**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 Limited (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.



# 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 54 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 26 April 2019, 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 63 to 66 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 are able 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 extraordinary general meeting or any adjournment thereof. Completion and return of the proxy form will not preclude you from attending and voting at the extraordinary general meeting or any adjourned meeting, should you so wish.

4 April 2019

# CONTENTS

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

| | |
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| "Altus Capital" | Altus Capital Limited, a corporation licensed to carry out 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 5 March 2019 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 2022 |
| "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 and Annual Caps contemplated under the Master Agreement,excludes Mr. Ramon S. Ang who abstained from voting at the board meeting during which such Master Agreement, Continuing Connected Transactions and Annual Caps 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 Limited, 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 |

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| "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 26 April 2019, 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 Mr. Alonzo Q. Ancheta, Dr. the Hon. Sir David K. P. Li, 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" | 29 March 2019, 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 5 March 2019 entered into between the Company and SMC in respect of the Continuing Connected Transactions for the period commencing on 1 January 2020 to 31 December 2022 |

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| "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) in the issued share capital of the Company |
| "Shareholder(s)" | holder(s) of Share(s) |
| "SMB" | San Miguel Brewery Inc., an indirect controlling Shareholder of the Company through Neptunia Corporation Limited and owned as to approximately 51% by San Miguel Food and Beverage, Inc., a subsidiary of 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., an indirect 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, *Managing Director*

*Non-executive Directors:*
Ramon S. Ang, *Chairman*
Carlos Antonio M. Berba, *Deputy Chairman*
May (Michelle) W. M. Chan
Roberto N. Huang
Fumiaki Ozawa
Kenji Uchiyama
Tomoki Yamauchi

*Independent non-executive Directors:*
Alonzo Q. Ancheta
David K. P. Li, GBM, JP (alternate: William C.M. Cheng)
Reynato S. Puno
Carmelo L. Santiago

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

4 April 2019

*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 2019. Accordingly, on 5 March 2019, 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 2022.

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

5 March 2019

### 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 2022 and its terms shall apply to the Continuing Connected Transactions for the period commencing on 1 January 2020 to 31 December 2022. 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 of the Company 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) and such price quotations shall form the 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 of the Company will decide upon the percentage of each packaging material to be sourced from each supplier (including the San Miguel Group and the Independent Third Party 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 packaging material and therefore it is generally the case that two or more suppliers will be selected to supply a specified percentage of each individual packaging material for the specified period.

The Logistics Department of the Company will present a report on the packaging materials to be purchased from the San Miguel Group and other Independent Third Party 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 of the Company obtains less than two price quotations from Independent Third Parties, it will have to explain why it is unable to obtain more price quotations from Independent Third Parties.

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 of the Company 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), 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 of the Company will obtain the prices and other terms of beer products purchased by the Group from other Independent Third Party 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 Third Party 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 of the Company 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 Third Party suppliers.

The Logistics Department of the Company 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 of the Company 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 Third Party customers which were comparable to the 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, an indirect controlling Shareholder of the Company through Neptunia Corporation Limited ("**Neptunia**"), and owned as to approximately 51% by San Miguel Food and Beverage, Inc. ("**SMFB**"), a subsidiary of 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 2018, sales to countries outside Hong Kong and mainland China amounted to approximately HK$213,399,000 (representing approximately 37% of the total revenue of the Group for the financial year ended 31 December 2018) of which approximately HK$205,749,000 (representing approximately 35% of the total revenue of the Group for the financial year ended 31 December 2018) was attributable to the sales of the Group's packaged beer and non-alcoholic beverage products 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 2018; (ii) the existing annual cap of the Continuing Connected Transactions for the year ending 31 December 2019; and (iii) the proposed Annual Caps under the Master Agreement for the three years ending 31 December 2022:

| | Year ended 31 December 2017 | | | Year ended 31 December 2018 | | | For the month ended 28 February 2019 | Year ending 31 December 2019 | Annual Caps for the three years ending 31 December 2022 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 | 2020 | 2021 | 2022 |
| | *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 | 5,690 | 36,000 | 15.8% | 2,935 | 41,000 | 7.2% | 618 | 46,000 | 39,000 | 42,000 | 45,000 |
| Purchase of packaged beer by the Group from the San Miguel Group | 1,828 | 5,700 | 32.1% | 1,997 | 6,400 | 31.2% | 119 | 7,200 | 3,100 | 3,700 | 4,400 |
| 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 | 199,787 | 258,000 | 77.4% | 205,749 | 296,000 | 69.5% | 25,206 | 370,000 | 285,000 | 336,000 | 395,000 |

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 2013 to 2018, 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 31% and 85% 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 because the packaging materials produced by the San Miguel Group were no longer suitable for the packaging of the Group's products following the change in the Group's relevant production line in 2015. At the same time, the Group underwent an upgrade of its assembly line before it can resumed its purchase of packaging materials from the San Miguel Group in 2017. During the year, the Group will also adjusts the purchase allocation between the San Miguel Group and the Independent Third Party suppliers by considering various factors e.g. price offered, quality of the packaging materials.

In addition, since the Group resumed its purchase of packaging materials from the San Miguel Group in 2017, the San Miguel Group has been undertaking readjustment to its workflow to address certain requirements of the Group on some major packaging materials, which contributed to the low utilization rate of annual caps for the purchase of packaging materials in the year ended 31 December 2017 and 2018. These readjustments require a continued discussion between the Group and the San Miguel Group. The workflow readjustment has been on-going, and targeted to be completed within the year ending 31 December 2019. Based on the current situation and the target completion date of the workflow readjustment, the Group assumed that the abovementioned packaging materials from the San Miguel Group will meet the standard requirement of the Group from 2020 onwards and hence 70% of the relevant packaging materials required was allocated to the San Miguel Group for the years ending 31 December 2020, 2021 and 2022.

Besides the major packaging materials mentioned on the above, the Group also conservatively allocate 50% of the other packaging materials to the San Miguel Group after considering the price and quality of those packaging materials supplied by the San Miguel Group and the Independent Third Suppliers.

As a result, the Group considered that the proposed Annual Caps in relation to the purchase of packaging materials for the years ending 31 December 2020, 2021 and 2022 are fair and reasonable.

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 2017 and 2018, 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.

Although the actual transactions amount for 2019 was not available when the budget for 2019 was prepared, the Company has sufficient historical data to determine the Annual Caps accordingly given that (i) the budget with respect to each type of Continuing Connected Transactions of the Group for the year ending 31December 2019 was set with reference to historical data (such a s composition of the cost of sales) including those for the year ended 31 December 2017 and 2018; (ii) the Company has been doing this business in Hong Kong for over 55 years; and (iii) the Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 10 years.

Besides making reference to the historical data, the Group refered to the latest performance of its products, market trend as well as the formulated strategies and programs in assuming the annual growth rate when determining the Annual Caps for the years 2020, 2021 and 2022. From 2014 to 2018, San Mig Light continued to register double-digit volume and revenue growth across all channels in Hong Kong. At the same time, the Group had formulated strategies and programs to increase market share through higher focus on the San Miguel brand e.g. increasing the breadth and depth of our distribution by working closely with wholesalers and direct customers. Also, in 2018 the premium segment of our portfolio enabled the Company to benefit from the shift from home consumption to various on-premise outlets. This change in preference has led to product trials and the growth of our higher priced San Miguel specialty brands, Cerveza Negra. The Group considered these factors and assumed conservative growth rate accordingly in the respective Annual Caps.

