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# SAN MIGUEL BREWERY HONG KONG LTD.

香港生力啤酒廠有限公司

*(Incorporated in Hong Kong with limited liability)*

(Stock Code: 236)

## ANNOUNCEMENT OF RESULTS FOR THE YEAR ENDED 31 DECEMBER 2016

The Board of Directors of San Miguel Brewery Hong Kong Limited (the “Company”) hereby announces the consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2016, together with the comparative figures for the previous financial year. The annual results have been reviewed by the Audit Committee of the Company.

### CONSOLIDATED INCOME STATEMENT

*for the year ended 31 December 2016*

*(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2016</b> <b>\$'000</b>	2015 \$'000
<b>Revenue</b>	3	<b>541,427</b>	569,502
Cost of sales		<b>(303,111)</b>	(331,846)
<b>Gross profit</b>		<b>238,316</b>	237,656
Other net income	4	<b>42,443</b>	39,837
Selling and distribution expenses		<b>(178,366)</b>	(197,195)
Administrative expenses		<b>(82,849)</b>	(83,784)
Other operating expenses		<b>(8,039)</b>	(8,069)
<b>Profit/(loss) from operations</b>		<b>11,505</b>	(11,555)
Finance costs	5(a)	<b>(5,578)</b>	(4,498)
<b>Profit/(loss) before taxation</b>	3,5	<b>5,927</b>	(16,053)
Income tax credit/(charge)	6	<b>778</b>	(856)
<b>Profit/(loss) for the year</b>		<b>6,705</b>	(16,909)

**CONSOLIDATED INCOME STATEMENT** *(Continued)**for the year ended 31 December 2016**(Expressed in Hong Kong dollars)*

	<i>Note</i>	<b>2016</b> <b>\$'000</b>	2015 \$'000
<b>Attributable to:</b>			
Equity shareholders of the Company		<b>8,654</b>	(16,074)
Non-controlling interests		<b>(1,949)</b>	(835)
		<hr/>	<hr/>
<b>Profit/(loss) for the year</b>		<b>6,705</b>	(16,909)
		<hr/> <hr/>	<hr/> <hr/>
<b>Earnings/(loss) per share</b>			
— Basic (cents)	<i>7(a)</i>	<b>2</b>	(4)
		<hr/> <hr/>	<hr/> <hr/>
— Diluted (cents)	<i>7(b)</i>	<b>N/A</b>	N/A
		<hr/> <hr/>	<hr/> <hr/>

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2016

(Expressed in Hong Kong dollars)

	2016	2015
	\$'000	\$'000
<b>Profit/(loss) for the year</b>	<b>6,705</b>	<b>(16,909)</b>
<b>Other comprehensive income for the year (after tax)</b>		
<i>Items that may be reclassified subsequently to profit or loss</i>		
Exchange differences on translation of:		
— financial statements of subsidiaries outside Hong Kong	23,329	22,077
— monetary items that form part of the net investment in subsidiaries outside Hong Kong	<u>(24,490)</u>	<u>(22,499)</u>
	<b>(1,161)</b>	<b>(422)</b>
<i>Items that will not be reclassified to profit or loss</i>		
Actuarial gains and losses of defined benefit retirement plan	<u>7,554</u>	<u>(5,896)</u>
	<u>6,393</u>	<u>(6,318)</u>
<b>Total comprehensive income for the year</b>	<b><u>13,098</u></b>	<b><u>(23,227)</u></b>
<b>Attributable to:</b>		
Equity shareholders of the Company	13,171	(24,134)
Non-controlling interests	<u>(73)</u>	<u>907</u>
<b>Total comprehensive income for the year</b>	<b><u>13,098</u></b>	<b><u>(23,227)</u></b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2016

(Expressed in Hong Kong dollars)

	<i>Note</i>	<b>2016</b> <b>\$'000</b>	2015 \$'000
<b>Non-current assets</b>			
Property, plant and equipment		<b>372,125</b>	416,822
Investment properties		<b>134,923</b>	98,457
Interests in leasehold land held for own use under operating leases		<b>77,758</b>	82,102
		<b>584,806</b>	597,381
Intangible assets		<b>5,139</b>	5,163
		<b>589,945</b>	602,544
<b>Current assets</b>			
Inventories		<b>49,247</b>	52,431
Trade and other receivables	8	<b>57,843</b>	68,772
Amounts due from holding companies and fellow subsidiaries		<b>15,167</b>	7,157
Amounts due from related companies		<b>1,532</b>	262
Bank deposits		<b>46,602</b>	50,882
Cash and cash equivalents		<b>111,117</b>	97,718
		<b>281,508</b>	277,222
<b>Current liabilities</b>			
Trade and other payables	9	<b>(88,578)</b>	(104,460)
Loan from an intermediate holding company		<b>(25,448)</b>	—
Amounts due to holding companies and fellow subsidiaries		<b>(6,990)</b>	(5,375)
Amounts due to related companies		<b>(6,130)</b>	(5,016)
		<b>(127,146)</b>	(114,851)
<b>Net current assets</b>		<b>154,362</b>	162,371

