SAN MIGUEL BREWERY HONG KONG LTD.
香港生力啤酒廠有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

ANNOUNCEMENT OF THE 2017 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of San Miguel Brewery Hong Kong Limited (the "Company") submit herewith the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2017. The interim results are unaudited, but have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	***$'000***	*$'000*
Revenue	*3*	**256,119**	259,520
Cost of sales		**(145,127)**	(150,351)
Gross profit		**110,992**	109,169
Other revenue		**20,911**	19,942
Selling and distribution expenses		**(89,341)**	(82,867)
Administrative expenses		**(38,719)**	(40,682)
Other operating expenses		**(3,733)**	(3,971)
Profit from operations		**110**	1,591
Finance costs	*4(a)*	**(3,206)**	(2,645)
Loss before taxation	*4*	**(3,096)**	(1,054)
Income tax charge	*5*	**—**	—
Loss for the period		**(3,096)**	(1,054)

CONSOLIDATED INCOME STATEMENT — UNAUDITED *(Continued)*

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2017	2016
	Note	***$'000***	*$'000*
Attributable to:			
Equity shareholders of the Company		**(4,542)**	(611)
Non-controlling interests		**1,446**	(443)
Loss for the period		**(3,096)**	(1,054)
Loss per share			
— Basic (cents)	*7(a)*	**(1.2)**	(0.2)
— Diluted (cents)	*7(b)*	**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME — UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Loss for the period	**(3,096)**	(1,054)
Other comprehensive income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
— financial statements of subsidiaries outside Hong Kong	**11,948**	7,159
— monetary items that form part of the net investment in subsidiaries outside Hong Kong	**(11,189)**	(7,440)
	759	(281)
Total comprehensive income for the period	**(2,337)**	(1,335)
Attributable to:		
Equity shareholders of the Company	**(2,937)**	(1,459)
Non-controlling interests	**600**	124
Total comprehensive income for the period	**(2,337)**	(1,335)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED

(Expressed in Hong Kong dollars)

	Note	At 30 June 2017 $'000	At 31 December 2016 $'000
Non-current assets			
Property, plant and equipment		**368,552**	372,125
Investment properties		**132,564**	134,923
Interests in leasehold land held for own use under operating leases		**77,308**	77,758
		578,424	584,806
Intangible assets		**4,781**	5,139
Other tangible assets		**22**	—
		583,227	589,945
Current assets			
Inventories		**43,852**	49,247
Trade and other receivables	*8*	**60,348**	57,843
Amounts due from holding companies and fellow subsidiaries		**20,896**	15,167
Amount due from a related company		**666**	1,532
Bank deposits		**43,541**	46,602
Cash and cash equivalents		**125,480**	111,117
		294,783	281,508
Current liabilities			
Trade and other payables	*9*	**(94,086)**	(88,578)
Loan from an intermediate holding company		**(51,225)**	(25,448)
Amounts due to holding companies and fellow subsidiaries		**(7,804)**	(6,990)
Amounts due to related companies		**(7,819)**	(6,130)
		(160,934)	(127,146)
Net current assets		**133,849**	154,362

CONSOLIDATED STATEMENT OF FINANCIAL POSITION — UNAUDITED *(Continued)*

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2017** **$'000**	At 31 December 2016 $'000
Total assets less current liabilities		**717,076**	744,307
Non-current liabilities			
Loan from an intermediate holding company		**(140,869)**	(165,410)
Retirement benefit liabilities		**(17,491)**	(17,844)
Deferred tax liabilities		**(2,969)**	(2,969)
		(161,329)	(186,223)
NET ASSETS		**555,747**	558,084
CAPITAL AND RESERVES			
Share capital and other statutory capital reserves		**252,524**	252,524
Other reserves		**329,750**	332,687
Total equity attributable to equity shareholders of the Company		**582,274**	585,211
Non-controlling interests		**(26,527)**	(27,127)
TOTAL EQUITY		**555,747**	558,084

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT:

(Expressed in Hong Kong dollars unless otherwise indicated)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 26 July 2017.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

The preparation of an interim financial report in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2016 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

The interim financial report is unaudited but has been reviewed by the Company's Audit Committee.

