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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**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.

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## SAN MIGUEL BREWERY HONG KONG LTD.

香港生力啤酒廠有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 236)**

### CONTINUING CONNECTED TRANSACTIONS

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

**ALTUS CAPITAL LIMITED**

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A letter from the board of directors of the Company is set out on pages 4 to 23 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on page 24 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 25 to 52 of this circular.

In light of the enhanced measures under the Prevention and Control of Disease (Requirements and Directions) (Business and Premises) Regulation (Chapter 599F, Laws of Hong Kong) announced by the Government of the Hong Kong Special Administrative Region to contain the spread of COVID-19 and to safeguard the health and safety of the Company's shareholders, the extraordinary general meeting of the Company shall be held at the San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines on 25 April 2022, Monday at 4:00 p.m. and shall be streamed live via the audio webcast which may be accessed at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM). Independent Shareholders may opt to attend the extraordinary general meeting and vote online by accessing the said live audio webcast of the meeting at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM) on their computers, mobile phones, tablets and browser-enabled devices from any place with an internet connection. The notice convening the extraordinary general meeting is set out on pages 60 to 62 of this circular.

A form of proxy for use by the Independent Shareholders at the extraordinary general meeting is also enclosed. Whether or not Independent Shareholders are able to attend the meeting, they 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 Independent Shareholders from attending and voting at the extraordinary general meeting or any adjourned meeting in person at the venue or online via the live audio webcast at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM) should they so wish.

8 April 2022

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## CONTENTS

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	<i>Page</i>
<b>DEFINITIONS .....</b>	1
<b>LETTER FROM THE BOARD .....</b>	4
<b>LETTER FROM THE INDEPENDENT BOARD COMMITTEE .....</b>	24
<b>LETTER FROM ALTUS CAPITAL .....</b>	25
<b>APPENDIX — GENERAL INFORMATION .....</b>	53
<b>NOTICE OF EGM .....</b>	60

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## DEFINITIONS

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

“Altus Capital”	Altus Capital Limited, a corporation licensed to carry 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 7 March 2022 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 2025
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors of the Company 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 of Directors’ 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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## DEFINITIONS

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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 the San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines on 25 April 2022, Monday, at 4:00 p.m., and streamed live via audio the webcast which may be accessed at <a href="http://meetings.computershare.com/SMB_2022EGM">http://meetings.computershare.com/SMB_2022EGM</a> , 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, Mr. Thelmo Luis O. Cunanan Jr., Dr. the Hon. Sir David K. P. Li and Mr. Reynato S. Puno, 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 (i) any of the directors, chief executives , or controlling share holders and substantial shareholders, of the Company or any of its Subsidiaries, and (ii) the respective associates of such directors, chief executives, or controlling shareholders and substantial shareholders
“Latest Practicable Date”	6 April 2022, 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 7 March 2022 entered into between the Company and SMC in respect of the Continuing Connected Transactions for the period commencing on 1 January 2023 to 31 December 2025

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## DEFINITIONS

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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 51.16% by SMFB
“SMC”	San Miguel Corporation, an indirect controlling Shareholder of the Company through Neptunia Corporation Limited
“SMFB”	San Miguel Food and Beverage, Inc., an indirect controlling Shareholder of the Company through Neptunia Corporation Limited and a subsidiary of SMC, which owns 51.16% of SMB
“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

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## LETTER FROM THE BOARD

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# SAN MIGUEL BREWERY HONG KONG LTD.

## 香港生力啤酒廠有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 236)**

*Executive Director:*

Raymundo Y. Albano, *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

*Registered Office:*

9th Floor

Citimark Building

28 Yuen Shun Circuit

Siu Lek Yuen

Shatin, New Territories

Hong Kong

*Independent non-executive Directors:*

Alonzo Q. Ancheta

Thelmo Luis O. Cunanan Jr.

David K. P. Li, GBM, JP (alternate: Sum Li)

Reynato S. Puno

8 April 2022

*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.

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## LETTER FROM THE BOARD

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The existing annual caps in respect of the Continuing Connected Transactions will expire on 31 December 2022. Accordingly, on 7 March 2022, the Company 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 2025.

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**

7 March 2022

#### **Parties**

The Company and SMC

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## LETTER FROM THE BOARD

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### **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 of the Continuing Connected Transactions, the Master Agreement and the proposed Annual Caps, the Master Agreement shall have a term ending on 31 December 2025 and its terms shall apply to the Continuing Connected Transactions for the period commencing on 1 January 2023 to 31 December 2025. 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 Company. 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 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.



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## LETTER FROM THE BOARD

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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 always includes the San Miguel Group and other suppliers who have a long-term business relationship with the Group as among those from whom the Group obtains price quotations.

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.

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## LETTER FROM THE BOARD

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***(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 Finance 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 Finance 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 comparable imported beer products supplied by Independent Third Party suppliers.

The Finance Department of the Company will maintain a report comparing the net supply cost to the Company of each imported beer products with the corresponding selling price on per volume basis. Any update on the report shall be reviewed and approved by the Managing Director of the Company. 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.

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).

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## LETTER FROM THE BOARD

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***(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 has 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 by 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.

The Group monitors and reviews the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group on a monthly basis. The Finance Department of the Company prepares monthly financial reports which include the percentage of the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group by the Group to the total sales revenue of the Group, which reports are then reviewed by the Management Committee of the Company, including the Managing Director. If upon review for a particular month, the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group is shown to have reached 45% of the total sales revenue of the Group, the Group will not accept new purchase orders from the San Miguel Group notwithstanding that the Annual Caps for the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group has not been fully utilised, until and unless in the succeeding monthly reviews, such percentage is shown to have decreased and

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## LETTER FROM THE BOARD

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additional purchase orders for packaged beer and non-alcoholic beverages products from the San Miguel Group can be accommodated by the Group, only to the extent that such additional purchase orders will not result in such sales going beyond the said percentage for the remaining period of the relevant financial year.

### 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 meets 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, and owned as to approximately 51.16% by SMFB, to complement the range of products sold by the Group. The packaged beers purchased by the Group from the San Miguel Group are specialty beers which are not produced 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 packaged beer and non-alcoholic beverage products sold by the Group to the San Miguel Group do not include those specialty beers which are purchased by the Group from the San Miguel Group. 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. The Philippines market is not served by the Group (unless through SMB) because SMB, the indirect controlling Shareholder of the Company, is principally engaged in the business of the manufacture and sale of alcoholic beverages, particularly beer of all kinds and classes, and non-alcoholic beverages in the Philippines. SMB runs the domestic breweries of the San Miguel Group in the Philippines.