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)**at 31 December 2016**(Expressed in Hong Kong dollars)*

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Total assets less current liabilities</b>	<b>744,307</b>	764,915
<b>Non-current liabilities</b>		
Loan from an intermediate holding company	<b>(165,410)</b>	(190,747)
Retirement benefit liabilities	<b>(17,844)</b>	(26,939)
Deferred tax liabilities	<b>(2,969)</b>	(2,243)
	<b>(186,223)</b>	(219,929)
<b>NET ASSETS</b>	<b>558,084</b>	544,986
<b>CAPITAL AND RESERVES</b>		
Share capital	<b>252,524</b>	252,524
Other reserves	<b>332,687</b>	319,516
<b>Total equity attributable to equity shareholders of the Company</b>	<b>585,211</b>	572,040
<b>Non-controlling interests</b>	<b>(27,127)</b>	(27,054)
<b>TOTAL EQUITY</b>	<b>558,084</b>	544,986

## **NOTES TO THE ANNUAL RESULTS**

*(Expressed in Hong Kong dollars)*

### **1 BASIS OF PREPARATION**

The financial information relating to the years ended 31 December 2016 and 2015 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for year ended 31 December 2016 in due course.

The Company's auditor has reported on these financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The statutory financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Companies Ordinance. The statutory financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The measurement basis used in the preparation of the statutory financial statements is the historical cost basis.

## 2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments of HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*
- *Annual Improvements to HKFRSs 2012-2014 Cycle*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

## 3 REVENUE AND SEGMENT REPORTING

### (a) Revenue

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

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

### (b) Segment reporting

The Group manages its businesses by geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following two reportable segments:

- The Hong Kong operations mainly comprise the manufacture and distribution of own brewed beer products and distribution of imported beer products in Hong Kong and overseas.
- The Mainland China operations mainly comprise the manufacture and distribution of own brewed beer products in the southern part of the People's Republic of China ("PRC") and overseas.

All of the Group's revenue is generated from the manufacture and distribution of bottled, canned and draught beers.

### 3 REVENUE AND SEGMENT REPORTING *(Continued)*

#### (b) Segment reporting *(Continued)*

##### (i) *Segment results, assets and liabilities*

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets and current assets. Segment liabilities include trade creditors and accruals attributable to the manufacture and distribution activities of the individual segments, and retirement benefit liabilities managed directly by the segment and other current liabilities with the exception of deferred tax liabilities.

The measure used for reportable segment profit or loss is profit or loss before taxation. Taxation is not allocated to reportable segments. Inter-segment sales are priced at cost plus profit margin.



### 3 REVENUE AND SEGMENT REPORTING (Continued)

#### (b) Segment reporting (Continued)

##### (i) Segment results, assets and liabilities (Continued)

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

	Hong Kong		Mainland China		Total	
	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000	2016 \$'000	2015 \$'000
Revenue from external customers	389,394	392,125	152,033	177,377	541,427	569,502
Inter-segment revenue	308	303	—	—	308	303
<b>Reportable segment revenue</b>	<b>389,702</b>	<b>392,428</b>	<b>152,033</b>	<b>177,377</b>	<b>541,735</b>	<b>569,805</b>
<b>Reportable segment (loss)/profit from operations</b>	<b>(6,610)</b>	<b>(25,463)</b>	<b>12,537</b>	<b>9,410</b>	<b>5,927</b>	<b>(16,053)</b>
Interest income from bank deposits	622	693	235	194	857	887
Interest expense on loans	(5,454)	(4,373)	—	—	(5,454)	(4,373)
Depreciation and amortisation for the year	(21,253)	(23,693)	(2,520)	(2,799)	(23,773)	(26,492)
(Provision for)/reversal of impairment losses recognised in profit or loss in respect of trade and other receivables	(320)	(301)	(11)	5	(331)	(296)
<b>Reportable segment assets</b>	<b>1,172,604</b>	<b>1,179,474</b>	<b>80,424</b>	<b>81,479</b>	<b>1,253,028</b>	<b>1,260,953</b>
Additions to non-current segment assets during the year	11,289	2,435	2,500	2,558	13,789	4,993
<b>Reportable segment liabilities</b>	<b>261,095</b>	<b>270,414</b>	<b>430,880</b>	<b>443,310</b>	<b>691,975</b>	<b>713,724</b>

