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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 2014 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 2014. 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	
		2014	2013
	<i>Note</i>	\$'000	\$'000
Turnover	3	355,679	325,092
Cost of sales		(204,053)	(189,998)
Gross profit		151,626	135,094
Other revenue		24,301	11,121
Other net income		237	315
Selling and distribution expenses		(107,971)	(99,614)
Administrative expenses		(38,167)	(39,039)
Other operating expenses		(4,738)	(5,121)
Profit from operations		25,288	2,756
Finance costs	4(a)	(2,189)	(3,405)
Profit/(loss) before taxation	4	23,099	(649)
Income tax	5	(49)	(13)
Profit/(loss) for the period		23,050	(662)
Attributable to:			
Equity shareholders of the Company		21,481	1,652
Non-controlling interests		1,569	(2,314)
Profit/(loss) for the period		23,050	(662)
Earnings per share			
— Basic (cents)	7(a)	5.8	0.4
— Diluted (cents)	7(b)	N/A	N/A

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

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Profit/(loss) for the period	23,050	(662)
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	3,559	(6,708)
— monetary items that form part of the net investment in subsidiaries outside Hong Kong	(3,515)	6,569
	44	(139)
Total comprehensive income for the period	23,094	(801)
Attributable to:		
Equity shareholders of the Company	21,234	2,077
Non-controlling interests	1,860	(2,878)
Total comprehensive income for the period	23,094	(801)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

(Expressed in Hong Kong dollars)

	<i>Note</i>	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Non-current assets			
Fixed assets			
— Property, plant and equipment		456,350	461,316
— Investment properties		84,015	85,356
— Interests in leasehold land held for own use under operating leases		87,612	89,221
		627,977	635,893
Intangible assets		5,184	5,188
Other tangible assets		68	—
		633,229	641,081
Current assets			
Inventories		54,728	58,787
Trade and other receivables	8	100,392	87,172
Amounts due from holding companies and fellow subsidiaries		8,447	8,702
Bank deposits		—	20,168
Cash and cash equivalents		149,617	112,746
		313,184	287,575
Current liabilities			
Trade and other payables	9	(143,793)	(138,446)
Loan from an intermediate holding company		(38,152)	(12,723)
Amounts due to holding companies and fellow subsidiaries		(9,987)	(17,235)
Amounts due to related companies		(4,497)	(5,139)
		(196,429)	(173,543)
Net current assets		116,755	114,032
Total assets less current liabilities		749,984	755,113
Non-current liabilities			
Loan from an intermediate holding company		(165,325)	(190,837)
Retirement benefit liabilities		(18,472)	(17,660)
Deferred tax liabilities		(2,938)	(2,938)
		(186,735)	(211,435)
NET ASSETS		563,249	543,678
CAPITAL AND RESERVES			
Share capital		186,785	186,785
Reserves		404,347	386,636
Total equity attributable to equity shareholders of the Company		591,132	573,421
Non-controlling interests		(27,883)	(29,743)
TOTAL EQUITY		563,249	543,678

NOTES:

(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 5 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of these changes in accounting policies are set out in note 2.

Notwithstanding the negative net cash balances position of the Group, the Company’s intermediate holding company, namely San Miguel Brewery Inc., a listed company in the Republic of the Philippines, has committed to provide continuing support to enable the Group to operate as a going concern and meet its liabilities as they fall due for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

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 2013 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 2013 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. Statutory audited financial statements for the year ended 31 December 2013 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 7 February 2014.

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 and the Company. Of these, the following developments are relevant to the Group’s financial statements:

- Amendments to HKAS 32, *Financial instruments: Presentation — Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Impairment of assets — Recoverable amount disclosures for non-financial assets*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on the Group’s interim financial report as they are consistent with the policies already adopted by the Group.

2 CHANGES IN ACCOUNTING POLICIES (Continued)

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or cash-generating unit whose recoverable amount is based on fair value less costs of disposal.

The adoption of these amendments has no material financial effect on the Group's results and financial position for the current or prior periods.