According to the Company's annual report for the financial year ended 31 December 2021, sales to countries outside Hong Kong and mainland China amounted to approximately HK\$263,962,000 (representing approximately 44.32% of the total revenue of the Group for the financial year ended 31 December 2021) of which approximately HK\$5,130,000 are sales to Macau and approximately HK\$258,832,000 are sales to the SMB's subsidiary, representing approximately 43.46% of the total revenue of the Group for the financial year ended 31 December 2021, attributable to the sales of the Group's packaged beer and non-alcoholic beverage products to the San Miguel Group.

## LETTER FROM THE BOARD

### 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 2021; (ii) the existing annual caps of the Continuing Connected Transactions for the year ending 31 December 2022 and utilization rate for the two months ended 28 February 2022; and (iii) the proposed Annual Caps under the Master Agreement for the three years ending 31 December 2025:

	Year ended 31 December 2020			Year ended 31 December 2021			For the two months ended 28 February 2022	Year ending 31 December 2022	Annual Caps for the three years ending 31 December 2025 pursuant to the Master Agreement		
	Actual amount (audited) HK\$'000	Annual cap amount HK\$'000	Annual caps utilisation rate	Actual amount (audited) HK\$'000	Annual cap amount HK\$'000	Annual cap utilisation rate	Actual amount (Unaudited) HK\$'000	Annual cap amount HK\$'000	2023 HK\$'000	2024 HK\$'000	2025 HK\$'000
Purchase of packaging materials by the Group from the San Miguel Group	2,249	39,000	5.8%	4,270	42,000	10.2%	1,196	45,000	47,000	49,000	51,000
Purchase of packaged beer by the Group from the San Miguel Group	1,191	3,100	38.4%	2,900	3,700	78.4%	540	4,400	4,100	4,600	5,100
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	212,732	285,000	74.6%	258,832	336,000	77.0%	55,066	395,000	407,000	480,000	563,000

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## LETTER FROM THE BOARD

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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 2016 to 2021, 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 40% and 73%, respectively.

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, mainly because the price offered by the San Miguel Group was relatively higher compared to the price offered by Independent Third Party Suppliers. For the benefit of the Company and Shareholders as a whole, the Group purchased most of the packing materials from Independent Third Party Suppliers during the years 2016-2021 as a result of the foregoing. However, the utilisation rates increased from approximately 5.8% for the year ended 31 December 2020 to approximately 10.2% for the year ended 31 December 2021. The utilisation rate further increased to approximately 16.0% (annualised) for the year ending 31 December 2022. For the year ended 31 December 2020 and 2021, approximately around 2% and 3% of the total packaging materials requirement were purchased from the San Miguel Group, respectively.

It is the Group's policy to, within reason, avoid reliance on any one supplier for each type of packaging material and therefore it is generally the case that two or more suppliers will be selected to supply a specified percentage of each type of packaging material for the specified period. Moreover, given current global shipping issues, uncertainties brought about by recent global events and the unexpected inflationary environment, the Group would need to have flexibility to shift sourcing to reliable and readily available suppliers, in order to maintain a stable supply of materials to ensure uninterrupted ongoing business operations. For this purpose, the Group would primarily consider suppliers which have a long-term business relationship with the Group with their supply of goods meeting the stringent quality requirements of the Group. The San Miguel Group is one of the few suppliers that could meet such requirements of the Group with the working relationship between them lasting for over 13 years.

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 2020, 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. The utilization rate, however, significantly increased from 38% in 2020 to 78% in 2021 and 68.2% (annualized) for the year ending 31 December 2022 mainly due to the launch of new products under the brand of San Miguel Cerveza Blanca by the Group in the Hong Kong market, which accounted for around 52% of the 2021 purchases of packaged beer from the San Miguel Group. The San Miguel Group is the sole supplier of the products under the brand of San Miguel Cerveza Blanca. Accordingly, the launch and high demand of these new product in the Hong Kong market led to the increase in the purchase of packaged beers from the San Miguel Group. These new products were included in the calculation of the proposed Annual Caps in relation to the purchase of packaged beers for the years ending 31 December 2023, 2024 and 2025.

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## LETTER FROM THE BOARD

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Although the actual Continuing Connected Transactions amount for the entire year of 2022 was not available when the budget of the Group for 2022 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 31 December 2022 was set with reference to historical data (such as composition of the cost of sales) including those for the year ended 31 December 2020 and 2021; (ii) the Company has been doing this business in Hong Kong for over 58 years; and (iii) the Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 13 years.

Besides making reference to the historical data, the Group referred to the latest performance of its products (particularly those the packaging materials of which are significantly sourced from the San Miguel Group), market trend as well as the strategies and programs formulated by the Company in assuming the annual growth rate when determining the Annual Caps for the years 2023, 2024 and 2025. From 2014 to 2021, San Mig Light, being one of those products of the Group the packaging materials of which are significantly sourced from the San Miguel Group, continued to register consistent volume and revenue growth across all channels in Hong Kong. At the same time, the Group had formulated strategies and programs to further improve profitability, and increase market share through, among others, placing more focus on, and strengthening the brand equity of, the San Miguel brand, as well as expand the breadth and depth of the Group's distribution by working closely with wholesalers and direct customers. To this end, the Company launched San Miguel Cerveza Blanca, its new wheat beer offering, in December 2020. With its perfect harmony of spicy, smoky, and fruity flavors throughout a smooth and refreshing taste, the Company expects the brand to continue to be well-received by Hong Kong consumers. The Group will also maintain its export business. The Group considered these factors and accordingly assumed a conservative growth rate 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. In addition, an annual cap also ensures flexibility in the sourcing activities of the Group packaging materials and products to ensure uninterrupted operations. 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 and the flexibility it required for continued business operations if it has to revise the annual caps upward at an extraordinary general meeting before the Group can take up those additional businesses.

In view of the foregoing, the Group considered that the proposed Annual Caps for the years ending 31 December 2023, 2024 and 2025 are fair and reasonable.

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## LETTER FROM THE BOARD

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### **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 2023 to 2025 based on the projected transaction amounts of the Continuing Connected Transactions for the year ending 31 December 2022, 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:



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## LETTER FROM THE BOARD

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### *Purchase of packaging materials*

The Company prepared a budget for year 2022 with respect to the purchase of packaging materials in the third quarter of 2021 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 2021; (2) the total forecasted purchase volumes of packaging materials for the second half of 2021; (3) the expected growth in such purchase volumes in 2022; (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 2021 is in line with its forecasted figure for that year.

The Annual Caps in respect of the purchase of packaging materials from the 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 2023, 2024 and 2025.