### 3 REVENUE AND SEGMENT REPORTING *(Continued)*

#### (b) Segment reporting *(Continued)*

##### (ii) *Reconciliation of reportable segment revenue, profit or loss, assets and liabilities*

	2016 \$'000	2015 \$'000
<b>Revenue</b>		
Reportable segment revenue	541,735	569,805
Elimination of inter-segment revenue	(308)	(303)
	<hr/>	<hr/>
Consolidated revenue	<b>541,427</b>	<b>569,502</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Profit/(loss)</b>		
Reportable segment profit/(loss) from operations	5,927	(16,053)
Elimination of inter-segment profit	—	—
	<hr/>	<hr/>
Reportable segment profit/(loss) derived from Group's external customers and consolidated profit/(loss) before taxation	<b>5,927</b>	<b>(16,053)</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Assets</b>		
Reportable segment assets	1,253,028	1,260,953
Elimination of inter-segment receivables	(381,575)	(381,187)
	<hr/>	<hr/>
Consolidated total assets	<b>871,453</b>	<b>879,766</b>
	<hr/> <hr/>	<hr/> <hr/>
<b>Liabilities</b>		
Reportable segment liabilities	691,975	713,724
Elimination of inter-segment payables	(381,575)	(381,187)
	<hr/>	<hr/>
	<b>310,400</b>	332,537
Deferred tax liabilities	2,969	2,243
	<hr/>	<hr/>
Consolidated total liabilities	<b>313,369</b>	<b>334,780</b>
	<hr/> <hr/>	<hr/> <hr/>

### 3 REVENUE AND SEGMENT REPORTING (Continued)

#### (b) Segment reporting (Continued)

##### (iii) Geographic information

The following table sets out information about the geographic location of (i) the Group's revenue from external customers and (ii) the Group's non-current assets ("specified non-current assets"). The geographic location of customers is based on the country of establishment of each customer. The geographic location of the specified non-current assets is based on the physical location of the assets, in the case of property, plant and equipment, investment properties and leasehold land, and the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from		Specified	
	external customers		non-current assets	
	2016	2015	2016	2015
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	<b>289,605</b>	297,009	<b>565,033</b>	575,006
Mainland China	<b>56,267</b>	86,797	<b>24,912</b>	27,538
Philippines	<b>188,076</b>	178,574	—	—
Others	<b>7,479</b>	7,122	—	—
	<b>251,822</b>	272,493	<b>24,912</b>	27,538
	<b>541,427</b>	569,502	<b>589,945</b>	602,544

#### (c) Major customers

In 2016, the revenue from the Group's largest customer which was served both by the Hong Kong segment and the Mainland China segment amounted to \$190,291,000 or 35% of the Group's total revenue (2015: \$180,555,000 or 32%). The revenue from the Group's five largest customers amounted to 61% (2015: 60%) of the Group's total revenue.

#### 4 OTHER NET INCOME

	2016 \$'000	2015 \$'000
Advertising and promotion subsidy	21,038	24,895
Rental income from investment properties	18,028	10,759
Net gain on disposal of non-current assets	1,253	2,351
Interest income from bank deposits	857	887
Net foreign exchange (losses)/gains	(184)	499
Others	1,451	446
	<u>42,443</u>	<u>39,837</u>

#### 5 PROFIT/(LOSS) BEFORE TAXATION

*Profit/(loss) before taxation is arrived at after charging/(crediting):*

	2016 \$'000	2015 \$'000
<b>(a) Finance costs</b>		
Interest expense on loan from an intermediate holding company	5,454	4,373
Bank charges	124	125
	<u>5,578</u>	<u>4,498</u>
<b>(b) Staff costs</b>		
Retirement costs		
— Defined contribution retirement plans	5,976	5,444
— Defined benefit retirement plan	5,633	5,613
	<u>11,609</u>	<u>11,057</u>
Salaries, wages and other benefits	116,014	118,421
	<u>127,623</u>	<u>129,478</u>

