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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**

On 1 April 2010, the Deed of Assignment was entered into between SMIL, SMBIL and GSMB pursuant to which SMIL agreed to assign, transfer and convey in favour of SMBIL all of SMIL's rights, title and interest over the Trademark Licensing Agreement. Both SMBIL and GSMB consented to such assignment pursuant to the Deed of Assignment.

After the Assignment, SMBIL shall be the licensor of the trademarks licensed to GSMB under the Trademark Licensing Agreement. All other terms of the Trademark Licensing Agreement remain unchanged. The transaction contemplated under the Trademark Licensing Agreement continues to constitute a continuing connected transaction for the Company under the Listing Rules.

For the purpose of complying the continuing connected transactions requirements under Chapter 14A of the Listing Rules, transactions with the San Miguel Group under the San Miguel Group Licensing Arrangements (including the Trademark Licensing Agreement, the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement) are aggregated as a series of transactions.

No consideration is payable/receivable by the Group in relation to the Deed of Assignment and it is expected that the annual royalties payable by the Group under the Trademark Licensing Agreement, when aggregated with other trademark licensing and sub-licensing arrangements with the San Miguel Group, including the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement, shall be less than HK\$10 million for each of the financial years during the remaining terms of the relevant licence/sub-licence agreements. Based on this annual cap, the transactions under the Trademark Licensing Agreement are subject to reporting and announcement requirements and exempt from the independent shareholders' approval requirement under the Listing Rules.

### **TRADEMARK LICENSING AGREEMENT**

Reference is made to the Announcement regarding, among other things, the Trademark Licensing Agreement entered into by GSMB (an indirect non wholly owned subsidiary of the Company) and SMIL. On 1 April 2010, the Deed of Assignment was entered into between SMIL, SMBIL and GSMB pursuant to which SMIL agreed to assign, transfer and convey in favour of SMBIL all of SMIL's rights, title and interest over the Trademark Licensing Agreement. Both SMBIL and GSMB consented to such assignment pursuant to the Deed of Assignment.

Before the Assignment, SMIL was a licensee of the San Miguel trademarks owned by the San Miguel Group. On 3 November 1990, GSMB and SMIL entered into a trademark licensing agreement, pursuant to which SMIL granted GSMB a sub-licence to use such San Miguel trademarks in the PRC. On 29 September 2006, GSMB and SMIL entered into a supplemental agreement to make certain minor amendments to the trademark licensing agreement entered into on 3 November 1990 to reflect consequential changes brought about by the cessation and outsourcing of GSMB's production operations after its restructuring as set out in the announcement of the Company dated 29 September 2006.

As set out in the Announcement, the transaction contemplated under the Trademark Licensing Agreement constitutes continuing connected transaction for the Company under the Listing Rules. Save for the change in the identity of the licensor pursuant to the Assignment, all other terms of the Trademark Licensing Agreement as assigned to SMBIL remain unchanged as summarised below.

<b>Term:</b>	Expiring 29 November 2020 (coterminous with the term of GSMB)
<b>Licensor:</b>	SMBIL
<b>Licensee:</b>	GSMB
<b>Trademarks:</b>	Various "San Miguel" related trademarks
<b>Use of trademarks and territory:</b>	Exclusive right to use the licensed trademarks in direct connection with the distribution and sale of beer products in Guangdong and Hainan Provinces, the PRC and non-exclusive right to use such trademarks elsewhere in the PRC
<b>Royalty rates:</b>	2.5% of net sales value (gross billings less certain outgoings) of all products bearing the licensed trademarks
<b>Payment terms:</b>	Calculated quarterly (commencing 1 March 1991) and payable in US dollars not later than one month after the end of each calendar quarter, with a late payment charge calculated on the basis of 15% per annum of the amounts due

GSMB is held as to 70% by San Miguel (Guangdong) Limited (a 92.989% owned subsidiary of the Company) and as to 30% by Guangzhou Brewery (a PRC state-owned enterprise).

GSMB is principally engaged in the sale and distribution of beer products. The products distributed by GSMB were and will continue to be marketed and sold under various brand names and trademarks owned by the San Miguel Group.

For the years ended 31 December 2007, 2008, 2009 and the period from 1 January 2010 to 28 February 2010, the royalties under the Trademark Licensing Agreement amounted to approximately HK\$4,273,000, HK\$4,152,000, HK\$2,337,000 and HK\$272,000, respectively.

The terms of the Trademark Licensing Agreement remain unchanged and were agreed after arm's length negotiations between the then parties. The Company considers the Trademark Licensing Agreement shall continue to be on normal commercial terms.