A projection on the sales volume for the year ending 31 December 2022 was prepared principally based on the historical sales figures and expected growth in 2022 taking into account the business strategies to be implemented by the Group. In projecting the sales figures for the three years ending 31 December 2025, the Group has applied an estimated year-on-year growth rate of 2% on the projected sales volume of various beverage products for the year ending 31 December 2022 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; (iii) the Management's expectation on the future demand for the Group's products; and (iv) the indications of the demand for the Group's products as communicated between the Group and the San Miguel Group.

- (ii) The amount of packaging materials required was calculated based on the projected sales figures.

The amount of packaging materials required for the projected sales figures was calculated by taking into account different conversion factors which convert hector-liter, which is used as the measuring unit in the sales volume projection, to the number of cases and pieces of packaging materials required.

- (iii) The HK\$ price per unit of each packaging material was estimated for each of the years ending 31 December 2023, 2024 and 2025.

The Group obtained price quotations for the packaging materials required from the San Miguel Group for the year ending 31 December 2022. The price per unit of each packaging material was then multiplied by a projected year-on-year consumer price inflation in the PRC and the Philippines (since the packaging materials are sourced from there).

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## LETTER FROM THE BOARD

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- (iv) The estimated percentage allocation of total packaging materials required by the Group to the San Miguel Group for each of the years ending 31 December 2023, 2024 and 2025

An estimated percentage of the total packaging materials required by the Group was allocated to the San Miguel Group based on, among others, (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 Group also included an approximately 10% buffer of the entire transaction amount in order to provide flexibility to the Company in case of any unforeseen increase in the market demand of packaging materials.
- (vi) The total projected cost of these transactions for the years ending 31 December 2023, 2024 and 2025 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 based from projected sales volume calculated in (ii) from the above, the projected HK\$ price per unit calculated in (iii) above, and the estimated percentage of the total amount of packaging materials required by the Group allocated to the San Miguel Group as set out in (iv) above. The Group also included an approximately 10% buffer of the entire transaction amount in order to provide flexibility to the Company in case of any unforeseen increase in the market demand of packaging materials.

The Annual Caps for the purchase of packaging materials show an increasing trend for the years from 2023 to 2025 due to the following factors:

- (i) the target increase in the Group's business volume (the Group had formulated strategies and programs to further improve profitability, and increase market share through, among others, placing more focus on, and strengthening the brand equity of, the San Miguel brand, as well as expand the breadth and depth of the Group's distribution by working closely with wholesalers and direct customers. The Group will also maintain its export business);
- (ii) 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:

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## LETTER FROM THE BOARD

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	Forecast for the year ending 31 December			
	2022	2023	2024	2025
PRC year-on-year consumer price inflation rate	2.3%	2.3%	2.3%	2.2%
Philippines year-on-year consumer price rate	3.2%	3.0%	3.1%	3.0%

- (iii) Among the major packaging materials required by the Group, a particular type of packaging materials (flint bottles and crowns) is used for one of the focused products of the Group for which the Group has formulated strategies and programs to promote and grow, and for the years 2023 to 2025, it is estimated to account for approximately 17% of the total packaging requirements of the Group. This particular type of packaging materials has been mainly sourced from the San Miguel Group. The Group considered the San Miguel Group as a reliable supplier for the years 2023 to 2025 in view of the competitive price quotations obtained for this particular type of packaging materials for these years from the San Miguel Group. For the rest of the packaging materials, the San Miguel Group is considered as backup alternative supply source with due consideration to the required stability of supply by the Group.

Moreover, it is to be noted that the Annual Caps are means by which the amount of packaging materials to be purchased is monitored but not a commitment by the Group to purchase packaging materials from the San Miguel Group. The Annual Caps allows the Group to have flexibility to shift sourcing to reliable and readily available suppliers, given current global shipping issues, uncertainties brought about by recent global events and the unexpected inflationary environment. The Group requires a stable supply of materials to ensure uninterrupted ongoing business operations, and therefore, the Group would primarily consider suppliers which have a long-term business relationship with the Group with their supply of goods meeting the stringent quality requirements of the Group. The San Miguel Group is one of the few suppliers that could meet such requirements of the Group with the working relationship between them lasting for over 13 years.

As a result of the foregoing, the Annual Caps for the purchase of the major packaging materials from 2023 to 2025 are higher than the historical transactions amounts and the forecasted figure. Nevertheless, in view of the competitive pricing under the quotations obtained by the Group from the San Miguel Group for the particular type of packaging materials for its focused product, and given the flexibility and stable supply afforded to the Group by the San Miguel Group as explained above, it is considered that the Annual Caps for the purchase of packaging materials by the Group from the San Miguel Group are in the best interests of the Company.

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## LETTER FROM THE BOARD

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### Purchase of packaged beer

The Company prepared a budget for year 2022 with respect to the purchase of packaged beer in the third quarter of 2021 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 2021; (2) the total forecasted purchase volumes of packaged beer for the second half of 2021; (3) the expected growth in such purchase volumes in 2022; (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 2021 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 2023 to 2025. In addition to the budget for year 2022, 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 5%-15% after the Group has considered the historical sales volume and the target business plan; and
- (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			
	2022	2023	2024	2025
US\$:HK\$ exchange rate (1US\$: HK\$)	7.778	7.776	7.770	7.768
Philippines year-on-year consumer price rate	3.2%	3.0%	3.1%	3.0%

### Sales of packaged beer and non-alcoholic beverage products

After receiving an indication of the expected demand of goods from the San Miguel Group, the Company prepared a budget for year 2022 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 2021 principally with reference to (1) the total historical sale volumes of packaged beer and non-alcoholic beverage products in the past years, (2) the expected growth in such sale volumes in 2022, and (3) the expected profit margin which will be consistent and in line with the historical profit margins earned by the Group.

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## LETTER FROM THE BOARD

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The Annual Caps for the sales of packaged beer and non-alcoholic beverage products show an increasing trend for the years from 2023 to 2025. In addition to the budget for year 2022, 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; (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:

	<b>Forecast for the year ending 31 December</b>			
	<b>2022</b>	<b>2023</b>	<b>2024</b>	<b>2025</b>
HK\$:RMB exchange rate (1RMB: HK\$)	1.21	1.20	1.19	1.20
US\$:HK\$ exchange rate (1US\$: HK\$)	7.778	7.776	7.770	7.768
Hong Kong year-on-year consumer price inflation rate	1.8%	1.8%	2.1%	2.0%
PRC year-on-year consumer price inflation rate	2.3%	2.3%	2.3%	2.2%
Philippines year-on-year consumer price rate	3.2%	3.0%	3.1%	3.0%

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 products from the San Miguel Group. During the period from 2016 to 2021, the average utilization rates of the respective annual caps were approximately 73%. Hence, the Group considered that the indication on the demand of the Group's products from the San Miguel Group is the appropriate and reliable data in determining the Annual Caps for the years ending 31 December 2023, 2024 and 2025. For the year-on-year growth rate from 2023 to 2025, 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 12% from 2013 to 2020 and 22% in 2021). At the same time the Group also considered the year-on-year consumer price inflation in Hong Kong and a conservative 2% annual increase in labour cost.

