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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)

CONTINUING CONNECTED TRANSACTIONS

The Group has been carrying out the Continuing Connected Transactions with the San Miguel Group for the previous years in the ordinary and usual course of business of the Group including, among other things, (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

The existing annual caps in respect of the Continuing Connected Transactions will expire on 31 December 2022. On 7 March 2022, the Company and SMC entered into the Master Agreement to renew the annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2025.

As at the date of this announcement, the San Miguel Group controls approximately 65.78% of the issued share capital of the Company. Accordingly, SMC and its associates are connected persons of the Company for the purposes of the Listing Rules. The Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to seek Independent Shareholders' approval for the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

A circular containing information on the Master Agreement, the Continuing Connected Transactions, the Annual Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Altus Capital to the Independent Board Committee and the Independent Shareholders, and a notice convening the EGM to approve the Master Agreement, the Continuing Connected Transactions and the Annual Caps will be despatched to the Shareholders on or before 28 March 2022.

BACKGROUND

The principal business activities of the Group are the production and distribution of bottled, canned and draught beers and other beverage products. SMC is an indirect controlling Shareholder holding approximately 65.78% of the issued share capital of the Company through Neptunia Corporation Limited. SMC is one of the Philippines' most diversified conglomerates with operations in beverages, food, packaging, real estate, fuel and oil, infrastructure, energy and banking.

The Group has been carrying out the Continuing Connected Transactions with the San Miguel Group for the previous years in the ordinary and usual course of business of the Group including, among other things, (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

The existing annual caps for the Continuing Connected Transactions will expire on 31 December 2022. Accordingly, the Company and SMC entered into the Master Agreement on 7 March 2022 with a view to carry out the Continuing Connected Transactions from 1 January 2023 to 31 December 2025.

THE MASTER AGREEMENT

Date

7 March 2022

Parties

The Company and SMC

Continuing Connected Transactions and the Annual Caps

Under the Master Agreement, the Group will enter into the following Continuing Connected Transactions with the San Miguel Group: (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, provided that such sales or distribution of packaged beer shall not be carried out in the Philippines, unless through San Miguel Brewery Inc.

Term

Subject to the Independent Shareholders' approval of the Continuing Connected Transactions, the Master Agreement and the proposed Annual Caps, the Master Agreement shall have a term ending on 31 December 2025 and its terms shall apply to the Continuing Connected Transactions for the period commencing on 1 January 2023 to 31 December 2025. In the event that the Master Agreement, Continuing Connected Transactions and the proposed Annual Caps are not approved by the Independent Shareholders, the Company has the right to terminate the Master Agreement.

Pricing

The pricing policy of the Company in respect of the Continuing Connected Transactions is on an arm's length basis and is consistent with the Group's historical pricing policy in respect of the past transactions between the Group and the San Miguel Group, which are described below:

(a) Purchase of packaging materials from the San Miguel Group

In respect of the purchase of packaging materials (comprising, but not limited to, cans, bottles, crown seals and crates) by the Group from the San Miguel Group, the prices payable by and the credit terms offered to the Group shall be negotiated between the Group and the San Miguel Group on an annual basis by reference to the prices and credit terms from suppliers which are independent third parties and are able to meet the Group's stringent quality requirements and delivery schedules and if no such comparable reference prices/credit terms are available, the prices/credit terms shall be determined by arms' length negotiations between the Group and the San Miguel Group based upon reasonable commercial principles.

(b) Purchase of packaged beer from the San Miguel Group

In respect of the purchase of packaged beer by the Group from the San Miguel Group, the prices payable by and the credit terms offered to the Group shall be determined on an annual basis by reference to the prices paid by and the credit terms offered to the Group in respect of similar products sourced by the Group from suppliers which are independent third parties and if no such comparable reference prices/credit terms are available, the prices/credit terms shall be determined by arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

(c) Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group

In respect of the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, the prices receivable by the Group shall be determined on an annual basis in the ordinary and usual course of business based on the Group's production cost plus margins, with such profit margins to be determined with reference to profit margins which are

no less favourable to the Group than those imposed by the Group on independent third party customers in respect of the sales of similar packaged beer and non-alcoholic beverage products, and if no such comparable reference profit margins are available, the profit margins shall be determined by arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

The credit terms offered by the Group shall be determined by reference to the credit terms offered by the Group to its independent third party customers, and if no such comparable credit terms are available, the credit terms shall be determined by arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

The Group needs to source various packaging materials including cans, bottles, crown seals and crates for use in the packaging and distribution of its beer products. The San Miguel Group has established itself as a competitively priced and dependable supplier to the Group which meets the Group's stringent quality requirements and delivery schedules.

