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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

ANNOUNCEMENT OF RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2018

The Board of Directors of San Miguel Brewery Hong Kong Limited (the "Company") hereby announces the consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, together with the comparative figures for the previous financial year. The annual results have been reviewed by the Audit Committee of the Company.

CONSOLIDATED INCOME STATEMENT

for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	**2018**	2017
		$'000	*$'000*
Revenue	*3*	**584,609**	565,785
Cost of sales		**(330,670)**	(314,210)
Gross profit		**253,939**	251,575
Other net income	*4*	**40,001**	38,509
Selling and distribution expenses		**(189,968)**	(184,772)
Administrative expenses		**(80,803)**	(77,591)
Other operating expenses		**(7,859)**	(7,029)
Impairment losses for property, plant and equipment	*5*	**(80,000)**	—
(Loss)/profit from operations		**(64,690)**	20,692
Finance costs	*6(a)*	**(6,170)**	(6,292)
(Loss)/profit before taxation	*3,6*	**(70,860)**	14,400
Income tax (charge)/credit	*7*	**(3,228)**	819
(Loss)/profit for the year		**(74,088)**	15,219

CONSOLIDATED INCOME STATEMENT *(Continued)*
for the year ended 31 December 2018
(Expressed in Hong Kong dollars)

	Note	2018	2017
		$'000	*$'000*
Attributable to:			
Equity shareholders of the Company		**(73,556)**	12,480
Non-controlling interests		**(532)**	2,739
(Loss)/profit for the year		**(74,088)**	15,219
(Loss)/earnings per share			
— Basic (cents)	*8(a)*	**(20)**	3
— Diluted (cents)	*8(b)*	**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

(Expressed in Hong Kong dollars)

	2018	2017
	$'000	*$'000*
(Loss)/profit for the year	**(74,088)**	15,219
Other comprehensive income for the year (after tax)		
Items that may be reclassified subsequently to profit or loss		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong and monetary items that form part of the net investment in subsidiaries outside Hong Kong	**(2,171)**	2,035
Items that will not be reclassified to profit or loss		
Actuarial gains and losses of defined benefit retirement plan	**(7,884)**	9,473
	(10,055)	11,508
Total comprehensive income for the year	**(84,143)**	26,727
Attributable to:		
Equity shareholders of the Company	**(84,933)**	25,880
Non-controlling interests	**790**	847
Total comprehensive income for the year	**(84,143)**	26,727

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 31 December 2018

(Expressed in Hong Kong dollars)

	Note	**2018**	2017
		$'000	*$'000*
Non-current assets			
Property, plant and equipment	*5*	**288,939**	369,125
Investment properties		**125,497**	130,206
Interests in leasehold land held for own use under operating leases		**73,272**	77,057
		487,708	576,388
Intangible assets		**4,771**	4,781
		492,479	581,169
Current assets			
Inventories		**42,209**	47,708
Trade and other receivables	*9*	**50,866**	51,846
Amounts due from holding companies and fellow subsidiaries		**24,087**	21,977
Amount due from a related company		**3,661**	1,685
Bank deposits		**36,718**	39,197
Cash and cash equivalents		**81,091**	130,146
		238,632	292,559
Current liabilities			
Trade and other payables	*10*	**(77,515)**	(95,248)
Loan from an intermediate holding company		**(51,394)**	(51,294)
Amounts due to holding companies and fellow subsidiaries		**(7,878)**	(8,524)
Amounts due to related companies		**(7,037)**	(8,588)
Current tax payable		**(313)**	—
		(144,137)	(163,654)
Net current assets		**94,495**	128,905

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

at 31 December 2018

(Expressed in Hong Kong dollars)

	2018	2017
	$'000	*$'000*
Total assets less current liabilities	**586,974**	710,074
Non-current liabilities		
Loan from an intermediate holding company	**(64,243)**	(115,412)
Retirement benefit liabilities	**(17,697)**	(5,799)
Deferred tax liabilities	**(4,366)**	(4,052)
	(86,306)	(125,263)
NET ASSETS	**500,668**	584,811
CAPITAL AND RESERVES		
Share capital	**252,524**	252,524
Other reserves	**273,634**	358,567
Total equity attributable to equity shareholders of the Company	**526,158**	611,091
Non-controlling interests	**(25,490)**	(26,280)
TOTAL EQUITY	**500,668**	584,811

