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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)

VARIOUS CONTINUING CONNECTED TRANSACTIONS AND REVISION OF EXISTING ANNUAL CAP FOR CONTINUING CONNECTED TRANSACTIONS

The Group has been carrying out certain continuing connected transactions with the San Miguel Group including, among other things, (i) purchase by the Group from the San Miguel Group of (a) packaging materials for the production of the Group and (b) packaged beer for the Group's wholesale and retail distribution; and (ii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group. Such transactions constitute continuing connected transactions for the Company in its ordinary and usual course of business.

As set out in the announcement of the Company dated 18 October 2010 and the circular of the Company dated 8 November 2010, the Company entered into the Existing Agreement setting out the terms of the continuing connected transactions between the Group and the San Miguel Group as set out above for the three years ending 31 December 2013. The Existing Agreement, the annual caps and the transactions contemplated thereunder were approved by Independent Shareholders at the extraordinary general meeting of the Company held on 26 November 2010.

The Amendment Agreement dated 7 March 2013 was entered into between the Company and SMC to amend the Existing Agreement by revising the Existing Sales Cap for the Beverage Sales for the year ending 31 December 2013 to the Revised Sales Cap of HK\$181 million. Save for the revision of the Existing Sales Cap to the Revised Sales Cap, all other terms and conditions under the Existing Agreement remain the same.

The Existing Agreement will expire on 31 December 2013. Accordingly, the Company and SMC entered into the New Agreement dated 7 March 2013 with a view to renewing the agreements to carry out the Continuing Connected Transactions from 1 January 2014 to 31 December 2016 on substantially the same terms as those under the Existing Agreement (as amended by the Amendment Agreement).

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. Pursuant to the Listing Rules, if the Company proposes to revise the annual caps under the continuing connected transactions, the Company is required to re-comply with the relevant provisions under Chapter 14A of the Listing Rules. The revision of the Existing Sales Cap is subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the Continuing Connected Transactions under the New Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are likewise subject to reporting, annual review, 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 terms of the Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions and the Caps.

A circular containing the particulars of the Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Ample Capital Limited to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders on or before 2 April 2013.

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 the ultimate controlling shareholder of the Company. SMC is one of the Philippines' most diversified conglomerates with operations in beverages, food, packaging, properties, fuel and oil, infrastructure, energy, power, mining, telecommunications and banking.

The Group has been carrying out certain continuing connected transactions with the San Miguel Group including, among other things, (i) purchase by the Group from the San Miguel Group of (a) packaging materials for the production of the Group and (b) packaged beer for the Group's wholesale and retail distribution; and (ii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group. Such transactions constitute continuing connected transactions for the Company in its ordinary and usual course of business.

As set out in the announcement of the Company dated 18 October 2010 and the circular of the Company dated 8 November 2010, the Company entered into the Existing Agreement setting out the terms of the continuing connected transactions between the Group and the San Miguel Group as set out above for the three years ending 31 December 2013. The Existing Agreement, the annual caps and the transactions contemplated thereunder were approved by Independent Shareholders at the extraordinary general meeting of the Company held on 26 November 2010.

The Amendment Agreement dated 7 March 2013 was entered into between the Company and SMC to amend the Existing Agreement by revising the Existing Sales Cap for the Beverage Sales for the year ending 31 December 2013 to the Revised Sales Cap of HK\$181 million. Save for the revision of the Existing Sales Cap to the Revised Sales Cap, all other terms and conditions under the Existing Agreement remain the same.

The Existing Agreement will expire on 31 December 2013. Accordingly, the Company and SMC entered into the New Agreement dated 7 March 2013 with a view to renewing the agreements to carry out the Continuing Connected Transactions from 1 January 2014 to 31 December 2016 on substantially the same terms as those under the Existing Agreement (as amended by the Amendment Agreement).

THE AMENDMENT AGREEMENT

Reference is made to the announcement of the Company dated 18 October 2010 and the circular of the Company dated 8 November 2010, in relation to, among other things, the transactions under the Existing Agreement in relation to the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group (the “Beverage Sales”) which constituted continuing connected transactions of the Company under the Listing Rules. As set out in the Existing Agreement, annual caps for the Beverage Sales for the years ended 31 December 2011 and 2012 and the year ending 31 December 2013 amounted to HK\$97 million, HK\$103 million and HK\$108 million respectively, the annual caps and the transactions contemplated thereunder were approved by Independent Shareholders at the extraordinary general meeting of the Company held on 26 November 2010.

