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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 2020 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 2020. 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	
		2020	2019
	<i>Note</i>	\$'000	\$'000
Revenue	3	244,142	266,490
Cost of sales		(140,603)	(145,958)
Gross profit		103,539	120,532
Other net income		16,581	13,019
Selling and distribution expenses		(75,198)	(95,528)
Administrative expenses		(38,378)	(40,090)
Other operating expenses		(4,530)	(3,736)
Profit/(loss) from operations		2,014	(5,803)
Finance costs	4(a)	(1,416)	(2,498)
Profit/(loss) before taxation	4	598	(8,301)
Income tax charge	5	—	—
Profit/(loss) for the period		598	(8,301)
Attributable to:			
Equity shareholders of the Company		2,785	(6,579)
Non-controlling interests		(2,187)	(1,722)
Profit/(loss) for the period		598	(8,301)
Earnings/(loss) per share			
— Basic (cents)	7(a)	0.8	(1.8)
— Diluted (cents)	7(b)	N/A	N/A

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

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Profit/(loss) for the period	598	(8,301)
	-----	-----
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 and		
monetary items that form part of the net investment		
in subsidiaries outside Hong Kong	(1,108)	(222)
	-----	-----
Total comprehensive income for the period	(510)	(8,523)
	=====	=====
Attributable to:		
Equity shareholders of the Company	1,061	(6,923)
Non-controlling interests	(1,571)	(1,600)
	-----	-----
Total comprehensive income for the period	(510)	(8,523)
	=====	=====

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

(Expressed in Hong Kong dollars)

		At 30 June 2020 \$'000	At 31 December 2019 \$'000
	<i>Note</i>		
Non-current assets			
— Property, plant and equipment		345,778	352,764
— Investment properties		119,241	121,613
		465,019	474,377
Intangible assets		4,771	4,771
Other tangible assets		105	—
		469,895	479,148
Current assets			
Inventories		46,675	51,027
Trade and other receivables	8	49,368	51,399
Amounts due from holding companies and fellow subsidiaries		15,919	19,595
Amount due from a related company		840	1,492
Bank deposit		15,302	22,661
Cash and cash equivalents		105,532	106,732
		233,636	252,906
Current liabilities			
Trade and other payables	9	(67,938)	(83,301)
Loan from an intermediate holding company		(25,432)	(51,115)
Amounts due to holding companies and fellow subsidiaries		(9,450)	(9,410)
Amounts due to related companies		(9,517)	(8,632)
Lease liabilities		(451)	(932)
Current tax payable		—	(894)
		(112,788)	(154,284)
Net current asset		120,848	98,622

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED *(Continued)*
(Expressed in Hong Kong dollars)

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
<i>Note</i>		
Total assets less current liabilities	590,743	577,770
	<u> </u>	<u> </u>
Non-current liabilities		
Loan from an intermediate holding company	(63,580)	(51,115)
Retirement benefit liabilities	(11,759)	(10,741)
	<u> </u>	<u> </u>
	(75,339)	(61,856)
	<u> </u>	<u> </u>
NET ASSETS	515,404	515,914
	<u> </u>	<u> </u>
CAPITAL AND RESERVES		
Share capital and other statutory capital reserves	252,524	252,524
Other reserves	292,621	291,560
	<u> </u>	<u> </u>
Total equity attributable to equity shareholders of the Company	545,145	544,084
Non-controlling interests	(29,741)	(28,170)
	<u> </u>	<u> </u>
TOTAL EQUITY	515,404	515,914
	<u> </u>	<u> </u>

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT:

(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 27 July 2020.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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 2019 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 2019 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. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The company has delivered the financial statements for the year ended 31 December 2019 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 those financial statements. 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 section 406(2), 407(2) or (3) of the Companies Ordinance.

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. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKFRS 3, *Definition of a Business*
- Amendments to HKFRS 16, *COVID-19 Related Rent Concessions*

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.

Amendments to HKFRS 3, *Definition of a Business*

The amendments clarify the definition of a business and provide further guidance on how to determine whether a transaction represents a business combination. In addition, the amendments introduce an optional "concentration test" that permits a simplified assessment of whether an acquired set of activities and assets is an asset rather than business acquisition, when substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets.

Amendments to HKFRS 16, *COVID-19 Related Rent Concessions*

The amendment provides a practical expedient that allows a lessee to by-pass the need to evaluate whether certain qualifying rent concessions occurring as a direct consequence of the COVID-19 pandemic ("COVID-19-related rent concessions") are lease modifications and, instead, account for those rent concessions as if they were not lease modifications.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

As the Group's revenue is entirely attributable to these activities, no analysis by activity is provided.

