

Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this announcement, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.



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 2016 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 2016. 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	
		2016	2015
	<i>Note</i>	\$'000	\$'000
Revenue	3	259,520	272,271
Cost of sales		(150,351)	(160,368)
Gross profit		109,169	111,903
Other net income		19,942	20,200
Selling and distribution expenses		(82,867)	(99,704)
Administrative expenses		(40,682)	(39,823)
Other operating expenses		(3,971)	(4,277)
Profit/(loss) from operations		1,591	(11,701)
Finance costs	4(a)	(2,645)	(2,154)
Loss before taxation	4	(1,054)	(13,855)
Income tax	5	—	—
Loss for the period		(1,054)	(13,855)

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

		Six months ended 30 June	
		2016	2015
	<i>Note</i>	\$'000	\$'000
Attributable to:			
Equity shareholders of the Company		(611)	(14,641)
Non-controlling interests		(443)	786
		<hr/>	<hr/>
Loss for the period		(1,054)	(13,855)
		<hr/> <hr/>	<hr/> <hr/>
Loss per share			
— Basic (cents)	<i>7(a)</i>	(0.2)	(3.9)
		<hr/> <hr/>	<hr/> <hr/>
— Diluted (cents)	<i>7(b)</i>	N/A	N/A
		<hr/> <hr/>	<hr/> <hr/>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2016	2015
	\$'000	\$'000
Loss for the period	(1,054)	(13,855)
	-----	-----
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	7,159	(111)
— monetary items that form part of the net investment in subsidiaries outside Hong Kong	(7,440)	123
	-----	-----
	(281)	12
	-----	-----
Total comprehensive income for the period	(1,335)	(13,843)
	=====	=====
Attributable to:		
Equity shareholders of the Company	(1,459)	(14,621)
Non-controlling interests	124	778
	-----	-----
Total comprehensive income for the period	(1,335)	(13,843)
	=====	=====

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

(Expressed in Hong Kong dollars)

		At 30 June 2016 \$'000	At 31 December 2015 \$'000
Non-current assets			
Property, plant and equipment		383,775	416,822
Investment properties		128,635	98,457
Interests in leasehold land held for own use under operating leases		80,259	82,102
		592,669	597,381
Intangible assets		5,156	5,163
Other tangible assets		86	—
		597,911	602,544
		597,911	602,544
Current assets			
Inventories		39,278	52,431
Trade and other receivables	8	59,279	68,772
Amounts due from holding companies and fellow subsidiaries		9,704	7,157
Amount due from related companies		229	262
Bank deposits		57,916	50,882
Cash and cash equivalents		100,224	97,718
		266,630	277,222
		266,630	277,222
Current liabilities			
Trade and other payables	9	(85,496)	(104,460)
Loan from an intermediate holding company		(25,458)	—
Amounts due to holding companies and fellow subsidiaries		(6,378)	(5,375)
Amounts due to related companies		(8,818)	(5,016)
		(126,150)	(114,851)
		(126,150)	(114,851)
Net current assets		140,480	162,371
		140,480	162,371

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED *(Continued)*
(Expressed in Hong Kong dollars)

	At 30 June	At 31 December
	2016	2015
<i>Note</i>	\$'000	\$'000
Total assets less current liabilities	738,391	764,915
	-----	-----
Non-current liabilities		
Loan from an intermediate holding company	(165,474)	(190,747)
Retirement benefit liabilities	(27,023)	(26,939)
Deferred tax liabilities	(2,243)	(2,243)
	-----	-----
	(194,740)	(219,929)
	-----	-----
NET ASSETS	543,651	544,986
	=====	=====
CAPITAL AND RESERVES		
Share capital and other statutory capital reserves	252,524	252,524
Other reserves	318,057	319,516
	-----	-----
Total equity attributable to equity		
shareholders of the Company	570,581	572,040
Non-controlling interests	(26,930)	(27,054)
	-----	-----
TOTAL EQUITY	543,651	544,986
	=====	=====

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 26 August 2016.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 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 2015 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 2015 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 2015 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 4 February 2016.

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 1, *Disclosure initiative*
- Amendments to HKAS 16 and HKAS 38, *Clarification of acceptable methods of depreciation and amortisation*
- *Annual Improvements to HKFRSs 2012-2014 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

3 REVENUE AND SEGMENT REPORTING (Continued)

(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 2016 and 2015 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from						
external customers	184,634	182,751	74,886	89,520	259,520	272,271
Inter-segment						
revenue	152	86	—	—	152	86
Reportable						
segment revenue	184,786	182,837	74,886	89,520	259,672	272,357
Reportable segment						
(loss)/profit						
from operations	(6,530)	(19,230)	5,476	5,375	(1,054)	(13,855)
	Hong Kong		Mainland China		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2016	2015	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable						
segment assets	1,171,615	1,179,474	74,551	81,479	1,246,166	1,260,953
Reportable segment						
liabilities	268,419	270,414	431,852	443,310	700,271	713,724