**5 PROFIT/(LOSS) BEFORE TAXATION (Continued)**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>(c) Other items</b>		
Amortisation of land lease premium	<b>2,536</b>	2,588
Depreciation		
— Property, plant and equipment	<b>16,505</b>	20,548
— Investment properties	<b>4,732</b>	3,356
Cost of inventories	<b>301,248</b>	329,579
Operating lease charges: minimum lease payments		
— Land and buildings	<b>1,540</b>	1,544
— Other assets	<b>475</b>	196
Rental receivable from investment properties		
less direct outgoings of \$7,913,000		
(2015: \$5,559,000)	<b>(10,115)</b>	(5,200)
Auditors' remuneration		
— Provision for the year	<b>3,717</b>	3,436
— Under-provision in respect of the prior year	<b>62</b>	308
Impairment losses for trade and other receivables	<b>331</b>	296
	<b>—————</b>	<b>—————</b>

**6 TAXATION IN THE CONSOLIDATED INCOME STATEMENT**

*Income tax in the consolidated income statement represents:*

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
<b>Deferred tax</b>		
Origination and reversal of temporary differences	<b>778</b>	(856)
	<b>—————</b>	<b>—————</b>

The statutory tax rate applicable to the Company and other Hong Kong subsidiaries was 16.5% (2015: 16.5%). No provision for Hong Kong Profits Tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

The statutory tax rate applicable to the subsidiaries established in the PRC was 25% (2015: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

## 7 EARNINGS/(LOSS) PER SHARE

### (a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit attributable to equity shareholders of the Company of \$8,654,000 (2015: loss of \$16,074,000) and on 373,570,560 (2015: 373,570,560) ordinary shares, being the number of ordinary shares in issue throughout the year.

### (b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is not presented as the Company did not have dilutive potential ordinary shares for both years presented.

## 8 TRADE AND OTHER RECEIVABLES

Credit limits are offered to customers following a financial assessment and an established payment record. Security in the form of mortgages, cash deposits or bank guarantees is obtained from certain customers. Customers who are considered to have higher credit risk are required to trade on a cash basis. Credit control staff monitor trade receivables and follow up collections.

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

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Current	<b>39,055</b>	38,996
Less than 1 month past due	<b>3,100</b>	7,280
1 to 3 months past due	<b>1,115</b>	3,006
More than 3 months but less than 12 months past due	<b>927</b>	610
More than 12 months past due	<b>888</b>	1,077
	<hr/> <b>45,085</b> <hr/>	<hr/> 50,969 <hr/>

According to the Group's credit policy, the general credit period is payment by the end of the month following the month in which sales take place. Therefore, all the current balances above are within two months from the invoice date.

## 9 TRADE AND OTHER PAYABLES

The ageing of trade payables as at the end of the reporting period is as follows:

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Current and less than 1 month past due	<b>34,716</b>	44,443
1 to 3 months past due	<b>2,493</b>	1,574
3 to 6 months past due	<b>180</b>	247
More than 6 months past due	<b>175</b>	36
	<u><b>37,564</b></u>	<u>46,300</u>

The Group's general payment terms are one to two months from the invoice date. Therefore, the current and less than one month past due balances above are mostly within two to three months from the invoice date.

## 10 DIVIDENDS

**Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year**

	<b>2016</b>	2015
	<b>\$'000</b>	\$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of \$Nil per ordinary share (2015: \$0.01 per ordinary share)	<u>—</u>	<u>3,736</u>

## **CLOSURE OF REGISTER OF MEMBERS**

For the purpose of determining shareholders who are entitled to attend and vote at the AGM, the register of members of the Company will be closed from Wednesday, 26 April 2017 to Friday, 28 April 2017, both days inclusive. To qualify for attending and voting at the forthcoming AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Tuesday, 25 April 2017.

## **FINANCIAL RESULTS**

The Group registered a consolidated profit of HK\$6.7 million in 2016, compared to a consolidated loss of HK\$16.9 million in 2015. As a result, net profit attributable to equity shareholders for 2016 was HK\$8.7 million, compared to a loss of HK\$16.1 million the previous year.

The Group's consolidated revenue was HK\$541.4 million, 4.9% lower than the same period in 2015. Gross profit reached HK\$238.3 million, slightly higher than 2015, with a gross profit margin of 44.0%.

As of 31 December 2016, cash and cash equivalents and bank deposits amounted to HK\$157.7 million (HK\$148.6 million as of 31 December 2015).

Total loan as of 31 December 2016 was at HK\$190.9 million, 0.1% higher than the HK\$190.7 million debt reported the prior year. Total net assets stood at HK\$558.1 million (HK\$545.0 million as of 31 December 2015), with a loan-to-equity ratio of 0.34 (31 December 2015: 0.35).