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 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 an extraordinary 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 of the Company for administrative efficiency.

**Procedures for determining the Annual Caps**

The Company sets the Annual Caps for the years 2020 to 2022 based on the projected transaction amounts of the Continuing Connected Transactions for the year ending 31 December 2019, 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 2019 with respect to the purchase of packaging materials in the third quarter of 2018 in consultation with the San Miguel Group principally with reference to: (1) the total historical purchase volumes of packaging materials up to the end of the first half of 2018; (2) the total forecasted purchase volumes of packaging materials for the second half of 2018; (3) the expected growth in such purchase volumes in 2019; (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 2018 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 2020 to 2022. 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 2019 onwards:

(i) the more competitive prices offered by Independent Third Party 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 Third Party suppliers to the Group became 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 2019 onwards in the determination of the Annual Caps;

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

(iii) 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 | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| PRC year-on-year consumer price inflation rate | 2.3% | 2.3% | 2.2% | 2.3% |
| Philippines year-on-year consumer price rate | 5.0% | 4.0% | 4.0% | 4.0% |

**Purchase of packaged beer**

The Company prepared a budget for year 2019 with respect to the purchase of packaged beer in the third quarter of 2018 in consultation with the San Miguel Group principally with reference to (1) the total historical purchase volumes of packaged beer up to the end of the first half of 2018; (2) the total forecasted purchase volumes of packaged beer for the second half of 2018; (3) the expected growth in such purchase volumes in 2019; (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 2018 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 2020 to 2022. In addition to the budget for year 2019, 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 15% after the Group has considered the historical sales volume and the target business plan;

(ii) 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 | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| US$:HK$ exchange rate (1US$: HK$) | 7.824 | 7.800 | 7.783 | 7.775 |
| Philippines year-on-year consumer price rate | 5.0% | 4.0% | 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 2019 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 2018 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 2019, 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 2020 to 2022. In addition to the budget for year 2019, 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** | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| HK$:RMB exchange rate (1RMB: HK$) | 1.19 | 1.21 | 1.22 | 1.23 |
| US$:HK$ exchange rate (1US$: HK$) | 7.824 | 7.800 | 7.783 | 7.775 |
| 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 | 2.3% | 2.3% | 2.2% | 2.3% |
| Philippines year-on-year consumer price rate | 5.0% | 4.0% | 4.0% | 4.0% |

When determining 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 major factor is the indication on the demand of the Group's product from the San Miguel Group. During the period from 2013 to 2018, the average utilization rates of the respective annual caps were approximately 85%. Hence, the Group considered the indication from the San Miguel Group is the appropriate and reliable data in determining the Annual Caps for the years ending 31 December 2020, 2021 and 2022. For the year-on-year growth rate from 2020 to 2022, the Group conservatively assumed a 15% growth in the sales volume of the relevant products based on the historical growth rate in export sales (approximately 11% from 2011 to 2018). At the same time the Group also considered the year-on-year consumer price inflation in Hong Kong and a conservative 5% annual increase in labour cost.

Although the annualised utilisation rate of the annual cap relating to the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group demonstrated a slight decrease for the two months ended 28 February 2019, the export sales performance is subject to the ordering pattern of the San Miguel Group and seasonal factors which could lead to fluctuations in sales volume throughout the year. According to the Group's experience, demand on the Group's product is relatively stronger in the middle of the year and at the year end. Hence, no big deviation is expected in the overall annual utilization of the respective Annual Caps for the years ending 31 December 2020, 2021 and 2022.

Even though the Company does not have the actual latest financial information for year 2019, the Company has been doing this business in Hong Kong for over 55 years. The Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 10 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 2019 and has been using the historical purchase volumes of packaging materials in 2017 and 2018 as one of the factors to forecast the volume of packaging materials which the Group expects to purchase from the San Miguel Group in 2019. 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 the annual cap utilization is presented to the Board quarterly and to the Audit Committee of the Company semi-annually 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 26 April 2019, 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 63 to 66 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 Mr. Alonzo Q. Ancheta, Dr. the Hon. Sir David K. P. Li, 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 the Master Agreement, the Continuing Connected Transactions and the Cap (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 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 55 to 60 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 60 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 books and register of members of the Company will be closed from 23 April 2019, Tuesday, to 26 April 2019, Friday, both days inclusive. To qualify for attending the EGM of the Company to be held on 26 April 2019, 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 18 April 2019, Thursday.

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 the 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. 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, real estate, fuel and oil, infrastructure, energy 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 54 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 63 to 66 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 the ordinary resolutions relating to the Master Agreement, the Continuing Connected Transactions and the Annual Caps 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)**

4 April 2019

*To: the Independent Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 4 April 2019 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 resolutions relating to the Master Agreement, the Continuing Connected Transactions and the Annual Caps 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,

| | | | |
|---|---|---|---|
| **Mr. Alonzo Q. Ancheta** | **Dr. the Hon. Sir David K. P. Li** | **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

4 April 2019

*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 4 April 2019 (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 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 2019. Accordingly, the Company and SMC entered into the Master Agreement on 5 March 2019 to renew the annual caps in respect of the Continuing Connected Transactions for the three years ending 31 December 2022.

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 as at the Latest Practicable Date, will abstain from voting at the EGM.

**THE INDEPENDENT BOARD COMMITTEE**

An Independent Board Committee comprising Mr. Alonzo Q. Ancheta, Dr. the Hon. Sir David K. P. Li, Mr. Reynato S. Puno and Mr. Carmelo L. Santiago has been established to advise 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.

**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.

We have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years prior to the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Continuing Connected Transactions is at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling Shareholder(s) or connected person(s).

**BASIS OF OUR ADVICE**

In formulating our opinion, we have reviewed, amongst others, (i) the Master Agreement; (ii) the Company's annual report for the year ended 31 December 2017 (the "**2017 Annual Report**"); (iii) the Company's announcement of results for the year ended 31 December 2018 (the "**2018 Annual Results Announcement**") published on 5 March 2019; and (iv) other information as set out in the Circular.

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

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 part), the Philippines and other locations such as Macau.

***1.2 Financial results of the Group***

Set out below is a summary of the operating results of the Group for the year ended 31 December 2017 and 2018 as extracted from the 2017 Annual Report and the 2018 Annual Results Announcement.

| | **For the year ended 31 December** | |
|---|---|---|
| | **2017** | **2018** |
| | *HK$'000* | *HK$'000* |
| | *(audited)* | *(unaudited)* |
| Revenue | 565,785 | 584,609 |
| Cost of sales | (314,210) | (330,670) |
| Gross profit | 251,575 | 253,939 |
| Selling and distribution expenses | (184,772) | (189,968) |
| Profit/(Loss) for the year | 15,219 | (74,088) |

*Source: 2017 Annual Report and 2018 Annual Results Announcement*

*Year ended 31 December 2018 vs year ended 31 December 2017*

Revenue of the Group increased from approximately HK$565.8 million for the year ended 31 December 2017 to approximately HK$584.6 million for the year ended 31 December 2018, representing a year-on-year increase of approximately 3.3%. Such increase was mainly due to an approximately 12.8% increase in revenue generated by the Mainland China operations, which is slightly offset by an approximately 0.9% decrease in revenue generated by the Hong Kong operations. Revenue generated from external customers locating in Mainland China, the Philippines and others increased by approximately 11.0% from approximately HK$277.5 million for the year ended 31 December 2017 to approximately HK$308.0 million for the year ended 31 December 2018. The decline in revenue generated from the Hong Kong operations is primarily due to a decline in off-premise channel consumption in the Hong Kong domestic market.