NOTES TO THE ANNUAL RESULTS

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

The unaudited financial information relating to the year ended 31 December 2018 and the financial information relating to the year ended 31 December 2017 included in this preliminary announcement of annual results does not constitute the Company's statutory annual consolidated financial statements for those years but, in respect of the year ended 31 December 2017, is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance ("Companies Ordinance") is as follows:

The financial statements for the year ended 31 December 2018 have yet to be reported on by the Company's auditor and will be delivered to the Registrar of Companies in due course.

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance.

The Company's auditor has reported on these financial statements for the year ended 31 December 2017. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

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

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

2 CHANGES IN ACCOUNTING POLICIES

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

- HKFRS 9, *Financial Instruments*
- HKFRS 15, *Revenue from contracts with customers*
- HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

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

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

Further details of the nature and effect of the changes to previous accounting policies are set out below:

a. Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVPL). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated form the host. Instead, the hybrid instrument as a whole is assessed for classification.

b. Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" (ECL) model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables).

The adoption of HKFRS 9 does not have any material impact on the financial position and the financial result of the Group.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(ii) HKFRS 15, ***Revenue from contracts with customers***

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

Previously, revenue arising from construction contracts and provision of services was recognised over time, whereas revenue form sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customers simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, the under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have any material impact on the timing of revenue recognition of the Group.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(iii) HK(IFRIC) 22, *Foreign currency transaction and advance consideration*

This interpretation provides guidance on determing "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transactions in which an entity receives or pays advance consideration in a foreign currency.

The interpretation clarifies the "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way. The adoption of HK(IFRIC) 22 does not have any material impact on the financial position and the financial result of the Group.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

(b) Segment reporting

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

— The Hong Kong operations mainly comprise the manufacture and distribution of own brewed beer products and distribution of imported beer products in Hong Kong and overseas.

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

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

3 REVENUE AND SEGMENT REPORTING

(b) Segment reporting *(Continued)*

(i) Segment results, assets and liabilities

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

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

The measure used for reportable segment profit or loss is "adjusted EBIT" i.e. adjusted earnings before interest and taxes, where "interest" is regarded as including interest income from bank deposits and interest expense on loan from an intermediate holding company. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as net foreign exchange losses. Inter-segment sales are priced at cost plus a profit margin.

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	Hong Kong		Mainland China		Total	
	2018	2017	**2018**	2017	**2018**	2017
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**390,548**	393,781	**194,061**	172,004	**584,609**	565,785
Inter-segment revenue	**321**	547	**—**	—	**321**	547
Reportable segment revenue	**390,869**	394,328	**194,061**	172,004	**584,930**	566,332
Reportable segment (loss)/profit from operations (adjusted EBIT)	**(81,415)**	1,108	**14,502**	19,205	**(66,913)**	20,313
Interest income from bank deposits	**1,681**	1,040	**280**	267	**1,961**	1,307
Interest expense on loan	**(6,040)**	(6,181)	**—**	—	**(6,040)**	(6,181)
Depreciation and amortisation for the year	**(23,203)**	(22,776)	**(2,369)**	(1,087)	**(25,572)**	(23,863)
(Provision for) /reversal of impairment losses recognised in profit or loss in respect of:						
— property, plant and equipment	**(80,000)**	—	**—**	—	**(80,000)**	—
— trade and other receivables	**(400)**	(400)	**1**	1	**(399)**	(399)
Reportable segment assets	**1,012,981**	1,147,969	**103,271**	109,957	**1,116,252**	1,257,926
Additions to non-current segment assets during the year	**12,944**	9,008	**6,167**	5,491	**19,111**	14,499
Reportable segment liabilities	**188,432**	228,032	**422,786**	441,031	**611,218**	669,063