## **DIVIDENDS**

No final dividends will be declared for the year ended 31 December 2016.

## **BUSINESS REVIEW**

### **HONG KONG OPERATIONS**

Operating losses were reduced by 90%, a significant achievement given Hong Kong's slowing economy which resulted to a decline in tourist arrivals and weaker consumption.



As disclosed in a positive profit alert announcement last 14 February 2017, the Company achieved these improvements largely through the reduction in certain material cost and the rationalization, re-evaluation and re-allocation of advertising expenses. Higher rental income, as an offshoot of the restructuring of the distribution and warehousing system, and the depreciation of the renminbi, also contributed to this result.

Our portfolio of premium, specialty and craft beers all did well in 2016, growing by double-digits compared to the previous year.

Kirin beer brands, which we distribute exclusively within the territory, registered an 18% volume improvement in 2016.

San Miguel Cerveza Negra and Red Horse Beer gained a stronger foothold in the market. Cerveza Negra registered a 53% volume growth over 2015, with growth equally distributed in on- and off-premise outlets. Red Horse Beer grew 76%, helped by strong off-take at night outlets.

San Mig Light is one of the fastest growing brands in our portfolio, registering consistent double-digit growth. Our popular “Life. Best Served Light” campaign shifted away from product attributes to defining the brand’s image.

In the middle of the year, we launched the San Mig Light “Life. Best Served Light” campaign. Meanwhile, we supported the world-renowned DJ Duo, Dimitri Vegas and Like Mike, at the AsiaWorld-Expo in May 2016 and launched a new campaign featuring Japanese model-actor Ren Ishikawa in July 2016.

Finally, for flagship San Miguel Pale Pilsen, we launched the “This Time, This Place Belongs to Us!” thematic campaign, which extended to above-the-line, print, outdoor and social media, as well as below-the-line merchandising and market-wide promotions. The Company also continued to support the Hong Kong Dragon Boat Carnival organized by the Hong Kong Tourism Board through an exclusive sponsorship.

The Company also saw growth in sales and revenue in Macau at 4% and 5%, respectively, as well as in other export markets.

## **SOUTH CHINA OPERATIONS**

Our South China operations improved in 2016, as operating losses were significantly reduced. Much of this improvement can be attributed to San Miguel (Guangdong) Brewery Company Limited (“SMGB”), which was able to lower costs and grow its exports. As a result, SMGB registered a 72% improvement in operating profit.

Meanwhile, sales volumes of Guangzhou San Miguel Brewery Company Limited (“GSMB”) declined as the total South China beer industry contracted and competition became tougher. This is particularly evident at night outlets, where most of our brands compete. Sales in supermarkets also slowed as a preference for online shopping gained ground. To this end, we began developing our own online business channel towards the end of 2016.

To sustain visibility for San Miguel Pale Pilsen, we launched an integrated “Heritage and Quality” campaign, which included a market-wide merchandising blitz, social media advertising, consumer promotions, and an updated version of the product-focused “Meta” television commercial.

For San Mig Light, we launched “SML Party Nights” in popular bars, adopting the “Life. Best Served Light” campaign initiated in Hong Kong. A retail chain-wide consumer promotion was also launched to help push both brands.

Last year, GSMB also started importing San Miguel Cerveza Negra and Red Horse Beer to compete in the premium specialty beer segment. Both brands have been performing well. At the other end of the price spectrum, in May 2016 we launched Dragon Qingchun to strengthen the equity of the Dragon brand and create excitement in the Foshan beer market.

## **COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY**

The Company has always recognized its responsibilities to its stakeholders. These include the welfare of employees and their families; its business relationships with partners, customers, suppliers and others, and the impact of our operations on local communities and the environment.

Since 2015, we have been publishing an Environmental, Social and Governance (“ESG”) Report to provide the public with a better understanding of how we respond to different ESG issues. The latest updates on the Company’s ESG Report will be available on our website within three months from the publication of the Company’s annual report.

We are especially committed to actively promoting responsible drinking. We also continue to support charitable organizations and suitable NGOs through financial and product support, as well as by sharing with them our time, experience and expertise.

We are committed to protecting the environment and ensuring that environmental standards set by government are met or exceeded.

## **HUMAN RESOURCES**

The Company takes pride in its ability to recruit, develop, motivate, and attract employees with the right skills and experience, to help it attain its overall goals. We invest in training, seminars, mentorship and team-building workshops to ensure that our employees are equipped with the necessary knowledge, skills and attitude that will help them perform well.