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

3 REVENUE 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 2020 and 2019 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from						
external customers	177,312	179,274	66,830	87,215	244,142	266,489
Inter-segment revenue	89	237	—	—	89	237
Reportable segment revenue	<u>177,401</u>	<u>179,511</u>	<u>66,830</u>	<u>87,215</u>	<u>244,231</u>	<u>266,726</u>
Reportable segment profit/(loss) from operations (adjusted EBIT)	<u>3,860</u>	<u>(5,501)</u>	<u>(2,935)</u>	<u>(1,097)</u>	<u>925</u>	<u>(6,598)</u>
	Hong Kong		Mainland China		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2020	2019	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable segment assets	<u>975,921</u>	<u>997,973</u>	<u>109,382</u>	<u>117,848</u>	<u>1,085,303</u>	<u>1,115,821</u>
Reportable segment liabilities	<u>147,224</u>	<u>170,940</u>	<u>422,098</u>	<u>428,967</u>	<u>569,322</u>	<u>599,907</u>

3 REVENUE 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	
	2020	2019
	\$'000	\$'000
Revenue		
Reportable segment revenue	244,231	266,727
Elimination of inter-segment revenue	(89)	(237)
Consolidated revenue	<u>244,142</u>	<u>266,490</u>
Profit/(loss)		
Reportable segment profit/(loss) from operations	925	(6,598)
Interest income from bank deposits	857	745
Gain on disposal of fixed assets	—	16
Net foreign exchange gain/(losses)	168	(45)
Interest expense on loan from an intermediate holding company	(1,343)	(2,400)
Interest expense lease liabilities	(9)	(19)
Consolidated profit/(loss) before taxation	<u>598</u>	<u>(8,301)</u>
	At 30 June	At 31 December
	2020	2019
	\$'000	\$'000
Assets		
Reportable segment assets	1,085,303	1,115,821
Elimination of inter-segment receivables	(381,773)	(383,767)
Consolidated total assets	<u>703,530</u>	<u>732,054</u>
Liabilities		
Reportable segment liabilities	569,322	599,907
Elimination of inter-segment payables	(381,773)	(383,767)
	187,549	216,140
Deferred tax liabilities	—	—
Consolidated total liabilities	<u>187,549</u>	<u>216,140</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 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
	2020	2019	2020	2019
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	123,442	130,308	440,310	448,158
Mainland China	33,994	47,860	29,585	30,990
Philippines	83,198	85,487	—	—
Others	3,508	2,835	—	—
	120,700	136,182	29,585	30,990
	244,142	266,490	469,895	479,148

4 PROFIT/(LOSS) BEFORE TAXATION

		Six months ended 30 June	
		2020	2019
		\$'000	\$'000
Profit/(loss) before taxation is arrived at after charging/(crediting):			
(a)	Finance costs		
	Interest expense on loan from an intermediate holding company wholly repayable within five years	1,343	2,400
	Interest expense on lease liabilities	9	19
	Bank charges	64	79
		1,416	2,498
(b)	Staff costs		
	Retirement costs	4,466	5,775
	Salaries, wages and other benefits	59,079	60,949
		63,545	66,724
(c)	Other items:		
	Depreciation		
	— Property, plant and equipment	9,027	9,146
	— Investment properties	2,372	2,356
	Cost of inventories	139,305	144,486
	Provision for impairment losses on trade and other receivables	157	32

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2020	2019
	\$'000	\$'000
Current tax - Outside Hong Kong		
— Provision for the period	—	—
	-----	-----
Deferred tax		
— Origination and reversal of temporary differences	—	—
	-----	-----
Income tax charge	—	—
	=====	=====

Under the two-tiered profits tax rate regime, the first \$2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. No provision for Hong Kong Profits Tax for the six months ended 30 June 2020 is 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% (2019: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

6 DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2020 (2019: Nil).

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 for the six months ended 30 June 2020 of \$2,785,000 (30 June 2019: loss of \$6,579,000) and on 373,570,560 ordinary shares (at 30 June 2019: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted earnings/(loss) per share

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

8 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2020 \$'000	At 31 December 2019 \$'000
Current	25,112	29,709
Less than 1 month past due	6,645	5,829
1 to 3 months past due	846	2,106
More than 3 months but less than 12 months past due	2,071	1,360
More than 12 months past due	461	367
	<u>35,135</u>	<u>39,371</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 exposure 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 2020 \$'000	At 31 December 2019 \$'000
Current and less than 1 month past due	24,196	39,894
1 to 3 months past due	745	3,904
More than 3 months but less than 6 months past due	—	312
More than 6 months past due	—	135
	<u>24,941</u>	<u>44,245</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.

FINANCIAL RESULTS

The Group registered a consolidated profit of HK\$0.6 million in the first semester of 2020, compared to the consolidated loss of HK\$8.3 million in 2019. As a result, net profit attributable to equity shareholders for 2020 was HK\$2.8 million, compared to a loss of HK\$6.6 million the previous year.

The Group's consolidated revenue was HK\$244.1 million, 8.4% lower than the same period in 2019. Gross profit reached HK\$103.5 million, a 14.1% decrease versus 2019, with a gross profit margin of 42.4%.

As of 30 June 2020, cash and cash equivalents and bank deposits amounted to HK\$120.8 million (HK\$129.4 million as of 31 December 2019).

Loans as of 30 June 2020 totaled HK\$89.0 million (HK\$102.2 million as of 31 December 2019). Total net assets stood at HK\$515.4 million (HK\$515.9 million as of 31 December 2019), with a loan-to-equity ratio of 0.17 (31 December 2019: 0.20).

DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2020.

BUSINESS REVIEW

Hong Kong Operations

The economic recession worsened in Hong Kong in the first half of 2020, as disruptions caused by the COVID-19 pandemic continued. In response to this, the Hong Kong SAR Government launched the "Employment Support Scheme" (ESS), providing financial support to employers so they can retain employees. The Company has availed of this program. Our Hong Kong operations posted strong profit recovery in the first half of 2020, primarily driven by the improvement in operations, and was further supported by the ESS of the government.

While the total Hong Kong beer industry contracted by 7% compared to the same period in 2019, our Hong Kong operations managed to achieve roughly the same level of local sales volume in the first half of the year, resulting in improved market share. Combined with export volumes, the Company achieved an 8% gain in total sales volume in the first six months.

As local demand weakened and uncertainty surrounding the pandemic lingered, the Company responded quickly to address the shifting market dynamics, which led to improvements in market share and profitability. With the decline in tourism and the restrictions in place on restaurants and bars, beer consumption shifted to homes. Off-premise consumption accounted for up to 80% of the total market in the first half of 2020. A significant portion of the advertising and promotion resources was invested to ensure that the Company's brands remained top-of-mind of consumers whether they were buying our products on-site or online.

While the mainstream segment suffered the most from the market contraction, San Miguel brands performed better than the industry. San Miguel Pale Pilsen, San Mig Light and San Miguel Cerveza Negra implemented a co-branded retail chain-wide promotion, 大放送, which ran from May to June. Supported by tactical advertising on the internet, the promotion was successful in generating consumption and goodwill from both consumers and trade. A series of premium redemption promotions in convenience stores and provision stores were also put in place throughout the first half of the year.

Only the premium segment experienced some growth throughout this period, and the Company's premium brands benefited from it. Red Horse Beer, in particular, performed better compared to the same period last year.

In the lower-priced segment, which accounts for 30% of the industry volume, Blue Ice Beer performed favorably with a single-digit growth in sales volume. The brand benefited from consistent brand building through advertising and promotion. An effective retail chain-wide promotion, 極爽大抽獎, was launched in May.

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

South China Operations

While China was able to bounce-back after a steep 6.8% drop in GDP in the first quarter of 2020 and avoided going into a technical recession, the overwhelming negative impact of COVID-19 was felt around the country, including South China. Our brewery in Foshan City was closed for the entire February, in response to the pandemic and to ensure the safety of our people. Our consolidated South China operations registered a decline in both sales volume and revenue, resulting in a negative profit performance.

Guangzhou San Miguel Brewery Company Limited (“GSMB”) registered lower volumes for almost all brands in its portfolio, as a result of the national lockdown and limited commercial activities even after the lockdown. GSMB, however, was able to decisively and quickly adjust its business operations by employing cost management measures. Nonetheless, with the volume recovery in the 2nd quarter of the year, GSMB was able to improve its operating loss in the first half of 2020 compared to the previous year.

Meanwhile, San Miguel (Guangdong) Brewery Company Limited (“SMGB”), which serves as a production source of San Miguel Brewing International’s export business, was affected by the temporary closure of its brewery and of shipping ports in February. This resulted in a double-digit decline in export volume in the first six months of 2020, with profit also lower by double-digit versus 2019.

Despite the challenges brought about by COVID-19, two of the brands of our South China operations, Dragon Qingchun and Red Horse Beer (produced at our brewery in Foshan City), garnered gold and silver medals respectively, at the Monde Selection Beer Competition in Brussels.

OUTLOOK

The COVID-19 pandemic’s socio-economic impact is being experienced not just in mainland China and Hong Kong, but also across the world. We are optimistic about the strategies and programs that we put in place in order to position our products and services ahead of the competition, and deliver better distribution and sales.

We thank the Hong Kong Special Administrative Region (SAR) Government for its “Employment Support Scheme”. We thank our employees for their hard work and perseverance, and the members of the Board for their guidance. Most of all, we thank all our consumers, customers, and business partners for their continued support, 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 2020.

CORPORATE GOVERNANCE

The Company has applied the principles of the Code Provisions under the Corporate Governance Code and Corporate Governance Report (the “CG Code”) contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2020, save for the deviation discussed below:

- All of the non-executive directors are not appointed for a specific term (CG Code provision A.4.1) but are subject to retirement by rotation once every three years and reelection at the annual general meeting under the Company’s Articles of Association.
- With the COVID-19 pandemic and in light of the regulations introduced by the governments of the Hong Kong SAR and the Philippines, the Chairman of the Board and the Board Committee members did not attend the Annual General Meeting of the Company held on 20 April 2020 (the “AGM”) (CG Code provision E.1.2). Pursuant to Article 74 of the Company’s Articles of Association, Mr. Ramon G. Torralba, the Managing Director of the Company, was designated by the Directors to chair the AGM. The external auditors of the Company, KPMG, also attended the AGM.
- The Company will be scheduling board meetings for the rest year in respect of CG Code provisions A.1.1. and A.2.7.

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 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, 27 July 2020

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.