Despite an approximately 5.3% increase in cost of sales from HK$314.2 million for the year ended 31 December 2017 to HK$330.7 million for the year ended 31 December 2018, the Group's gross profit margin for the year ended 31 December 2017 and 2018 remained stable at approximately 44.5% and 43.4%, respectively.

During the year ended 31 December 2018, due to the fierce brewery market competition in Hong Kong, the Hong Kong brewery operations under-performed. The recoverable amount of the property, plant and equipment of the Hong Kong brewery operations was assessed and estimated to be lower than its carrying amount. As a result of an impairment loss of the Group's Hong Kong operations of HK$80.0 million for the year ended 31 December 2018, the Group had recorded a net loss of approximately HK$74.1 million for the year ended 31 December 2018 as opposed to a net profit of approximately HK$15.2 million in the previous year. Excluding the aforesaid impairment loss, the Group's profit would have been HK$5.9 million for the year 31 December 2018.

### *1.3 Prospects of the Group*

In the Hong Kong market, the Group intends to (i) improve profitability and work to increase its market share through higher focus on the San Miguel brand; and (ii) increase the breadth and depth of its distribution by working closely with wholesalers and direct customers.

For its business strategy in the PRC, the Group intends to (i) build on the current momentum of sales volume and profitability by further developing both its dealer and wholesaler networks in all of its markets; (ii) strengthen the brand equity of San Miguel and Dragon brands; (iii) enhance the productivity of its sales force; and (iv) maintain its export business in order to improve margins and rationalise costs.

Together with the growth and cost management strategies already in place that provide a foundation for better profitability, the Group strives to ensure that its beer brands remain relevant to consumers and customers.

**2. Background information of SMB and SMC**

SMB is owned as to approximately 51% by SMC and is also an indirect controlling Shareholder of the Company. 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.

SMC is an indirect controlling Shareholder of the Company. It is a company listed on The Philippine Stock Exchange, Inc. and is one of the Philippines' most diversified conglomerates with operations in beverages, food, packaging, real estate, fuel and oil, infrastructure, energy and banking.

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

For over 10 years, the Company and SMC 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 beverage products to the San Miguel Group.

On 4 February 2016, the Company and SMC 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 the Group and the San Miguel Group. Since the existing annual caps under the Previous Master Agreement for the Continuing Connected Transactions will expire on 31 December 2019, the Company and SMC entered into the Master Agreement on 5 March 2019 with a view to carrying out the Continuing Connected Transactions from 1 January 2020 to 31 December 2022.

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

(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.

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 annual caps for the year ended 31 December 2017 and 2018 and the year ending 31 December 2019 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.

As explained in the paragraph headed "4.1 The approved annual caps and the historical transaction amounts under the Previous Master Agreement" below, the cost allocation between the Group and San Miguel Group was readjusted for certain packaging materials due to their quality and the pricing offered. Hence, a lower utilisation rate of the annual cap for the purchase of packaging materials for the year ended 31 December 2018 and the two months ended 28 February 2019 (annualised) 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 each of the year ended 31 December 2017 and 2018 (as described in paragraph 4.1 below), we believe the basis and methodology used to determine the respective annual caps for the year ended 31 December 2017 and 2018 and the year ending 31 December 2019 were fair and reasonable.

As described in the paragraph headed "1.2 Financial results of the Group" above, the Group has defined its objectives for 2019 and the near future with a focus to improve profitability and margins. 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 2019 in the third quarter of 2018. Details of the procedures for determining the Annual Caps for each of the year ending 31 December 2020, 2021 and 2022 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 2020, 2021 and 2022 are also determined with reference to, amongst others:

(i) the budget of the Group for the year ending 31 December 2019 as mentioned above;

(ii) the historical data including those for the year ended 31 December 2017 and 2018; and

(iii) the price quotations of packaging materials and packaged beer (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) we are of the view that the basis and methodology used to determine the Annual Caps, which have been consistently applied for since 2010, are fair and reasonable. According to the Management and we noted the budget prepared by the Company for the year ended 31 December 2018 was similar to the actual results for the year ended 31 December 2018. 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 2019, the Management has already established historical data comprising the cost of sales. Also in the course of preparing the budget for the year ending 31 December 2019, the Management has already taken into account (i) the historical data for the transactions between the Group and the San Miguel Group; (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.

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.*

(ii) According to the Group's internal procurement policy which governs ordinary business transactions such as these:

Suppliers' quotations are 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 suppliers, (the "**Period Quotation(s)**") between the suppliers and the Group.

The logistics department of the Group (the "**Logistics Department**"), which is responsible for implementing the pricing policy and the procurement policy of the Group, will obtain the Period Quotations of packaging materials from the San Miguel Group and at least two Independent Third Party suppliers which provide products comparable to the packaging material 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. 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 specified percentage of each individual product for the specified period.

The Group only obtains price quotations from approved suppliers of the Group, that is, suppliers whose supply of goods meet the stringent quality requirements of the Group and have passed the quality checks performed by the quality assurance department of the Group (the "**Quality Assurance Department**"). 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 obtains 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 Third Party 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 (the "**Managing Director**") for approval annually. If the Logistics Department obtains less than two independent price quotations, it will have to explain the reason. 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.

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 each of the four packaging material products purchased from the San Miguel Group for the year ended 31 December 2017 and 2018, respectively, the Company has provided us with (i) its Period Quotations from the relevant members of the San Miguel Group; (ii) its Period Quotations from the comparable Independent Third Party suppliers; (iii) the Company's internal analysis on the number of each individual packaging material product to be purchased from each supplier; and (iv) the purchasing invoices of the corresponding transactions from the relevant members of the San Miguel Group. The selection method employed by Altus Capital was to select (i) the two packaging material products which incurred the largest amount of costs under the Previous Master Agreement; and (ii) the other two packaging material products which were randomly selected, for the year ended 31 December 2017 and 2018, respectively.

Following this review exercise we noted that:

(i) for every product and corresponding year requested, the Company was able to provide the Period Quotations from the San Miguel Group and at least one other Independent Third Party supplier. In the event that the Company could only provide the Period Quotations from one other Independent Third Party supplier, then such supplier was the sole supplier of the Group with quality that met the requirement of the Group. Therefore, we are of the view that in this respect the internal procurement policy of the Group had been fully and responsibly adhered to;

(ii) the purchasing 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 Third Party suppliers; and

(iii) for circumstances in which the Group failed to provide Period Quotations and purchasing invoices from Independent Third Party suppliers, we have reviewed the target profit margin of the corresponding products which is proven to be no less than the average profit margins of the other beer products distributed by the Group.

In view of our observations noted above, in particular, the purchasing invoices and Period Quotations which support the internal procurement policy, major terms, and pricing policy of the Previous Master Agreement have been responsibly adhered to during the past two years ended 31 December 2018, 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 has 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 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 long and strong working relationship with the San Miguel Group, with the transactions entered into between the two parties dating back over 10 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.*

(ii) According to the Group's internal procurement policy which governs ordinary business transactions such as these:

The Logistics Department will obtain price quotations from other Independent Third Party suppliers of imported beer products purchased by the Group 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 prices offered to the Group of certain imported beer products recently distributed by the Group. When determining whether the price quotations of packaged beer 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 Third Party 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 of the Group (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 Third Party suppliers.