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

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

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

	2018	2017
	$'000	*$'000*
Revenue		
Reportable segment revenue	**584,930**	566,332
Elimination of inter-segment revenue	**(321)**	(547)
Consolidated revenue	**584,609**	565,785
(Loss)/profit		
Reportable segment (loss)/profit from operation	**(66,913)**	20,313
Interest income from bank deposits	**1,961**	1,307
Net foreign exchange gains/(losses)	**132**	(1,039)
Interest expenses on loan from an intermediate holding company	**(6,040)**	(6,181)
Consolidated (loss)/profit before taxation	**(70,860)**	14,400
Assets		
Reportable segment assets	**1,116,252**	1,257,926
Elimination of inter-segment receivables	**(385,141)**	(384,198)
Consolidated total assets	**731,111**	873,728
Liabilities		
Reportable segment liabilities	**611,218**	669,063
Elimination of inter-segment payables	**(385,141)**	(384,198)
	226,077	284,865
Deferred tax liabilities	**4,366**	4,052
Consolidated total liabilities	**230,443**	288,917

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Geographic information

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

	Revenue from external customers		**Specified non-current assets**	
	2018	2017	**2018**	2017
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)	**276,625**	288,274	**462,456**	551,261
Mainland China	**94,585**	69,160	**30,023**	29,908
Philippines	**205,655**	201,023	**—**	—
Others	**7,744**	7,328	**—**	—
	307,984	277,511	**30,023**	29,908
	584,609	565,785	**492,479**	581,169

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(c) Major customers

The Group's customer base is diversified and includes one customer (2017: two customers), with whom transactions have exceeded 10% of the Group's revenues. Revenue from sales to these customers during the report period are set out as below.

	2018	2017
	$'000	*$'000*
Largest customer (arose from both Hong Kong and the Mainland China segments)	**202,218**	199,787
— Percentage of total revenue	**34%**	35%
Second largest customer (arose from Hong Kong segment)	**N/A***	56,182
— Percentage of total revenue	**N/A***	10%

* Revenue from this customer was less than 10% of the Group's total revenue for the year ended 31 December 2018

4 OTHER NET INCOME

	2018	2017
	$'000	*$'000*
Rental income from investment properties	**22,465**	20,817
Advertising and promotion subsidy	**14,175**	16,084
Interest income from bank deposits	**1,961**	1,307
Net gain on disposal of non-current assets	**894**	1,017
Net foreign exchange gain/(losses)	**132**	(1,039)
Others	**374**	323
	40,001	38,509

5 IMPAIRMENT LOSSES OF PROPERTY, PLANT AND EQUIPMENT

The Group considered the property, plant and equipment relating to the Hong Kong brewery operations, which mainly comprise the production plant in Hong Kong, as a separate cash generating unit.

During the year ended 31 December 2018, due to the fierce brewery market competition in Hong Kong, the Hong Kong brewery operations under-performed. As such, the Group's management assessed the recoverable amount of the property, plant and equipment of the Hong Kong brewery operations and accordingly, the recoverable amount of HK$307,911,000 was estimated. As the recoverable amount of the Hong Kong brewery operations is lower than its carrying amount of property, plant and equipment, an impairment loss of HK$80,000,000 (2017: $Nil) was recognised in the consolidated income statement for the year.

The recoverable amount of the Hong Kong brewery operations is determined based on a value-in-use calculation and the cash flows are discounted using a discount rate of 10.2%. The discount rate used is pre-tax and reflects specific risks relating to the Hong Kong brewery operations.

6 (LOSS)/PROFIT BEFORE TAXATION

(Loss)/profit before taxation is arrived at after charging/(crediting):

		2018	2017
		$'000	*$'000*
(a)	**Finance costs**		
	Interest expense on loan from an intermediate holding company	**6,040**	6,181
	Bank charges	**130**	111
		6,170	6,292
(b)	**Staff costs**		
	Retirement costs		
	— Defined contribution retirement plans	**6,621**	6,294
	— Defined benefit retirement plan	**4,918**	5,115
		11,539	11,409
	Salaries, wages and other benefits	**123,067**	121,606
		134,606	133,015