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## LETTER FROM THE BOARD

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The utilisation rate of the annual cap relating to the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group increased from approximately 74.6% for the year ended 31 December 2020 to approximately 77.0% for the year ended 31 December 2021, and further to approximately 83.7% (annualised) for the year ending 31 December 2022, mainly due to increase in sales volume of the relevant packaged beer and non-alcoholic beverage products sold to the San Miguel Group. In addition, 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 products 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 2023, 2024 and 2025.

Historically, the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group represented approximately 36% of the total revenue of the Group for the financial years ended 31 December 2017, 2018, 2019 and 2020. However given the global shipping issues that primarily affected other production facilities of the San Miguel Group in 2021, the San Miguel Group shifted their purchase of the packaged beer and non-alcoholic beverage products from these production facilities to the Group in 2021. As the Group had excess production capacity after serving its main strategic markets of Hong Kong, Macau and PRC, the Group was able to meet the demand of the San Miguel Group, leading to an increase in the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group to approximately 43.46% of the total revenue of the Group for the financial year ended 31 December 2021. Accordingly, this does not indicate substantial reliance on the San Miguel Group. Moreover, as the additional sales of packaged beer and non-alcoholic beverage products to the San Miguel Group made use of excess production capacity of the Group, the said additional sales of the Group to the San Miguel Group is in the interest of the Company and its shareholders as a whole.

The main goal for the Group remains to be to increase market share in Hong Kong, Macau and PRC, which are the markets principally served by the Group and continue to be the strategic markets of the Group. The Group has formulated strategies and programs for these strategic markets which include, among others, placing more focus on, and strengthening the brand equity of, the San Miguel brand, as well as expanding the breadth and depth of the Group's distribution by working closely with wholesalers and direct customers in these markets, thereby increasing as well sales to Independent Third Parties. To this end, the Company launched San Miguel Cerveza Blanca in the Hong Kong market, its new wheat beer offering, in December 2020. With its perfect harmony of spicy, smoky, and fruity flavors throughout a smooth and refreshing taste, the Company expects the brand to continue to be well-received by Hong Kong consumers.

Even though the Company does not have the actual latest financial information for year 2022, the Company has been doing this business in Hong Kong for over 58 years. The Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 13 years. Accordingly, the Company has sufficient historical data to determine the Annual Caps. For example, the Company has been using the historical sales 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 2022 and has been using the historical purchase volumes of packaging materials in 2020 and 2021 as

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## LETTER FROM THE BOARD

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one of the factors to forecast the volume of packaging materials which the Group expects to purchase from the San Miguel Group in 2022. 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 San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines on 25 April 2022, Monday, at 4:00 p.m. and streamed live via the audio webcast which may be accessed at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM) to seek the Independent Shareholders' approval for the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps. Independent Shareholders may attend the EGM and vote online through the said live audio webcast of the EGM which may be accessed at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM) on their computers, mobile phones, tablets and browser-enabled devices from any place with an internet connection. The notice of the EGM is set out on pages 60 to 62 of this circular.

In view of the interest of the San Miguel Group in the Continuing Connected Transactions, the San Miguel Group, which controls 245,720,800 Shares (representing approximately 65.78% of the issued Shares of the Company as at the date of the EGM), shall abstain from voting at the EGM on the Ordinary Resolution set out in the EGM Notice relating to the Continuing Connected Transactions. An Independent Board Committee comprising Dr. the Hon. Sir David K. P. Li, Mr. Reynato S. Puno, Mr. Alonzo Q. Ancheta and Mr. Thelmo Luis O. Cunanan Jr. 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.

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## LETTER FROM THE BOARD

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Mr. Ramon S. Ang (the Chairman and a non-executive Director of the Company) abstained from voting on the Board resolutions for approving the Master Agreement, the Continuing Connected Transactions and the Annual Caps (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 (i) pages 53 to 57 of this circular for details of the Directors’ interests and short positions in the securities of the Company and its associated corporations and (ii) page 57 of this circular for details of the Directors being directors/ employees of companies having an interest or short position in the Shares or underlying Shares which are required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

The transfer books and register of members of the Company will be closed from 20 April 2022, Wednesday, to 25 April 2022, Monday, both days inclusive. To qualify for attending the EGM of the Company to be held on 25 April 2022, Monday, 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 19 April 2022, Tuesday.

A form of proxy for use at the EGM is enclosed with this circular. Whether or not the Shareholder is able to attend the meeting the Shareholder is 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 Shareholder from attending and voting at the EGM, or any adjournment thereof, in person at the venue or through the live audio webcast at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM), should they 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.



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## LETTER FROM THE BOARD

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### RECOMMENDATION

The Shareholders' attention is drawn to (i) the letter from the Independent Board Committee set out on page 24 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 25 to 52 of this circular which contains its advice to the Independent Board Committee and the Independent Shareholders; and (iii) the notice of the EGM set out on pages 60 to 62 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 Continuing Connected Transactions are entered into in the ordinary course of business of the Group and the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable, on normal commercial terms, and 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*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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# SAN MIGUEL BREWERY HONG KONG LTD.

## 香港生力啤酒廠有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 236)**

8 April 2022

*To the Independent Shareholders*

Dear Sir or Madam,

### CONTINUING CONNECTED TRANSACTIONS

We refer to the circular dated 8 April 2022 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 Continuing Connected Transactions are entered into in the ordinary course of business of the Group and the terms of the Master Agreement, the Continuing Connected Transactions and the Annual Caps are fair and reasonable, on normal commercial terms, 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,

**Dr. the Hon. Sir David K. P. Li**   **Mr. Reynato S. Puno**   **Mr. Alonzo Q. Ancheta**   **Mr. Thelmo Luis O. Cunanan Jr.**

*Independent Board Committee*

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## LETTER FROM ALTUS CAPITAL

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*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

*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

8 April 2022

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 8 April 2022 (the “**Circular**”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings 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 2022. Accordingly, the Company and SMC entered into the Master Agreement on 7 March 2022 with a view to carry out the Continuing Connected Transactions for the three years ending 31 December 2025.

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## LETTER FROM ALTUS CAPITAL

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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 San Miguel Brewery Inc.