The Amendment Agreement dated 7 March 2013 was entered into between the Company and SMC to amend the Existing Agreement by revising the Existing Sales Cap for the Beverage Sales for the year ending 31 December 2013 to the Revised Sales Cap of HK\$181 million. Save for the revision of the Existing Sales Cap to the Revised Sales Cap, all other terms and conditions under the Existing Agreement remain the same.

Set out below are the principal terms of the Amendment Agreement.

Date

7 March 2013 (the Amendment Agreement was signed by SMC on 7 March 2013 and by the Company on 8 March 2013)

Parties

The Company and SMC

Subject matter

Pursuant to the Amendment Agreement, the Existing Sales Cap for the year ending 31 December 2013 is revised to HK\$181 million.

The Amendment Agreement and the Revised Sales Cap are subject to the Independent Shareholders’ approval and shall be effective upon the date of the Amendment Agreement and shall expire on 31 December 2013. In the event that the Amendment Agreement and the Revised Sales Cap are not approved by the Independent Shareholders, the Company has the right to terminate the Amendment Agreement.

The Group has been carrying out certain continuing connected transactions with the San Miguel Group including, among other things, the Beverage Sales which is an income source of the Group. As the Company expects that there may be growth on the Beverage Sales for the year ending 31 December 2013, the Existing Sales Cap for the year ending 31 December 2013 may not be sufficient to meet the Group’s Beverage Sales in 2013, and therefore proposes that the Existing Sales Cap for the year ending 31 December 2013 be revised to HK\$181 million.

The Revised Sales Cap was determined based on, among other things, the Company's expectation that there will be a growth in demand by the San Miguel Group for the Group's packaged beer and non-alcoholic beverage products for export markets for the year ending 31 December 2013 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. For the two years ended 31 December 2011 and 2012, the actual transaction amount under the Beverage Sales accounted for approximately 96% and 90% of the respective annual cap. For the one month ended 31 January 2013, the actual transaction amount under the Beverage Sales was approximately HK\$7.9 million.

THE NEW AGREEMENT

Date

7 March 2013 (the New Agreement was signed by SMC on 7 March 2013 and by the Company on 8 March 2013)

Parties

The Company and SMC

Continuing Connected Transactions and the Caps

Under the New Agreement, the Group will enter into the following Continuing Connected Transactions with the San Miguel Group: (i) purchase by the Group from the San Miguel Group of packaging materials (including, but not limited to, cans, bottles, crown seals and crates) and packaged beer; and (ii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

Term

Subject to the Independent Shareholders' approval on the Continuing Connected Transactions, the New Agreement and the proposed Caps, the New Agreement shall have a term ending on 31 December 2016 and its terms shall apply to the Continuing Connected Transactions for the period commencing on 1 January 2014 to 31 December 2016. In the event that the New Agreement, Continuing Connected Transactions and the Caps are not approved by the Independent Shareholders, the Company has the right to terminate the New Agreement.

Pricing

The Company confirms that 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 have historically been negotiated and shall continue to be negotiated between the Group and the San Miguel Group on an annual basis with reference to the prices and credit terms available 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 arm's 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 have been and shall continue to be determined 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 arm's length negotiations between the Group and the 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 have been and shall continue to 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 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 profit margins are available, the profit margins shall be determined by arm's length negotiations between the Group and the San Miguel Group based upon 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 have been and shall continue to 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.

There is no provision in the New Agreement requiring the Group to exclusively source packaging materials and packaged beer from the San Miguel Group nor sell the packaged beer and non-alcoholic beverage products to the San Miguel Group.

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 meet the Group's stringent quality requirements and delivery schedules.

The Group purchases packaged beer from San Miguel Brewery Inc., a company owned as to approximately 51% by SMC 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 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. San Miguel Brewery Inc. runs the domestic brewery 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 amounts of the continuing connected transactions between the Group and the San Miguel Group for the two years ended 31 December 2012 and from 1 January to 31 January 2013, (ii) the relevant cap amounts under the Existing Agreement and (iii) the proposed Caps under the New Agreement for the three years ending 31 December 2016:

HK\$'000	Year ended 31 December 2011		Year ended 31 December 2012		Actual amount from 1 January 2013 to 31 January 2013 <i>(unaudited)</i>	Year ending 31 December 2013 Cap amount	Caps for the three years ending 31 December 2016 pursuant to the New Agreement		
	Actual amount <i>(audited)</i>	Cap amount	Actual amount <i>(audited)</i>	Cap amount			2014	2015	2016
Purchase of packaging materials by the Group from the San Miguel Group	46,784	47,000	31,740	54,000	606	61,000	82,000	89,000	97,000
Purchase of packaged beer by the Group from the San Miguel Group	4,455	4,900	4,665	5,300	234	5,700	6,300	6,800	7,200
Sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group	93,520	97,000	93,144	103,000	7,888	Under the Existing Agreement: 108,000	218,000	257,000	303,000
						Under the Amendment Agreement: 181,000 <i>(note 1)</i>			