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

	2018	2017
	$'000	*$'000*
(c) **Other items**		
Amortisation of land lease premium	**2,548**	2,526
Depreciation		
— Property, plant and equipment	**18,315**	16,620
— Investment properties	**4,709**	4,717
Cost of inventories	**328,601**	312,200
Operating lease charges: minimum lease payments		
— Land and buildings	**1,659**	1,648
— Other assets	**305**	351
Rental receivable from investment properties less direct outgoings of $7,951,000 (2017: $7,701,000)	**(14,514)**	(13,116)
Auditors' remuneration	**3,295**	3,024
Net impairment losses for trade and other receivables	**399**	399

7 TAXATION IN THE CONSOLIDATED INCOME STATEMENT

Income tax in the consolidated income statement represents:

	2018	2017
	$'000	*$'000*
Current tax — Hong Kong		
Provision for the year	**918**	—
Deferred tax		
Origination and reversal of temporary differences	**2,310**	(819)
Income tax charge/(credit)	**3,228**	(819)

7 TAXATION IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

In March 2018, the Hong Kong Government introduced a two-tiered profits tax rate regime by enacting the Inland Revenue (Amendment) (No. 3) Ordinance 2018 (the "Ordinance"). Under the two-tiered profits tax rate regime, the first $2 million of assessable profits of qualifying corporations is taxed at 8.25% and the remaining assessable profits at 16.5%. The Ordinance is effective from the year of assessment 2018-2019.

Accordingly, the provision for Hong Kong Profits Tax for the year ended 31 December 2018 is calculated in accordance with the two-tiered profits tax regime (2017: a single tax rate of 16.5% was applied).

The statutory tax rate applicable to the subsidiaries established in the PRC was 25% (2017: 25%). No provision for current taxation has been made for the subsidiaries established in the PRC because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purpose.

8 (LOSS)/EARNINGS PER SHARE

(a) Basic (loss)/earnings per share

The calculation of basic (loss)/earnings per share is based on the loss attributable to equity shareholders of the Company of $73,556,000 (2017: profit of $12,480,000) and on 373,570,560 (2017: 373,570,560) ordinary shares, being the number of ordinary shares in issue throughout the year.

(b) Diluted (loss)/earnings per share

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

9 TRADE AND OTHER RECEIVABLES

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

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

	2018	2017
	$'000	*$'000*
Current	**32,964**	31,732
Less than 1 month past due	**5,140**	4,504
1 to 3 months past due	**1,095**	1,721
More than 3 months but less than 12 months past due	**910**	693
More than 12 months past due	**252**	85
	40,361	38,735

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

10 TRADE AND OTHER PAYABLES

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

	2018	2017
	$'000	*$'000*
Current and less than 1 month past due	**32,200**	43,294
1 to 3 months past due	**984**	3,270
3 to 6 months past due	**43**	113
More than 6 months past due	**200**	26
	33,427	46,703

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

CLOSURE OF REGISTER OF MEMBERS

For the purpose of determining shareholders who are entitled to attend and vote at the Annual General Meeting ("AGM"), the register of members of the Company will be closed from Tuesday, 23 April 2019 to Friday, 26 April 2019, both days inclusive. To qualify for attending and voting at the forthcoming AGM, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited at Shops 1712- 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration not later than 4:30 p.m. on Thursday, 18 April 2019.

FINANCIAL RESULTS

For 2018, the Group reported HK$584.6 million consolidated revenue, 3.3% higher than the previous year. Gross profit reached HK$253.9 million, compared to HK$251.6 million in 2017, with a gross profit margin of 43.4%.

Excluding the impairment loss of the Group's Hong Kong operations of HK$80.0 million in 2018, the Group's consolidated profit would have been HK$5.9 million in 2018, compared to HK$15.2 million in 2017. Including the impairment loss, the consolidated loss for 2018 was HK$74.1 million. As a result, net loss attributable to equity shareholders for 2018 was HK$73.6 million, compared to net profit of HK$12.5 million the previous year.

The Group maintained a stable net cash positive position, with cash and cash equivalents and bank deposits amounting to HK$117.8 million as of 31 December 2018. This was lower than the HK$169.3 million as of 31 December 2017 due to the repayment of loans by the Group's Hong Kong operations.