### 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, the San Miguel Group, which controls 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, Mr. Thelmo Luis O. Cunanan Jr., Dr. the Hon. Sir David K. P. Li and Mr. Reynato S. Puno has been established to advise the Independent Shareholders on (i) whether the terms of the Continuing Connected Transactions contemplated under the Master Agreement are fair and reasonable; (ii) whether the Continuing Connected Transactions are conducted 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 of the Continuing Connected Transactions contemplated under the Master Agreement are fair and reasonable; (ii) whether the Continuing Connected Transactions are conducted on normal commercial terms or better, in the ordinary and usual course of business of the

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## LETTER FROM ALTUS CAPITAL

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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 2020 (the "**2020 Annual Report**"); (iii) the Company's annual report for the year ended 31 December 2021 (the "**2021 Annual Report**"); 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 Practicable Date. 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.

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## LETTER FROM ALTUS CAPITAL

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### 1. Background information of the Group

##### 1.1 Business of 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 of the Group are located in Hong Kong, the Mainland China (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 audited consolidated financial information of the Group for each of the three financial years ended 31 December 2019, 2020 and 2021 as extracted from the 2020 Annual Report and the 2021 Annual Report.

	For the year ended 31 December		
	2021	2020	2019
	HK\$ '000	HK\$ '000	HK\$ '000
	(audited)	(audited)	(audited)
Revenue	595,616	555,658	580,050
Gross profit	243,044	243,391	258,846
Profit for the year	22,108	13,851	8,300

Source: 2021 Annual Report and 2020 Annual Report

Year ended 31 December 2020 vs year ended 31 December 2019

Revenue of the Group decreased from approximately HK\$580.1 million for the year ended 31 December 2019 to approximately HK\$555.7 million for the year ended 31 December 2020, representing a decrease of approximately 4.4%. The decline in revenue was partly attributable to the decline in sales volume within South China due to national lockdown, with government mandating the temporary shutdown of all outlets and factories, which included the Group's brewery in Foshan and the closure of shipping ports in South China in the early part of 2020.

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## LETTER FROM ALTUS CAPITAL

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The Group's gross profit margin for the years ended 31 December 2019 and 2020 remained relatively stable at approximately 44.6% and 43.8%, respectively. Gross profit has decreased from approximately HK\$258.8 million for the year ended 31 December 2019 to approximately HK\$243.4 million for the year ended 31 December 2020, which was mainly attributable to the decrease in revenue. Net profit has increased from approximately HK\$8.3 million for the year ended 31 December 2019 to approximately HK\$13.9 million for the year ended 31 December 2020, which was mainly driven by an improvement in total sales volume and rationalisation in spending for Hong Kong operations, as well as the financial support from the Hong Kong government's Employment Support Scheme in 2020.

### *Year ended 31 December 2021 vs year ended 31 December 2020*

Revenue of the Group for the year ended 31 December 2021 amounted to approximately HK\$595.6 million, which represented an increase of approximately HK\$40.0 million or 7.2% as compared to approximately HK\$555.7 million for the corresponding period in 2020. Such increase was mainly due to an approximately 19.1% increase in revenue generated by the South China operations and an approximately 1.0% increase in revenue generated by the Hong Kong operations. The increase in revenue was primarily due to the gradual recovery of economy in both Hong Kong and Guangdong since the outbreak of COVID-19, as well as the notable growth in South China operations' export volumes.

The Group's gross profit margin slightly decreased from approximately 43.8% for the year ended 31 December 2020 to approximately 40.8% for the year ended 31 December 2021, which was mainly due to increase in costs such as the cost of aluminum and diesel fuel. Gross profit remained relatively stable at approximately HK\$243.4 million for the year ended 31 December 2020 and approximately HK\$243.0 million for the year ended 31 December 2021. Net profit increased from approximately HK\$13.9 million for the year ended 31 December 2020 to approximately HK\$22.1 million for the year ended 31 December 2021, which was mainly attributable to the double-digit improvement in the operating profit of South China operations as a result of expansion of sales and distribution network, growth in exports volumes, as well as improved cost management.

### **1.3 Prospects of the Group**

The Group had formulated strategies and programs to further improve profitability, and increase market share through, among others, placing more focus on, and strengthening the brand equity of, the San Miguel brand, as well as expand the breadth and depth of the Group's distribution by working closely with wholesalers and direct customers. To this end, the Company launched San Miguel Cerveza Blanca, its new wheat beer offering, in December 2020. With its perfect harmony of spicy, smoky, and fruity flavors throughout a smooth and refreshing taste, the Company expects the brand to continue to be well-received by Hong Kong consumers. The Group will also maintain its export business.

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## LETTER FROM ALTUS CAPITAL

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### 2. Background information of San Miguel Brewery Inc. and SMC

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

San Miguel Brewery Inc. is owned as to approximately 51.16% by San Miguel Food and Beverage, Inc. (an indirect controlling Shareholder of the Company through Neptunia Corporation Limited and a subsidiary of SMC). San Miguel Brewery Inc. 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. San Miguel Brewery Inc. runs the domestic brewery and non-alcoholic beverage (other than milk, coffee and energy drinks) business of the San Miguel Group in the Philippines.

### 3. Background and principal terms of the Continuing Connected Transactions

For over 13 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 5 March 2019, 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 2022, the Company and SMC entered into the Master Agreement on 7 March 2022 with a view to carrying out the Continuing Connected Transactions from 1 January 2023 to 31 December 2025.

The Master Agreement is a framework agreement which provides the principles, mechanism and terms and conditions for the Group’s purchases from or sales 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.



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## LETTER FROM ALTUS CAPITAL

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

### 3.1 Purchase of packaging materials 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 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.

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

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, between the suppliers and the Group.

The logistics department of the Company (the "**Logistics Department**") is responsible for implementing the pricing policy and the procurement policy of the Group. It will obtain the price quotations from San Miguel Group and at least two Independent Third Party suppliers 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 help to 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.

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## LETTER FROM ALTUS CAPITAL

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Price quotations will only be obtained from suppliers which have been approved by the Group, meaning it has met the stringent quality requirements 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 always includes the San Miguel Group and other suppliers who have a long-term business relationship with the Group as among those from whom the Group obtains price quotations.

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

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 the packaging materials purchased from San Miguel Group for the two years ended 31 December 2021, we have obtained (i) price quotations provided by relevant member of the San Miguel Group, as adhered to the Group’s internal procurement policy; (ii) price quotations from Independent Third Party suppliers; (iii) the reports prepared by the Logistics Department on its recommendations on the base purchase prices and the selection of supplier; and (iv) full list of transactions for the purchase of the packaging materials from the San Miguel Group under the Previous Master Agreement. Based on the full list of transactions, we randomly selected and obtained five sample invoices for the packaging materials for each of the two years ended 31 December 2021 for inspection. Given the samples were randomly selected from the full transaction list, we believe the approach is practical and the selected samples are sufficient for this purpose.