The financial information relating to the financial year ended 31 December 2016 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the financial year but is derived from those financial statements. Statutory audited financial statements for the year ended 31 December 2016 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 24 February 2017.

2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments of HKFRSs that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- Amendments to HKAS 7, *Statement of Cash Flows: Disclosure initiative*
- Amendments to HKAS 12, *Income Tax "Recognition of deferred income tax assets for unrealized losses"*

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.

Amendments to HKAS 7, Statement of Cash Flows: Disclosure initiative

The amendments require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The amendments do not prescribe a specific method to fulfil the new disclosure requirements. However, the amendments indicate that one way is to provide a reconciliation between the opening and closing balances for liabilities arising from financing activities. These new disclosures are not required in condensed interim financial statements prepared in accordance with HKAS 34.

Amendments to HKAS 12, Income Tax "Recognition of deferred income tax assets for unrealized losses"

The amendments clarify that the existence of a deductible temporary difference depends solely on a comparison of the carrying amount of an asset and its tax base at the end of the reporting period, and is not affected by possible future changes in the carrying amount or expected manner of recovery of the asset. The amendments also provide guidance on how an entity should determine future taxable profits to support the recognition of a deferred tax asset arising from a deductible temporary difference.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

3 REVENUE AND SEGMENT REPORTING

(b) Segment reporting

(i) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods ended 30 June 2017 and 2016 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2017	2016	**2017**	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**187,769**	184,634	**68,350**	74,886	**256,119**	259,520
Inter-segment revenue	**316**	152	**—**	—	**316**	152
Reportable segment revenue	**188,085**	184,786	**68,350**	74,886	**256,435**	259,672
Reportable segment (loss)/profit from operations	**(7,962)**	(6,530)	**4,866**	5,476	**(3,096)**	(1,054)

	Hong Kong		Mainland China		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2017	2016	**2017**	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Reportable segment assets	**1,171,489**	1,172,604	**90,437**	80,424	**1,261,926**	1,253,028
Reportable segment liabilities	**265,662**	261,095	**437,549**	430,880	**703,211**	691,975

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

(b) Segment reporting *(Continued)*

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

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Revenue		
Reportable segment revenue	**256,435**	259,672
Elimination of inter-segment revenue	**(316)**	(152)
Consolidated revenue	**256,119**	259,520
Loss		
Reportable segment loss from operations	**(3,096)**	(1,054)
Elimination of inter-segment profits	**—**	—
Reportable segment loss derived from Group's external customers and consolidated loss before taxation	**(3,096)**	(1,054)

	At 30 June	At 31 December
	2017	2016
	$'000	*$'000*
Assets		
Reportable segment assets	**1,261,926**	1,253,028
Elimination of inter-segment receivables	**(383,916)**	(381,575)
Consolidated total assets	**878,010**	871,453
Liabilities		
Reportable segment liabilities	**703,211**	691,975
Elimination of inter-segment payables	**(383,916)**	(381,575)
	319,295	310,400
Deferred tax liabilities	**2,969**	2,969
Consolidated total liabilities	**322,264**	313,369

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 external customers		**Specified non-current assets**	
	Six months ended 30 June		**At 30 June**	At 31 December
	2017	2016	**2017**	2016
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)	**139,864**	137,246	**558,226**	565,033
Mainland China	**30,335**	28,547	**25,001**	24,912
Philippines	**83,161**	90,778	**—**	—
Others	**2,759**	2,949	**—**	—
	116,255	122,274	**25,001**	24,912
	256,119	259,520	**583,227**	589,945

4 LOSS BEFORE TAXATION

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Loss before taxation is arrived at after charging/(crediting):		
(a) Finance costs		
Interest expense on loan from an intermediate holding company wholly repayable within five years	**3,141**	2,581
Bank charges	**65**	64
	3,206	2,645
(b) Staff costs		
Retirement costs	**6,153**	5,908
Salaries, wages and other benefits	**60,457**	57,668
	66,610	63,576
(c) Other items:		
Amortization on land lease premium	**1,256**	1,274
Depreciation		
— Property, plant and equipment	**8,155**	8,656
— Investment properties	**2,359**	2,222
Cost of inventories	**143,859**	149,014
Provision for impairment losses on trade and other receivables	**214**	200