3 TURNOVER AND SEGMENT REPORTING

(a) Turnover

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

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

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

(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 2014 and 2013 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000	2014 \$'000	2013 \$'000
Revenue from external customers	275,035	254,055	80,644	71,037	355,679	325,092
Inter-segment revenue	86	110	—	—	86	110
Reportable segment revenue	275,121	254,165	80,644	71,037	355,765	325,202
Reportable segment profit/(loss) from operations	15,622	11,264	7,477	(11,913)	23,099	(649)
	Hong Kong		Mainland China		Total	
	At 30 June 2014 \$'000	At 31 December 2013 \$'000	At 30 June 2014 \$'000	At 31 December 2013 \$'000	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Reportable segment assets	1,247,197	1,225,441	79,824	83,560	1,327,021	1,309,001
Reportable segment liabilities	310,412	300,710	450,422	461,675	760,834	762,385

3 TURNOVER 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	
	2014	2013
	\$'000	\$'000
Revenue		
Reportable segment revenue	355,765	325,202
Elimination of inter-segment revenue	(86)	(110)
	<u>355,679</u>	<u>325,092</u>
Profit/(loss)		
Reportable segment profit/(loss) from operations	23,099	(649)
Elimination of inter-segment profits	—	—
	<u>23,099</u>	<u>(649)</u>
Reportable segment profit/(loss) derived from Group's external customers and consolidated profit/(loss) before taxation	<u>23,099</u>	<u>(649)</u>
	At 30 June	At 31 December
	2014	2013
	\$'000	\$'000
Assets		
Reportable segment assets	1,327,021	1,309,001
Elimination of inter-segment receivables	(380,608)	(380,345)
	<u>946,413</u>	<u>928,656</u>
Liabilities		
Reportable segment liabilities	760,834	762,385
Elimination of inter-segment payables	(380,608)	(380,345)
	<u>380,226</u>	<u>382,040</u>
Deferred tax liabilities	2,938	2,938
	<u>383,164</u>	<u>384,978</u>

3 TURNOVER 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
	2014	2013	2014	2013
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	<u>219,132</u>	212,090	<u>602,414</u>	609,887
Mainland China	52,771	47,159	30,815	31,194
Philippines	77,335	60,446	—	—
Others	6,441	5,397	—	—
	<u>136,547</u>	<u>113,002</u>	<u>30,815</u>	<u>31,194</u>
	<u>355,679</u>	<u>325,092</u>	<u>633,229</u>	<u>641,081</u>

4 PROFIT/(LOSS) BEFORE TAXATION

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Profit/(loss) before taxation is arrived at after charging:		
(a) Finance costs		
Interest expense on bank loan wholly repayable within five years	—	3,058
Interest expense on loan from an intermediate holding company wholly repayable within five years	2,115	—
Amortisation of transaction costs for bank loan	—	271
Bank charges	74	76
	<u>2,189</u>	<u>3,405</u>
(b) Staff costs		
Retirement costs	6,174	6,699
Salaries, wages and other benefits	58,031	53,190
	<u>64,205</u>	<u>59,889</u>
(c) Other items:		
Amortisation		
— Land lease premium	1,300	1,325
— Other tangible assets	—	12
Depreciation		
— Property, plant and equipment	9,461	9,081
— Investment properties	1,360	1,362
Cost of inventories	202,383	188,351
Provision for impairment losses on trade and other receivables	223	645
	<u>223</u>	<u>645</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2014	2013
	\$'000	\$'000
Current tax — Outside Hong Kong		
— Provision for the period	(49)	(13)
Deferred tax		
— Origination and reversal of temporary differences	—	—
Income tax charge	<u>(49)</u>	<u>(13)</u>

5 INCOME TAX (Continued)

The statutory tax rate applicable to the Company and other Hong Kong subsidiaries was 16.5% (2013: 16.5%). No provision for Hong Kong Profits Tax for the six months ended 30 June 2014 has been 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% (2013: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

Provision for current tax outside Hong Kong for the six months ended 30 June 2014 and 2013 represented a withholding tax levied at 10% on interest income earned in the PRC by a subsidiary which is a non-PRC resident according to the relevant rules and regulations of the PRC.