The Logistics Department will then 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.

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, for each of the four packaged beer products purchased from the San Miguel Group for the year ended 31 December 2017 and 2018, respectively, the Company has provided us with (i) its Period Quotations from the San Miguel Group; (ii) comparable price references from Independent Third Party suppliers in the market; and (iii) purchasing invoices from the San Miguel Group. The selection method employed by Altus Capital was (i) to select the two packaged beer products which incurred the largest amount of costs under the Previous Master Agreement; and (ii) the other two packaged beer products which were randomly selected, for the year ended 31 December 2017 and 2018, respectively.

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 workings on profit margin generated from sales of the abovementioned four packaged beer products which was generally no less than the average profit margins of the other beer products manufactured and sold locally by the Group that are comparable.

Following this review exercise we noted that:

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

(ii) the purchasing 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 Shareholders than those offered by Independent Third Party suppliers;

(iii) although the comparison of pricing of different brands of beer products in the Company's database of prices is of limited use because the beer products are not entirely comparable, we noted that the actual unit price of the packaged beer products offered by the San Miguel Group to the Group was comparable to, or no less favourable to the Group than, the actual unit price of comparable beer products offered by Individual Third Party suppliers in the market;

(iv) the profit 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 no less favourable than the average profit margin generated from other comparable beer products sold or manufactured by the Group; and

(v) for circumstances in which the profit margin generated from the sales of packaged beer products sourced from the San Miguel Group results in a lower target profit margin compared to the average profit margins of other comparable beer products sold by the Group, the Management confirmed with us the Company's strategy in penetrating such products into the Hong Kong market at a higher discount.

In view of our observations noted above, in particular, the purchasing invoices and Period Quotations which support the internal policy, major terms and pricing policy of the Previous Master Agreement had been responsibly adhered to during the past two years ended 31 December 2018, 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 has 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 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 long and strong working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over 10 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.

***3.3 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,*

*(a) 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.*

*(b) 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.*

(ii) According to the Group's internal policy which governs the export sales such as these:

In order to determine the pricing of the Group's export sales to the San Miguel Group, the estimated total costs for the production and distribution of each product is calculated and a fixed margin is then added on top of such costs. The estimation of such costs is done primarily with reference to, amongst other things (i) the Period Quotations obtained from suppliers for materials; (ii) the estimated labour hours required for production of the products; (iii) the estimated distribution costs (including estimated inflation); (iv) the market rate of utilities; and (v) the historical price trend. A consolidated price list is then provided to the San Miguel Group and agreed upon following negotiations (the "**Consolidated Price List**").

The Finance Department 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. The profit margins of the relevant products are consistent with and in line with the historical margin earned by the Group. 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 Third Party 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.

In relation to the above, the Company has provided for each of the four packaged beer and non-alcoholic beverage products sold to the San Miguel Group over the two years ended 31 December 2018, respectively (i) the calculation basis of its estimated cost and profit margin; (ii) the Consolidated Price List; and (iii) the invoices issued to the San Miguel Group. The selection method employed by Altus Capital was to select (i) the two products which generated the largest amount of revenue for the Group under the Previous Master Agreement; and (ii) the other two products which were randomly selected for the year ended 31 December 2017 and 2018, respectively. Furthermore, we compared (i) the sales and purchase agreement entered into between the Group and the San Miguel Group; and (ii) the distributorship agreement entered between the Group and Individual Third Party customer, for the year ended 31 December 2018.

In addition to the above, we compared the profit margin generated from the abovementioned four export sales of packaged beer and non-alcoholic beverage products with the average profit margins generated from export sales of the Group.

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 Group Policy had been responsibly adhered to;

(ii) the rationale of the calculation basis for each of the estimated cost items 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) added onto the estimated cost in the determination of prices 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 regardless of the potential fluctuations on costs incurred onto 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 in 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 Independent Third Party customers;

(vii) the invoices showed that transactions had been carried out in accordance with the quotations and Consolidated Price List provided to the San Miguel Group; and

(viii) the profit margin (taking into account the payroll expenses needed in local sales orders) generated by the Group from its export sales of packaged beer and non-alcoholic products to the San Miguel Group for the two years ended 31 December 2018 was comparable to the average profit margin generated from comparable products sold by the Group during the same period.

In view of our observations noted above, in particular, the purchasing invoices in Consolidated Price List which support the major terms and pricing policy of the Previous Master Agreement had been responsibly adhered to during the past two years ended 31 December 2018, 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 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 the PRC and Hong Kong overseas to widen its income source. Since the Group does not have an international sales force outside 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, through the San Miguel Group, to certain export markets. Such arrangement not only allows significant revenue to be generated without the requirement for high marketing and advertising costs and labour 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 2018 Annual Results Announcement, sales to countries outside Hong Kong and mainland China amounted to approximately HK$213.4 million (representing approximately 36.5% of the total revenue of the Group for the year ended 31 December 2018) of which approximately HK$205.8 million (representing approximately 35.2% of the total revenue of the Group and approximately 96.4% of the sales to countries outside Hong Kong and mainland China for the year ended 31 December 2018) 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 long and strong working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over 10 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.

### *3.4 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 2018 and from 1 January to 28 February 2019 (the latest available data in the management accounts of the Group):

| | For the year ended 31 December | | | | | | For the two months ended 28 February | For the year ending 31 December | |
|---|---|---|---|---|---|---|---|---|---|
| | 2017 | | | 2018 | | | 2019 | 2019 | |
| | **Actual amount** | **Cap amount** | **Utilisation rate** | **Actual amount** | **Cap amount** | **Utilisation rate** | **Actual amount** | **Cap amount** | **Utilisation rate (Annualised)** |
| | *HK$ million (audited)* | *HK$ million* | *%* | *HK$ million (audited)* | *HK$ million* | *%* | *HK$ million (unaudited)* | *HK$ million* | *%* |
| Purchase of packaging materials from the San Miguel Group | 5.7 | 36.0 | 15.8 | 2.9 | 41.0 | 7.1 | 0.6 | 46.0 | 7.8 |
| Purchase of packaged beer from the San Miguel Group | 1.8 | 5.7 | 31.6 | 2.0 | 6.4 | 31.3 | 0.1 | 7.2 | 8.3 |
| Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group | 199.8 | 258.0 | 77.4 | 205.7 | 296.0 | 69.5 | 25.2 | 370.0 | 40.9 |

For the year ended 31 December 2017 and 2018, the utilisation rates of the annual caps under the Previous Master Agreement ranged in general from approximately 31.3% to 77.4%, with the exception of the annual caps relating to the purchase of packaging materials from San Miguel Group. The 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 section above headed “1.2 Financial results of the Group” in this letter.

*4.1.1 Purchase of packaging materials from the San Miguel Group*

The utilisation rate of the annual cap relating to the purchase of packaging materials from the San Miguel Group decreased from approximately 15.8% for the year ended 31 December 2017 to approximately 7.1% for the year ended 31 December 2018. The utilisation rate leveled off to approximately 7.8% (annualised) for the year ending 31 December 2019. As a result of the change in relevant production line of the San Miguel Group in 2015, some of the packaging materials produced by the San Miguel Group were no longer suitable for the packaging of the Group’s products which leads to a decrease in total amount of packaging materials purchased from the San Miguel Group. The Group resumed purchase from the San Miguel Group in March 2017 following the completion of the upgrade of its assembly line, which leads to an increase in utilisation rate for the year ended 31 December 2017. After discussion with the Management, we note that the relatively low utilisation rate for the year ended 31 December 2018 and the two months ended 28 February 2019 (annualised) was mainly because the Group adjusted the cost allocation between the San Miguel Group and the Independent Third Party suppliers by considering various factors, amongst others, price offered and quality of the packaging materials. Therefore, a lower utilisation rates of the annual cap for the purchase of packaging materials for the year ended 31 December 2018 and the two months ended 28 February 2019 (annualised) were recorded.