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2017	2016
	$'000	*$'000*
Current tax — Outside Hong Kong		
— Provision for the period	—	—
Deferred tax		
— Origination and reversal of temporary differences	—	—
Income tax charge	—	—

The statutory tax rate applicable to the Company and other Hong Kong subsidiaries was 16.5% (2016: 16.5%). No provision for Hong Kong Profits Tax for the six months ended 30 June 2017 has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the period or the entities sustained losses for taxation purposes.

The statutory tax rate applicable to the subsidiaries established in the People's Republic of China ("PRC") was 25% (2016: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the entities sustained losses for taxation purposes.

6 DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2017 (2016: Nil).

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the six months ended 30 June 2017 of $4,542,000 (six months ended 30 June 2016: $611,000) and on 373,570,560 ordinary shares (at 30 June 2016: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted loss per share

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

8 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2017 *$'000*	At 31 December 2016 *$'000*
Current	**36,215**	39,055
Less than 1 month past due	**5,768**	3,100
1 to 3 months past due	**610**	1,115
More than 3 months but less than 12 months past due	**779**	927
More than 12 months past due	**831**	888
	44,203	45,085

The general credit period is payment by the end of the month following the month in which sales took place. Therefore, all the current balances above are within two months from the invoice date.

Management has a credit policy in place and the exposure to this credit risk is monitored on an ongoing basis.

The credit terms given to the customers vary and are generally based on the financial strength of the individual customer. In order to effectively manage the credit risks associated with trade debtors, credit evaluations of customers are performed periodically.

9 TRADE AND OTHER PAYABLES

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

	At 30 June 2017 *$'000*	At 31 December 2016 *$'000*
Current and less than 1 month past due	**37,393**	34,716
1 to 3 months past due	**661**	2,493
3 to 6 months past due	**90**	180
More than 6 months past due	**46**	175
	38,190	37,564

The Group's general payment terms are one to two months from the invoice date. Therefore, the current and less than 1 month past due balances above are mostly within two to three months from the invoice date.

CHAIRMAN STATEMENT

FINANCIAL RESULTS

The Group registered a consolidated loss of HK$3.1 million in the first semester of 2017, compared to the consolidated loss of HK$1.1 million in 2016. Hong Kong operations registered a loss of HK$8.0 million in the first semester of 2017 compared to a loss of HK$6.5 million in 2016, while South China operations registered a profit of HK$4.9 million in the first semester of 2017 compared to a profit of HK$5.5 million in 2016. As a result, net loss attributable to equity shareholders for 2017 was HK$4.5 million, compared to a loss of HK$0.6 million the previous year. The Group's consolidated revenues ended at HK$256.1 million, 1.3% lower than the same period in 2016. Gross profit reached HK$111.0 million, with a gross profit margin of 43.3%.

As of 30 June 2017, cash and cash equivalents and bank deposits amounted to HK$169.0 million (HK$157.7 million as of 31 December 2016). Meanwhile, total debt as of 30 June 2017 was at HK$192.1 million (HK$190.9 million as of 31 December 2016). Total net assets stood at HK$555.7 million (HK$558.1 million as of 31 December 2016), with a loan-to-equity ratio of 0.35 (31 December 2016: 0.34).

DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2017.

BUSINESS REVIEW

Hong Kong Operations

Our Hong Kong operations achieved a 2% improvement in sales volume over the same period in 2016. This was accompanied by a 3% improvement in sales revenue. Operating losses were higher by 43% as a result of increased investment on advertising and promotion in the second quarter, in preparation for the summer season when beer consumption is really high.

Our strategy of maintaining a diversified portfolio of brands that serve different market segments, meanwhile continues to provide our company many distinct advantages.

At present, the industry is seeing a shift towards premium, specialty, and craft beers, as evidenced by the expansion of this segment and the contraction of the lower priced segment. Our portfolio of premium, specialty, and craft beers did well in the first semester of 2017, registering double-digit growth compared to the same period in previous year.