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## LETTER FROM ALTUS CAPITAL

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Following this review exercise we noted that:

- (i) the Company was able to obtain price quotations from at least two Independent Third Party suppliers for comparison with the price quotations from the San Miguel Group on purchasing materials;
- (ii) the Logistics Department has taken into account factors including, among others, the quality of supply, stability of supply, pricing, supply history of each supplier, in deciding the percentage of allocation to San Miguel Group and other Independent Third Party suppliers; and
- (iii) the purchasing invoices showed that transactions of packaging materials with the San Miguel Group had been carried out in accordance with the price quotations provided by the San Miguel Group.

In view of the above, in particular, the internal procurement policy, major terms, and pricing policy of the Previous Master Agreement has been adhered to during the past two years ended 31 December 2021 regarding the purchase of packaging materials transactions of the Group, we are of the view that the Group's purchase of packaging materials from the San Miguel Group has in the past been carried out at arm's length and is in accordance with the Company's internal policies.

### ***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 of the Group which meets the Group's stringent quality requirements and delivery schedules.

In addition, the Group has maintained a strong and smooth working relationship with the San Miguel Group, with transactions entered into between the two parties dating back over 13 years. The Management is of the view, and we concur, that it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

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## LETTER FROM ALTUS CAPITAL

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### 3.2 Purchase of packaged beer 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:*

The finance department of the Company (the "**Finance 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 of packaged beer offered by the San Miguel Group are fair and reasonable, the Finance Department will ensure that the price offered by 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 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 comparable imported beer products supplied by Independent Third Party suppliers.

The Finance Department will maintain a report comparing the net supply cost of each imported beer products with the corresponding selling price on per volume basis. Any update on the report shall be reviewed and approved by the Managing Director of the Company. 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

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## LETTER FROM ALTUS CAPITAL

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on the actual sales performance of the beer products and market conditions. As a beer distributor, the Group seeks to make profits by expanding its portfolio of beer products. Beer products comparable to the packaged beer supplied by the San Miguel Group are not substitutes of one another. The Group will not stop distributing a beer product due to changes in prices of its comparable beer products unless the profit margin of the beer product will no longer be in line with the profit margins of comparable beer products.

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

In relation to the above, for the packaged beer purchased from San Miguel Group for the two years ended 31 December 2021, we have obtained (i) the reports maintained by the Finance Department on comparing net supply cost of each imported beer products with the corresponding selling price on per volume basis; and (ii) full list of transactions for the purchase packaged beer from the San Miguel Group under the Previous Master Agreement for the two years ended 31 December 2021. Based on the full list of transactions, we randomly selected five sample invoices for the packaged beer for each the two years ended 31 December 2021 for inspection. Given the samples were randomly selected from the full transaction list, we believe the approach is practical and the selected samples are sufficient for this purpose.

Following this review exercise we noted that:

- (i) whilst comparison of pricing of different brands of beer products in the Company's database of prices is of limited use considering 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 at least two Independent Third Party suppliers in the market;
- (ii) 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 supplied by at least two Independent Third Party suppliers; and

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## LETTER FROM ALTUS CAPITAL

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- (iii) the purchasing invoices showed that transactions with the San Miguel Group had been carried out in accordance with the reports maintained by the Finance Department.

In view of the above, in particular, the internal procurement policy, major terms, and pricing policy of the Previous Master Agreement has been adhered to during the past two years ended 31 December 2021, we are of the view that the Group's purchase of packaged beer products from the San Miguel Group has in the past been carried out at arm's length and is in accordance with the Company's internal policies.

### ***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 San Miguel Group to complement the range of products sold by the Group and to help diversify product varieties 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.

In addition, the Group has maintained a strong and smooth working relationship with San Miguel Group, with transactions entered into between the two parties dating back over 13 years. The Management is of the view, and we concur that, it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

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

### ***3.3.1 Pricing and terms of the transactions***

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

In respect of the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group, the prices receivable by the Group shall be determined on an annual basis in the ordinary and usual course of business based on the Group's production cost plus margins, with such profit margins to be determined with reference to profit margins which are no less favourable to the Group than those imposed by the Group on 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; and the credit terms offered by 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.

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## LETTER FROM ALTUS CAPITAL

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- (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 price 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 has 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.

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## LETTER FROM ALTUS CAPITAL

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The Group monitors and reviews the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group on a monthly basis. The Finance Department of the Company prepares monthly financial reports which include the percentage of the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group by the Group to the total sales revenue of the Group, which reports are then reviewed by the Management Committee of the Company, including the Managing Director. If upon review for a particular month, the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group is shown to have reached 45% of the total sales revenue of the Group, the Group will not accept new purchase orders from the San Miguel Group notwithstanding that the Annual Caps for the sales of packaged beer and non-alcoholic beverage products by the Group to the San Miguel Group has not been fully utilised, until and unless in the succeeding monthly reviews, such percentage is shown to have decreased and additional purchase orders for packaged beer and non-alcoholic beverages products from the San Miguel Group can be accommodated by the Group, only to the extent that such additional purchase orders will not result in such sales going beyond the said percentage for the remaining period of the relevant financial year. In this regard, we have reviewed the 2020 Annual Report and 2021 Annual Report and noted that for each of the three years ended 31 December 2021, the contribution from the San Miguel Group to the Group's revenue did not exceed 45%.

In relation to the above, for the packaged beer and non-alcoholic beverage products sold to the San Miguel Group over the two years ended 31 December 2021, we have obtained (i) the calculation of estimated production cost and profit margin based on the selling price offered by the Group to San Miguel Group with comparison of profit margins of comparable beer products sold to Independent Third Party customers; and (ii) full list of transactions for the sale of packaged beer and non-alcoholic beverage products to the San Miguel Group for the two years ended 31 December 2021. Based on the full list of transactions, we randomly selected five sample invoices for the packaged beer and non-alcoholic beverage products sold to the San Miguel Group for each of the two years ended 31 December 2021. Given the samples were randomly selected from the full list of transactions, we believe the approach is practical and the selected samples are sufficient for this purpose.



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## LETTER FROM ALTUS CAPITAL

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Following this review exercise we noted that:

- (i) The Company was able to provide the calculation of the costs for the production and distribution of products sold to the San Miguel Group, which has adhered to the internal policy;
- (ii) the cost items included in the calculation were reasonable and the total costs of production and distribution for each product were logically estimated;
- (iii) the invoices showed that the transactions had been carried out in accordance with the quotations and Consolidated Price List provided to the San Miguel Group; and
- (iv) the profit margin 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 2021 was comparable to the profit margin generated from comparable products sold by the Group to Independent Third Parties during the same period of time.

In view of the above, in particular, the internal policy, major terms, and pricing policy of the Previous Master Agreement had been adhered to during the past two years ended 31 December 2021, we are of the view that the Group's sales of the packaged beer and non-alcoholic beverage products to the San Miguel Group has in the past been carried out at arm's length and is in accordance with the Company's internal policies.

