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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 RESUMPTION OF THE BREWING OPERATIONS OF THE HONG KONG BREWERY

The Group used to sell packaged beer to the San Miguel Group in the ordinary and usual course of business of the Group. As set out in the announcement and the circular of the Company dated 11 March 2005 and 21 March 2005, respectively, the Company and SMC entered into the 2005 Agreement on 11 March 2005 to record, among other things, the terms of the Packaged Beer Sales for a term up to 31 December 2007. The Independent Shareholders approved at an extraordinary general meeting held on 7 April 2005 the entering into by the Company and SMC of the 2005 Agreement. The packaged beer sold by the Group to the San Miguel Group under the 2005 Agreement was produced at the Company's Hong Kong plant. The brewing operations of the Company's Hong Kong plant ceased in 2007. After the cessation in 2007, the Packaged Beer Sales have also discontinued.

It was set out in the annual report of the Company for the year ended 31 December 2007 that the management of the Company planned to resume the brewing operations of its plant in Hong Kong in 2009. The Hong Kong plant has re-started its operation since April 2009. As a result of the resumption of the brewing operations of the Company's Hong Kong plant, the Company expects to resume the Packaged Beer Sales as well as to sell some other non-alcoholic beverage products to be produced by the Group at its Hong Kong plant to the San Miguel Group.

On 11 May 2009, the Company and SMC entered into the New Agreement to record the terms under which the sales of packaged beer and non-alcoholic beverage products by members of the Group to members of the San Miguel Group (the "Continuing Connected Transactions") will be carried out and to set out annual caps for the Continuing Connected Transactions for the two years ending 31 December 2010.

SMC is the ultimate controlling shareholder of the Company and holds 245,720,800 Shares representing approximately 65.78% of the issued share capital of the Company. SMC and its associates are therefore connected persons of the Company for the purposes of the Listing Rules. Accordingly, the Continuing Connected Transactions under the New Agreement will constitute continuing connected transactions for the Company under the Listing Rules.

The Company is required to comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the New Agreement. SMC and its associates are required to abstain from voting at the EGM in respect of the resolution to approve the New Agreement, the Continuing Connected Transactions and the Caps.

The Independent Board Committee of the Company comprising the independent non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the New Agreement, the Continuing Connected Transactions and the Caps. CIMB-GK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing further details of the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the terms of the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders as soon as practicable.

BACKGROUND

The principal business activities of the Group are the production and distribution of bottled, canned and draught beers and other beverage products. The Company is a non-wholly owned subsidiary of SMC. SMC is the largest publicly listed food, beverage, and packaging company in Southeast Asia and has over 90 major facilities throughout the Asia Pacific.

The Group used to sell packaged beer to the San Miguel Group in the ordinary and usual course of business of the Group. As set out in the announcement and the circular of the Company dated 11 March 2005 and 21 March 2005 respectively, the Company and SMC entered into the 2005 Agreement on 11 March 2005 to record, among other things, the terms of the Packaged Beer Sales for a term up to 31 December 2007. The Independent Shareholders approved at an extraordinary general meeting of the Company held on 7 April 2005 the entering into by the Company and SMC of the 2005 Agreement.

The packaged beer sold by the Group to the San Miguel Group was produced at the Company's Hong Kong plant. The brewing operations of the Company's Hong Kong plant ceased in 2007. After the cessation in 2007, the Packaged Beer Sales have also discontinued.

It was set out in the annual report of the Company for the year ended 31 December 2007 that the management of the Company planned to resume the brewing operations of its plant in Hong Kong in 2009. The Hong Kong plant has re-started its operation since April 2009. Apart from beer products, the Hong Kong plant also plans to produce non-alcoholic beverage products. As a result of the resumption of the brewing operations of the Company's Hong Kong plant, the Company expects to resume the Packaged Beer Sales as well as to sell some of the non-alcoholic beverage products to be produced by the Group at its Hong Kong plant to the San Miguel Group.