Total loan as of 31 December 2018 was at HK$115.6 million, 30.6% lower than the HK$166.7 million debt reported the prior year. Total net assets stood at HK$500.7 million (HK$584.8 million as of 31 December 2017), with a loan-to-equity ratio of 0.23 (31 December 2017: 0.29).

DIVIDENDS

No final dividends will be declared for the year ended 31 December 2018.

BUSINESS REVIEW

HONG KONG OPERATIONS

Despite Hong Kong's relatively stable economy, beer industry volumes barely grew in 2018, as growth in the on-premise channel was offset by a decline in off-premise consumption. As a result, our Hong Kong operations registered a single-digit decline in sales volume, attributable to the volume shortfall in off-premise channel of the domestic market. This was partly offset by the Company's 2% growth in the on-trade business. Meanwhile, the Company's sales volumes in Macau grew by double-digits, outperforming the single-digit industry growth in the territory. Export sales volume meanwhile registered single-digit growth over the previous year.

2018 marked the Company's 70th anniversary and we celebrated this milestone with a series of initiatives designed to strengthen our flagship San Miguel Pale Pilsen's goodwill and equity.

First, we launched a limited-edition commemorative bottle of San Miguel Pale Pilsen reminiscent of the original beer bottle dating back from 1948.

We also introduced the San Miguel Pale Pilsen Hong Kong district cans. Released in phases, these limited-edition cans came with special designs featuring the distinct characteristics of Hong Kong's 18 districts. The campaign was supported by various above-the-line and below-the-line promotions.

Our strategy of maintaining a diverse portfolio of brands catering to various markets at different price points, across different locations and occasions, works well for us.

San Miguel Pale Pilsen also maintained its strong association with iconic Hong Kong festivals and events. The brand kicked-off 2018 with the launch of its Chinese Year of the Dog packaging design. It was also the exclusive beer sponsor of the 2018 Hong Kong Dragon Boat Carnival, organized by the Hong Kong Tourism Board.

San Mig Light meanwhile continued to do well, registering double-digit volume and revenue growth across all channels. We launched the "Relax Is" thematic campaign, which independent market research showed did well with the brand's target market.

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 and Red Horse, and our other western partner brands in the on-premise channel.

While the segment has shrunk somewhat, the lower-priced segment still accounts for an estimated 30% of total industry volumes. The Company launched a brand new campaign for Blue Ice Beer's "Real Cool" platform, featuring Hong Kong Cantopop recording artist, songwriter, and actor Louis Cheung.

SOUTH CHINA OPERATIONS

This is the second consecutive year of sales volume growth and positive profit for our South China operations. Profitability however declined compared to 2017 due to the negative effect of the appreciation of the Renminbi on the dollar denominated exports revenues and a single-digit decline in our export volumes.

Guangzhou San Miguel Brewery Company Limited ("GSMB") continued to register double-digit growth in sales volumes and revenues in 2018. Growth in volumes was seen across the different brand groups and price segments.

We attribute much of the volume growth to our Dealer Development Program, which allowed us to add more dealers in our network, and at the same time ensure we only work with quality dealers. This has afforded us greater control over the value chain, increasing both the efficiency and effectiveness of our going-to-market strategy. The brand building activities implemented during the year also helped push our San Miguel volumes.

San Mig Light's "Into the Wild", a new regional thematic campaign on social media was launched in August. The new campaign is an extension of the "Life. Best Served Light" communication platform we are using in Hong Kong and the rest of Asia. In 2018, we also successfully introduced San Mig Light in 500ml bottles.

The Company continued to strengthen brand equity for San Miguel Pale Pilsen and San Mig Light by ensuring that our merchandising in both on- and off-premise outlets celebrated significant events. We started with a merchandising drive for the Chinese New Year at Chinese restaurants, supermarkets, and convenience stores. We followed this up with special merchandising and promotions for summer as well as football season, and closed the year with Christmas-themed designs.

Our Dragon brand continued to grow, registering double-digit percentage growth in volumes. This was driven mainly by the introduction of Dragon Legend in March 2018, and the distribution expansion of Dragon Qing Chun in Foshan City.