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

As advised by the Management, the Company sells packaged beer manufactured at its plants in Mainland China and Hong Kong to overseas in order to diversify its income source. Since the Group's customer base lies mainly in Hong Kong and Macau and it does not have an international sales force outside of Hong Kong and Macau, it is relatively expensive and will require a lot of resources to sell its products to the international market. In order to expand its customer base, the Group can market and sell products to overseas members of the San Miguel Group, which in turn will generate significant revenue without the requirement for high marketing and advertising costs. In addition, it also allows the Group to avoid substantial exchange rate risk and counterparty risk with the ultimate customers in the relevant export markets. We have discussed with the Management and noted that such arrangement will help to broaden the overseas market share of products manufactured by the Group and further increase the Group's brand reputation.

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## LETTER FROM ALTUS CAPITAL

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Given the strong and smooth working relationship with the San Miguel Group under such arrangement for over 13 years, the Management is of the view that, and we believe it is in the interests of the Company and its Shareholders to maintain and strengthen this relationship going forward.

### 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 existing 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 2021 and two months ended 28 February 2022 (the latest available information set out in the management accounts of the Group):

	For the year ended 31 December 2020			For the year ended 31 December 2021			For the two months ended 28 February 2022	For the year ending 31 December 2022	
	Actual amount (audited)	Cap amount	Utilisation rate	Actual amount (audited)	Cap amount	Utilisation rate	Actual amount	Cap amount	Utilisation rate
	HK\$ million	HK\$ million	%	HK\$ million	HK\$ million	%	HK\$ million	HK\$ million	(annualised) %
Purchase of packaging materials from the San Miguel Group	2.2	39.0	5.8	4.3	42.0	10.2	1.2	45.0	16.0
Purchase of packaged beer from the San Miguel Group	1.2	3.1	38.4	2.9	3.7	78.4	0.5	4.4	68.2
Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group	212.7	285.0	74.6	258.8	336.0	77.0	55.1	395.0	83.7

For the years ended 31 December 2020 and 2021, the utilisation rates of the Annual Caps under the Previous Master Agreement ranged in general from approximately 5.8% to 78.4%.

#### 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 increased from approximately 5.8% for the year ended 31 December 2020 to approximately 10.2% for the year ended 31 December 2021. The utilisation rate further increased to approximately 16.0% (annualised) for the year ending 31 December 2022. The low utilisation rates were mainly due to the fact that the Group purchased most of the packaging materials from Independent Third Party suppliers instead of the San Miguel Group for the two years ended 31 December 2021 and the two months ended 28 February 2022. Based on our review of the quotations and our discussion with the Management, we understand this was mainly due to the price offered by the San Miguel Group was relatively higher than the price offered by Independent Third Party suppliers for the two years ended 31 December 2021 and the two months ended 28 February 2022.

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## LETTER FROM ALTUS CAPITAL

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

We understand from the Management that the dip in utilisation rate of the annual cap for the purchase of packaged beer by the Group from San Miguel Group for the year ended 31 December 2020 was due to the Group's ability to produce certain packaged beer products locally and therefore the Group no longer required to purchase and import those products from the San Miguel Group. The utilisation rate of the annual cap significantly increased from approximately 38.4% for the year ended 31 December 2020 to approximately 78.4% and 68.2% (annualised) for the year ended 31 December 2021 and the year ending 31 December 2022, respectively. The increase in the utilisation rate was mainly attributable to the launch of new products under the brand of San Miguel Cerveza Blanca, a wheat beer offering, in December 2020. This new beer has been well received by customers in the Hong Kong operations, which accounted for around 52% of 2021 purchases of packaged beer from the San Miguel Group. We noted that the strong demand from these new products has been taken into consideration in the calculation of the proposed Annual Caps in relation to the purchase of packaged beers for the years ending 31 December 2023, 2024 and 2025.

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

The utilisation rate of the annual cap relating to the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group increased from approximately 74.6% for the year ended 31 December 2020 to approximately 77.0% for the year ended 31 December 2021, and further to approximately 83.7% (annualised) for the year ending 31 December 2022, mainly due to increase in sales volume of the relevant packaged beer and non-alcoholic beverage products sold to the San Miguel Group.

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## LETTER FROM ALTUS CAPITAL

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### 4.2 Proposed Annual Caps

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

	<b>For the year ending 31 December</b>		
	<b>2023</b>	<b>2024</b>	<b>2025</b>
	<i>HK\$ million</i>	<i>HK\$ million</i>	<i>HK\$ million</i>
<b>Purchase of packaging materials from the San Miguel Group</b>	47.0	49.0	51.0
Year-on-year percentage of change		+4.3%	+4.1%
<b>Purchase of packaged beer from the San Miguel Group</b>	4.1	4.6	5.1
Year-on-year percentage of change		+12.2%	+10.9%
<b>Sales of packaged beer and non-alcoholic beverage products to the San Miguel Group</b>	407.0	480.0	563.0
Year-on-year percentage of change		+17.9%	+17.3%

We understand that the Company determined the Annual Caps for the three years ending 31 December 2025 based on the budget with respect to each type of Continuing Connected Transactions of the Group for the year ending 31 December 2022, among other factors, as detailed below. Notwithstanding that the actual transaction amounts for the year ending 31 December 2022 were not available when the Annual Caps were determined, given that (i) the budget with respect to each type of Continuing Connected Transactions of the Group for the year ending 31 December 2022 was set with reference to historical data (such as composition of the cost of sales) including those for the years ended 31 December 2020 and 2021; (ii) the Company has been doing this business in Hong Kong for over 58 years; and (iii) the Company and the San Miguel Group have been conducting the Continuing Connected Transactions for over 13 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.

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## LETTER FROM ALTUS CAPITAL

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

Based on our review of the workings and discussion with the Management, we understand that the Annual Caps in respect of the purchase of packaging materials from the San Miguel Group were calculated as set out below:

- (i) Sales figures of the Group's various beverage products were projected for each of three years ending 31 December 2023, 2024 and 2025.

A projection on the sales volume for the year ending 31 December 2022 was prepared principally based on the historical sales figures and expected growth in 2022 taking into account the business strategies to be implemented by the Group. In projecting the sales figures for the three years ending 31 December 2025, the Group has applied an estimated year-on-year growth rate of 2% on the projected sales volume of various beverage products for the year ending 31 December 2022 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 section headed "1.3 Prospects 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 San Miguel Group. Based on our review of the historical transaction amounts, we noted that the Group's beverage products with the largest sales volume have achieved an annual sales volume growth of up to 4% during the year ended 31 December 2020 despite of the adverse impact brought by the outbreak of COVID-19 in that year, and therefore, we are of the view that the estimated 2% growth rate in determining the Annual Caps is a conservative estimate and is fair and reasonable.