6 DIVIDENDS

(i) Dividends payable to equity shareholders attributable to the interim period

	2014 \$'000	2013 \$'000
Interim dividend declared and paid after the interim period of \$0.01 per ordinary share (2013: Nil per ordinary share)	<u>3,736</u>	<u>—</u>

The interim dividend has not been recognised as a liability at the end of the reporting period.

(ii) Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2014 \$'000	2013 \$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of \$0.01 per ordinary share (six months ended 30 June 2013: Nil per ordinary share)	<u>3,736</u>	<u>—</u>

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2014 of \$21,481,000 (six months ended 30 June 2013: \$1,652,000) and on 373,570,560 ordinary shares (at 30 June 2013: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted earnings per share

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

8 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2014 \$'000	At 31 December 2013 \$'000
Current	64,535	52,104
Less than 1 month past due	9,543	9,152
1 to 3 months past due	1,269	2,702
More than 3 months but less than 12 months past due	1,609	2,940
More than 12 months past due	2,991	3,822
	<u>79,947</u>	<u>70,720</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 exposures 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 2014 \$'000	At 31 December 2013 \$'000
Current and less than 1 month past due	57,019	48,067
1 to 3 months past due	2,045	3,163
3 to 6 months past due	—	1,395
More than 6 months past due	239	289
	<u>59,303</u>	<u>52,914</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.

INTERIM RESULTS

San Miguel Brewery Hong Kong Limited and its subsidiaries' consolidated turnover for the first six months of the year was at HK\$355.7 million, a 9.4% increase over the same period in 2013. Gross profit reached HK\$151.6 million, with gross profit margin at 42.6%.

Consolidated profit for the first half ended June 30, 2014 was HK\$23.1 million, a significant improvement from the HK\$0.7 million loss registered for the same period last year. As a result, consolidated net profit attributable to equity shareholders rose to HK\$21.5 million, significantly higher than the HK\$1.7 million profit for the same period in 2013.

As of 30 June 2014, cash and cash equivalents, as well as bank deposits (excluding bank loans) totaled HK\$149.6 million (at 31 December 2013: HK\$132.9 million), while total debt by the end of the period now stands at HK\$203.5 million, 0.05% lower than the HK\$203.6 million debt reported at the end of last year. Total net assets reached HK\$563.2 million (at 31 December 2013: HK\$543.7 million), with a debt-to-equity ratio of 0.36 (at 31 December 2013: 0.37).

DIVIDENDS

On 5 August 2014, the Board of Directors approved the declaration of an interim dividend for the six months ended 30 June 2014, of HK\$0.01 per share to shareholders on record as of 28 August 2014.

BUSINESS REVIEW

Hong Kong Operations

Our Hong Kong operations continued to post a strong profit recovery in the first half of 2014, as operating profit rose 17% with both the domestic and export businesses contributing to growth. Total sales volume and revenue also grew by 9% and 7%, respectively.

Local volumes were sluggish in the first quarter in line with the industry downtrend, while we continued to pursue the rationalization of discounts and promotion spending as well as our sales and distribution restructuring. Nevertheless, local sales volume and revenues registered double-digit growth in the 2nd quarter, outpacing our performance in the same period last year. We outperformed the industry during the first semester, asserting once again our position as the No.1 beer company in Hong Kong in terms of sales volume.

Our flagship San Miguel Pale Pilsen registered significant quarter-on-quarter volume and revenue improvements, particularly in the retail chain channel, aided by a new design for its can variant launched in April which was part of a global initiative to strengthen the San Miguel brand and bring unique experiences and quality products to consumers. This was supported by a marketing campaign that extended to television, print and outdoor advertising and a market-wide lucky draw and point-of-sales visibility activities. SMBHK also continued its strong association with some of the most iconic events in Hong Kong. Through the Company's strategic alliance as official beer partner with the Lan Kwai Fong Association, the San Miguel X Lan Kwai Fong Rugby Fest continued to be one of the most high-profile post-rugby events in the city. San Miguel Pale Pilsen also continued to be the exclusive sponsor of the beer festival for the Hong Kong Dragon Boat carnival organized by the Hong Kong Tourism Board.

Meanwhile, San Mig Light continued to gain popularity in the Hong Kong market with double-digit volume and revenue growth in all sales channels. To welcome the summer, San Mig Light launched the Summer Splash campaign by partnering with some of Hong Kong's most promising artists to come up with creative and trendy executions.

The company's portfolio of premium brands also continued to register healthy volume and revenue growth. The success of the launch of Kirin Ichiban Frozen Beer prompted the introduction of Kirin Ichiban Stout Frozen Beer and Kirin Ichiban 2-Tone Beer, which were met with positive consumer response.

The Company also saw double-digit sales and revenue growth in Macau.

South China Operations

Our consolidated South China operations posted significant improvement in the first half of 2014, as operating losses were reduced by 35% over the same period last year. The restructuring of our going-to-market and distribution strategy in Guangzhou San Miguel Brewery Company Limited ("GSMB") and the increased exports production of San Miguel (Guangdong) Brewery Company Limited ("SMGB"), contributed to double-digit growth in sales volume and revenue.

The new going-to-market and distribution strategy implemented in GSMB resulted to a stronger dealer network that widened our coverage area and intensified product penetration. This, together with the significant improvements in the retail chain business and improved efficiencies brought about by the clustering of business areas and activities, pushed sales volume up 8% and improved revenues by 12% over the same period in 2013. We intend to build on this momentum for the rest of the year.

To enhance visibility and create greater display and shelf impact, San Miguel Pale Pilsen and San Mig Light were given new carton designs. To complement this initiative, new designs were also introduced for point-of-sales materials, which highlighted a return to that fundamental message that San Miguel products are all about quality and goodness. A market-wide consumer promotion across all channels in all regions for both San Miguel Pale Pilsen and San Mig Light was also launched in April and will continue until October, taking full advantage of the peak summer months.

The Group also initiated a new communication platform for the Dragon brand, with the slogan, "Dragon Beer, the Beer for Shunde People". This new campaign highlights consumers' affinity with the brand, especially since its brewery is located right in the district. Consumer promotions designed around this new platform and events that increased consumption, were also implemented.

The two brands on both ends of GSMB's price spectrum performed remarkably well. Guang's Pineapple beer in the lower-end segment registered an 81% sales volume growth while Red Horse beer in the premium segment posted a 70% sales volume increase versus last year.

SMGB, which serves as a production source of San Miguel Brewing International's export business, meanwhile delivered a 16% increase in total exports volume for the first six months, compared to the same period last year.

Today, we are beginning to reap the benefits of the restructuring we implemented in South China. Over the long term, we will continue to build on this momentum, even as we endeavor to attain more growth by further enhancing sales and profitability as we move forward.

OUTLOOK

The Group remains optimistic of its growth and profitability prospects for the second half of the year. We are confident that our step-up plans and new product launches will result in volume growth and improved profitability, moving forward.

Lastly, we in Management would like to again express our sincere appreciation to the members of the board for their unfailing support, and our employees for their dedication and hard work. Most of all, we thank all our customers and business associates for their continued 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 2014.

CORPORATE GOVERNANCE

The Company has applied the principles set out in the Corporate Governance Code (the "CG Code") as contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2014, save for the deviation discussed below:

- All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1 of the CG Code) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.

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 and the Company's website (<http://info.sanmiguel.com.hk>) in due course.

By order of the Board
Ramon S. Ang
Chairman

Hong Kong, 5 August 2014

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. Takashi Hayashi, Mr. Roberto N. Huang and Mr. Takeshi Wada; 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.