3 REVENUE 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	
	2016	2015
	\$'000	\$'000
Revenue		
Reportable segment revenue	259,672	272,357
Elimination of inter-segment revenue	(152)	(86)
	<u>259,520</u>	<u>272,271</u>
Consolidated revenue	<u>259,520</u>	<u>272,271</u>
Loss		
Reportable segment loss from operations	(1,054)	(13,855)
Elimination of inter-segment profits	—	—
	<u>(1,054)</u>	<u>(13,855)</u>
Reportable segment loss derived from Group's external customers and consolidated loss before taxation	<u>(1,054)</u>	<u>(13,855)</u>
	At 30 June	At 31 December
	2016	2015
	\$'000	\$'000
Assets		
Reportable segment assets	1,246,166	1,260,953
Elimination of inter-segment receivables	(381,624)	(381,187)
	<u>864,542</u>	<u>879,766</u>
Consolidated total assets	<u>864,542</u>	<u>879,766</u>
Liabilities		
Reportable segment liabilities	700,271	713,724
Elimination of inter-segment payables	(381,624)	(381,187)
	<u>318,647</u>	<u>332,537</u>
Deferred tax liabilities	<u>2,243</u>	<u>2,243</u>
Consolidated total liabilities	<u>320,890</u>	<u>334,780</u>

3 REVENUE 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
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	137,246	144,919	571,265	575,006
Mainland China	28,547	46,159	26,560	27,538
Philippines	90,778	78,732	—	—
Others	2,949	2,461	—	—
	122,274	127,352	26,560	27,538
	259,520	272,271	597,825	602,544

4 LOSS BEFORE TAXATION

	Six months ended 30 June	
	2016	2015
	\$'000	\$'000
Loss before taxation is arrived at after charging/(crediting):		
(a) Finance costs		
Interest expense on loan from an intermediate holding company wholly repayable within five years	2,581	2,084
Bank charges	64	70
	<u>2,645</u>	<u>2,154</u>
(b) Staff costs		
Retirement costs	5,908	6,071
Salaries, wages and other benefits	57,668	59,539
	<u>63,576</u>	<u>65,610</u>
(c) Other items:		
Amortisation on land lease premium	1,275	1,301
Depreciation		
— Property, plant and equipment	8,656	9,580
— Investment properties	2,221	1,365
Cost of inventories	149,014	158,790
Provision for impairment losses on trade and other receivables	200	160
	<u>200</u>	<u>160</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2016	2015
	\$'000	\$'000
Current tax — Outside Hong Kong		
— Provision for the period	—	—
	-----	-----
Deferred tax		
— Origination and reversal of temporary differences	—	—
	-----	-----
Income tax charge	—	—
	=====	=====

The statutory tax rate applicable to the Company and other Hong Kong subsidiaries was 16.5% (2015: 16.5%). No provision for Hong Kong Profits Tax for the six months ended 30 June 2016 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% (2015: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

6 DIVIDENDS

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

The Board has resolved that no interim dividends will be declared for 2016.

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

	Six months ended 30 June	
	2016	2015
	\$'000	\$'000
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of nil per ordinary share (six months ended 30 June 2015: \$0.01 per ordinary share)	—	3,736
	<u> </u>	<u> </u>

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the six months ended 30 June 2016 of \$611,000 (six months ended 30 June 2015: \$14,641,000) and on 373,570,560 ordinary shares (at 30 June 2015: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary share 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	At 31 December
	2016	2015
	\$'000	\$'000
Current	40,797	38,996
Less than 1 month past due	4,954	7,280
1 to 3 months past due	388	3,006
More than 3 months but less than 12 months past due	553	610
More than 12 months past due	1,130	1,077
	<hr/>	<hr/>
	47,822	50,969
	<hr/> <hr/>	<hr/> <hr/>

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 exposure 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	At 31 December
	2016	2015
	\$'000	\$'000
Current and less than 1 month past due	28,318	44,443
1 to 3 months past due	1,331	1,574
3 to 6 months past due	340	247
More than 6 months past due	18	36
	<hr/>	<hr/>
	30,007	46,300
	<hr/> <hr/>	<hr/> <hr/>

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.

CHAIRMAN'S STATEMENT

FINANCIAL RESULTS

The Group registered a consolidated loss of only HK\$1.1 million in the first semester of 2016, compared to the consolidated loss of HK\$13.9 million in 2015, a significant improvement of 92%. As a result, net loss attributable to equity shareholders for 2016 was HK\$0.6 million, compared to a loss of HK\$14.6 million the previous year. The Group's consolidated revenues ended at HK\$259.5 million, 4.7% lower than the same period in 2015. Gross profit reached HK\$109.2 million, with a gross profit margin of 42.1%.

As of 30 June 2016, cash and cash equivalents and bank deposits amounted to HK\$158.1 million (HK\$148.6 million as of 31 December 2015). Meanwhile, total debt as of 30 June 2016 was at HK\$190.9 million (HK\$190.7 million as of 31 December 2015). Total net assets stood at HK\$543.7 million (HK\$545.0 million as of 31 December 2015), with a debt-to-equity ratio of 0.35 (31 December 2015: 0.35).

DIVIDENDS

The Board resolved that no dividends will be declared for the first six months of 2016.

BUSINESS REVIEW

Hong Kong Operations

Our Hong Kong operations posted a strong recovery in the first half of 2016, as operating losses before net finance costs were reduced by 75%, with total sales volumes growing by 5%. The improvement in loss was a result of several initiatives, including closer monitoring of discounts, reduction in the cost of delivery through process reengineering, and the consolidation of warehousing operations.

In the domestic market, the Company continued to strengthen its presence in the premium specialty and craft beer segments, ensuring we serve different market niches and maintain a diverse portfolio. Last January, we entered into a distribution agreement with Shepherd Neame Limited for the exclusive distribution of Spitfire Kentish Ale, Whitstable Bay Blonde Lager and Whitstable Bay Pale Ale. This was followed by two other agreements; first, with Arcobräu Gräfliches Brauhaus GmbH & Co. KG in March this year for the distribution of Arcobräu, and another one in June with Lion - Beer, Spirits & Wine (NZ) Limited for Steinlager Classic and Mac's Great White. Meanwhile, Kirin beer brands are doing very well in Hong Kong, with sales consistently growing by double-digits since their launch in 2012.

Our own brands, San Miguel Cerveza Negra and Red Horse Beer, launched in July 2014 and February 2015 respectively, have been received well by the market. In the first half of 2016, San Miguel Cerveza Negra and Red Horse Beer registered a 38% and 93% volume growth over the same period last year.

Our flagship San Miguel Pale Pilsen registered significant quarter-on-quarter volume and revenue improvements, particularly in the wholesaler channel. Our wholesaler trade programs, helped push our products, while our market-wide promotion “Cheers For Your Dream”, under the “Real Friends” campaign have drawn more drinkers to our brand.

San Mig Light continued to gain popularity in the Hong Kong market with double-digit volume and revenue growth. In May, to further enhance the brand’s image and visibility, we sponsored the world-famous Belgian-Greek DJ duo Dimitri Vegas & Like Mike at AsiaWorld-Expo. Our sponsorship of the event, which was targeted at young adults, was complemented by a point-of-sale visibility blitz, online communications and show-related retail promotions.

Meanwhile, the Company was able to buck industry trend in Macau with a sales volume growth of 4% through increased participation in on-premise outlets.

South China Operations

Our consolidated South China operations posted significant improvement in the first half of 2016, as operating losses were reduced by more than half over the same period last year. We attribute this improvement to effective discount management, streamlining of our product value chain and higher export business of San Miguel (Guangdong) Brewery Company Limited (“SMGB”).

Sales volumes of Guangzhou San Miguel Brewery Company Limited (“GSMB”) declined as the beer industry in South China contracted. A significant portion of the volume decline came from on-premise outlets, especially night-outlets, where contraction was particularly high. To manage the situation, GSMB implemented tactical discounts and promotion activities which pushed spending efficiency while improving cost management. As a result, GSMB was able to end the first half of 2016 with a 5% improvement in operating loss.

To increase visibility for San Miguel Pale Pilsen, we launched the “Heritage and Quality” campaign in April. We released a new commercial that aired on various television channels and online media platforms. We reinforced the campaign with point-of-sale visibility and the use of social media.

GSMB will also continue to expand its draught beer business with the continued roll out of San Miguel Pale Pilsen and Cerveza Negra in Shenzhen and Guangzhou amidst positive response from the market.

In May, GSMB launched Dragon Qingchun in 500ml cans in Shunde, to meet the growing demand for a bigger-sized canned variant. Meanwhile, to improve our penetration in the premium specialty beer segment, we released the imported San Miguel Cerveza Negra and Red Horse Beer in small bottles starting last June.

SMGB, which serves as one of the production bases for San Miguel Brewing International Limited's export business, delivered double-digit growth in export sales revenues in the first six months of 2016.

We need to work harder to improve our South China operations. As we move forward, we will continue to balance sales and profitability in the effort to operate a viable business in this highly important market.

OUTLOOK

We remain optimistic about our performance in the next six months. We are confident that the plans and programs we have put in place will ensure we put the right products in the right markets.

We thank our employees for their efforts and their perseverance. We would also like to extend our gratitude to the members of our Board for their continued guidance and support. Finally, 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 2016.

CORPORATE GOVERNANCE

The Company has applied the principles as set out in the Corporate Governance Code (the "CG Code"), contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2016, 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, 26 August 2016

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. May (Michelle) W. M. Chan, Mr. Takashi Hayashi, Mr. Roberto N. Huang, Mr. Katsuhiko Matsumoto 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.