*4.1.2 Purchase of packaged beer from the San Miguel Group*

The utilisation rate of the annual cap relating to the purchase of packaged beer from the San Miguel Group decreased from approximately 31.3% for the year ended 31 December 2018 to approximately 8.3% (annualised) for the year ending 31 December 2019. The dip in the utilisation rate was mainly attributable to the fact that the Group is able to produce certain packaged beer products locally and no longer needs to import them from the San Miguel Group.

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

The annualised utilisation rate of the annual cap relating to the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group demonstrated a slight decrease for the two months ended 28 February 2019. We understand from the Management that the export sales performance is subject to seasonal factors and the sales volume fluctuates throughout the year. The Management is of the view that the budget of export sales was set based on the indication provided by the San Miguel Group. A big deviation from the budget at the end of the year is unlikely to happen.

Notwithstanding the actual transactions amount for the year ending 31 December 2019 was not available when determining the Annul Caps, 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 three years ending 31 December 2022; (ii) there are historical data (such as the composition of cost of sales and the breakdown sales of various products) including those for the year ended 31 December 2017 and 2018; (iii) the Company has been doing this business in Hong Kong for over 55 years; and (iv) the Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 10 years, the Company has sufficient historical data to make reasonable assumptions on the budget. Accordingly, the Management is of the view and we concur that the proposed Annual Caps have been arrived at with reasonable and justifiable basis.

***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 | | |
|---|---|---|---|
| | **2020** | **2021** | **2022** |
| | *HK$ million* | *HK$ million* | *HK$ million* |
| **Purchase of packaging materials from the San Miguel Group** | 39.0 | 42.0 | 45.0 |
| Year-on-year percentage of change | | +7.69% | +7.14% |
| **Purchase of packaged beer from the San Miguel Group** | 3.1 | 3.7 | 4.4 |
| Year-on-year percentage of change | | +19.35% | +18.92% |
| **Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group** | 285.0 | 336.0 | 395.0 |
| Year-on-year percentage of change | | +17.89% | +17.56% |

*4.2.1 Purchase of packaging materials from the San Miguel Group*

The Annual Cap 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 beverage products were projected for each of the three years ending 31 December 2020, 2021 and 2022

A projection on the sales volume for the year ending 31 December 2019 was prepared based on the historical sales figures and actual sale figures of the Group for the two months ended 28 February 2019. In projecting the sales figures for the three years ending 31 December 2022, the Group applied an estimated year-on-year growth rate on the projected sales volume for the year ending 31 December 2019 of various beverage products by reference to a number of factors, including (i) the historical transaction amounts of the beverage products; (ii) various business strategies to be implemented by the Group, as mentioned above in the paragraph headed "1.2 Financial results of the Group" of this letter; (iii) the Management's expectation on the future demand in the Group's products; and (iv) the indications of the demand in Group's products as communicated between the Group and the SMB.

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

The amount of each type of packaging materials required for the projected sales figures was calculated by taking into account different conversion factors which convert HL[1] that is used as the measuring unit in the sales figures projection to the number of cases and pieces of packaging materials required.

We have compared the Group's actual demand for the year ended 31 December 2017 and the year ended 31 December 2018, we note that the conversion factors taken into account for the estimation of the amount of packaging materials required have been consistently applied over the years.

[1] *Refers to hecto-liter, a unit of capacity equal to 100 liters*

(iii) The HK$ price per unit of each packaging material was estimated for each of the year ending 31 December 2020, 2021 and 2022

The Group obtained the 2019 Period Quotations from the San Miguel Group for the packaging material required. The price per unit of each packaging material for 2019 quoted from the San Miguel Group was then multiplied by a projected year-on-year consumer price inflation in Hong Kong (since these transactions are carried in HK$). For more details on the price inflation assumptions, please refer to the paragraph headed "4.2.4 Other assumptions".

(iv) The estimated percentage allocation of total packaging material required to the San Miguel Group for each of the year ending 31 December 2020, 2021 and 2022

An estimated percentage of the total packaging material required was allocated to the San Miguel Group based on (i) the production capacity of other Independent Third Party suppliers; (ii) the price of the packaging materials offered by other Independent Third Party suppliers and the San Miguel Group; and (iii) the availability of the packaging materials from the San Miguel Group.

(v) The total projected cost of these transactions for the year ending 31 December 2020, 2021 and 2022 were calculated

The total cost of transactions for each packaging material purchased from the San Miguel Group was calculated using the projected required amount of packaging materials calculated in (ii) above, the projected HK$ price per unit calculated in (iii) above and the estimated percentage allocation of the purchase amount of the packaging materials to the San Miguel Group as set out in (iv) above. 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 increase in projected demand. We believe that given there are many outside variables in determining the proposed Annual Caps (e.g. Independent Third Party suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

The San Miguel Group is undertaking readjustment to its workflow to address certain requirements of the Group. Given that these readjustments require a continued discussion between the Group and the San Miguel Group, such process may or may not be completed by 2019. However, the Group cannot afford to put the purchase of packaging materials from the San Miguel Group transactions on hold until a revised Annual Cap is approved by Independent Shareholders in view of the practical needs of the Group for its operations. The Annual Cap that assumes the availability of the relevant packaging materials from the San Miguel Group will provide the Group with the flexibility to place purchase orders as and when needed by the Group for its operations. Since the Annual Cap is a mean by which the amount of packaging materials to be purchased is monitored but not a commitment to purchase to be made by the Group and that the readjustment is targeted to be completed within the year ending 31 December 2019, we consider the proposed Annual Cap in relation to the purchase of packaging materials, assuming the availability of the packaging materials from the San Miguel Group, fair and reasonable. Assuming that the abovementioned packaging materials from the San Miguel Group will meet the standard requirement of the Group, 70% of the relevant packaging materials required was allocated to the San Miguel Group which accounts for approximately 64.4%, 63.2% and 62.2% of the proposed Annual Cap in relation to the purchase of packaging materials from the San Miguel Group for the year ending 31 December 2020, 2021 and 2022, respectively.

We also note that as a result of the quality issue above, the Period Quotations of the relevant packaging materials from the San Miguel Group for 2019 is not available. The Company assumed the weighted average unit price obtained from other Independent Third Party suppliers selling the concerned packaging materials in 2019 to be the most relevant data for the projection of the unit price of the concerned packaging materials sold by the San Miguel Group for the year ending 31 December 2019, by conservatively allocating a higher weight to the Independent Third Party supplier quoting the highest price.

We note that the Annual Cap for the year ending 31 December 2020 is approximately 13 times larger than the actual amount utilised for the year ended 31 December 2018. The projected sales figure for the year ending 31 December 2020, having considered a reasonable and moderate growth expectation by the Management, has a 15.3% increase as compared to the actual sales for the year ended 31 December 2018 which results in a 15.8% increase in the required total packaging materials for the Group for the year ending 31 December 2020.

