSMB") registered slightly lower volumes due to the volume loss of low-margin Guang's Pineapple beer, which competes in the lower-priced segment where deep discounts are generally offered.

In the mainstream segment, our higher margin flagship brands San Miguel Pale Pilsen and San Mig Light registered volume growth, cushioning the decline in total sales revenue. We attribute the volume gain to our Dealer Development Program and our outlet-based marketing programs.

Our Dealer Development Program allowed us to add more quality dealers to our network. This gave us better control over the value chain and enhanced the efficiency and effectiveness of our going-to-market strategy. As part of our outlet-based marketing programs, a Chinese New Year merchandising drive across night outlets, Chinese restaurants, and supermarkets, was launched for San Miguel Pale Pilsen. Similarly, we launched a merchandising campaign for our new San Mig Light thematic ad in May to refresh and increase brand visibility in almost a thousand outlets. Also, consumer promotions for San Mig Light were implemented to increase volume off-take at the outlet level.

Also performing well is our Dragon brand which enjoyed a double-digit volume growth over the previous year. Taking advantage of the brand's momentum, the Company launched a major merchandising drive to intensify visibility and consumption.

Meanwhile, San Miguel (Guangdong) Brewery Company Limited ("SMGB"), which serves as a production source of San Miguel Brewing International's export business, delivered a single-digit growth rate in total exports volume.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

Social responsibility is an important aspect of how we do business. Apart from complying with legal and regulatory requirements, we strive to making a positive impact on the welfare of our employees, their families, our business partners, our local communities, and the environment.

Since 2015, we have published an Environment, Social, and Governance ("ESG") Report to provide the public an appreciation of how we perform and tackle different ESG issues. The Company's 2019 ESG Report will be available on our website within three months from the publication of the Company's annual report.

We actively promote responsible drinking within the organization and to the public. We also continue to support charitable organizations and NGOs through financial and product support, as well as by sharing with them our time, experience, and expertise.

We are also committed to protecting the environment and ensuring that environmental standards and initiatives set by the government are met or exceeded.

HUMAN RESOURCES

The role our employees play and their ability to contribute success to the company and community are very important for the Company. We continue to invest in our people, ensuring that they are equipped with the right knowledge, skills, and experiences that match our needs. We invest in training, seminars, mentorships and team-building activities to promote personal and professional development and help our employees realize their fullest potential, as well as to strengthen teamwork within the organization. We also have in place a set of safety and health measures to protect our human resources from both the day-to-day working environment and extraordinary circumstances such as the recent social unrest.

We continue to offer competitive remuneration packages commensurate with industry standards and provide attractive benefits, including medical and insurance coverage and numerous paid leaves on top of what is required by the law.

CORPORATE GOVERNANCE

The Company has applied the principles set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules throughout the year, 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 at least once every three years and re-election at the annual general meeting in accordance with the Company's Articles of Association.
- Meeting between the chairman and the independent non-executive directors without the presence of other directors was not held during the year under review (Code Provision A.2.7) because of scheduling difficulties on account of the local situation in Hong Kong. However, there is effective communication channel between the directors and any significant issues can be discussed between the chairman and independent non-executive directors whenever necessary.

DIRECTORS

There has been no change in membership of the Board of Directors since we published our interim report on 26 August 2019.

FUTURE DIRECTION AND CHALLENGES

For 2020, the Company has outlined the following objectives:

- In Hong Kong, we will improve profitability and work to increase our market share through the optimal use of resources, a greater focus on the San Miguel brand and through nurturing a winning culture throughout the organization. We will work closely with wholesalers and direct customers to ensure product availability is in line with market needs.
- In South China, we intend to improve profitability by further developing both our dealer and wholesaler networks. We will strengthen the brand equity of both the San Miguel and Dragon brands while enhancing the productivity of our sales force. We will also maintain our export business and aim to improve margins and rationalize costs.

In pursuing these objectives, we will be responsive to the following risks:

- On January 30, 2020, the World Health Organization declared a global health emergency on the COVID-19, after confirmed cases of the virus spiked tenfold in a less than a week. The immediate effect in Hong Kong, Macau and South China is the drop in restaurant and bar business, as consumers are choosing to stay home. This shift in consumer behavior, together with slower economic activity, is expected to negatively impact the business community in 2020.
- The social unrest in Hong Kong appear to have subsided for the time being, taking a back seat to the COVID-19. Whether the unrest will resume after the end of this health emergency is unknown and will be closely monitored.
- The Hong Kong government is imposing a recycling levy on glass beverage containers. When this measure is put in place, prices for our products in glass bottles may be affected, which, in turn, will impact consumption.
- China's economic growth is likely to slow down in 2020, with concerns on the trade dispute with the United States compounded by the COVID-19 epidemic.

Looking ahead, we reiterate our commitment to maximizing shareholder value and strengthening our brands. We have a number of strategies in place to not only help us cope with the risks we foresee, but also to enable us to manage costs effectively so as to strengthen profitability.

We will strive to ensure that our beer brands remain relevant to our consumers and customers, regardless of the occasion, their location, lifestyle and earning power.

Apart from the sales and marketing strategies we have in place, we also have new guidelines, systems, and policies to ensure efficient and effective cost management, sustainable environmental management, and responsible social engagement.

We convey our sincere gratitude to our Board of Directors for their guidance. We also wish to thank our employees for their dedication and professionalism, and most of all, our shareholders, customers, and consumers for their continued support.

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

Neither the Company nor any of its subsidiaries purchased, sold, or redeemed any of the Company's listed securities during the year.

PUBLICATION OF THE 2019 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's annual report for 2019 will be published on the website of The Stock Exchange of Hong Kong Limited at *www.hkex.com.hk* and the Company's website at *info.sanmiguel.com.hk* in due course.

By Order of the Board
Ramon S. Ang
Chairman

Hong Kong, 2 March 2020

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

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. May (Michelle) W. M. Chan, Mr. Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Kenji Uchiyama and Mr. Tomoki Yamauchi; and the independent non-executive directors, Mr. Alonzo Q. Ancheta, Dr. the Hon. Sir David K. P. Li, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago.