THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in doubt as to any aspect about this circular, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your Shares in San Miguel Brewery Hong Kong Ltd. (the "**Company**"), you should at once hand this circular and proxy form enclosed herein to the purchaser or transferee, or to the bank or stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or transferee.

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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

Independent financial adviser to the Independent Board Committee and the Independent Shareholders

ALTUS CAPITAL LIMITED

A letter from the board of directors of the Company is set out on pages 4 to 20 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 21 of this circular. A letter from Altus Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 22 to 52 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 29 April 2016, Friday at 3:45 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) is set out on pages 60 to 61 of this circular. A form of proxy for use by the Independent Shareholders at the extraordinary general meeting is also enclosed. Whether or not you propose to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return it to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not later than 48 hours before the time appointed for holding the meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the meeting or any adjourned meeting, should you so wish.

14 April 2016

CONTENTS

In this circular, unless the context otherwise requires, the following expressions have the following meanings:

"Altus Capital"	Altus 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 SFO, being the independent financial adviser appointed to advise the Independent Board Committee and the Independent Shareholders on the Master Agreement and the transactions contemplated thereunder and the respective Annual Caps
"Announcement"	the announcement of the Company dated 4 February 2016 relating to the Continuing Connected Transactions
"Annual Cap(s)"	the maximum annual aggregate value for each of the Continuing Connected Transactions under the Master Agreement for the three years ending 31 December 2019
"associate(s)"	has the meaning ascribed to it under the Listing Rules
"Board"	means the board of Directors but for the purpose of expressing the board of Directors' view on the Continuing Connected Transactions contemplated under the Master Agreement, excludes Mr. Ramon S. Ang who abstained from voting at the board meeting during which such Continuing Connected Transactions were considered in view of his substantial interest in Top Frontier and SMC
"close associate(s)"	has the meaning ascribed to it under the Listing Rules
"Company"	San Miguel Brewery Hong Kong Ltd., a company incorporated in Hong Kong with limited liability, whose shares are listed on the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Continuing Connected Transactions"	the following transactions between the Group and the San Miguel Group: (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group provided that such sales or distribution of packaged beer shall not be carried out in the Philippines, unless through SMB

"Director(s)"	the director(s) of the Company
"EGM"	the extraordinary general meeting of the Company to be convened by the Company at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 29 April 2016, Friday, at 3:45 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) to consider, and if thought fit, approve the Master Agreement, the Continuing Connected Transactions and the Annual Caps
"Group"	the Company and its Subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC
"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 Master Agreement, the Continuing Connected Transactions and the Annual Caps
"Independent Shareholder(s)"	the Shareholder(s), other than SMC and its associates
"Independent Third Party(ies)"	a person(s) or company(ies) which is/are independent of and not connected with any Directors, chief executives of the Company, controlling Shareholders and substantial Shareholders and/or any of its Subsidiaries and their respective associates
"Latest Practicable Date"	8 April 2016, being the latest practicable date prior to the bulk printing of this circular for the purpose of ascertaining certain information contained in this circular
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Master Agreement"	the agreement dated 4 February 2016 entered into between the Company and SMC in respect of the Continuing Connected Transactions for the period commencing on 1 January 2017 to 31 December 2019

"PRC"	the People's Republic of China excluding Hong Kong, Macau Special Administrative Region of the PRC and Taiwan for the purpose of this circular
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	Securities and Futures Ordinance (Cap. 571 of the laws of Hong Kong)
"Share(s)"	ordinary share(s) of HK$0.50 each in the issued share capital of the Company
"Shareholder(s)"	holder(s) of Share(s)
"SMB"	San Miguel Brewery, Inc., a company owned as to approximately 51% by SMC
"SMC"	San Miguel Corporation, an indirect controlling Shareholder of the Company through Neptunia Corporation Limited
"San Miguel Group"	SMC and its associates, excluding the Group, for the purpose of this circular
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiary(ies)"	has the meaning ascribed to it under the Listing Rules
"Top Frontier"	Top Frontier Investment Holdings, Inc., the ultimate controlling Shareholder of the Company
"%"	per cent

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)

Executive Director:
Ramon G. Torralba

Non-executive Directors:
Ramon S. Ang, *Chairman*
Carlos Antonio M. Berba, *Deputy Chairman*
May (Michelle) W. M. Chan
Takashi Hayashi
Roberto N. Huang
Takeshi Wada

Independent non-executive Directors:
David K. P. Li, GBM, JP (alternate: William C.M. Cheng)
Ng Wai Sun
Reynato S. Puno
Carmelo L. Santiago

Registered Office:
9th Floor
Citimark Building
28 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

14 April 2016

To the Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

BACKGROUND

Reference is made to the Announcement.

As stated in the Announcement, the Group has been carrying out the Continuing Connected Transactions with the San Miguel Group for the previous years in the ordinary and usual course of business of the Group including, among other things, (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

The existing annual caps in respect of the Continuing Connected Transactions will expire on 31 December 2016. Accordingly, on 4 February 2016, the Group and SMC entered into the Master Agreement to renew the annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2019.

The purposes of this circular are:

(i) to provide the Shareholders with further details of the Master Agreement, the Continuing Connected Transactions and the Annual Caps;

(ii) to set out the recommendation from the Independent Board Committee to the Independent Shareholders in respect of the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps;

(iii) to set out the advice from Altus Capital to the Independent Board Committee and the Independent Shareholders on the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps; and

(iv) to give the Shareholders (a) the notice of the EGM at which resolutions to consider and, if thought fit, approve the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps and other related resolutions will be proposed to the Independent Shareholders, and (b) other information in connection with the Master Agreement and the Continuing Connected Transactions, in accordance with the requirements of the Listing Rules.

The notice of EGM is enclosed herein as part of this circular.

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

THE MASTER AGREEMENT

Date

4 February 2016

Parties

The Company and SMC

Continuing Connected Transactions and the Annual Caps

Under the Master Agreement, the Group will enter into the following Continuing Connected Transactions with the San Miguel Group: (i) purchase of packaging materials by the Group from the San Miguel Group; (ii) purchase of packaged beer by the Group from the San Miguel Group; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, provided that such sales or distribution of packaged beer shall not be carried out in the Philippines, unless through SMB. The purchase of packaging materials by the Group from the San Miguel Group is for the production of the Group; while the purchase of packaged beer by the Group from the San Miguel Group is for the Group's wholesale and retail distribution.

Term

Subject to the Independent Shareholders' approval on the Continuing Connected Transactions, the Master Agreement and the proposed Annual Caps, the Master Agreement shall have a term ending on 31 December 2019 and its terms shall apply to the Continuing Connected Transactions for the period commencing on 1 January 2017 to 31 December 2019. In the event that the Master Agreement, Continuing Connected Transactions and the Annual Caps are not approved by the Independent Shareholders, the Company has the right to terminate the Master Agreement.

PRICING POLICY AND INTERNAL CONTROL PROCEDURES

The Logistics Department of the Company is responsible for implementing the pricing policy and the procurement policy of the Group. 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.

The pricing procedures for each type of Continuing Connected Transactions are described below:

(a) Purchase of packaging materials from the San Miguel Group

As stated in the Master Agreement, 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 shall be negotiated between the Group and the San Miguel Group on an annual basis by reference to the prices and credit terms from suppliers which are Independent Third Parties that 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 arms' length negotiations between the Group and the San Miguel Group based upon reasonable commercial principles.

The Logistics Department will obtain the price quotations of packaging materials from the San Miguel Group and at least two Independent Third Parties which provide products comparable to the packaging materials supplied by the San Miguel Group in terms of the types of packaging materials (such as cans, bottles, crown seals and crates) which form base price quotations. These base price quotations set out the fixed unit rates or formulae for calculating the actual prices of packaging materials and credit terms of all purchases of packaging materials to occur during the year. The Group only obtains price quotations from approved suppliers of the Group, that is, suppliers whose supply of goods meeting the stringent quality requirements of the Group and have passed the quality checks performed by the Quality Assurance Department of the Group. As most of the Continuing Connected Transactions require a stable supply of materials to the Group to ensure uninterrupted ongoing business operation, the Group only obtained price quotations from suppliers who have a long term business relationship with the Group.

Once the base price quotations are obtained, the Logistics Department will decide upon the percentage of each product to be sourced from each supplier (including the San Miguel Group and the independent suppliers), primarily taking into account the quality of supply, followed by the stability of supply and pricing. The Logistics Department also considers other factors including the supply history of each supplier. It is the Group's policy to, within reason, avoid reliance on any one supplier for individual products and therefore it is generally the case that two or more suppliers will be selected to supply a specified percentage of each individual product for the specified period.

The Logistics Department will present a report on the packaging materials to be purchased from the San Miguel Group and other independent suppliers together with its recommendations on the base purchase prices and the selection of suppliers, among other things, to the Managing Director of the Company for approval annually. If the Logistics Department obtains less than two independent price quotations, it will have to explain why it is unable to obtain more independent price quotations.

As the prices of certain key ingredients for producing the packaging materials including metals fluctuate widely and in turn affect the prices of packaging materials, these base price quotations are reviewed quarterly by the Logistics Department and may be adjusted accordingly. As the Group has not committed to ordering a minimum amount of packaging materials from any supplier, the Group may purchase from suppliers who make more favourable offers during the year. Any subsequent changes to the recommendations on the purchase prices or the selection of the suppliers are subject to the approval of the Managing Director of the Company.

So far, comparable price quotations have been available. Given that prices of packaging materials are part of the costs for producing the Group's beer products, if comparable price quotations were not available, the Group would assess the fairness and reasonableness of price quotations of packaging materials offered by the San Miguel Group by reference to the target profit margins of the Group's beer products which will be no less than the average profit margins of the other beer products distributed by the Group that are comparable in terms of retail price, packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer) and geographic coverage (that is, local sales or export sales) and the total costs of production for producing these products.

(b) Purchase of packaged beer from the San Miguel Group

As stated in the Master Agreement, 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 shall be determined on an annual basis 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 arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

The Logistics Department will obtain the prices and other terms of beer products purchased by the Group from other independent suppliers which are comparable to those to be purchased from the San Miguel Group. As distributor of certain imported beer products manufactured by Independent Third Parties, the Group has already established a database of the prices offered to the Group of certain imported beer products recently distributed by the Group. When determining whether the price quotations from the San Miguel Group are fair and reasonable, the Logistics Department will ensure that the price quotations obtained from the San Miguel Group are within the range of prices offered to the Group by at least two independent suppliers of imported beer products considered to be comparable to the packaged beer to be purchased from the San Miguel Group in terms of retail price, packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer). On this basis, the Finance Department will calculate whether the profit generated from the distribution of packaged beer supplied by the San Miguel Group will be no less than the profits generated from the distribution of imported beer products supplied by independent suppliers.

The Logistics Department will present a report on the packaged beer to be purchased together with its recommendations on the purchase prices and the selection of suppliers, among other things, to the Managing Director of the Company for approval annually. As the Group has not committed to ordering a minimum amount of beer products from any supplier, the Group may adjust the quantity of beer products purchased from any supplier during the year based on the actual sales performance of the beer products and market conditions. Any subsequent changes to the recommendations on the purchase prices or the selection of the suppliers are subject to the approval of the Managing Director of the Company. As a beer distributor, the Group seeks to make profits by expanding its portfolio of beer products. Beer products comparable to the packaged beer supplied by the San Miguel Group are not substitutes of one another. The Group will not stop distributing a beer product due to changes in prices of its comparable beer products unless the profit margin of the beer product will no longer be in line with the profit margins of comparable beer products.

So far, comparable price quotations have been available. Given that the purchase prices of packaged beer are in fact the costs of selling packaged beer by the Group, if comparable price quotations were not available, the Group would assess the fairness and reasonableness of the price quotations of the packaged beer offered by the San Miguel Group by reference to the target profit margins from the distribution of the packaged beer by the Group which will be no less than the average profit margins of the other beer products manufactured and sold locally by the Group that are comparable in terms of retail price, packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer).

(c) Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group

As stated in the Master Agreement, 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 shall be determined on an annual basis in the ordinary and usual course of business based on the Group's production cost plus margins, with such profit margins to be 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 product(s), and if no such comparable reference profit margins are available, the profit margins shall be determined by arms' length negotiations between the Group and the San Miguel Group based upon reasonable commercial principles. Pricing of the packaged beer and non-alcoholic beverage products shall be determined with reference to the following principle:

(production costs + related fees + tax payment) x (1 + profit margin)

The Finance Department of the Company will prepare a report annually setting out the selling prices of the relevant products, profit margins and the costs of production, among other things based on the cost data obtained by the Logistics Department subject to the approval of the Managing Director of the Company. The profit margins of the relevant products are consistent with and in line with the historical margin earned by the Group. To assess the fairness and reasonableness of the profit margins of products sold to the San Miguel Group, so far, the Group have been referring to the profit margins of products sold to its independent customers which were comparable to products sold to the San Miguel Group in terms of retail price and packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer). If such comparables were not available, the Group would assess the fairness and reasonableness of the profit margins of products sold to the San Miguel Group by reference to the average profit margin of all products sold by the Group. Any subsequent changes to the selling prices are subject to the approval of the Managing Director of the Company.

The credit terms offered to the Group shall be determined by reference to the credit terms offered by the Group to its Independent Third Party customers, and if no such comparable credit terms are available, the credit terms shall be determined by arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

REASONS FOR AND BENEFITS OF 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 SMB, a company owned as to approximately 51% by SMC to complement the range of products sold by the Group. The Group believes that this helps enhance the product range and earnings potential of the Group.

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. According to the Company's annual report for the financial year ended 31 December 2015, sales to countries outside Hong Kong and mainland China amounted to approximately HK$185,696,000 (representing approximately 33% of the total revenue of the Group for the financial year ended 31 December 2015) of which approximately HK$180,555,000 (representing approximately 32% of the total revenue of the Group for the financial year ended 31 December 2015) was attributable to the San Miguel Group.

HISTORICAL VALUES AND ANNUAL CAPS

Historical Values

Set out below is a summary of (i) the historical amounts of the continuing connected transactions between the Group and the San Miguel Group for the two years ended 31 December 2015; (ii) the existing annual cap of the Continuing Connected Transactions for the year ending 31 December 2016; and (iii) the proposed Annual Caps under the Master Agreement for the three years ending 31 December 2019:

	Year ended 31 December 2014			Year ended 31 December 2015			For the month ended 31 January 2016	Year ending 31 December 2016	Annual Caps for the three years ending 31 December 2019 pursuant to the Master Agreement		
	Actual amount (audited)	Annual cap amount	Annual caps utilisation rate	Actual amount (audited)	Annual cap amount	Annual cap utilisation rate	Actual amount (Unaudited)	Annual cap amount	2017	2018	2019
	HK$'000	*HK$'000*		*HK$'000*	*HK$'000*		*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Purchase of packaging materials by the Group from the San Miguel Group	24,223	82,000	29.5%	4,635	89,000	5.2%	NIL	97,000	36,000	41,000	46,000
Purchase of packaged beer by the Group from the San Miguel Group	4,671	6,300	74.6%	2,941	6,800	42.6%	384	7,200	5,700	6,400	7,200
Sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group provided that sales or distribution of packaged beer shall not be carried out in the Philippines, unless through SMB	164,792	218,000	75.6%	180,555	257,000	70.3%	19,355	303,000	258,000	296,000	370,000

Even though in recent years, the actual transaction amounts of the Continuing Connected Transactions were consistently lower than the annual cap amounts, the Company considers that the average long term utilization rates of the annual caps were reasonable. During the period from 2010 to 2015, the average utilization rates of the annual caps for the purchase of packaged beer by the Group from the San Miguel Group and the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group reached 71.60% and 73.20% respectively.

In recent years, the utilization rates of annual caps for the purchase of packaging materials were relatively low compared to the utilization rates of annual caps for other types of Continuing Connected Transactions. The reason for the relatively low utilization rates is mainly due to the more competitive prices offered by the independent suppliers to the Group leading to more purchases of packaging materials from independent suppliers as compared to the initial allocation of purchases recommended by the Logistics Department of the Group. The unexpected sharp decrease in the prices of metals, the key ingredients for producing over 80% of the packaging materials (in monetary terms) purchased by the Group from the San Miguel Group for the year ended 31 December 2014, which in turn affects the prices of packaging materials, also contributed to the fall in the utilization rates of these annual caps.

In addition to the above, the actual purchase amount of packaging materials by the Group from the San Miguel Group decreased from approximately HK$24,223,000 for the year ended 31 December 2014 to approximately HK$4,635,000 for the year ended 31 December 2015 principally as a result of a change in the San Miguel Group's production line that previously produced certain types of packaging materials for the Group. Together, these types of packaging materials represented over 80% of the total purchase amount of packaging materials by the Group from the San Miguel Group for the year ended 31 December 2014. As the packaging materials produced by the San Miguel Group are no longer suitable for packaging the Group's products following the change in the relevant production line in 2015, the Group purchased their replacements from other suppliers, leading to a significant decrease in the total purchase amount of packaging materials by the Group from the San Miguel Group for the year ended 31 December 2015 and the utilization rate of the annual cap for that year dropped to 5.21%. As the Company was not involved in the formulation of the operational decisions of its headquarters, the Company was not informed of the change in production line until 2014 and therefore was unable to take this into account when determining the annual caps for the years 2014 to 2016. The Company intends to adjust its assembly line this year to be in line with the industry practice and to enable cost saving. Once the adjustment has completed, the types of packaging materials produced by the San Miguel Group will once again be suitable for packaging the Group's products and the Group can resume its purchase of these types of packaging materials from the San Miguel Group. Accordingly, the total purchase amount of packaging materials by the Group from the San Miguel Group is expected to increase again from 2016 onwards.

As for the dip in utilization rate of the annual cap for the purchase of packaged beer by the Group from the San Miguel Group in 2015, it was a result of the Group being able to produce certain products locally and therefore no longer required to import those products from the San Miguel Group. As the PRC-based operations of the Group intend to import products from the San Miguel Group from 2016 onwards following the clearance of certain import licensing issues in the PRC, the total purchase amount of packaged beer by the Group from the San Miguel Group is expected to increase again.

An annual cap only represents a limit on the transaction amount of a continuing connected transaction in a particular year and does not represent an amount that the Group will achieve. When the Company determines the Annual Caps for the Continuing Connected Transactions (being revenue transactions for the Group), the Company takes into account potential business development and growth of the Group. Please refer to the sub-section headed “Procedures for determining the Annual Caps” under the section headed “Historical Values and Annual Caps” for more details. Even though in recent years, the actual transaction amounts of the Continuing Connected Transactions were consistently lower than the annual cap amounts, it is important for the Company to set annual caps based on estimated transaction volumes after taking into account for all potential growth which tends to be higher than the actual transaction amounts. If the annual caps were set too close to the actual transaction amounts without considering sufficient room for further growth, the Group may lose some business opportunities if it has to revise the annual caps upward at general meeting before the Group can take up those additional businesses.

Bases for determining the Annual Caps

In respect of the Annual Caps in relation to the purchase of packaging materials and packaged beer by the Group from the San Miguel Group, the proposed Annual 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 having discussed with the San Miguel Group and 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 Annual Caps in relation to the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, the proposed Annual 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 Annual Caps were determined with a view to taking into account possible further market demand.

The Board considers that the Continuing Connected Transactions are entered into in the ordinary course of business of the Group and the terms of the Master Agreement and the Annual Caps are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole. In line with the practice of the Company, the resolution in respect of the terms of the Master Agreement and the Annual Caps will be considered at the EGM to be convened immediately after the annual general meeting for administrative efficiency.

Procedures for determining the Annual Caps

The Company sets the Annual Caps for years 2017 to 2019 based on the projected transaction amounts of the Continuing Connected Transactions for the year ended 31 December 2016, among other factors. The procedures for determining the Annual Caps for each type of Continuing Connected Transactions which are in line with the Group's internal control policy, are set out below:

Purchase of packaging materials

The Company prepared a budget for year 2016 with respect to the purchase of packaging materials in the third quarter of 2015 in consultation with its headquarters in the Philippines principally with reference to: (1) the total historical purchase volumes of packaging materials up to the end of the first half of 2015; (2) the total forecasted purchase volumes of packaging materials for the second half of 2015; (3) the expected growth in such purchase volumes in 2016; (4) the price quotations of packaging materials obtained from independent third parties and the San Miguel Group; (5) the expansion of distribution channels for beer products which will be sold locally and this in turn is expected to increase the demand for packaging materials by the Group; and (6) various new business strategies to be implemented by the Group. The Company confirmed that the total actual purchase amount of packaging materials for the year ended 31 December 2015 is in line with its forecasted figure for that year.

The Annual Caps for the purchase of packaging materials show an increasing trend for the years from 2017 to 2019. The Company has taken into account the following factors when allocating the amounts of packaging materials to be purchased from the San Miguel Group and independent suppliers from year 2016 onwards:

(i) the change in production line by the San Miguel Group for producing certain types of packaging materials for the Group as outlined on page 12 of this letter - Given the amounts of packaging materials actually sourced from the San Miguel Group and the independent suppliers materially deviate from the initial allocation recommended by the Logistics Department due to unforeseen reasons, the actual sourcing allocation in year 2015 is not indicative of future allocations. For this reason, the Group refers to the actual sourcing allocation in year 2014 as its starting point for estimating sourcing allocation for year 2016. For the financial year ended 31 December 2014, the actual volume of packaging materials purchased by the Group from the San Miguel Group represented approximately 45% of the total volume of packaging materials purchased by the Group;

(ii) the adjustment to the assembly line by the Group as outlined on page 12 of this letter - As the adjustment to the assembly line will not be completed until some time in year 2016, the amounts of the particular types of packaging materials which the Group will purchase from the San Miguel Group will not increase immediately; and

(iii) the more competitive prices offered by independent suppliers of comparable packaging materials - Notwithstanding the adjustment to the Group's assembly line, given the recent situations where prices of packaging materials offered by independent suppliers to the Group becoming more competitive in general, the Group has considered this impact and has slightly reduced the proportion of its total purchase volume of packaging materials from the San Miguel Group from year 2016 onwards in the determination of the Annual Caps;

(iv) the target increase in the Group's business volume; and

(v) an expected increase in the prices of packaging materials purchased from the San Miguel Group in general which is attributable to (1) more expected purchases of packaging materials with higher unit prices and (2) the possible inflation as shown by year-on-year consumer price inflation rates sourced from the central bank of the Republic of the Philippines and various economic analysis firms, as set out below:

	Forecast for the year ending 31 December			
	2016	**2017**	**2018**	**2019**
PRC year-on-year consumer price inflation rate	1.9%	2.6%	2.6%	2.8%
Philippines year-on-year consumer price rate	3.5%	3.8%	4.0%	4.0%

Purchase of packaged beer

The Company prepared a budget for year 2016 with respect to the purchase of packaged beer in the third quarter of 2015 in consultation with its headquarters in the Philippines principally with reference to (1) the total historical purchase volumes of packaged beer up to the end of the first half of 2015, (2) the total forecasted purchase volumes of packaged beer for the second half of 2015, (3) the expected growth in such purchase volumes in 2016, (4) the prices of comparable beer products offered to the Group and (5) various new business strategies to be implemented by the Group. The Company confirmed that the total actual purchase amount of packaged beer for the year ended 31 December 2015 is in line with its forecasted figure for that year.

The Annual Caps for the purchase of packaged beer show an increasing trend for the years from 2017 to 2019. In addition to the budget for year 2016, the Company has taken into account the following factors when determining the Annual Caps:

(i) the year-on-year rate of increase in the volume of the packaged beer to be purchased by the Group from the San Miguel Group by the Hong Kong-based operations of the Group which is expected to be approximately 3% after the Group has considered the historical sales volume and the target business plan;

(ii) the clearance of certain import licensing issues in the PRC which allows the PRC-based operations of the Group to commence its purchase of packaged beer from the San Miguel Group from year 2016 and the year-on-year rate of increase in the volume of the packaged beer to be purchased by the Group from the San Miguel Group by the PRC-based operations of the Group which is expected to be approximately 15%, a higher target growth rate based on the Group's business expansion plan of this business line that only started in 2016; and

(iii) the projected exchange rates and year-on-year consumer price inflation rates sourced from the central bank of the Republic of the Philippines and various economic analysis firms, as set out below:

	Forecast for the year ending 31 December			
	2016	**2017**	**2018**	**2019**
US$:HK$ exchange rate (1US$: HK$)	7.778	7.765	7.754	7.754
Philippines year-on-year consumer price rate	3.5%	3.8%	4.0%	4.0%

Sales of packaged beer and non-alcoholic beverage products

After receiving an indication of expected demand of goods from the San Miguel Group, the Company prepared a budget for year 2016 with respect to the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group in the third quarter of 2015 principally with reference to (1) the total historical sale volumes of packaged beer in the past years, (2) the expected growth in such sale volumes in 2016, and (3) the expected profit margin which will be consistent and in line with the historical profit margins earned by the Group.

The Annual Caps for the sales of packaged beer and non-alcoholic beverage products show an increasing trend for the years from 2017 to 2019. In addition to the budget for year 2016, the Company has taken into account the following factors when determining the Annual Caps:

(i) the annual rate of increase which makes reference to (i) the historical transaction volume; (ii) the Group's discussions with the San Miguel Group regarding the future demand volume; and (iii) the management's expectations of future industry conditions, and (iv) the expected profit margin which will be consistent and in line with the historical profit margins earned by the Group; and

(ii) a number of projected assumptions including the projected exchange rates and year-on-year consumer price inflation rates sourced from the budget of the Hong Kong government, the central bank of the Republic of the Philippines and various economic analysis firms, as set out below:

	Forecast for the year ending 31 December			
	2016	**2017**	**2018**	**2019**
HK$:RMB exchange rate (1RMB: HK$)	1.25	1.24	1.25	1.27
US$:HK$ exchange rate (1US$: HK$)	7.778	7.765	7.754	7.754
Hong Kong year-on-year consumer price inflation rate	3.1%	2.8%	2.8%	2.9%
PRC year-on-year consumer price inflation rate	1.9%	2.6%	2.6%	2.8%
Philippines year-on-year consumer price rate	3.5%	3.8%	4.0%	4.0%

Even though the Company does not have the actual latest financial information for year 2016, the Company has been doing this business in Hong Kong for over 65 years. The Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 15 years. Accordingly, the Company has sufficient historical data to determine the Annual Caps. For example, the Company has been using the historical sale volumes of packaged beer and non-alcoholic beverage products in the past years as a key factor to forecast the volume of packaged beer and non-alcoholic beverage products which the Group expects to sell to the San Miguel Group in 2016 and has been using the historical purchase volumes of packaging materials in 2014 and 2015 as one of the factors to forecast the volume of packaging materials which the Group expects to purchase from the San Miguel Group in 2016. Also, the Company has taken into account the trend of certain historical commodity prices and the supply history of suppliers when determining the base prices of certain packaging materials and the selection of suppliers. As disclosed on page 11 of this letter, the historical utilization rates of the annual caps have been fair and reasonable. In light of the above, the Company considers that it has proper basis to determine the Annual Caps.

The status of annual cap utilization is presented to the Board quarterly and to the Audit Committee of the Company half-yearly to ensure that annual caps for the Continuing Connected Transactions will not be exceeded.

EGM

As at the Latest Practicable Date, 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. The Continuing Connected Transactions constitute non-exempt continuing connected transactions under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

The EGM will be convened at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 29 April 2016, Friday, at 3:45 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) to seek the Independent Shareholders' approval for the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. The notice of the EGM is set out on pages 60 to 61 of this circular.

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 as at the Latest Practicable Date, will abstain from voting at 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 Master Agreement, the Continuing Connected Transactions and the Annual Caps. Altus Capital has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Master Agreement, the Continuing Connected Transactions and the Annual 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.

Mr. Ramon S. Ang (the Chairman and a non-executive Director of the Company) abstained from voting on the Board resolutions for approving the transactions contemplated under the Master Agreement (the "**Board Resolutions**") in compliance with Rule 14A.70 (11) of the Listing Rules in view of his substantial interest in the shares of Top Frontier (the ultimate controlling Shareholder of the Company) and SMC (the counterparty to the Master Agreement). Other than Mr. Ramon S. Ang, none of the Directors abstained from voting on the Board Resolutions in compliance with Rule 14A.70 (11) of the Listing Rules. The Board Resolutions were unanimously passed at the Board meeting. Mr. Ramon S. Ang is the director, President and Chief Executive Officer of Top Frontier, the Vice Chairman, President and Chief Operating Officer of SMC and the Chairman of SMB. Please refer to pages 53 to 57 of this circular for details of the Directors' interest and short positions in the securities of the Company and its associated corporations and (ii) page 57 of this circular for details of the Directors being directors/employees of companies having an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

The transfer of books and register of members of the Company will be closed from 27 April 2016, Wednesday, to 29 April 2016, Friday, both days inclusive. To qualify for attending the forthcoming EGM of the Company to be held on 29 April 2016, Friday, Shareholders should ensure that transfers are lodged at the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on 26 April 2016, Tuesday.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete the form of proxy in accordance with the instructions printed thereon and return the same to the Company's share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding of the EGM or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM, or any adjournment thereof, should you so wish.

GENERAL INFORMATION OF THE PARTIES

The principal business activities of the Group are the production and distribution of bottled, canned and draught beers and other beverage products. The ultimate controlling Shareholder is Top Frontier. As at the Latest Practicable Date, SMC is an indirect controlling Shareholder holding approximately 65.78% of the issued share capital of the Company through Neptunia Corporation Limited. 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.

SMB is a company listed on the Philippine Dealing & Exchange Corp. and is principally engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes, and non-alcoholic beverages. SMB runs the domestic brewery and non-alcoholic beverage (other than milk, coffee and energy drinks) business of the San Miguel Group in the Philippines.

RECOMMENDATION

Your attention is drawn to (i) the letter from the Independent Board Committee set out on page 21 of this circular which contains the recommendation of the Independent Board Committee to the Independent Shareholders regarding the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps; (ii) the letter from Altus Capital, the independent financial adviser, set out on pages 22 to 52 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the notice of the EGM set out on pages 60 to 61 of this circular.

The Independent Board Committee, having taken into account the advice (together with the principal factors and reasons considered in arriving at such advice) of Altus Capital, the independent financial adviser, considers that the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable, on normal commercial terms or better in the ordinary and usual course of business of the Group, and they are in the interests of the Company and its Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of all ordinary resolutions to be proposed at the EGM.

On behalf of the Board
San Miguel Brewery Hong Kong Limited
Ramon S. Ang
Chairman

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)

14 April 2016

To: the Independent Shareholders

Dear Sir or Madam,

CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 14 April 2016 issued to the Shareholders (the "**Circular**"), of which this letter forms part. Unless the context otherwise requires, terms defined in this letter have the same meanings as defined in the Circular.

We have been appointed as the members of the Independent Board Committee to advise you in respect of the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps, the details of which are set out in the Circular. Altus Capital has been appointed as the independent financial adviser to advise us in this regard.

Having taken into account the advice (together with the principal factors and reasons considered in arriving at such advice) of Altus Capital and the terms of the Master Agreement, we consider that the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable, on normal commercial terms or better in the ordinary and usual course of business of the Group, and are in the interests of the Company and its Shareholders as a whole. Accordingly, we recommend the Independent Shareholders to vote in favour of the ordinary resolution to be proposed at the EGM.

We also draw the attention of the Independent Shareholders to the letter from the Board, the letter from Altus Capital and the appendix to the Circular.

Yours faithfully,

Dr. the Hon. Sir David K. P. Li	**Mr. Ng Wai Sun**	**Mr. Reynato S. Puno**	**Mr. Carmelo L. Santiago**

Independent Board Committee

The following is the text of a letter of advice from Altus Capital to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the Master Agreement and the Annual Caps related thereto, which has been prepared for the purpose of incorporation in this circular.

ALTUS

Altus Capital Limited
21 Wing Wo Street
Central
Hong Kong

14 April 2016

To the Independent Board Committee and the Independent Shareholders
San Miguel Brewery Hong Kong Ltd.
9th Floor
Citimark Building
28 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

Dear Sirs,

CONTINUING CONNECTED TRANSACTIONS

INTRODUCTION

We refer to our appointment as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions as contemplated under the Master Agreement and the Annual Caps related thereto, details of which are set out in the "Letter from the Board" contained in the circular dated 14 April 2016 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meaning as those defined in the Circular unless the context requires otherwise.

The Group has been carrying out the Continuing Connected Transactions with the San Miguel Group for previous years in the ordinary and usual course of business of the Group including, among other things, (i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group; (ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and (iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

The existing annual caps for the Continuing Connected Transactions will expire on 31 December 2016. Accordingly, the Company and SMC entered into the Master Agreement on 4 February 2016 with a view to carry out the Continuing Connected Transactions from 1 January 2017 to 31 December 2019.

Under the Master Agreement, the Group will enter into the following Continuing Connected Transactions with the San Miguel Group:

(i) purchase of packaging materials by the Group from the San Miguel Group for the production of the Group;

(ii) purchase of packaged beer by the Group from the San Miguel Group for the Group's wholesale and retail distribution; and

(iii) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, provided that such sales or distribution of packaged beer shall not be carried out in the Philippines, unless through SMB.

LISTING RULES IMPLICATION

As at the Latest Practicable Date, 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. The Continuing Connected Transactions contemplated under the Master Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are subject to reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules.

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 INDEPENDENT BOARD COMMITTEE

The Independent Board Committee which comprises all four independent non-executive Directors, namely 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 consider and to give advice and recommendation to the Independent Shareholders on (i) whether the terms and conditions of the Continuing Connected Transactions contemplated under the Master Agreement are fair and reasonable; (ii) whether the Continuing Connected Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Company and its subsidiaries and in the interests of the Company and the Shareholders as a whole; (iii) whether the respective Annual Caps have been fairly and reasonably arrived at; and (iv) how to vote at the EGM, taking into account the recommendation of the independent financial adviser.

As the independent financial adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Continuing Connected Transactions contemplated under the Master Agreement are fair and reasonable; (ii) whether the Continuing Connected Transactions are on normal commercial terms or better, in the ordinary and usual course of business of the Company and its subsidiaries and in the interests of the Company and the Shareholders as a whole; (iii) whether the respective Annual Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the resolution relating thereto to be proposed at the EGM.

BASIS OF OUR ADVICE

In formulating our opinion, we have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the "**Management**"). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the Latest Practical Date.

We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading.

We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company, the Directors and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations and have not conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

PRINCIPAL FACTORS AND REASONS CONSIDERED

1. Background information of the Group

1.1 The Group

The principal business activities of the Group are the production and distribution of bottled, canned and draught beers and other beverage products. Customers are located domestically in Hong Kong and internationally, predominantly in the PRC (particularly the southern region) and other location such as Macau.

1.2 Financial results of the Group

Historical results

Below is a summary of the operating results of the Group for the two years ended 31 December 2015 as extracted from the Company's annual report for the year ended 31 December 2015 (the "**2015 Annual Report**").

	For the year ended 31 December	
	2014	**2015**
	HK$'000	*HK$'000*
	(audited)	*(audited)*
Revenue	728,640	569,502
Cost of sales	(416,883)	(331,846)
Gross profit	311,757	237,656
Selling and distribution expenses	(230,005)	(197,195)
Profit/(loss) for the year	36,994	(16,909)

Source: 2015 Annual Report

Revenue of the Group decreased from approximately HK$728.6 million for the year ended 31 December 2014 to approximately HK$569.5 million for the year ended 31 December 2015, representing a year-on-year decrease of approximately 21.8%. Such decrease was mainly due to the overall decline in sales volume of beer and other non-alcoholic beverages. The decline in sales volume was mainly attributable to the slow demand in the on-premise sales channel partly due to lower tourist arrivals to Hong Kong and the non-renewal of distribution agreements with Anheuser-Busch In Bev China Sales Company Limited and Anheuser-Busch InBev International GmbH & Co KG in 2014.

Despite such decline in sales volume, the Group's gross profit margin for the two years ended 31 December 2015 remained stable at approximately 42.8% and 41.7% respectively.

As a result of the decline in revenue and the Group's strategy to redirect and reinvest some of the operating costs associated with the sales and marketing operations of the products under the discontinued distribution channel mentioned above into the development of new, premium, specialty and craft brands, the Group had recorded net loss of approximately HK$16.9 million for the year ended 31 December 2015 as opposed to a net profit of approximately HK$37.0 million in the previous year.

Outlook

In the Hong Kong market, the Group intends to continue to implement its business strategy in turning around its business by (i) further investing in the San Miguel brand and actively participating in the premium, specialty and craft beer segment to regain volume loss and market share; and (ii) expanding its wholesaler channel to broaden distribution, taking advantage of the cost savings which such strategy would subsequently present.

For its business strategy in the PRC, the Group will focus on the yields and coverages of its sub-dealer and dealer networks whilst seeking new areas of growth for its export business and aiming to improve its products' margins and rationalise costs.

2. Background information of SMC and SMB

SMC is an indirect controlling Shareholder. It is a company listed on The Philippine Stock Exchange, Inc. and is a diversified conglomerate with operations in beverages, food, packaging, properties, fuel and oil, infrastructure, energy, power, mining, telecommunications and banking.

SMB is owned as to 51% by SMC and is also an indirect controlling Shareholder. SMB is listed on the Philippine Dealing & Exchange Corp. and is principally engaged in the manufacture and sale of fermented and malt-based beverages, particularly beer of all kinds and classes, and non-alcoholic beverages. SMB runs the domestic brewery and non-alcoholic beverage (other than milk, coffee and energy drinks) business of the San Miguel Group in the Philippines.

3. Background to and principal terms of the Continuing Connected Transactions contemplated under the Master Agreement

For over 10 years, the Group and San Miguel Group have been entering into agreements pursuant to which the Group and the San Miguel Group carried out transactions including the purchase of packaging materials and packaged beer from the San Miguel Group and the sale of packaged beer and other non-alcoholic beverages to the San Miguel Group.

On 7 March 2013, the Group and San Miguel Group entered into the previous master agreement (the "**Previous Master Agreement**"), setting out the terms and conditions for the purchase of packaging materials and packaged beer and sales of packaged beer and non-alcoholic beverage products between SMC and the Company. Since the existing annual caps under the Previous Master Agreement for the Continuing Connected Transactions will expire on 31 December 2016, the Company and SMC entered into the Master Agreement on 4 February 2016 with a view to carrying out the Continuing Connected Transactions from 1 January 2017 to 31 December 2019.

The Master Agreement is a framework agreement which provides the principles, mechanism and terms and conditions for the following transactions:

(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, which is subsequently directly sold to the Group's customers; and

(c) sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group.

Individual purchase orders or sales will be entered into between the relevant members of the Group and the San Miguel Group from time to time in accordance with the stipulations of the Master Agreement depending on the transaction type. The price and credit terms shall be determined annually between the Group and the San Miguel Group, as contemplated under the Master Agreement.

We note that the Previous Master Agreement for the Continuing Connected Transactions is yet to be expired by 31 December 2016. We also note that the currently available financial information of the Group in 2016 is for the one month ended 31 January 2016.

We wish to draw your attention back to March 2013, when the 2010 Agreement[1] was not yet expired, the Company proposed to amend the sales cap for the year ended 31 December 2013 due to the expected growth on sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group. In addition, the Company took the opportunity in March 2013 to enter into the Previous Master Agreement with a view to renew the agreements to carry out the continuing connected transactions from 1 January 2014 to 31 December 2016. According to the Management, the status of the financial information of the Group then available in March 2013 was similar to the current situation.

Notwithstanding the above, we note that the then annual caps for each of the year ended 31 December 2014, 2015 and 2016 were determined with procedures similar with those set out under the paragraph headed "Procedures for determining the Annual Caps" on pages 14 to 17 of the "Letter from the Board" of the Circular.

[1] The agreement dated 18 October 2010 entered into between the Company and SMC in respect of the continuing connected transactions for the period commencing from 1 January 2011 to 31 December 2013.

As explained in paragraph 4.1 below, the packaging materials produced by the San Miguel Group are no longer suitable for packaging the Group's products following the change in the relevant production line in 2015, the Group purchased their replacements from other suppliers which are Independent Third Parties, leading to a significant decrease in the total amount of packaging materials purchased by the Group from the San Miguel Group for the year ended 31 December 2015. Hence, a lowered utilisation rate of the annual caps for the purchase of packaging materials for the year ended 31 December 2015 was recorded. Saved for the aforesaid reason, when we take into account the historical actual amount of purchase or sales and the utilisation rate of the annual caps including those for the year ended 31 December 2014 (as described in paragraph 4.1 below), we believe the basis and methodology used to determine the respective annual caps for the years ended 31 December 2014, 2015 and 2016 were reasonable.

As described in paragraph 1.2 above, the Group has to define its business strategy for 2016 and the near future with a focus to turn around its business in Hong Kong and the PRC. On this basis, we note that the Group has as usual on an annual basis to prepare a budget with respect to each type of Continuing Connected Transactions for the year ending 31 December 2016 in the third quarter of 2015. Details of the procedures for determining the Annual Caps for each of the year ending 2017, 2018 and 2019 are set out under the paragraph headed "Procedures for determining the Annual Caps" on pages 14 to 17 of the "Letter from the Board" of the Circular.

As the respective Annual Caps for each of the year ending 31 December 2017, 2018 and 2019 are also determined with reference to:

(i) the budget of the Group for the year ending 31 December 2016 as mentioned above;

(ii) the historical data including those for the year ended 31 December 2014 and 2015;

(iii) the price quotations of packaging materials or beverage product production materials (as the case may be) obtained from Independent Third Parties and the San Miguel Group or the prices of comparable beer products offered to the Group (as the case may be); and

(iv) various new business strategies to be implemented by the Group,

we are of the view that the basis and methodology used to determine the Annual Caps for the years ending 31 December 2017, 2018 and 2019 have been consistently applied for since 2010, and are fair and reasonable. According to the Management and we noted the budget prepared by the Company for the year ended 31 December 2015 was similar to the actual results for the year ended 31 December 2015. Hence, we have no reason to doubt the budget has not been prepared diligently and accurately. In the course of preparing the budget with respect to each type of Continuing Connected Transactions for the year ending 31 December 2016, the Management already has a long historical data comprising the cost of sales. Also in the course of preparing the budget for 2016, the Management has already taken into account (i) the packaging materials produced by the San Miguel Group are no longer suitable for packaging the Group's products following the change in the relevant production line in 2015, the Group purchased their replacements from other suppliers which are Independent Third Parties, leading to a decrease in the total amount of packaging materials purchased by the Group from the San Miguel Group for the year ended 31 December 2015, and (ii) the Group being able to produce certain products locally and therefore no longer required to import some products from the San Miguel Group in 2015. Although the actual transactions amount for 2016 was not available when the budget for 2016 was prepared, given that (i) there is a properly and diligently prepared budget with respect to each type of Continuing Connected Transactions of the Group for the year ending 31 December 2016; (ii) there are historical data (such as composition of the cost of sales) including those for the year ended 31 December 2014 and 2015; (iii) an approved business strategy for 2016 and the near future (which according to the Management covers a period of 5 years); and (iv) the Company has been doing this business in Hong Kong for over 65 years. The Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 15 years. Accordingly, the Company has sufficient historical data to determine the Annual Caps, which we believe the Management is able to determine the respective Annual Caps for each of the year ending 31 December 2017, 2018 and 2019 based on the aforesaid information without actual latest financial information of the Group for year 2016 and, therefore, it is reasonable to enter into the Master Agreement now in contemplation of the Continuing Connected Transactions to be occurred during 1 January 2017 to 31 December 2019.

To assess the fairness and reasonableness of the terms of the Master Agreement, we have considered the following:

3.1 Purchase of packaging materials by the Group from the San Miguel Group

3.1.1 Pricing and terms of the transactions

(i) According to the terms of the Master Agreement:

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 shall be negotiated between the Group and the San Miguel Group on an annual basis by reference to the prices and credit terms 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 arms' length negotiations between the Group and the San Miguel Group based upon reasonable commercial principles.

These base price quotations set out the fixed unit rates (for example, the set price per 1,000 pieces of can body) or formulae for calculating the actual prices of packaging materials and credit terms of all purchases of packaging materials to occur during the year. As the prices of certain key ingredients for producing the packaging materials including metals fluctuate and, in turn, may affect the prices of packaging materials, these base price quotations are reviewed quarterly by the logistics department of the Group (the "**Logistics Department**") and may be adjusted accordingly.

Once the base price quotations are obtained, the Logistics Department will decide upon the percentage of each product to be sourced from each supplier, primarily taking into account the quality of supply, followed by the stability of supply and pricing. The Logistics Department also considers other factors including the supply history of each supplier. It is the Group's policy to, within reason, avoid reliance on any one supplier for individual products and therefore it is generally the case that two or more suppliers will be selected to supply a specified percentage of each individual product for the specified period.

(ii) According to the Group's internal procurement policy which governs ordinary business transactions such as these, base suppliers quotations are generally sourced annually, which set out the fixed unit rate and credit terms of all such transactions to occur during the year, or such other time period as specified by the supplier, (the "**Period Quotation(s)**") between the supplier and the Group.

The Logistics Department, which is responsible for implementing the pricing policy and the procurement policy of the Group, will obtain the price quotations of packaging materials from the San Miguel Group and at least two Independent Third Parties which provide products comparable to the packaging materials supplied by the San Miguel Group in terms of the types of packaging materials (such as cans, bottles, crown seals and crates) which form base price quotations.

The Group only obtains price quotations from approved suppliers of the Group, that is, suppliers whose supply of goods meeting the stringent quality requirements of the Group and have passed the quality checks performed by the Quality Assurance Department of the Group. As most of the Continuing Connected Transactions require a stable supply of materials to the Group to ensure uninterrupted ongoing business operation, the Group only obtained price quotations from suppliers who have a long term business relationship with the Group.

The Logistics Department will present a report on the packaging materials to be purchased from the San Miguel Group and other independent suppliers together with its recommendations on the base purchase prices and the selection of suppliers, among other things, to the Managing Director of the Company for approval annually. If the Logistics Department obtains less than two independent price quotations, it will have to explain why it is unable to obtain more independent price quotations. As the Group has not committed to ordering a minimum amount of packaging materials from any supplier, the Group may purchase from suppliers who make more favourable offers during the year. Any subsequent changes to the recommendations on the purchase prices or the selection of the suppliers are subject to the approval of the Managing Director of the Company.

According to the Management, so far, comparable price quotations have been available. Given that prices of packaging materials are part of the costs for producing the Group's beer products, if comparable price quotations were not available, the Group would assess the fairness and reasonableness of price quotations of packaging materials offered by the San Miguel Group by reference to the target profit margins of the Group's beer products which will be no less than the average profit margins of the other beer products distributed by the Group that are comparable in terms of retail price, packaging materials (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer) and geographic coverage (that is, local sales or export sales) and the total costs of production for producing these products.

In relation to the above, for four packaging products over the previous two years, the Company has provided us with the Period Quotation provided by the relevant member of the San Miguel Group, as required to be obtained pursuant to the Company's procurement policy. The comparable independent third party suppliers' Period Quotations for each of the relevant San Miguel Group Period Quotations was also provided together with the internal analysis carried out and the final recommendation regarding how much of each individual product to be purchased from each supplier. Invoices from such suppliers which are Independent Third Parties were also provided for the relevant periods and products. The particular year of these annual quotations, being 2014 or 2015, and the product type was chosen by Altus Capital. The selection method employed by Altus Capital was (i) to select the packaging product which incurred the largest amount of costs for each of the years ended 31 December 2014 and 2015 under the Previous Master Agreement; and (ii) the other two products were randomly selected, one from each of the year ended 31 December 2014 and 2015.

Additionally, we then reviewed invoices for transactions carried out pursuant to each of the abovementioned four Period Quotations to ensure that such transactions were carried out according to the annual quotation provided by San Miguel Group.

Following this review exercise we noted that:

(i) for every product and corresponding year requested, the Company were able to provide the Period Quotations from the San Miguel Group and at least two other independent supplier (all except one case, when only one quotation was obtained, justification was provided and approved by the Managing Director), indicating that in this respect the internal policy of the Group had been fully and responsibly adhered to;

(ii) the invoices showed that transactions with the San Miguel Group had been carried out in accordance with the Period Quotations and were entered into at a price and on terms no less favourable to the Company and the Independent Shareholders than those quotations offered by independent suppliers; and

(iii) in circumstances in which the Group entered into transactions with suppliers who did not quote the lowest price, detailed rationale for such transactions was set out, for example due to the quality of the products, the delivery time, the quality of relationship and desire to diversify supplier concentration risk amongst others.

Based on the review exercise as mentioned above, we have identified transactions with a supplier who did not quote the lowest price. However, the difference was minimal and such supplier was also selected to avoid reliance on a single supplier.

In view of our observations noted above, in particular, the sample invoices supported the major terms and pricing policy of the Previous Master Agreement had been responsibly adhered to during the past two years ended 31 December 2015, we are satisfied that our abovementioned sample size and selection method are sufficient and are fair and representative for the purposes of our review. Taking into account the above factors, we consider that the purchase of packaging materials have in the past been carried out at arms' length and generally in accordance with the Company's internal policies. Having reviewed (i) the stipulations of the Master Agreement; (ii) the Company's internal control policies which have been responsibly adhered to; and (iii) the previous transactions entered into between the Group and the San Miguel Group, we are of the view that the pricing terms of these transactions as contemplated under the Master Agreement are fair and reasonable and these transactions as contemplated under the Master Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the usual and ordinary course of business of the Group.

3.1.2 Reasons for purchasing packaging materials from the San Miguel Group

As advised by the Management, pursuant to its business operations, the Company sources various packaging materials 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 which meets the Group's stringent quality requirements and delivery schedules.

Moreover, we also note that the Group has formed and maintained a strong and smooth working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over ten years. The Management is of the view, and we as the independent financial adviser concur, that it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

3.2 Purchase of packaged beer by the Group from the San Miguel Group

3.2.1 Pricing and terms of the transactions

(i) According to the terms of the Master Agreement:

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 shall be determined on an annual basis 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 arms' length negotiations between the Group and San Miguel Group based upon reasonable commercial principles.

As distributor of certain imported beer products manufactured by Independent Third Parties, the Group has already established a database of prices offered to the Group of certain imported beer products recently distributed by the Group. When determining whether the price quotations from the San Miguel Group are fair and reasonable, the Logistics Department will ensure that the price quotations obtained from the San Miguel Group are within the range of prices offered to the Group by at least two independent suppliers of imported beer products considered to be comparable to the packaged beer to be purchased from the San Miguel Group in terms of retail price, packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer). On this basis, the Finance Department will calculate whether the profit generated from the distribution of packaged beer supplied by the San Miguel Group will be no less than the profits generated from the distribution of imported beer products supplied by independent suppliers.

(ii) The Logistics Department will obtain the prices and other terms of beer products purchased by the Group from other independent suppliers which are comparable to those to be purchased from the San Miguel Group. The Logistics Department will present a report on the packaged beer to be purchased together with its recommendations on the purchase prices and the selection of suppliers, among other things, to the Managing Director of the Company for approval annually. As the Group has not committed to ordering a minimum amount of beer products from any supplier, the Group may adjust the quantity of beer products purchased from any supplier during the year based on the actual sales performance of the beer products and market conditions. Any subsequent changes to the recommendations on the purchase prices or the selection of the suppliers are subject to the approval of the Managing Director of the Company. As a beer distributor, the Group seeks to make profits by expanding its portfolio of beer products. Beer products comparable to the packaged beer supplied by the San Miguel Group are not substitutes of one another. The Group will not stop distributing a beer product due to changes in prices of its comparable beer products unless the profit margin of the beer product will no longer be in line with the profit margins of comparable beer products.

According to the Management, so far, comparable price quotations have been available. Given that the purchase prices of packaged beer are in fact the costs of selling packaged beer by the Group, if comparable price quotations were not available, the Group would assess the fairness and reasonableness of the price quotations of the packaged beer offered by the San Miguel Group by reference to the target profit margins from the distribution of the packaged beer by the Group which will be no less than the average profit margins of the other beer products manufactured and sold locally by the Group that are comparable in terms of retail price, packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer).

In relation to the above, the Company has provided the Period Quotations provided by the San Miguel Group in relation to their packaged beer products for four packaged beer products over the years ended 31 December 2014 and 2015. The particular year of these annual quotations, being 2014 or 2015, and the product type was chosen by Altus Capital to minimise the chance of Company interference. The selection method employed by Altus Capital was (i) to select the packaged beer product which incurred the largest amount of costs for each of the years ended 31 December 2014 and 2015 under the Previous Master Agreement; and (ii) the other two products were manually randomly selected, one from each of the years ended 31 December 2014 and 2015.

Additionally, we then reviewed invoices for transactions carried out pursuant to each of the abovementioned four Period Quotations to ensure that such transactions were carried out according to the annual quotation provided by San Miguel Group.

Separately, as the Company purchases packaged beer products from suppliers which are Independent Third Parties, we have also been provided with two invoices from suppliers which are Independent Third Parties for premium lager to serve as a reference for the general transaction terms of premium lager.

Furthermore, since the Group purchases such packaged beer from the San Miguel Group and sells it on directly to its customers, essentially as a form of trading without any value-added services, the Group was able to provide the contribution margin generated from sales of such packaged beer products (which was no less than the amount generated from those purchased from suppliers which are Independent Third Parties).

Following this review exercise we noted that:

(i) for every product and corresponding year requested, the Company were able to provide the Period Quotation from the San Miguel Group, indicating that in this respect the internal policy of the Group had been responsibly adhered to;

(ii) the invoices showed that transactions with the San Miguel Group had been carried out in accordance with the Period Quotations;

(iii) the terms contained within the annual quotations provided by the San Miguel Group, namely the credit terms, were generally no less favourable than those offered by suppliers which are Independent Third Parties;

(iv) whilst comparison of pricing of different brands of beer products in the database is of limited use, considering the products are not entirely comparable, we noted that the price per ml at which the Company purchased the packaged beer product from the San Miguel Group was comparable to, or more favourable to the Group than, the price per ml at which the Group purchased the packaged beer products from suppliers which are Independent Third Parties; and

(v) the contribution margin generated from the sales of packaged beer products sourced from the San Miguel Group, taking into account production, distribution and marketing costs, was comparable to or more favourable than the contribution margin generated from SMBHK's overall sales.

In view of our observations noted above, in particular, the sample invoices supported the major terms and pricing policy of the Previous Master Agreement had been responsibly adhered to during the past two years ended 31 December 2015, we are satisfied that our abovementioned sample size and selection method are sufficient and are fair and representative for the purposes of our review. Taking into account the above factors, we consider that the purchase of packaged beers have in the past been carried out at arms' length and generally in accordance with the Company's internal policies. Having reviewed (i) the stipulations of the Master Agreement; (ii) the Company's internal control policies which have been responsibly adhered to; and (iii) the previous transactions entered into between the Group and the San Miguel Group, we are of the view that the pricing terms of these transactions as contemplated under the Master Agreement are fair and reasonable and these transactions as contemplated under the Master Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the usual and ordinary course of business of the Group.

3.2.2 Reasons for purchasing packaged beer from the San Miguel Group

As advised by the Management, pursuant to its business operations, the Company sources packaged beer from the San Miguel Group to complement the range of products sold by the Group and to help to enhance the product range and earnings potential of the Group. As noted above, the San Miguel Group has established itself as a competitively priced and dependable supplier to the Group which meets the Group's stringent quality requirements and delivery schedules.

Moreover, we also note that the Group has formed and maintained a strong and smooth working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over ten years. Accordingly, the Management is of the view, and we as the independent financial adviser concur, that it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

3.3 Sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group

3.3.1 Pricing and terms of the transactions

(i) According to the terms of the Master Agreement:

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 shall be determined on an annual basis in the ordinary and usual course of business based on the Group's production cost plus margins, with such profit margins to be determined with reference to profit margins which are no less favourable to the Group than those imposed by the Group on customers which are Independent Third Parties in respect of the sales of similar packaged beer and non-alcoholic beverage product(s), and if no such comparable reference profit margins are available, the profit margins shall be determined by arms' length negotiations between the Group and the San Miguel Group based upon reasonable commercial principles. Pricing of the packaged beer and non-alcoholic beverage products shall be determined with reference to the following principle:

(production costs + related fees + tax payment) x (1 + profit margin)

(ii) In order to determine the pricing of their export sales to the San Miguel Group, it is the Group's policy to calculate estimated total costs for the production and distribution of each product and then input a fixed margin on top of such costs. The estimation of such costs is done primarily with reference to the Period Quotations obtained from suppliers for materials, the labour hours required for production of the various products, estimated distribution costs (including estimated inflation) and the market rate of fuel, amongst other things, as well as review of historical price trend. A consolidated price list, is then provided to the San Miguel Group and agreed upon following negotiations.

The Finance Department of the Company will prepare a report annually setting out the selling price of the relevant products, profit margins and the costs of production, among other things based on the cost data obtained by the Logistics Department subject to the approval of the Managing Director of the Company. According to the Management, to assess the fairness and reasonableness of the profit margin of products sold to the San Miguel Group, so far, the Group have been referring to the profit margins of products sold to its independent customers which were comparable to products sold to the San Miguel Group in terms of retail price and packaging (such as draught beer, can or bottle beer) and type of beer product (such as lager, ale and wheat beer). If such comparables were not available, the Group would assess the fairness and reasonableness of the profit margin of products sold to the San Miguel Group by reference to the average profit margin of all products sold by the Group. Any subsequent changes to the selling prices are subject to the approval of the Managing Director of the Company.

The Company has provided their calculations for such estimation of cost and additional profit margin for each product. In assessing whether these costs have been estimated fairly, we have reviewed the basis for a variety of the assumptions and calculations for the costs estimated for individual products.

Furthermore, the Company has also provided the consolidated price list and invoices for four packaged beer and non-alcoholic beverage products over the two years ended 31 December 2014 and 2015. The particular year of these price lists and invoices, being 2014 or 2015, and the product type was chosen by Altus Capital. The selection method employed by Altus Capital was (i) to select the product which generated the greatest amount of revenue for the Group under the Previous Master Agreement for each of the years ended 31 December 2014 and 2015; and (ii) the other two products were randomly selected from the years ended 31 December 2014 and 2015.

We have also reviewed the contribution margin generated from those export sales of packaged beer and non-alcoholic beverage products to the San Miguel Group and performed a comparison with the contribution margin generated from export sales to another customer which is an Independent Third Party.

Following this review exercise we noted that:

(i) for every requested estimated cost item for a specified product, the Company was able to provide the calculation basis, indicating that in this respect the internal policy of the Group had been responsibly adhered to;

(ii) the rationale and calculation basis for each of the estimated cost items reviewed by Altus Capital were logically estimated and had been properly recorded;

(iii) the fixed profit margin (which is consistent with and in line with the historical margin earned) inputted pursuant to the pricing calculations safeguards the Group against significant fluctuations in price of raw materials by avoiding a situation in which the Group must maintain a fixed price for a stipulated period no matter the potential fluctuations on costs incurred by the Group;

(iv) the Group is not required to incur significant advertising and marketing expenses seeking new customers when carrying out transactions with the San Miguel Group;

(v) the Group and the San Miguel Group have an established and smooth working relationship;

(vi) the terms contained within the supply and purchase agreement and quotations provided to the San Miguel Group, namely the credit terms, were generally no less favourable to the Company and its Shareholders than those offered to customers which are Independent Third Parties;

(vii) the invoices showed that transactions had been carried out in accordance with the consolidated price lists; and

(viii) the contribution margin (taking into account advertising and promotion costs) generated by the Group from its export sales of packaged beer and non-alcoholic products to the San Miguel Group for the year ended 31 December 2015 was comparable to the contribution margin generated from products sold to customers which are Independent Third Parties during the same period.

In view of our observations noted above, in particular, the sample invoices supported the major terms and pricing policy of the Previous Master Agreement had been responsibly adhered to during the past two years ended 31 December 2015, we are satisfied that our abovementioned sample size and selection method are sufficient and are a fair and representative for the purposes of our review. Taking into account the above factors, we consider that the export sales of packaged beer and non-alcoholic products have in the past been carried out at arms' length and in accordance with the Company's internal policies. Having reviewed (i) the stipulations of the Master Agreement; (ii) the Company's internal control policies have been responsibly adhered to; and (iii) the previous transactions entered into between the Group and the San Miguel Group, we are of the view that these transactions as contemplated under the Master Agreement are on normal commercial terms, are fair and reasonable so far as the Independent Shareholders are concerned and are in the usual and ordinary course of business of the Group.

3.3.2 Reasons for export sales of packaged beer and non-alcoholic beverages from the San Miguel Group

As advised by the Management, pursuant to its business operations, the Company sells packaged beer manufactured at its plants in PRC and Hong Kong overseas to widen its income source. Since the Group does not have an international sales force outside of Hong Kong and Macau, it may conveniently and inexpensively reach customers in export markets through the San Miguel Group which markets and sells products to customers through its international sales channels. Accordingly, the Group may sell its products to overseas members of the San Miguel Group. Such arrangement not only allows significant revenue to be generated without the requirement for high marketing and advertising costs, but also allows the Group to avoid substantial exchange rate risk and counterparty risk with the ultimate customers in the relevant export markets. The Management expects that such arrangement will help broaden the overseas market share of products manufactured by the Group. According to the 2015 Annual Report, sales to countries outside Hong Kong and mainland China amounted to approximately HK$185,696,000 (representing approximately 33% of the total revenue of the Group for the financial year ended 31 December 2015) of which approximately HK$180,555,000 (representing approximately 32% of the total revenue of the Group for the financial year ended 31 December 2015) was attributable to the San Miguel Group.

As noted above, the San Miguel Group has established itself as a creditworthy and reliable customer to the Group. Moreover, we also note that the Group has formed and maintained a strong and smooth working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over 15 years. Accordingly, the Management is of the view, and we concur, that it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

3.4 Logistics Department

Considering the importance of the Logistics Department's role in the procurement and sales aspects of the Group's internal control, we considered the competence of such department to carry out their specified function. We have reviewed the experience of the management of the Logistics Department and furthermore, we understand from the Management that the Logistics Department operates independently of the other members of the San Miguel Group. As such, we are of the view that the Logistics Department is sufficiently competent and independent of the connected persons to ensure that the transactions are carried out fairly and reasonably and in the interests of the Company and Independent Shareholders as a whole.

4. Annual Caps

4.1 The approved annual caps and the historical transaction amounts under the Previous Master Agreement

Below is a table setting out the approved annual caps and the historical transaction amount of the continuing connected transactions carried out under the Previous Master Agreement during the two years ended 31 December 2015 and from 1 to 31 January 2016 (the latest available data in the management accounts of the Group):

	For the year ended 31 December						For the one month ended 31 January 2016	For the year ending 31 December 2016
	Actual amount	2014 Cap amount	Utilisation rate	Actual amount	2015 Cap amount	Utilisation rate	Actual amount	Cap amount
	HK$ million (audited)	*HK$ million*	*%*	*HK$ million (audited)*	*HK$ million*	*%*	*HK$ million (unaudited)*	*HK$ million*
Purchase of packaging materials from the San Miguel Group	24.2	82.0	29.5	4.6	89.0	5.2	0.0	97.0
Purchase of packaged beer from the San Miguel Group	4.7	6.3	74.6	2.9	6.8	42.6	0.4	7.2
Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group	164.8	218.0	75.6	180.6	257.0	70.3	19.3	303.0

For the years ended 31 December 2014 and 2015, the utilisation rates of the annual caps under the Previous Master Agreement ranged in general from 40-76%, with the exception of the annual caps relating to the purchase of packaging materials from San Miguel Group. The relatively decreasing utilisation rate over the two years was primarily due to the same factors impacting the overall financial results of the Company as described in greater detail in the paragraph above headed "1.2 Financial results of the Group" in this letter.

The particularly low utilisation rate of the annual cap relating to the purchase of packaging materials from the San Miguel Group in 2015 was mainly attributable to a change in the San Miguel Group's production line that previously produced certain types of packaging materials for the Group. Together, these types of packaging materials represented over 80% of the total amount of packaging materials purchased by the Group from the San Miguel Group for the year ended 31 December 2014. As the packaging materials produced by the San Miguel Group are no longer suitable for packaging the Group's products following the change in the relevant production line in 2015, the Group purchased their replacements from other suppliers which are Independent Third Parties, leading to a significant decrease in the total amount of packaging materials purchased by the Group from the San Miguel Group for the year ended 31 December 2015. Another reason for the relatively low utilisation rates of the annual caps for the purchase of packaging materials in recent years is mainly due to the more competitive prices offered by the independent suppliers to the Group leading to more purchases of packaging materials from independent suppliers as compared to the initial allocation of purchases recommended by the Logistics Department.

As for the dip in utilisation rate of the annual cap for the purchase of packaged beer by the Group from the San Miguel Group in 2015, it was a result of the Group being able to produce certain products locally and therefore no longer required to import those products from the San Miguel Group.

4.2 Proposed Annual Caps

The proposed Annual Caps for the Continuing Connected Transactions pursuant to the Master Agreement are as follows:

	For the year ending 31 December 2017 *HK$ million*	For the year ending 31 December 2018 *HK$ million*	For the year ending 31 December 2019 *HK$ million*
Purchase of packaging materials from the San Miguel Group	36.0	41.0	46.0
Purchase of packaged beer from the San Miguel Group	5.7	6.4	7.2
Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group	258.0	296.0	370.0

4.2.1 Purchase of packaging materials from the San Miguel Group

The Annual Caps in respect of the purchase of packaging materials from San Miguel Group were calculated as set out below:

(i) Sales figures of the Group's various products were projected for each of the years ending 31 December 2017, 2018 and 2019

In projecting the sales figures, the Group split its products into four categories, namely (i) products sold locally by the Group's PRC-based operations; (ii) products exported by the Group's PRC-based operations; (iii) products to be exported to the San Miguel Group by the Group's Hong Kong-based operations; and (iv) products to be sold to other customers by the Group's Hong Kong-based operations.

Projected rates of increase were estimated for each of the four above categories by reference to a number of factors (depending on the category), including (i) historical transaction amounts and year-on-year rates of increase; (ii) projected transaction amounts for the year ending 31 December 2016; (iii) various new business strategies to be implemented by the Group's PRC-based operations, as mentioned above in the paragraph headed "1.2 Financial results of the Group" of this letter; and (iv) indications of future predicted demand by the San Miguel Group.

(ii) *The amount of packaging products required for the projected sales figures was calculated*

The amount of each type of packaging product required for the projected sales figures were calculated (range from approximately 23.5 million to 28.6 million bottles and approximately 123.0 million cans to 151.1 million cans).

Based on the projected sales volume of each type of products, the Management will project the quantities of bottles and cans required. We have compared the Group's actual demand for the year ended 31 December 2015 and the year ending 31 December 2016, we note that the ratios to estimate the amount of bottles or cans for each type of packaging products required have been consistently applied over the years. As to the year-on-year increase it is due mainly to the projected increase in sales as mentioned in paragraph 4.2.1 (i) above.

(iii) *The HK$ price per unit of each packaging product was estimated for each of the years ending 31 December 2017, 2018 and 2019*

The average price per unit of each packaging product for 2015 (range between HK$0.17 to HK$1.88 per unit) was multiplied by a projected year-on-year consumer price inflation, whilst those products sold by the PRC-based operations of the Group were also adjusted by a projected annual HK$:RMB exchange rate. For more details on these assumptions, please refer to the paragraph headed "4.2.4 Other assumptions" of this letter.

(iv) *The total cost of transactions for each packaging product for each of the years ending 31 December 2017, 2018 and 2019 was calculated and a certain percentage was estimated to be carried out between the Group and the San Miguel Group*

The total cost of transactions for each packaging product was calculated using the projected required volume calculated in (ii) above and the project price per unit calculated in (iii) above. A certain percentage was then allocated to the San Miguel Group (range between 10% to 80%) based on the supply percentage allocated to the San Miguel Group of each individual product for the year ending 31 December 2016 pursuant to the Group's procurement policy.

Given that the amounts of packaging materials actually sourced from the San Miguel Group and the suppliers which are Independent Third Parties materially deviate from the initial allocation recommended by the Logistics Department due to unforeseen reasons, the actual sourcing allocation in the year ended 31 December 2015 is not indicative of future allocations. For this reason, the Group refers to the actual sourcing allocation in the year ended 31 December 2014 as its starting point for estimating sourcing allocation for the year ending 31 December 2016. For the financial year ended 31 December 2014, the actual volume of packaging materials purchased by the Group from the San Miguel Group represented approximately 45% of the total volume of packaging materials purchased by the Group.

Given the recent situations where prices of packaging materials offered by independent suppliers to the Group becoming more competitive in general, the Group has considered this impact and has slightly reduced the proportion of its total purchase volume of packaging materials from the San Miguel Group from year 2016 onwards in the determination of the Annual Caps for packaging materials. As mentioned above, the Group has formed and maintained a strong and smooth working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over ten years. Over the years, the San Miguel Group has established itself as a competitively priced and dependable supplier to the Group which meets the Group's stringent quality requirements and delivery schedules. Although the Group has slightly reduced the proportion of its total purchase volume of packaging materials from the San Miguel Group from year 2016 onwards in the determination of the Annual Caps for packaging materials due to the reason mentioned above, it has no intention to stop purchasing from the San Miguel Group should the terms are no less favourable than those offered by suppliers which are Independent Third Parties. In order to avoid administrative burden, the Company entered into the Master Agreement to continue to purchase, among other things, packaging materials, from the San Miguel Group. Taking into account the aforesaid reason, we consider that it is fair and reasonable for the Group to continue to carry on this type of connected transactions as contemplated under the Master Agreement.

The primary reason for the substantial projected increase in transaction amount for the year ending 31 December 2017 as compared to the actual transaction amount for the year ended 31 December 2015 is that the Company intends to adjust its assembly line during 2016 to be in line with the industry practice and to enable cost saving. Once the adjustment has been completed, the types of packaging materials produced by the San Miguel Group which were previously no longer suitable for packaging the Group's products (for further details, please refer to the paragraph headed "4.1 The approved annual caps and the historical transaction amounts under the Previous Master Agreement" above) will once again be suitable for packaging the Group's products and the Group can resume its purchase of these types of packaging materials from the San Miguel Group. Accordingly, the total amount of packaging materials purchased by the Group from the San Miguel Group is expected to increase again from 2016 onwards.

Finally, a buffer of approximately 10% of the entire transaction amount was included in the calculations to provide flexibility to the Company in case of any unforeseen, relatively minor increases in projected demand. We believe that given there are many outside variables in determining the proposed Annual Caps (e.g. independent third parties suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

4.2.2 Purchase of packaged beer from the San Miguel Group

The Annual Caps in respect of the purchase of packaged beer from San Miguel Group were calculated as set out below:

(i) Demand for the packaged beer by the Group was projected for each of the years ending 31 December 2017, 2018 and 2019

Packaged beer products projected to be demanded by the Group from the San Miguel Group were split into two categories, namely (i) demand from the Group's Hong Kong-based operations; and (ii) demand from the Group's PRC-based operations.

Projected demand for the years ending 31 December 2017, 2018 and 2019 was calculated using:

(a) projected demand for the year ending 31 December 2016;

The 2016 projected demand was based on the consideration of the sales strategies by means of different distribution channels (namely on-premise sales channels and off-premise sales channel, or by different locations in Hong Kong, Macau and the PRC) as regards each individual packaged beer product (range from 27 to 34,000 keg/cases) *, and such wide range is due to different types of sale strategies and market demand as mentioned above. The projected volume is made with reference to (i) the historical transaction

* *"keg" is the unit for draught beer products. For those draught beer products purchased from the San Miguel Group, they are either 15 litres or 30 litres. "case" is the unit for bottle/can beer products.*

volume; (ii) the Group's discussions with the San Miguel Group regarding the future demand volume; and (iii) the Management's expectations of future industry conditions. It was noted that several of the products, including keg products, were now able to be manufactured locally and therefore were no longer required to be imported from the San Miguel Group. Meanwhile, it was also expected that the PRC operations of the Group would begin to import certain products from the San Miguel Group for its local sales. As the PRC-based operations of the Group intend to import products from the San Miguel Group from 2016 onwards following the clearance of certain import licensing issues in the PRC, the total purchase amount of packaged beer by the Group from the San Miguel Group is expected to increase again.

We have considered (i) the historical demand of each individual packaged beer products for the two years ended 31 December 2015 (range from 108 keg/case to 35,027 keg/case and from 94 keg/case to 30,360 keg/case respectively), and (ii) the projected 2016 demand from 27 keg/case to 34,000 keg/case. We have compared the actual sales volume of the second half of 2015 with the budgeted sales volume of the second half of 2015 and noted that it was close to the budget. We have discussed with the Management about (i) the Group's discussions with the San Miguel Group regarding future demand volume and (ii) their expectations of future industry conditions; both cautiously expect market demand volume to increase steadily due to the Group's sales strategies. We note that the PRC-based operations of the Group intend to import products from the San Miguel Group from 2016 onwards following the clearance of certain import licensing issues in the PRC, the total purchase amount of packaged beer by the Group from the San Miguel Group is expected to increase. Taking into account the above, we are of the view that the projected sale volume and the annual rate of increase have been fairly estimated.

(b) and a projected rate of increase in demand, which was estimated separately for each of the above two categories.

This rate of increase was estimated with reference to similar factors as those set out in paragraph 4.2.1 (i) above, namely (i) historical transaction amounts and year-on-year rates of increase; and (ii) various new business strategies to be implemented by the Group's PRC-based operations, as mentioned above in the paragraph headed "1.2 Financial results of the Group" of this letter.

We have assessed and compared the projected rate of increase of demand by the Group for packaging products and packaged beer products. We have reviewed and noted that the rate of increase in demand expected by the Hong Kong-based operations (i.e. 3%) is consistent across its projected demand for packaging products and packaged beer products. The Management has confirmed that they foresee a steady and consistent increase in demand by the Group for both these product types after considering the historical sales volume and the budget.

Whereas, we note that the PRC-based operations have forecast a greater increase in rate of demand for packaged beer (i.e. 15%) than for packaging products. After discussions with the Management, we note that this is due to the fact that such packaged beer products are only expected to commence local sale in the PRC later this year, and therefore it is expected that the rate of increase in demand during these early years shall be higher than the rate of increase in demand for packaging products which has been occurring for a number of years.

It was noted in particular by the Company that two packaged beer products are to be targeted for increased penetration by the Group's PRC operations, and therefore such demand was estimated to increase at a greater rate than the Hong Kong-based demand.

(ii) *The HK$ price per unit of each packaged beer product was estimated for each of the years ending 31 December 2017, 2018 and 2019*

The average price per unit of each packaged beer product for 2015 (range between HK$80 to HK$386 per unit) was multiplied by a projected year-on-year Philippines consumer price inflation (since the packaged beer is purchased from the San Miguel Group's Philippines-based operations) and also adjusted by a projected annual HK$:US Dollar exchange rate (since these transactions are carried out in US Dollar). For more details on these assumptions, please refer to the paragraph headed "4.2.4 Other assumptions" of this letter.

We have considered the (i) the average price per unit of each packaged beer product for the two years ended 31 December 2015 (range between US$9.41 to US$17.00 per unit), (ii) the year-on-year Philippines consumer price inflation (since the packaged beer is purchased from the San Miguel Group's Philippines-based operations) for the two years ended 31 December 2015; and (iii) the annual HK$:US Dollar exchange rate (since these transactions are carried out in US Dollar). We also note the average price per unit of each packaged beer product for the one month ended 31 January 2016 (range between US$9.41 to US$17.00 per unit respectively). Taking into account the above, we are of the view that the projected sale volume and the annual rate of increase have been fairly estimated.

(iii) *The total projected cost of these transactions for the years ending 31 December 2017, 2018 and 2019 were calculated*

Using the information calculated in points (i) and (ii) above, the total projected cost of these transactions was calculated and a buffer of approximately 10% of the entire transaction amount was included in the calculations to provide flexibility to the Company in case of any unforeseen, relatively minor increases in projected demand. We believe that given there are many outside variables in determining the proposed Annual Caps (e.g. independent third parties suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

4.2.3 Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group

The Annual Caps in respect of the sale of packaged beer and non-alcoholic beverages to the San Miguel Group were calculated as set out below:

(i) Projected sales volume of the relevant products is calculated for the years ending 31 December 2017, 2018 and 2019

Projected sales volume for the years ending 31 December 2017, 2018 and 2019 are calculated using the projected sales volume of approximately 455,000 HL* for the year ending 31 December 2016 with an estimated annual rate of increase, which differs depending on whether the products are to be sold by the Group's Hong Kong-based operations or the PRC-based operations.

The annual rate of increase makes reference to (i) the historical transaction volume; (ii) the Group's discussions with the San Miguel Group regarding future demand volume; (iii) the Management's expectations of future industry conditions; and (iv) the expected profit margin which will be consistent and in line with the historical profit margin earned by the Group.

We have compared the actual sales volume of 2015 with the budgeted sales volume of 2015 and noted that it was close to the budget. We have discussed with the Management about the Group's discussions with the San Miguel Group regarding future demand volume as well as their expectations of future industry conditions and profit margin. Taking into account the above, we are of the view that the projected sale volume and the annual rate of increase have been fairly estimated.

(ii) Sales revenue received from such products is calculated for the years ending 31 December 2017, 2018 and 2019

As mentioned above, the Group's sales of packaged beer and non-alcoholic beverage products to the San Miguel Group are carried out on a cost plus basis with a fixed margin. Accordingly, in order to calculate the revenue to be received from such products, the Group calculated the estimated costs of such production for each of the years ending 31 December 2017, 2018 and 2019. This was done by adjusting the current price per unit of direct materials, direct labour, direct containers, direct manufacturing supplies and direct utilities and other costs by a projected inflation rate and subsequently multiplying that by the specified profit margin which is consistent with and in line with the historical margin earned. For those products manufactured

** refers to hecto-liter, a unit of capacity equal to 100 liters* in PRC, an exchange rate was also projected to calculated the final revenue received in HK$ (for details of assumptions such as inflation rate and exchange rate, please refer to the paragraph headed "4.2.4 Other assumptions" of this letter).

A buffer of approximately 10% of the entire transaction amount was included in the calculations to provide flexibility to the Company in case of any unforeseen, relatively minor increases in projected sales. We believe that given there are many outside variables in determining the proposed Annual Caps (e.g. independent third parties suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

We have reviewed the abovementioned calculations and consider the methodology employed in calculating the Annual Caps for the years ending 31 December 2017, 2018 and 2019 to be fair and reasonable. We have compared the trend in projected demand for the individual products with the trend recorded during previous years, and where there are deviations, we have discussed the reasons behind such projections with Management, such as the expectation that the various new business strategies to be implemented by the Group's PRC-based operations shall lead to increased demand. Having reviewed the bases and assumptions for the Annual Caps (namely the projected quantities and prices of the products), we believe they have been diligently and reasonably considered by the Management. Accordingly, we are of the view that the Annual Caps are fair and reasonable and in the interests of the Company and Shareholders as a whole.

4.2.4 Other assumptions

In addition to the abovementioned assumptions, for each of the years ending 31 December 2017, 2018 and 2019, the Management has also estimated projected (i) exchange rates; and (ii) consumer price inflation rates.

Set out below is a table showing the various assumptions relating to exchange rates and year-on-year consumer price inflation rates as used by the Company.

	Forecast for the year ending 31 December			
	2016	**2017**	**2018**	**2019**
HK$:RMB exchange rate (1RMB: HK$)	1.25	1.24	1.25	1.27
US$:HK$ exchange rate (1US$: HK$)	7.778	7.765	7.754	7.754
Hong Kong year-on-year consumer price inflation rate	3.1%	2.8%	2.8%	2.9%
PRC year-on-year consumer price inflation rate	1.9%	2.6%	2.6%	2.8%
Philippines year-on-year consumer price rate	3.5%	3.8%	4.0%	4.0%

We have gathered projected exchange rates and inflation rates from sources such as the budget of the Hong Kong Government, the central bank of the Republic of the Philippines and various economic analysis firms, and having compared our independently sourced projections (all of them are close to the amount stated above) with those used by the Group set out in the table above and considered the nature and background of our sources, we are of the view that such assumptions have been diligently and reasonably considered by the Management and it was fair and reasonable for the Management to use the above assumptions for the purpose of determining the proposed Annual Caps.

5. Internal control measures regarding the Continuing Connected Transactions

The Company has established internal control measures to ensure that the Continuing Connected Transactions are carried out in accordance with the pricing policies and the terms of the Master Agreement, and that the purchase prices of the relevant products from the San Miguel Group/ the selling prices of the relevant products to the San Miguel Group are on normal commercial terms and on terms no less favourable than those terms offered to the Group by, or offered by the Group to, Independent Third Parties for similar products.

Such internal control measures include namely (i) the preparation of a budget with respect to each type of Continuing Connected Transactions for the year ending 31 December Year X in the third quarter of Year X-1; (ii) the Logistics Department to implement the pricing policy and procurement policy of the Group; (iii) the Managing Director of the Company to approve the Logistics Department's (or the Finance Department's as the case may be) recommendation and any subsequent changes; (iv) the Accounts Department to monitor the execution of purchase orders/sales orders within the respective terms of the Continuing Connected Transactions; and (v) the amount of the Annual Caps utilised would be presented to the Board and the Audit Committee on a quarterly and semi-annually basis.

The Directors consider that such internal control procedures on pricing can effectively ensure that the pricing and terms of the transactions contemplated under the Master Agreement are conducted on normal commercial terms and on terms no less favourable to the Group and in accordance with the pricing policy of the Group.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Continuing Connected Transactions annually and confirm in the Company's annual report that they have been carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In compliance with the Listing Rules, the Company had engaged auditors to report on the Continuing Connected Transactions for the two years ended 31 December 2015. The Company will continue to engage auditors to report on the Continuing Connected Transactions for each of the four years ending 31 December 2019. Given the above, we consider that there exist appropriate procedures and arrangements to ensure that the Continuing Connected Transactions will be conducted on terms in compliance with the provisions of the Listing Rules.

RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms and conditions of the Continuing Connected Transactions contemplated under the Master Agreement are on normal commercial terms and are fair and reasonable; (ii) the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and the Shareholders as a whole; and (iii) the respective Annual Caps have been fairly and reasonably arrived at.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolution approving the Continuing Connected Transactions contemplated under the Master Agreement and the proposed Annual Caps related thereto at the EGM.