The Group purchases packaged beer from San Miguel Brewery Inc., an indirect controlling Shareholder of the Company through Neptunia Corporation Limited, and is owned as to approximately 51% by San Miguel Food and Beverage, Inc., a subsidiary of SMC, as at the date of this announcement, to complement the range of products sold by the Group. The Group believes that this will enhance the product range and earnings potential of the Group.

San Miguel Brewery, Inc. is a company listed on the Philippine Dealing & Exchange Corp. and is principally engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes, and non-alcoholic beverages. San Miguel Brewery Inc. runs the domestic brewery and non-alcoholic beverage (other than milk, coffee and energy drinks) business of the San Miguel Group in the Philippines.

The packaged beer and non-alcoholic beverage products sold by the Group to the San Miguel Group are produced at the Group's plants located at (i) Shunde District, Foshan City, Guangdong Province, the PRC; and (ii) Yuen Long, Hong Kong. The Group sells such packaged beer overseas to widen its income source. However, the Group does not have an international sales force outside Hong Kong and Macau. The Group is able to reach customers in export markets through the San Miguel Group which markets and sells products to customers through its international sales channels. Accordingly, the Group may sell its products, through the San Miguel Group, to certain export markets where the Group will also avoid taking exchange rate risk and counterparty risk with the ultimate customers in the relevant export markets. The Company expects such arrangement will help broaden market shares of the Company's products overseas.

HISTORICAL VALUES AND ANNUAL CAPS

Set out below is a summary of (i) the historical amounts of the Continuing Connected Transactions between the Group and the San Miguel Group for the two years ended 31 December 2021; (ii) the existing annual caps of the Continuing Connected Transactions for the year ending 31 December 2022; and (iii) the proposed Annual Caps under the Master Agreement for the three years ending 31 December 2025:

	Year ended 31 December 2020		Year ended 31 December 2021		Year ending 31 December 2022	Annual Caps for the three years ending 31 December 2025 pursuant to the Master Agreement		
	Actual amount <i>(audited)</i> HK\$'000	Annual cap amount HK\$'000	Actual amount <i>(audited)</i> HK\$'000	Annual cap amount HK\$'000	Annual cap amount HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000
Purchase of packaging materials by the Group from the San Miguel Group	2,249	39,000	4,270	42,000	45,000	47,000	49,000	51,000
Purchase of packaged beer by the Group from the San Miguel Group	1,191	3,100	2,900	3,700	4,400	4,100	4,600	5,100
Sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group; provided that, sales or distribution of packaged beer shall not be carried out in the Philippines, unless through San Miguel Brewery Inc.	212,732	285,000	258,832	336,000	395,000	407,000	480,000	563,000

In respect of the Annual Caps in relation to the purchase of packaging materials and packaged beer by the Group from the San Miguel Group, the proposed Annual Caps were determined by reference to a number of factors including, among other things, the historical sales amount of beer products, the marketing plan of the Group's products, the expected growth in demand for the Group's products (after taking into account the possible exchange rate fluctuations and the possible inflation) and the consequential increase in the need for the relevant packaging materials to meet the Group's production requirements.

In respect of the Annual Caps in relation to the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, the proposed Annual Caps were determined by reference to a number of factors including, among other things, the historical product lines, the expected demand for the Group's products and the Company's expectations on the demand for the Group's packaged beer and non-alcoholic beverage products for export markets after having discussed with the San Miguel Group, the expected costs of production and distribution, the expected selling margin, the possible exchange rates fluctuations and the possible inflation.