Set out below is a table illustrating the percentage cost allocation to the San Miguel Group in 2018 and 2020 and the percentage of the Annual Cap in relation to the purchase of packaging materials for each of the year ending 31 December 2020, 2021 and 2022.

| | **% cost allocation to the San Miguel Group in** | | **% of the Annual Cap in relation to the purchase of packaging materials for the year ending 31 December** | | |
|---|---|---|---|---|---|
| Packaging materials | 2018 | 2020 | 2020 | 2021 | 2022 |
| Material Group 1 | 0% | 70% | 64.4% | 63.2% | 62.2% |
| Material Group 2 | 0% | 50% | 3.8% | 3.7% | 6.2% |
| Material Group 3 | 20.3% | 50% | 21.2% | 22.2% | 23.3% |
| Material Group 4 | 70.9% | 50% | 1.2% | 1.1% | 1.1% |

Due to the competitive pricing that the San Miguel Group is able to offer and the expected resumption in production of the purchasing materials by the San Miguel Group, 70% of the cost of certain purchasing materials (the "**Material Group 1**") was allocated to the San Miguel Group as compared to 0% for the Material Group 1 purchased in the year ended 31 December 2018 representing approximately 64.4%, 63.2% and 62.2% of the Annual Cap in relation to the purchase of packaging materials for the year ending 31 December 2020, 2021 and 2022, respectively. Furthermore, due to the limited capacity of the Independent Third Party suppliers, 50% of the cost of certain purchasing materials (the "**Material Group 2**" and "**Material Group 3**") was allocated to the San Miguel Group as compared to 0% for the Material Group 2 and approximately 20.3% for the Material Group 3 purchased in the year ended 31 December 2018 together representing approximately for 25.0%, 25.9% and 29.5% of the Annual Cap in relation to the purchase of packaging materials for the year ending 31 December 2020, 2021 and 2022, respectively. Given that (i) the projected sales figure is based on the actual historical sales with a reasonable assumption; (ii) the percentage allocation of each of the purchasing material to the potential suppliers is reasonably justified by the Management; and (iii) putting a buffer on the Annual Cap has been a usual business practice due to the business nature of the Company, we are of the view that the Annual Cap in relation to the purchase of packaging materials are fair and justifiable.

We noted the proposed Annual Caps in respect of the purchase of packaging materials for the three years ending 31 December 2022 has a year-on-year percentage growth of approximately 7.69% and 7.14%, respectively. According to the Management, a constant increase in demand of our Group's beverage, in particular overseas is expected which leads to a year-on-year percentage growth for the packaging materials required of 4.3% and 4.4% for the year ending 31 December 2021 and 2022, respectively. Furthermore, the Group assumed a year-on-year increase in packaging materials cost allocation to the San Miguel Group for the three years ending 31 December 2022 due to the limited production capacity of certain Individual Third Party suppliers of the Group's profile. The Management also foresees that the can manufacturing market in the PRC will become decreasingly active after it started shrinking since the end of 2018. In addition to the above, there is an uncertainty in the Renminbi value due to the trade war between China and USA. By increasing the packaging materials cost allocation to the San Miguel Group, the availability of such packaging materials offered by the Independent Third Party suppliers locating in the PRC will be subject to a lower level of uncertainty. Moreover, a year-on-year consumer price inflation of approximately 4.3% and 4.4% for the year ending 31 December 2020 and 2022, respectively, are taken into account when calculating the estimated unit price of the packaging material. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Cap in respect of the purchase of packaging materials from the San Miguel Group has also been fairly and reasonably arrived at.

*4.2.2 Purchase of packaged beer from the San Miguel Group*

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

(i) Demand for the packaged beer by the Group was projected for each of the year ending 31 December 2020, 2021 and 2022

The 2019 projected demand in the volume of packaged beer was made with 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. After the 2019 projected demand was determined, a projected rate of year-on-year percentage growth in demand of the packaged beer was applied. This rate of increase was estimated with reference to (i) the historical transaction amounts and the year-on-year increase in the demand of the packaged beer from the San Miguel Group; and (ii) the various new business strategies to be implemented by the Group, as mentioned above in the paragraph headed "1.2 Financial results of the Group" of the letter. The Management is of the view that there will be a steady and consistent increase in demand by the Group for packaged beer after considering the historical sales volume and the budget.

(ii) The HK$ price per unit of each packaged beer product was estimated for each of the year ending 31 December 2020, 2021 and 2022

The average price per unit of each packaged beer for 2018, ranging between HK$ 74.36 to HK$84.48 per unit, was multiplied by a projected year-on-year consumer price inflation of the Philippines (since the packaged beer is purchased from the San Miguel Group's Philippines-based operations) and also adjusted by a projected annual HK$:US Dollar exchange rate (since these transactions are carried out in US Dollar). For more details on these assumptions, please refer to the section headed "4.2.4 Other assumptions" of this letter.

We have considered the (i) average price per unit of each packaged beer product for the two years ended 31 December 2018 (range between US Dollar 9.48 to US Dollar 10.80 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 2018; and (iii) the annual HK$: US Dollar exchange rate (since these transactions are carried out in US Dollar). Taking into account of the above, we are of the view that the projected annual rate of increase has been fairly estimated.

(iii) The total projected cost of these transactions for the year ending 31 December 2020, 2021 and 2022 were calculated

Using the information calculated in (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 increase in projected demand. We believe that given there are many outside variables in determining the proposed Annual Cap (e.g. Independent Third Party suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

We noted the propose Annual Cap in respect of the purchase of packaged beer from the San Miguel Group for the three years ending 31 December 2022 has a year-on-year percentage growth of approximately 19.35% and 18.92%, respectively. In view of the stable brewery industry market conditions, the Management expected a constant increase in demand of beverage products from the San Miguel Group. The total purchase quantity of packaged beer from the San Miguel Group was estimated to increase by 14.1% and 14.2% for the year ending 31 December 2021 and 2022, respectively. A year-on-year consumer price inflation in the Philippines of 4.0% for the two years ending 31 December 2021 and 2022, respectively, is taken into account when calculating the unit price of the packaged beer. Please refer to the paragraph headed "4.2.4 Other assumptions" for the details of the estimation in consumer price inflation. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Cap in respect of the purchase of packaged beer from the San Miguel Group has also been fairly and reasonably arrived at.

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

The Annual Cap 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 was calculated for the year ending 31 December 2020, 2021 and 2022

Projected sales volume for the year ending 31 December 2020, 2021 and 2022 were calculated using the projected export sales volume of individual products to be sold to the San Miguel Group for the year ending 31 December 2019 with reference to historical sales volume by factoring in 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 total export sales volume is approximately 421,814 HL for the year ending 31 December 2019. The annual rate of increase was made reference to (i) the historical transaction volume; (ii) the Group's discussions with the San Miguel Group regarding future demand volume; and (iii) the Management's expectations of future industry conditions.

We have compared the actual sales volume of 2018 with the budgeted sales volume of 2018 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.

(ii) Total cost of the relevant products is calculated for the year ending 31 December 2020, 2021 and 2022

Total cost for the year ending 31 December 2020, 2021 and 2022 were calculated using the projected cost of individual products to be sold to the San Miguel Group for the year ending 31 December 2019 with reference to historical cost of sales by factoring in an estimated annual increase in cost on, amongst others, direct materials, direct labour, direct containers, direct manufacturing supplies, direct utilities and distribution cost, 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 in costs was made reference to (i) the historical transaction volume; (ii) the Group's discussions with the San Miguel Group regarding future demand volume; and (iii) the Management's expectations of future industry conditions.