Note 1: subject to the Independent Shareholders' approval on the Amendment Agreement, the Existing Sales Cap for the Beverage Sales for the year ending 31 December 2013 of HK\$108 million as set out in the Existing Agreement will be revised to HK\$181,000,000. Please refer to the section headed "The Revised Sales Caps" below for details.

In respect of the Caps in relation to the purchase of packaging materials and packaged beer by the Group from the San Miguel Group, the proposed 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 Caps in relation to the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, the proposed 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 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 Ample Capital Limited) consider that (i) the Continuing Connected Transactions are entered into in the ordinary course of business of the Group and the terms of the New Agreement and the Caps are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole and (ii) the revision of the Existing Sales Cap for the year ending 31 December 2013 pursuant to the Amendment Agreement is 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. Pursuant to the Listing Rules, if the Company proposes to revise the annual caps under the continuing connected transactions, the Company is required to re-comply with the relevant provisions under Chapter 14A of the Listing Rules. The revision of the Existing Sales Cap is subject to reporting, annual review, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

In addition, the Continuing Connected Transactions under the New Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are likewise subject to reporting, annual review, 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 terms of the Amendment Agreement, the Revised Sales Cap, 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. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM. An Independent Board Committee comprising Dr. the Hon. Sir. David K. P. Li, Mr. Ng Wai Sun, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago has been established to advise the Independent Shareholders in respect of the terms of the Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions and the Caps. Ample Capital Limited has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Amendment Agreement, the Revised Sales Cap, the New Agreement, 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 Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Ample Capital Limited to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the Amendment Agreement, the Revised Sales Cap, the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders on or before 2 April 2013.

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. Chan Wen Mee, May (Michelle), Mr. Teruyuki Daino, Mr. Roberto N. Huang, Mr. Taro Matsunaga and Mr. Shobu Nishitani; and the independent non-executive directors, Dr. the Hon. Sir. David K. P. Li, Mr. Ng Wai Sun, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago.

DEFINITIONS

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

“Amendment Agreement”	the agreement dated 7 March 2013 entered into between the Company and SMC (the Amendment Agreement was signed by SMC on 7 March 2013 and by the Company on 8 March 2013) to amend the Existing Agreement by revising the Existing Sales Cap for the Beverage Sales for the year ending 31 December 2013 to the Revised Sales Cap
“Ample Capital Limited”	Ample Capital Limited, a corporation licensed to carry on 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 New Agreement, the Amendment Agreement and the transactions contemplated thereunder
“associate(s)”	has the meaning ascribed to it under the Listing Rules

“Board”	the board of Directors
“Beverage Sales”	sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group
“Cap(s)”	the maximum annual aggregate value for each of the Continuing Connected Transactions under the New Agreement for the three years ending 31 December 2016
“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: (a) purchase of packaging materials by the Group from the San Miguel Group; (b) purchase of packaged beer by the Group from the San Miguel Group and (c) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened by the Company to consider, and if thought fit, approve the New Agreement, the Continuing Connected Transactions, the Caps, the Amendment Agreement and the Revised Sales Cap
“Existing Agreement”	the agreement dated 18 October 2010 entered into between the Company and SMC
“Existing Sales Cap”	the annual cap of HK\$108 million for the Beverage Sales for the year ending 31 December 2013 as set out in the Existing Agreement
“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. Ng Wai Sun, Mr. Reynato S. Puno 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, the Caps, the Amendment Agreement and the Revised Sales Cap
“Independent Shareholder(s)”	the shareholder(s) of the Company, other than SMC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange

“New Agreement”	the agreement dated 7 March 2013 entered into between the Company and SMC (the New Agreement was signed by SMC on 7 March 2013 and by the Company on 8 March 2013) in respect of the Continuing Connected Transactions for the period commencing on 1 January 2014 to 31 December 2016
“Revised Sales Cap”	the proposed revised annual cap of HK\$181 million for the year ending 31 December 2013 in relation to Beverage Sales as set out in the Amendment Agreement
“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
“SMC”	San Miguel Corporation, the ultimate 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, 8 March 2013