In view of the above, the Company and SMC entered into the New Agreement to record the terms upon which the Continuing Connected Transactions will be carried out.

THE NEW AGREEMENT

Date

11 May 2009

Parties

The Company and SMC

Continuing Connected Transactions

Under the New Agreement, the Group will enter into the Continuing Connected Transactions with the San Miguel Group for sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

Term

The New Agreement shall become effective on the date of the agreement and expire on 31 December 2010. The Continuing Connected Transactions and the Caps are subject to approval from the Independent Shareholders. In the event that the Continuing Connected Transactions and the Caps are not approved by the Independent Shareholders, the Company shall have the right to terminate the New Agreement.

Pricing

Under the New Agreement, the prices receivable by the Group for the packaged beer and non-alcoholic beverage products sold to the San Miguel Group shall be determined in the ordinary and usual course of business based on the Group's production cost plus profit margins. Such profit margins are determined with reference to profit margins which are no less favourable to the Group than those charged by the Group to independent third party customers in respect of the sales of similar packaged beer and non-alcoholic beverage products, and if no such comparable profit margins are available, the profit margins shall be determined by arm's length negotiations between the Group and the San Miguel Group based on reasonable commercial principles.

The credit terms offered by the Group for the sales of packaged beer and non-alcoholic beverage products to the San Miguel 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 arm's length negotiations between the Group and the San Miguel Group based on reasonable commercial principles.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from CIMB-GK) consider that the Continuing Connected Transactions will be entered into in the ordinary course of business of the Group and the terms of the New Agreement (including the Caps) are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

REASONS FOR THE CONTINUING CONNECTED TRANSACTIONS

As mentioned above, the management of the Company has resumed the brewing operations of its Hong Kong plant in April 2009 for the production of beer and other non-alcoholic beverage products. The Group plans to sell such beer and non-alcoholic beverage products 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 to 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 relevant annual cap amounts and the actual amounts for the Continuing Connected Transactions contemplated under the 2005 Agreement for each of the three years ended 31 December 2007 and (ii) the proposed Caps for each of the two years ending 31 December 2010 under the New Agreement:

HK\$'000	2005 Agreement (note 1)								New Agreement	
	Year ended 31 December 2005		Year ended 31 December 2006		Year ended 31 December 2007		Year ended 31 December 2008		Caps for the two years ending 31 December 2010 under the New Agreement	
	Actual amount (audited)	Cap amount	Actual amount (audited)	Cap amount	Actual amount (audited)	Cap amount	Actual amount	Cap amount	2009	2010
Sales of packaged beer and/or non-alcoholic beverage products by the Group to the San Miguel Group	40,490	46,100	23,373	53,600	4,346	60,700	Nil	Nil	105,954	183,583

Note 1: The 2005 Agreement expired on 31 December 2007. Since then, the Packaged Beer Sales have ceased. Accordingly, no such continuing connected transaction was recorded in 2008.

The Directors do not consider the historic transaction value a relevant factor for determining the Caps as the Packaged Beer Sales slowed down gradually and ceased in 2007 and the market has been changing.

The proposed Caps were determined by reference to a number of factors such as the expected demand for the Group's products and the Company's expectations on the demand for the Group's packaged beer products and non-alcoholic beverage products for export markets after having discussed with the San Miguel Group, the expected costs of production and distribution and the expected selling margin.

A buffer of 10% has been built in when the Caps were determined with a view to taking into account possible further market demand and potential fluctuation in the Group's production costs.

RESUMPTION OF THE OPERATIONS OF THE HONG KONG BREWERY

The operations of the Company's plant in Hong Kong ceased in September 2007 and beer products previously produced by this plant are now supplied by the Group's brewery in the PRC. The related fixed assets of the Hong Kong plant have become idle since then. As set out in the annual report of the Company for the year ended 31 December 2007, management plans to resume the operations of the Hong Kong plant in 2009 after taking into account the following: (i) management expects that the Group's business in Southern China will continue to grow and the Group's brewery in the PRC may not have sufficient production capacity to satisfy the demand of the Hong Kong and overseas markets; (ii) in view of the inflation experienced in the PRC and the appreciation of the Renminbi, management expects that the production and operating costs of the PRC brewery may not be materially different from those of the Hong Kong plant in future, and (iii) the removal of excise duty levied on beer reduces the cost of beer produced in Hong Kong. Management believes that it will be necessary and it makes economic sense to resume the operations of the Hong Kong plant in 2009. The Hong Kong plant has re-started its operations in April 2009.