(iii) Sales revenue received from such products is calculated for the year ending 31 December 2020, 2021 and 2022

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. Subsequent to the calculation of total cost of individual products in (ii) above, it is multiplied by a specified profit margin that is made with reference to (i) the historical profit margin earned by the Group; (ii) the profit margins imposed by the Group on Independent Third Party customers in respect of the sales of similar packaged beer and non-alcoholic beverage products; and (iii) negotiations between the Group and the San Miguel Group based on reasonable commercial principles. 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 increase in projected sales. We believe that given there are many outside variables in determining the proposed Annual Caps (e.g. Independent Third Party suppliers and distributors outside of the Group's control), it is reasonable to build in a buffer as a precautionary measure.

We note that the Annual Cap in relation to the sales of packaged beer and non-alcoholic beverage products for the year ending 31 December 2020 is approximately 88.5% more than the annualised actual utilised annual cap for the two months ended 28 February 2019. As mentioned in paragraph 4.1.3 above, the export sales performance is subject to the ordering pattern of the San Miguel Group and seasonal factors which could lead to a fluctuation in sales volume throughout the year. According to the Management, demand on the Group's product is stronger in the middle of the year and at the year end. Given that the budget prepared by the Company for the year ended 31 December 2018 was similar to the actual results over the same period and that the actual amount sold at the year end is usually close to the budget prepared according to the experience of the Management, the relatively low utilisation rates of the annualised actual utilised annual cap for the two months ended 28 February 2019 has no bearing on the fairness and reasonableness of the basis in determining the then Annual Caps.

In the course of determining the Annual Cap in relation to the sales of packaged beer and non-alcoholic beverage products, a 15% year-on-year growth was assumed based on a compound annual growth rate of 10.8% and the indication on the demand of the Group's product from the San Miguel Group given.

An approximately 38.5% increase in the Annual Cap for the year ending 31 December 2020 compared to the actual utilised annual cap for the year ended 31 December 2018 is, amongst multiple factors, principally attributable to the indication provided by the San Miguel Group for the year ending 31 December 2019 which shift approximately 13.8% of their demand in products sold by the Hong Kong operations at a lower price to products sold at price more than a double. After assuming a 15% year-on-year growth in sales in the subsequent year, the shift in demand results in an approximately 26.7% net increase in the estimated revenue generated from the Hong Kong operations for the year ending 31 December 2020.

We have reviewed the workings of the projected export sales revenue prepared by the Company, illustrating the breakdown of cost items and the sales volume of each involved product based on the assumptions above. Also having considered the Company has been doing this business in Hong Kong for over 55 years and the Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 10 years, the Company has sufficient historical data to make reasonable assumptions on the sales budget, the Management is of the view and we concur that the Annual Caps are reasonably justified.

We noted the propose Annual Cap in respect of the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group for the three years ending 31 December 2022 has a year-on-year percentage growth of approximately 17.89% and 17.56%, respectively. Based on the compound annual growth rate of 10.8% in export sales in 2011 to 2018, the Management conservatively assumed a 15% growth in the sales volume of the relevant products. A year-on-year consumer price inflation in Hong Kong of approximately 4.6% and 2.4% for the two years ending 31 December 2021 and 2022, respectively is taken into account. Please refer to the paragraph headed "4.2.4 Other assumptions" for the details of the estimation in consumer price inflation. The Management is also of the view that there will be an increase in labour cost. Based on a historical average increase of approximately 3% to 4% in labour cost, a conservative 5% annual increase in labour cost was assumed for the three years ending 31 December 2022. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Cap in respect of the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group has also been fairly and reasonably arrived at.

We have reviewed the abovementioned calculations and consider the methodology employed in calculating the Annual Caps for the three years ending 31 December 2022 to be fair and reasonable. Having reviewed the bases and assumptions for these 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.

Shareholders should note that the proposed Annual Caps represent an estimate based on information currently available and that the actual utilisation and sufficiency of the proposed Annual Caps would depend on a number factors, including but not limited to, the actual demand of the Group's beverages. The proposed Annual Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance.

*4.2.4 Other assumptions*

In addition to the abovementioned assumptions, for each of the year ending 31 December 2020, 2021 and 2022, the Management has also estimated projected (i) currency exchange rates; and (ii) consumer price inflation rates.

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

| | **Forecast for the year ending 31 December** | | | |
|---|---|---|---|---|
| | **2019** | **2020** | **2021** | **2022** |
| HK$:RMB exchange rate (1 RMB: HK$) | 1.20 | 1.21 | 1.22 | 1.23 |
| US Dollar:HK$ exchange rate (1 US Dollar: HK$) | 7.824 | 7.800 | 7.783 | 7.775 |
| Hong Kong year-on-year consumer price inflation rate | 2.2% | 2.4% | 2.6% | 2.3% |
| PRC year-on-year consumer price inflation rate | 2.3% | 2.3% | 2.2% | 2.3% |
| Philippines year-on-year consumer price rate | 5.0% | 4.0% | 4.0% | 4.0% |

*Source: Financial Planning & Analysis Department of San Miguel Corporation*

We have compared projected currency exchange rates and consumer price inflation rates gathered from public market and consumer data provider (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 internal 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 of the Company 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 of the Company 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 2018. The Company will continue to engage auditors to report on the Continuing Connected Transactions for each of the four years ending 31 December 2022. 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**
*Executive Director*

*Ms. Jeanny Leung ("Ms. Leung") is a Responsible Officer of Altus Capital licensed to carry out Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry out Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

## 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 ordinary shares in the Company | |
|---|---|---|
| **Name** | **Number of Shares held** | **% of total issue Shares** |
| David K. P. Li | 12,000,000 | 3.21% |

| Name | Direct ownership | Indirect ownership | Total number of shares held | % of total issued shares |
|---|---|---|---|---|
| | Number of common shares of 1 Philippine peso each in Top Frontier | | | |
| Ramon S. Ang | 75,887 | 86,658,351 | 86,734,238 | 25.907003% |
| Carlos Antonio M. Berba | 364 | — | 364 | 0.000109% |
| Roberto N. Huang | 3,039 | — | 3,039 | 0.000908% |
| Reynato S. Puno | 500 | — | 500 | 0.000149% |
| Carmelo L. Santiago | 500 | — | 500 | 0.000149% |

| Name | Types of shares | Par Value (Philippine pesos) | Direct ownership | Indirect ownership | Total number of shares held | % of total issued shares |
|---|---|---|---|---|---|---|
| | Number of shares in SMC | | | | | |
| Ramon S. Ang | Common | 5.00 | 1,345,429 | 373,623,796 | 374,969,225 | 9.724412% |
| Carlos Antonio M. Berba | Common | 5.00 | 3,645 | — | 3,645 | 0.000095% |
| | Preferred | 5.00 | 10,000 | — | 10,000 | 0.000259% |
| Roberto N. Huang | Common | 5.00 | 42,397 | — | 42,397 | 0.001100% |
| Reynato S. Puno | Common | 5.00 | 5,000 | — | 5,000 | 0.000130% |
| Carmelo L. Santiago | Common | 5.00 | 5,000 | — | 5,000 | 0.000130% |

| Name | Number of shares in SMFB | | | | | |
|---|---|---|---|---|---|---|
| | Types of shares | Par Value (Philippine pesos) | Direct ownership | Indirect ownership | Total number of shares held | % of total issued shares |
| Ramon S. Ang | Common | 1 | 10 | — | 10 | 0.000000% |
| Roberto N. Huang | Common | 1 | 10 | — | 10 | 0.000000% |
| | Preferred | 10 | — | 3,500 | 3,500 | 0.000059% |
| Carmelo L. Santiago | Common | 1 | 10 | — | 10 | 0.000000% |