As set out in the annual report of the Company for the year ended 31 December 2009, as per the payment instructions of SMC dated 18 December 2000, all royalties receivable from GSMB under the Trademark Licensing Agreement have been assigned and transferred to SMBIL since 1 January 2000. After the Assignment, the Group will continue to pay SMBIL fees under the Trademark Licensing Agreement.

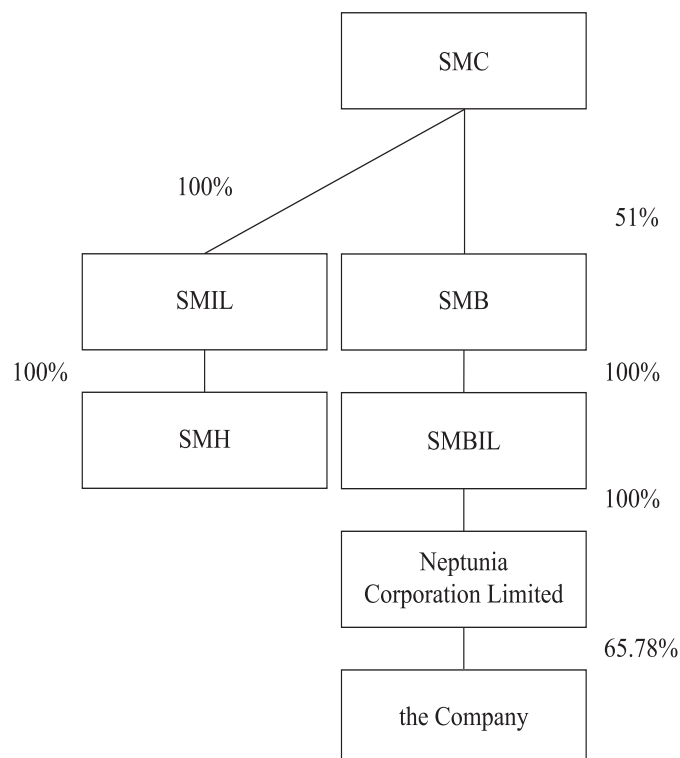
## REASONS FOR THE TRANSACTIONS

SMBIL, a wholly owned subsidiary of SMB, is principally engaged in beer distribution and supervision of the international beer business of SMB. SMB is a company listed on the Philippines Stock Exchange, Inc. and is principally engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes and is the largest producer of beer in the Philippines. SMB runs the domestic brewery business of the San Miguel Group in the Philippines and owned as to approximately 51% by SMC.

The San Miguel Group's indirect interest in the Company previously held through SMH (a wholly-owned subsidiary of SMIL) was transferred to SMB on 29 January 2010 following the purchase by SMB from SMH the entire issued and outstanding capital stock of SMBIL. The Company understands from the San Miguel Group that the Assignment forms part of the reorganisation exercise to align the beer and malt-based beverage business of the San Miguel Group under SMB, which includes SMC's transfer to SMBIL on 21 December 2009 the international trademarks, trade dress, know-how, copyrights, patents and other intellectual property rights used in connection with the beer business of SMC outside the Philippines, including the trademarks in relation to the Trademark Licensing Agreement.

SMIL, a wholly owned subsidiary of SMC, is principally engaged in the business of an investment holding company.

The following diagram sets out an illustrative shareholding structure in respect of the ownership and control of the Company in relation to the parties under the Deed of Assignment.



The principal business activities of the Group are the production and/or distribution of bottled, canned and draught beers and other beverage products. Most of the products of the Group are marketed under various brand names owned by the San Miguel Group, including those under the Trademark Licensing Agreement. As disclosed above, the Assignment forms part of the reorganisation exercise to group the beer and malt-based beverage business of San Miguel Group to SMB. The Assignment does not affect the Group's right to continue to use the relevant trademarks to distribute and sell its beer products in the relevant territories as specified in the Trademark Licensing Agreement, which is essential to the principal business of the Group.

The Directors (including the independent non-executive Directors) consider the terms of the Trademark Licensing Agreement are fair and reasonable, on normal commercial terms and are entered in the ordinary and usual course of business of the Group and that the transactions thereunder are in the interests of the Company and the shareholders of the Company as a whole.