Yours faithfully,
For and on behalf of
Altus Capital Limited
Jeanny Leung
Responsible Officer

*Ms. Jeanny Leung ("**Ms. Leung**") is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 25 years of experience in corporate finance advisory and commercial field in Greater China.*

Altus Capital Limited has not acted as an independent financial adviser of the Company's other transactions in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on this is at a market level and is not conditional upon successful passing of the resolution and that our engagement is on normal commercial terms, Altus Capital Limited is independent of the Company.

1. RESPONSIBILITY OF THE DIRECTORS

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

(a) Directors' interests and short positions in the securities of the Company and its associated corporations

As at the Latest Practicable Date, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to (i) be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers in the Listing Rules, were as follows:

(1) Interests in issued shares

	Number of Shares	
Name	**Number of Shares held**	**% of total Shares in issue**
David K. P. Li	12,000,000	3.21%

Name	Number of common shares of 1 Philippine peso each in Top Frontier	
	Number of shares held	% of total shares in issue
Ramon S. Ang	86,734,238 (Note)	25.907003%
Carlos Antonio M. Berba	364	0.000109%
Roberto N. Huang	3,039	0.000908%
Reynato S. Puno	500	0.000149%
Carmelo L. Santiago	500	0.000149%
Ramon G. Torralba	260	0.000078%

Note:

Out of the 86,734,238 common shares in Top Frontier held by Mr. Ramon S. Ang, 75,887 common shares were held directly and 86,658,351 common shares were held indirectly.

Name	Type of shares (Par value of 5 Philippine pesos each)	Number of shares in SMC	
		Number of shares held	% of total shares in issue
Ramon S. Ang	Common	374,381,669 (Note)	10.849799%
Carlos Antonio M. Berba	Common	3,645	0.000106%
	Preferred	10,000	0.000290%
Roberto N. Huang	Common	42,397	0.001229%
Reynato S. Puno	Common	5,000	0.000145%
Carmelo L. Santiago	Common	5,000	0.000145%
Ramon G. Torralba	Common	2,600	0.000075%

Note:

Out of the 374,381,669 common shares in SMC held by Mr. Ramon S. Ang, 757,873 common shares were held directly and 373,623,796 common shares were held indirectly.

Name	Number of common shares of 1 Philippine peso each in SMB	
	Number of shares held (Note)	% of total shares in issue
Ramon S. Ang	5,000	0.000033%
Carlos Antonio M. Berba	5,000	0.000033%
Takashi Hayashi	5,000	0.000033%
Roberto N. Huang	5,000	0.000033%
Carmelo L. Santiago	5,000	0.000033%

Note:

Other than the common shares in SMB which were held by Mr. Carmelo L. Santiago as personal interest, all common shares in SMB were held by the Directors as corporate interests.

(2) Interests in underlying shares

Name	Stock options in SMC				
	Date granted	Exercise period up to	Exercise price per option *(Philippine pesos)*	Number of options lapsed during the year	Number of options outstanding as at the Latest Practicable Date
Common (par value of 5 Philippine pesos each):					
Ramon S. Ang	01/03/2007	01/03/2015	63.50	(993,386)	—
	01/03/2007	01/03/2015	75.50	(662,258)	—
	26/06/2008	26/06/2016	40.50	—	765,603
	25/06/2009	25/06/2017	58.05	—	587,556
Carlos Antonio M. Berba	16/12/2010	16/12/2018	120.33	—	41,556
Ramon G. Torralba	16/12/2010	16/12/2018	120.33	—	8,991

All interests in the shares and underlying shares of the Company and its associated corporations stated above are long positions.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors and the chief executive of the Company had or was deemed to have any interest or short position in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have such provisions of the SFO); or (ii) were required to be entered in the register maintained by the Company pursuant to section 352 of the SFO; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as contained in the Listing Rules.

(b) Persons or corporations who have an interest or short position which is discloseable under Divisions 2 and 3 of Part XV of the SFO and substantial shareholders of members of the Group

	Shares	
Name	**Number of Shares held**	**% of total issued Shares**
Top Frontier *(Note 1)*	245,720,800	65.78%
SMC *(Note 1)*	245,720,800	65.78%
Kirin Holdings Company, Limited *(Note 1)*	245,720,800	65.78%
Neptunia Corporation Limited *(Note 1)*	245,720,800	65.78%
Cheung Kong (Holdings) Limited *(Note 2)*	23,703,000	6.34%
CK Hutchison Holdings Limited *(Note 2)*	23,703,000	6.34%

Notes:

(1) Top Frontier, the ultimate holding company, SMC, Kirin Holdings Company, Limited ("**Kirin**") (a principal shareholder of SMB), SMB and San Miguel Brewing International Limited ("**SMBIL**") are all deemed to hold the above disclosed interest indirectly through Neptunia Corporation Limited ("**Neptunia**") in the Company because each of Top Frontier, SMC and Kirin holds more than one third of the voting power of SMB. SMB has a controlling interest in SMBIL and SMBIL has a controlling interest in Neptunia.

(2) Conroy Assets Limited, which holds 13,624,600 Shares, and Hamstar Profits Limited, which holds 10,078,400 Shares, are indirect wholly owned subsidiaries of Cheung Kong (Holdings) Limited ("**CKH**") and CK Hutchison Holdings Limited ("**CK Hutchison**").

By virtue of the SFO, CKH and CK Hutchison are deemed to be interested in the Shares held by Conroy Assets Limited and Hamstar Profits Limited.

(3) The following Directors and proposed Directors are directors/employees of companies which have an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Mr. Ramon S. Ang is the director, President and Chief Executive Officer of Top Frontier, the Vice Chairman, President and Chief Operating Officer of SMC and Chairman of SMB. Mr. Carlos Antonio M. Berba is a director of SMB, Managing Director of SMBIL, and a director of Neptunia. Mr. Takashi Hayashi is a director and the Executive Vice President of SMB and a director of SMBIL. Mr. Roberto N. Huang is a director and the President of SMB and a director of SMBIL. Mr. Takeshi Wada is a director and the Executive Vice President of SMBIL.

Mr. Teruyuki Daino has resigned as non-executive Director and member of the nomination committee of the Company with effect from 30 March 2016, and as director and Executive Vice President of SMB.

The Company also received a letter from Neptunia Corporation nominating Mr. Katsuhiko Matsumoto as director of the Company for election at the Company's annual general meeting on 29 April 2016. As of the Latest Practicable Date, Mr. Matsumoto is a director and the Executive Financial Advisor of SMB.

(c) Interests in a subsidiary

As at the Latest Practicable Date, the following corporation was, directly or indirectly, interested in 10% or more of the total number of any class of issued shares carrying rights to vote in all circumstances at general meetings of the following member of the Group:

Name of subsidiary	Name of shareholder	% of interest in subsidiary
Guangzhou San Miguel Brewery Company Limited	Guangzhou Brewery	30%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors nor the chief executive of the Company was aware of any other person or corporation who had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who/which was, directly or indirectly, interested in 10% or more of the total number of any class of issued shares carrying rights to vote in all circumstances at general meetings of any member of the Group, or any options in respect of such capital.

3. MATERIAL ADVERSE CHANGE

The Directors confirm that, as at the Latest Practicable Date, they were not aware of any material adverse change in the financial or trading position of the Group since 31 December 2015, being the date to which the latest published audited accounts of the Group were made up.

4. DIRECTORS' SERVICE CONTRACTS

Pursuant to an agreement dated 12 June 1963, Neptunia provides technical and advisory services to the Company and may be paid a General Managers' commission. Mr. Ramon S. Ang, Mr. Carlos Antonio M. Berba, Mr. Ramon G. Torralba, Mr. Takashi Hayashi, Mr. Roberto N. Huang, Mr. Reynato S. Puno, Mr. Carmelo L. Santiago and Mr. Takeshi Wada are interested parties to this contract to the extent that they either have equity interests in or are directors and/or officers of SMB, SMBIL, SMC, and Top Frontier, the ultimate holding company of Neptunia. General Managers' commission has not been paid by the Company or charged by Neptunia since the 1995 financial year.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors had entered, or proposed to enter, into a service contract with any member of the Group excluding service contracts expiring or terminable by the relevant member of the Group within one year without payment of compensation (other than statutory compensation).

5. COMPETING INTERESTS

As at the Latest Practicable Date, none of the Directors or the proposed Directors and their respective close associates had any interests which competed or was likely to compete, either directly or indirectly, with the Company's business.

6. INTERESTS IN ASSETS AND/OR CONTRACTS AND OTHER INTERESTS

As at the Latest Practicable Date, none of the Directors or the proposed Directors had any direct or indirect interest in any assets which had since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group, or are proposed to be acquired or disposed of by or leased to any member of the Group.

Save as disclosed in the section headed "Directors' Service Contracts" above, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement which was significant in relation to the business of the Company.

7. QUALIFICATIONS AND CONSENT OF EXPERT

The following is the qualifications of the expert who has given opinions or advice, which are contained or referred to in this circular:

Name	Qualification
Altus Capital	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 SFO.

Altus Capital has provided its letter for incorporation into this circular. Altus Capital has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which it appears.

As at the Latest Practicable Date, Altus Capital did not have any shareholding interests in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for Shares or shares in any member of the Group.

As at the Latest Practicable Date, Altus Capital did not have any direct or indirect interest in any asset which has, since 31 December 2015, being the date to which the latest published audited financial statements of the Company were made up, been acquired or disposed of by or leased to any member of the Group.

8. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection at the Company's registered office, 9th Floor, Citimark Building, 28 Yuen Shun Circuit, Siu Lek Yuen, Shatin, New Territories, Hong Kong during normal business hours up to and including the date of the EGM:

(a) the Master Agreement;

(b) the agreement referred to in the section headed "Directors' Service Contracts" in this appendix;

(c) the letter from Altus Capital, the text of which is set out in this circular;

(d) the consent letter from Altus Capital referred to in the section headed "Qualifications and Consent of Expert" in this appendix; and

(e) the circular of the Company dated 14 April 2016.

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)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of the shareholders of San Miguel Brewery Hong Kong Limited (the "**Company**") will be held at Island Ballroom, Level 5, Island Shangri-La Hong Kong, Two Pacific Place, Supreme Court Road, Central, Hong Kong on 29 April 2016, Friday, at 3:45 p.m. (or as soon as the annual general meeting of the Company convened at the same date and place shall conclude or adjourn) for the purpose of considering and, if thought fit, passing with or without modifications, the following resolution as ordinary resolution of the Company:

ORDINARY RESOLUTION

"**THAT**: the agreement dated 4 February 2016 (the "**Agreement**") entered into between San Miguel Corporation and the Company, a copy of which marked as "A" has been produced at the meeting and signed by the Chairman of the meeting for the purpose of identification, and the transactions contemplated thereunder be and are hereby approved, ratified and confirmed and the proposed annual caps (the "**Caps**") in relation to the transactions contemplated under the Agreement for each of the three financial years ending 31 December 2017, 2018 and 2019 as set out in the circular dated 14 April 2016 be and are hereby approved, and the directors of the Company be and are hereby authorised on behalf of the Company to sign, seal, execute, perfect, deliver and do all such documents, deeds, acts, matters and things as they may in their discretion consider necessary or desirable or expedient to implement and/or to give effect to the Agreement and the Caps and the transactions thereby contemplated."

By Order of the Board
San Miguel Brewery Hong Kong Ltd.
John K.L. Cheung
Company Secretary

Hong Kong, 14 April 2016

Registered Office:
9th Floor
Citimark Building
28 Yuen Shun Circuit
Siu Lek Yuen
Shatin, New Territories
Hong Kong

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 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.

Notes:

1. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the meeting. A proxy needs not be a shareholder of the Company.

2. To be valid, forms of proxy must be deposited at the share registrar of the Company, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the meeting.

3. The transfer of books and register of members of the Company will be closed from 27 April 2016, Wednesday, to 29 April 2016, Friday, both days inclusive. To qualify for attending the forthcoming extraordinary general meeting of the Company to be held on 29 April 2016, Friday, shareholders should ensure that transfers are lodged at the Company's share registrar, Computershare Hong Kong Investor Services Limited at 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on 26 April 2016, Tuesday.