We continue to offer competitive remuneration packages commensurate with industry standards and to provide attractive fringe benefits, including medical and insurance coverage and numerous paid leaves on top of legal requirements.

## **CORPORATE GOVERNANCE**

The Company continued to apply the principles of the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules throughout the year, with the exception of Code Provision A.4.1, which states that non-executive directors should be appointed for a specific term, subject to re-election. At present, all of the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation at least once every three years, and re-election at the Annual General Meeting under the Company's Articles of Association.

## **DIRECTORS**

Since we published our interim report on 6 September 2016, Mr. Ng Wai Sun has resigned as an independent non-executive director of the Company, effective 24 February 2017. Mr. Alonzo Q. Ancheta has been appointed as an independent non-executive director of the Company, effective 24 February 2017.

## **FUTURE DIRECTION AND CHALLENGES**

For 2017, the Company has outlined the following objectives:

- In Hong Kong, we will continue the profit improvement trend by investing in the San Miguel brand to gain volume, revenue and market share. We will expand outlet availability and penetration using both the direct sales and the wholesaler channel.
- In South China, we intend to turn around the business by expanding the dealership coverage while building the yield of each dealer with market-specific programs in all the markets.

We will strengthen the brand equity of San Miguel and Dragon brands and enhance our participation in the premium specialty segment in key cities. We will actively promote our export business and work towards margin improvement and cost containment.

In pursuit of the abovementioned objectives for 2017, we shall be responsive to the following risks that we have identified:

- Some of the factors affecting Hong Kong's economy continue to linger. The strengthening of the U.S. dollar may result to a further decline in tourists, which may affect industry consumption.

The cost of aluminum and cartons are rising, and this will have an effect on our overall production costs.

Furthermore, the Hong Kong government will be imposing a recycling levy on glass beverage containers. When this measure is put in place, prices for our products in glass bottles may be affected, which will in turn impact consumption.

The Hong Kong government is also proposing a ban on the commercial sale of alcohol to people aged below 18. While the Company supports the legislation, how the actual legislation will be implemented and how it might inadvertently restrict trading to consumers 18 years of age and above will still need to be studied.

- As the largest provincial economy in China, Guangdong is likely to be the most affected when it comes to changes in economic policies. China's economy is expected to continue its slowdown due to falling private sector investments and decelerated growth of its manufacturing sector.

Furthermore, China's continued reliance on policy stimulus measures, with rapid credit growth and still-elevated corporate debts, raises the risk of a sharper slowdown.

Other potential risks include the depreciation of the renminbi as well as uncertainties related to the new US administration's trade and foreign policies. Finally, as in Hong Kong, the cost of aluminum and carton is showing an increasing trend; and may put pressure on our production cost.

Moving forward, the Company reiterates its commitment to maximizing shareholder value and enhancing and consolidating our sales and marketing strength. We are confident that we have put in place well thought-out strategies and plans that will address the challenges the Company is facing, as well as allow us to maximize the value of every opportunity.

Apart from the sales and marketing strategies, we also have various new policies, guidelines, systems and procedures to facilitate efficient and effective cost management, sustainable environmental management and responsible social engagement.

In closing, we wish to express our sincere gratitude to our Board of Directors for their guidance and support. We also wish to thank our employees for their dedication and hard work, and most of all, our shareholders, customers and consumers for their continued support.

## **PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

## **PUBLICATION OF THE 2016 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE**

The Company's annual report for 2016 will be published on the website of The Stock Exchange of Hong Kong Limited at *www.hkex.com.hk* and the Company's website at *info.sanmiguel.com.hk* in due course.

By order of the Board

**Ramon S. Ang**

*Chairman*

Hong Kong, 24 February 2017

*(All monetary values in this announcement are expressed in Hong Kong Dollars unless stated otherwise)*

*As at the date of this announcement, the Board of the Company comprises the executive director, Mr. Ramon G. Torralba, the non-executive directors, Mr. Ramon S. Ang (Chairman), Mr. Carlos Antonio M. Berba (Deputy Chairman), Ms. May (Michelle) W. M. Chan, Mr. Takashi Hayashi, Mr. Roberto N. Huang, Mr. Katsuhiko Matsumoto and Mr. Takeshi Wada; and the independent non-executive directors, Mr. Alonzo Q. Ancheta, Dr. the Hon. Sir David K. P. Li, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago.*