Note:

Other than the preferred shares in SMFB, which were held by Mr. Roberto N. Huang and the common shares in SMFB which were held by Mr. Carmelo L. Santiago as personal interest, all shares in SMFB were held by the Directors as corporate interests.

| Name | Number of common shares of 1 Philippine peso each in SMB | | | |
|---|---|---|---|---|
| | **Direct ownership** | **Indirect ownership** | **Total number of shares held** | **% of total issued shares** |
| Ramon S. Ang | 5,000 | — | 5,000 | 0.000033% |
| Carlos Antonio M. Berba | 5,000 | — | 5,000 | 0.000033% |
| Alonzo Q. Ancheta | 10,000 | — | 10,000 | 0.000065% |
| Roberto N. Huang | 5,000 | — | 5,000 | 0.000033% |
| Carmelo L. Santiago | 5,000 | — | 5,000 | 0.000033% |
| Kenji Uchiyama | 5,000 | — | 5,000 | 0.000033% |
| Tomoki Yamauchi | 5,000 | — | 5,000 | 0.000033% |

Note:

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

### *(2) Interests in underlying shares*

| | Stock options in SMC | | | | | | |
|---|---|---|---|---|---|---|---|
| Name | Date granted | Exercise period up to | Exercise price per option (Philippine pesos) | Number of options outstanding at the beginning of the year | Number of options granted/ (exercised) during the year | 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):** | | | | | | | |
| Carlos Antonio M. Berba | 16/12/2010 | 16/12/2018 | 120.33 | 41,556 | (41,556) | — | — |
| Ramon G. Torralba | 16/12/2010 | 16/12/2018 | 120.33 | 8,991 | (8,991) | — | — |
| Roberto N. Huang | 3/12/2018* | 16/12/2018 | 120.33 | — | (50,793)* | — | — |

* The options indicated were reinstated on 3 December 2018 as exercisable and were exercised on 13 December 2018.

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**

| Substantial shareholders | Number of ordinary shares held | % of total issued shares |
|---|---|---|
| Iñigo Zobel *(note 1)* | 245,720,000 | 65.78% |
| Top Frontier Investment Holdings, Inc. *(note 1)* | 245,720,000 | 65.78% |
| San Miguel Corporation *(note 1)* | 245,720,800 | 65.78% |
| Kirin Holdings Company, Limited *(note 1)* | 245,720,800 | 65.78% |
| San Miguel Food and Beverage, Inc. *(note 1)* | 245,720,800 | 65.78% |
| San Miguel Brewery Inc. *(note 1)* | 245,720,800 | 65.78% |
| San Miguel Brewing International 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) Iñigo Zobel, Top Frontier, the ultimate holding company, SMC, SMFB, 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 in the Company because each of Iñigo Zobel, Top Frontier, SMC, SMFB 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 of the Company, and Hamstar Profits Limited, which holds 10,078,400 shares of the Company, 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 of the Company 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 a director, and the President and Chief Executive Officer of Top Frontier, the Vice Chairman, President and Chief Operating Officer of SMC, the director, President and Chief Executive Officer of SMFB, and Chairman of SMB. Mr. Carlos Antonio M. Berba is a director of SMB, Managing Director of SMBIL, and a director of Neptunia. Mr. Roberto N. Huang is a director and the Chief Operating Officer-Beer of SMFB, a director and the President of SMB, and a director of SMBIL. Mr. Fumiaki Ozawa is a director and the Executive Vice President of SMBIL. Mr. Kenji Uchiyama is a director and the Executive Vice President of SMB and a director of SMBIL. Mr. Tomoki Yamauchi is a director and the Executive Financial Advisor of SMB and a director of SMBIL.

### (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 Co. Ltd. | 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 2018, 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. Alonzo Q. Ancheta, Mr. Takashi Hayashi, Mr. Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Reynato S. Puno, Mr. Carmelo L. Santiago, Mr. Kenji Uchiyama and Mr. Tomoki Yamauchi are interested parties to this contract to the extent that they either had/have equity interests in or was/are directors and/or officers of SMBIL, SMB, SMFB, SMC, and/or 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 2018, 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 are 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 out 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 2018, 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 4 April 2019.

# 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 26 April 2019, 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 resolutions of the Company:

## ORDINARY RESOLUTION

"**THAT**: the agreement dated 5 March 2019 (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 2020, 2021 and 2022 as set out in the circular dated 4 April 2019 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."

## SPECIAL RESOLUTION

"**THAT** Pursuant to Section 680 of the Companies Ordinance (Cap 622), the proposed vertical amalgamation of the Company with its wholly-owned subsidiary Ravelin Limited ("**Ravelin**") (which vertical amalgamation shall be effective upon issuance by the Companies Registry of the certificate of amalgamation) be approved, on the conditions set out below:

a) the shares of Ravelin will be cancelled without payment or other consideration while the shares of the Company will remain;

b) the articles of association of the amalgamated company will be the same as the articles of association of the Company;

c) the directors of Ravelin and the Company:

   i. are satisfied that, as at the date of the solvency statement made by them, there is no ground on which the amalgamating company could be found to be unable to pay its debts;

   ii. after taking into account all the liabilities of the amalgamated company (including contingent and prospective liabilities), are satisfied that the amalgamated company will be able to pay its debts as they fall due during the period of 12 months immediately after the date on which the vertical amalgamation is to become effective; and

d) the directors of Ravelin and the Company have confirmed that as at the date of the solvency statement made by them, none of the following exists:

   i. any floating charge created by the amalgamating company;

   ii. any other security created by the amalgamating company over a class of assets, to any of which the security interest has not attached.

**FURTHER THAT** the existing directors of the Company as of the date hereof will be the directors of the amalgamated company.

**FURTHER THAT** the name of the amalgamated company shall be the same as immediately preceding the vertical amalgamation."

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

Hong Kong, 4 April 2019

*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. Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Kenji Uchiyama and Mr. Tomoki Yamauchi; 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.*

*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 books and register of members of the Company will be closed from 23 April 2019, Tuesday, to 26 April 2019, Friday, both days inclusive. To qualify for attending the forthcoming extraordinary general meeting of the Company to be held on 26 April 2019, 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 18 April 2019, Thursday.

4. If Typhoon Signal No. 8 or above is expected to be hoisted or a Black Rainstorm Warning Signal is expected to be in force any time between 11:00 am and 5:00 pm on the date of the extraordinary general meeting, then the extraordinary general meeting will be postponed and the Shareholders will be informed of the date, time and venue of the postponed meeting by a supplementary notice, posted on the Company's website at info.sanmiguel.com.hk and the website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk.

   If Typhoon Signal No. 8 or above or a Black Rainstorm Warning Signal is cancelled at or before 11:00 am on the date of the extraordinary general meeting, and where conditions permit, the extraordinary general meeting will be held as scheduled.

   The extraordinary general meeting will be held as scheduled when an Amber or Red Rainstorm Warning Signal is in force.

   Shareholders should decide on their own whether they would attend the extraordinary general meeting under bad weather condition bearing in mind their own situations and if they do so, they are advised to exercise care and caution.