Buffer of 10% has been built in when the Annual Caps were determined with a view to taking into account possible further market demand.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from Altus Capital and Mr. Ramon S. Ang who abstained from voting at the Board Meeting during which the Master Agreement, the Continuing Connected Transactions and the Annual Caps were considered in view of his substantial interest in Top Frontier Investment Holdings, Inc., an indirect controlling shareholder of the Company, and SMC) consider that the Continuing Connected Transactions are entered into in the ordinary course of business of the Group and the terms of the Master Agreement and the Annual Caps are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

GENERAL

As at the date of this announcement, the San Miguel Group controls approximately 65.78% of the issued share capital of the Company. Accordingly, SMC and its associates are connected persons of the Company for the purposes of the Listing Rules. The Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

An EGM will be convened to seek Independent Shareholders' approval for the Master Agreement, the Continuing Connected Transactions and the Annual Caps.

In view of the interest of the San Miguel Group in the Continuing Connected Transactions, SMC and its associates (as defined in the Listing Rules), which control approximately 65.78% of the issued share capital of the Company as at the date of this announcement, will abstain from voting at the EGM. The votes at the EGM will be taken by poll, the results of which will be announced after the EGM. An Independent Board Committee comprising Mr. Alonzo Q. Ancheta, Mr. Thelmo Luis O. Cunanan Jr., Dr. the Hon. Sir David K. P. Li and Mr. Reynato S. Puno has been established to advise the Independent Shareholders in respect of the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are on normal commercial terms, in the ordinary and usual course of business, fair and reasonable and in the interests of the Company and its Shareholders as a whole.

A circular containing information on the Master Agreement, the Continuing Connected Transactions, the Annual Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Altus Capital to the Independent Board Committee and the Independent Shareholders, and a notice convening the EGM to approve the Master Agreement, the Continuing Connected Transactions and the Annual Caps will be despatched to the Shareholders on or before 28 March 2022.

DEFINITIONS

Unless the context requires otherwise, the use of capitalised terms in this announcement shall have the following meanings:

“Altus Capital”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the Securities and Futures Ordinance, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Master Agreement and the transactions contemplated thereunder
“Annual Cap(s)”	the maximum annual aggregate value for each of the Continuing Connected Transactions under the Master Agreement for the three years ending 31 December 2025
“associate(s)”	has the meaning ascribed to it under the Listing Rules

“Board”	the board of Directors
“Company”	San Miguel Brewery Hong Kong Limited, a company incorporated in Hong Kong with limited liability, whose Shares are listed in the Stock Exchange
“Continuing Connected Transactions”	the following transactions between the Group and the San Miguel Group: (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group’s wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group; provided that, such sales or distribution of packaged beer shall not be carried out in the Philippines, unless through San Miguel Brewery Inc.
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting of the Company to be convened by the Company at the San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines on 25 April 2022, Monday, at 3:00 pm (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) and shall be streamed live via webcast that may be accessed online to consider, and if thought fit, approve the Master Agreement, the Continuing Connected Transactions and the Annual Caps
“Group”	the Company and its subsidiaries
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive Directors namely, Mr. Alonzo Q. Ancheta, Mr. Thelmo Luis O. Cunanan Jr., Dr. the Hon. Sir. David K. P. Li and Mr. Reynato S. Puno, which has been established by the Board to advise the Independent Shareholders in respect of the Master Agreement, the Continuing Connected Transactions, and the Annual Caps

“Independent Shareholder(s)”	the Shareholder(s), other than SMC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Master Agreement”	the agreement dated 7 March 2022 entered into between the Company and SMC in respect of the Continuing Connected Transactions for the period commencing on 1 January 2023 to 31 December 2025
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Share(s)”	ordinary share(s) in the share capital of the Company
“Shareholders”	the shareholders of the Company
“SMC”	San Miguel Corporation, an indirect controlling shareholder of the Company
“San Miguel Group”	SMC and its associates, excluding the Group, for the purpose of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board
John K.L. Cheung
Company Secretary

Hong Kong, 7 March 2022

As at the date of this announcement, the Board comprises the executive Director, Mr. Raymundo Y. Albano, the non-executive Directors, Mr. Ramon S. Ang (Chairman), Mr. Carlos Antonio M. Berba (Deputy Chairman), Ms. May (Michelle) W. M. Chan, Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Kenji Uchiyama and Mr. Tomoki Yamauchi; and the independent non-executive Directors, Mr. Dr. the Hon. Sir. David K. P. Li, Mr. Reynato S. Puno, Alonzo Q. Ancheta and Mr. Thelmo Luis O. Cunanan Jr..