## **LISTING RULES IMPLICATIONS**

As illustrated in the diagram above, SMC is the ultimate controlling shareholder of the Company and through, among others, SMB and SMBIL, holds 245,720,800 Shares representing approximately 65.78% of the issued share capital of the Company. Accordingly, SMB and SMBIL are connected persons of the Company under the Listing Rules. The transaction contemplated under the Trademark Licensing Agreement continues to constitute a continuing connected transaction for the Company under Chapter 14A of the Listing Rules. As further disclosed in the Announcement, the Group has also entered into other licence/sub-licence agreements with certain other members of the San Miguel Group. For the purpose of complying the continuing connected transactions requirements under Chapter 14A of the Listing Rules, transactions with the San Miguel Group under the San Miguel Group Licensing Arrangements (including the Trademark Licensing Agreement, the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement) are aggregated as a series of transactions. At the time of the Announcement, the San Miguel Group Licensing Arrangements were subject to, and the Company has complied with, the reporting and announcement requirements under Chapter 14A of the Listing Rules. The terms of all other trademark licensing and sub-licensing arrangements under the San Miguel Group Licensing Arrangements and the aggregate annual cap of less than HK\$10 million for the San Miguel Group Licensing Arrangements during the remaining term of the agreements under the San Miguel Group Licensing Arrangements remain unchanged.

No consideration is payable/receivable by the Group in relation to the Deed of Assignment and it is expected that the annual royalties payable by the Group under the Trademark Licensing Agreement, when aggregated with other trademark licensing and sub-licensing arrangements with the San Miguel Group, including the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement, shall be less than HK\$10 million for each of the financial years during the remaining terms of the relevant licence/sub-licence agreements. Based on this annual cap, the transactions under the Trademark Licensing Agreement are subject to reporting and announcement requirements and exempt from the independent shareholders' approval requirement under the Listing Rules.

## DEFINITIONS

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

“Announcement”	announcement of the Company dated 19 September 2007 regarding, among other things, the Trademark Licensing Agreement, the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement
“Assignment”	the assignment of SMIL’s rights, title and interest over the Trademark Licensing Agreement in favour of SMBIL by SMIL pursuant to the Deed of Assignment
“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, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Deed of Assignment”	a deed of assignment dated 1 April 2010 entered into between SMIL, SMBIL and GSMB pursuant to which SMIL agreed to assign, transfer and convey in favour of SMBIL all of SMIL’s rights, title and interest over the Trademark Licensing Agreement
“Director(s)”	the director(s) of the Company
“Group”	the Company and its subsidiaries
“GSMB”	Guangzhou San Miguel Brewery Company Limited, a sino-foreign joint venture entity established in the PRC with limited liability, which is an indirectly owned subsidiary of the Company held as to 70% by San Miguel (Guangdong) Limited (a non wholly-owned subsidiary of the Company) and as to 30% by Guangzhou Brewery (a state-owned enterprise established in the PRC)
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Neptunia”	Neptunia Corporation Limited, an indirect wholly-owned subsidiary of SMC

“Neptunia Sub-licence Agreement”	the sub-licence agreement between Neptunia, as licensor, and the Company (formerly known as San Miguel Brewery Limited), as licensee, dated 1 January 1979
“PRC”	the People’s Republic of China
“San Miguel Group”	SMC and its associates (excluding the Group)
“Shares”	shares of HK\$0.50 each in the Company
“SMB”	San Miguel Brewery, Inc. is a company listed on the Philippines Stock Exchange, Inc., and owned as to approximately 51% by SMC
“SMBIL”	San Miguel Brewing International Limited, a wholly-owned subsidiary of SMB
“SMBIL Sub-licence Agreement”	the sub-licence agreement between SMGB (formerly known as San Miguel Shunde Brewery Co., Limited), as licensee, and SMBIL, as licensor dated 25 January 1999, as amended and supplemented by (i) the addendum dated 25 January 1999 and (ii) the amendment to the addendum to the sub-licence agreement dated 8 October 1999
“SMC”	San Miguel Corporation, the ultimate controlling shareholder of the Company
“San Miguel Group Licensing Arrangements”	the Trademark Licensing Agreement, the Neptunia Sub-licence Agreement and the SMBIL Sub-licence Agreement
“SMGB”	San Miguel (Guangdong) Brewery Company Limited, a company incorporated in the PRC with limited liability and a 92% indirectly owned subsidiary of the Company
“SMH”	San Miguel Holdings Limited, a wholly-owned subsidiary of SMC
“SMIL”	San Miguel International Limited, a wholly-owned subsidiary of SMC

“Trademark Licensing Agreement” the trademark licensing agreement entered into between SMIL and GSMB on 3 November 1990, as amended by a supplemental agreement dated 29 September 2006, where SMIL assigned all its rights and obligations under the agreement to SMBIL pursuant to the Deed of Assignment

“Stock Exchange” The Stock Exchange of Hong Kong Limited

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

Hong Kong, 1 April 2010

*As at the date hereof, 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, Mr. Cheung Yuen Tak, Mr. Thelmo Luis O. Cunanan Jr. , General Benjamin P. Defensor, Jr., Mr. Motoyasu Ishihara and Mr. Keisuke Nishimura; and the independent non-executive directors, Dr. The Hon. Sir. David K. P. Li, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago.*