Meanwhile, our two brands on opposite ends of the price spectrum are also doing well. Guang's Pineapple beer, which competes in the lower-priced segment, continued to register double-digit growth in sales volumes, as a result of an expanded wholesale network. Our premium brand Red Horse beer, meanwhile recorded single-digit sales volume growth over the prior year.

Overall, our sales volume in South China continues to improve, and we will continue to work to balance volume growth and profitability. These encouraging results provide us a strong foundation for further improvement.

COMMUNITY RELATIONS AND SOCIAL RESPONSIBILITY

At the Company, social responsibility is part of how we do business. We go beyond legal compliance and work to make a positive impact on the lives of our employees and their families, our business partners, our local communities, and on the environment.

Since 2015, we have been publishing an Environment, Social and Governance ("ESG") Report to provide a better appreciation of how we respond to different ESG issues. The Company's 2018 ESG Report will be available on our website within three months from the publication of our annual report.

We actively promote responsible drinking within the organization and also to the public. We also continue to support charitable organizations and NGOs through financial and product support, as well as by sharing with them our time, experience, and expertise.

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

HUMAN RESOURCES

The Company has always recognized the role the workforce plays and its ability to derive success in the market. As such, we continue to invest in our people by ensuring that they are equipped with the knowledge, skills, and experiences that match our needs, keep them challenged and allow them to reach their fullest potential. We invest in training, seminars, and mentorship and team-building activities to develop their personal growth and foster harmony in the organization.

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

CORPORATE GOVERNANCE

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

DIRECTORS

There has been no change in membership of the Board of Directors since we published our interim report on 21 September 2018.

FUTURE DIRECTION AND CHALLENGES

For 2019, the Company has outlined the following objectives:

- In Hong Kong, we will improve profitability and work to increase our market share through higher focus on the San Miguel brand. We will increase the breadth and depth of our distribution by working closely with wholesalers and direct customers.

- In South China, we intend to build on the current momentum of our sales volume and profitability by further developing both our dealer and wholesaler networks in all of our markets. We will strengthen the brand equity of both the San Miguel and Dragon brands while enhancing the productivity of our sales force. We will also maintain our export business and aim to improve margins and rationalize costs.

In pursuit of the abovementioned objectives for 2019, we will be responsive to the following risks that we have identified:

- The cost of diesel is rising, and this will have an effect on our overall production and distribution costs.

- The minimum wage in Hong Kong is set to increase in May 2019 from HK$34.5 to HK$37.5, the biggest increase yet to the city's minimum wage. This will impact overall operational costs of the Company, our business partners, suppliers and customers. This may also impact product costs and consumption.

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

- China's economic growth is likely to slow down in 2019, as headwinds increase due to its trade dispute with the United States of America.

Moving forward, the company reiterates its commitment to maximizing shareholder value and enhancing and strengthening our brands. We have a number of dynamic growth and cost management strategies in place, and these should provide us a strong foundation for better profitability.

We will strive to ensure that our beer brands remain relevant to our consumers and customers, regardless of the occasion, their location, and lifestyle.

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

Lastly, we in Management would like to convey our sincere gratitude to our Board of Directors for their guidance. We also wish to thank our employees for their dedication and hard work, and most of all, our shareholders, customers, and consumers for their unwavering support.

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

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

PUBLICATION OF THE 2018 ANNUAL REPORT ON THE WEBSITE OF THE STOCK EXCHANGE

The Company's annual report for 2018 will be published on the website of The Stock Exchange of Hong Kong Limited at *www.hkex.com.hk* and the Company's website at *info.sanmiguel.com.hk* in due course.

By Order of the Board
Ramon S. Ang
Chairman

Hong Kong, 5 March 2019

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

As at the date of this announcement, the Board of the Company comprises the executive director, Mr. Ramon G. Torralba, the non-executive directors, Mr. Ramon S. Ang (Chairman), Mr. Carlos Antonio M. Berba (Deputy Chairman), Ms. May (Michelle) W. M. Chan, Mr. Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Tomoki Yamauchi and Mr. Kenji Uchiyama; 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.