GENERAL

The San Miguel Group controls approximately 65.78% of the issued share capital of the Company. SMC and its associates are therefore connected persons of the Company for the purposes of the Listing Rules. The Continuing Connected Transactions under the New Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the annual review requirements under Rules 14A.37 to 14A.39 and the reporting requirements under Rules 14A.45 to 14A.47 and are subject to the approval of the Independent Shareholders requirements under Rule 14A.48 of the Listing Rules.

An EGM will be held at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 16 June 2009, Tuesday, at 3:30 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) to seek Independent Shareholders' approval for the terms of the New Agreement, the Continuing Connected Transactions and the 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, will abstain from voting at the EGM. An independent board committee comprising Dr. The Hon. Sir. David K.P. Li, Mr. Romulo L. Neri, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago has been established to advise the Independent Shareholders in respect of the terms of the New Agreement, the Continuing Connected Transactions and the Caps. CIMB-GK has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the New Agreement and whether the Continuing Connected Transactions and the 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 the particulars of the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from CIMB-GK to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the terms of the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders as soon as practicable.

The register of members of the Company will be closed from 3 June 2009, Wednesday to 9 June 2009, Tuesday (both days inclusive), during which period no transfer of shares will be registered. In order to be eligible to attend the EGM, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 5:00 p.m. on 2 June 2009, Tuesday.

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

DEFINITIONS

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

“2005 Agreement”	the agreement dated 11 March 2005 entered into between the Company and SMC in respect of, inter alia, the Packaged Beer Sales
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Cap(s)”	the maximum annual aggregate value for the Continuing Connected Transactions under the New Agreement for the two years ending 31 December 2010
“CIMB-GK”	CIMB-GK Securities (HK) Limited, licensed to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities under the Securities and Futures Ordinance
“Continuing Connected Transactions”	the continuing connected transactions in relation to sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, provided that the sales or distribution of packaged beer and malt-based beverages shall not be carried out in the Philippines, unless such business is carried out through San Miguel Brewery, Inc., a non wholly-owned subsidiary of SMC (the shares of which are listed on the Philippine Stock Exchange, Inc.) and is the major brewery arm of the San Miguel Group in the Philippines
“Company”	San Miguel Brewery Hong Kong Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed in the Stock Exchange

“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened and held by the Company at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 16 June 2009, Tuesday, at 3:30 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) to consider, and if thought fit, approve the New Agreement, the Continuing Connected Transactions and the 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 Dr. The Hon. Sir. David K. P. Li, Mr. Romulo L. Neri, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago, all of them being independent non-executive Directors, which has been established by the Board to advise the Independent Shareholders in respect of the New Agreement, the Continuing Connected Transactions and the Caps
“Independent Shareholders”	the shareholders of the Company, other than SMC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Macau”	the Macau Special Administrative Region of the People’s Republic of China
“New Agreement”	the agreement dated 11 May 2009 entered into between the Company and SMC in respect of the Continuing Connected Transactions
“Packaged Beer Sales”	sales of packaged beer by the Group to the San Miguel Group
“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) of HK\$0.5 each in the share capital of the Company
“Shareholders”	the shareholders of the Company
“San Miguel Group”	SMC and its associates, excluding the Group, for the purpose of this announcement
“SMC”	San Miguel Corporation, the ultimate controlling shareholder of the Company

“Stock Exchange”

The Stock Exchange of Hong Kong Limited

“HK\$”

Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board

Ramon S. Ang

Chairman

Hong Kong, 11 May 2009