In June, we entered into an agreement with Wm. Magner Limited for the exclusive distribution of cider products under the brand "Magners Irish Cider", throughout Hong Kong and Macau. This is still part of our continuing efforts to enhance our brand portfolio to cater to varying consumer needs, in as many locations as possible, and at different price points.

For the first half of the year, our specialty beer brand, San Miguel Cerveza Negra, registered a 35% volume growth over the same period in 2016.

San Mig Light, meanwhile, remained popular in both on-premise and off-premise markets in Hong Kong, registering double-digit volume and revenue growth rate. Our "Life, Best Served Light" campaign, which features Japanese model-actor Ren Ishikawa, continued to resonate well with audiences. A tactical premium promotion we initiated in the 2nd quarter also yielded very satisfactory results.

Our flagship San Miguel Pale Pilsen maintained its strong association with some of Hong Kong's most iconic festivities and events. In time for the celebration of the Chinese New Year, the brand launched a seasonal packaging design featuring the Chinese Year of the Rooster theme. This was complemented by various promotions in both on- and off-premise channels. The brand also launched a seasonal packaging design celebrating the Dragon Boat Festival and our status as exclusive sponsor of the 2017 Hong Kong Dragon Boat Carnival. Organized by the Hong Kong Tourism Board, this year's Dragon Boat Carnival — San Miguel Beerfest proved to be a huge success.

South China Operations

The performance of our South China operations likewise improved in the first half of 2017, as operating losses were reduced by 16%, owing primarily to sales volume growth in South China, and the effective management of discounts.

Sales volumes in Guangzhou San Miguel Brewery Company Limited ("GSMB") increased by 12% over the same period in the previous year. Improvement was seen across the different brand groups of San Miguel, Dragon and Guang's. This, combined with a 11% improvement in net sales revenue as a result of deliberate discount management, contributed to the double-digit rate improvement of the operating loss over 2016 levels.

To increase brand visibility and further drive home the message of "Heritage and Quality", San Miguel Pale Pilsen launched a merchandising campaign in Chinese restaurants and supermarkets. This was reinforced with market-wide promotions to fully take advantage of heightened consumer awareness.

For San Mig Light, we launched a new "Life, Best Served Light" point-of-sale campaign in night outlets and in daipaidongs. This improved consumer awareness and allowed us to maximize the halo effect of the brand communication platform used in the Asian region.

In May 2016, GSMB launched Dragon Qingchun in 500ml cans in Foshan. In January this year, we followed this up with the launch of the 330ml can variant. As a result, the brand has been very successful and has become the best-selling Dragon beer variant.

Furthermore, this achievement bolstered the equity of the Dragon brand and created excitement in the Foshan beer market. Meanwhile, Guang's Pineapple beer posted a strong double-digit sales volume growth versus the previous year.

At the other end of the price spectrum, the imported San Miguel Cerveza Negra and Red Horse Beer, which compete in the premium specialty beer segment, collectively delivered a 10% volume growth compared to the previous year.

There is still a lot to be done in our South China operations. A calculated approach of balancing sales and profitability will continue to guide our operations, moving forward.

OUTLOOK

Overall, we continue to remain optimistic about our performance for the rest of the year. We are confident that our programs will deliver positive consumer response and further improve the ways by which we bring our products to our various markets.

The management would like to thank the members of the board for their guidance, and our employees for their dedication and hard work. We extend our gratitude too, to all our consumers, customers, and business associates for their continued support and trust.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed shares during the six months ended 30 June 2017.

CORPORATE GOVERNANCE

The Company has applied the principles set out in the Corporate Governance Code and Corporate Governance Report (the "CG Code") as contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2017, save for the deviation discussed below :

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

PUBLICATION OF DETAILED INTERIM RESULTS

A detailed results announcement containing all the information required by the Listing Rules will be published on the website of The Stock Exchange of Hong Kong Limited and the Company's website (http://info.sanmiguel.com.hk) in due course.

By order of the Board
Ramon S. Ang
Chairman

Hong Kong, 26 July 2017

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. Fumiaki Ozawa 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.