- (ii) The amount of packaging materials required was calculated based on the projected sales figures.

The amount of packaging materials required for the projected sales figures was calculated by taking into account different conversion factors which convert hecto-liter which is used as the measuring unit in the sales figures projection to the number of cases and pieces of packaging materials required.

Based on our review of the workings in calculating the amount of packaging materials required for different products, we noted that the conversion factors taken into account for the estimation of the amount of packaging materials required have been consistently applied over the years.

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## LETTER FROM ALTUS CAPITAL

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- (iii) The HK\$ price per unit of each packaging material was estimated for each of the years ending 31 December 2023, 2024 and 2025.

The Group obtained price quotations for the packaging material required from the San Miguel Group for the year ending 31 December 2022. The price per unit of each packaging material was then multiplied by a projected year-on-year consumer price inflation in the PRC and the Philippines (since the packaging materials are sourced from there). We have reviewed the price quotations obtained by the Group from the San Miguel Group for each type of the packaging materials and noted that the prices per unit applied by the Group in the calculation are in line with the price quotations.

- (iv) The estimated percentage allocation of total packaging material required to the San Miguel Group for each of the years ending 31 December 2023, 2024 and 2025

An estimated percentage of the total packaging material required was allocated to the San Miguel Group based on, among others, (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 years ending 31 December 2023, 2024 and 2025 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. The Group also included an approximately 10% buffer of the entire transaction amount in order to provide flexibility to the Company in case of any unforeseen increase in the market demand of packaging materials. We believe that given there are many outside uncontrollable variables in determining the proposed Annual Caps, it is reasonable to build in a buffer as a precautionary measure.

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## LETTER FROM ALTUS CAPITAL

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We noted that the proposed Annual Caps for the purchase of packaging materials from the San Miguel Group will be higher as compared with the Annual Caps previously set for the years 2020 to 2022, despite of the low historical utilisation rate for the years ended 31 December 2020 and 2021 and the two months ended 28 February 2022 due to the relatively higher prices offered by the San Miguel Group as compared with the Independent Third Parties for most of the packaging materials required, as discussed under section 4.1.1 above. Based on our discussion with the Management and our review of the internal control procedures for selecting suppliers during the two years ended 31 December 2021, we noted that it is the Group's policy to avoid reliance on any one supplier for packaging materials and therefore, it is generally the case that two or more suppliers will be selected to supply a specified material for the specified period.

We also understand that the Group requires a stable supply of materials to ensure uninterrupted ongoing business operation, and therefore, the Group would primarily consider suppliers which have a long-term business relationship with the Group with their supply of goods meeting the stringent quality requirements of the Group. Due to the recent global events and actions of certain governments, it is expected that the global economic environment will remain uncertain, and may cause fluctuations in the price of materials and disruption on supply chain and shipping in the near future. Therefore, despite of the relatively higher price offered by the San Miguel Group in the past two years, the Management believes and we concur that it is fair and reasonable for the Group to set a higher Annual Cap for the purchase of packaging materials from the San Miguel Group, being one of the few suppliers that have sufficient capacity and could meet the stringent quality requirements of the Group with the working relationship between them lasting for over 13 years, to provide flexibility to the Group in sourcing packaging materials from reliable and readily available suppliers so as to ensure ongoing business operation not to be disrupted in case the other suppliers become unavailable or their offer prices become unfavourable to the Group under the expected uncertain global economic environment in the near future. We wish to stress that 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 the Group has been strictly following the internal control procedures based on our review as discussed under section 3.1 above.

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## LETTER FROM ALTUS CAPITAL

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Taking into account the above, in particular, the San Miguel Group can be the Group's backup alternative supply source to avoid concentration on one particular supplier and to provide flexibility for the Group in view of the uncertain economic environment worldwide given the limited number of qualified suppliers for these types of materials, we are of the view that the higher proposed Annual Caps set for the purchase of packaging materials as compared with the years 2020 to 2022 are fair and justifiable, and in the interest of the Company.

We noted the proposed Annual Caps in respect of the purchase of packaging materials from the San Miguel Group for the three years ending 31 December 2025 has a year-on-year percentage growth of approximately 4.1% to 4.3% mainly due to the expected annual growth of the business volumes of the Group's products of 2% as discussed under (i) above and year-on-year consumer price inflation of approximately 2.2% to 3.1% for the three years ending 31 December 2025. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Caps in respect of the purchase of packaging materials from the San Miguel Group have also been fairly and reasonably arrived at.

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

Based on our review of the workings and discussion with the Management, we understand that the Annual Caps in respect of the purchase of packaged beer from the San Miguel Group were calculated as set out below:

- (i) Projected demand for the packaged beer by the Group for each of the years ending 31 December 2023, 2024 and 2025

The 2022 projected demand in the volume of packaged beer was made with reference to the historical transaction volume and expected growth in 2022 taking into account the business strategies to be implemented by the Group. After the 2022 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 the historical transaction amounts and the expected year-on-year increase in the demand of the packaged beer from the San Miguel Group, taking into account the various new business strategies to be implemented by the Group, as mentioned above in the paragraph headed "1.3 Prospects of the Group".



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## LETTER FROM ALTUS CAPITAL

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We noted that 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 is expected to be approximately 5% to 15% after the Group has considered the historical sales volume of the relevant products, in particular, the strong demand on its new products launched under the brand of San Miguel Cerveza Blanca in December 2020, which accounted for approximately 52% of the 2021 purchases of packaged beer from the San Miguel Group. 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 target business plan. While the Group's business was adversely affected by COVID-19 during 2020 and 2021, we noted that the packaged beer products purchased by the Group from the San Miguel Group with the largest volume had achieved an annual growth rate of up to 15% during the three years ended 31 December 2019, therefore, we are of the view that the estimation of 5% to 15% annual growth rate in determining the Annual Caps is a fair and reasonable estimate.

- (ii) The HK\$ price per unit of each packaged beer product was estimated for each of the years ending 31 December 2023, 2024 and 2025.

The average price per unit of each packaged beer for 2021, is 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).

We have considered the (i) average price per unit of each packaged beer product for the two years ended 31 December 2021; (ii) the year-on-year consumer price inflation in the Philippines (since the packaged beer is purchased from the San Miguel Group's Philippines-based operations) for the two years ended 31 December 2021; 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 price has been fairly estimated.

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## LETTER FROM ALTUS CAPITAL

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- (iii) The total projected cost of these transactions for the years ending 31 December 2023, 2024 and 2025 were calculated

Using the information calculated in (i) and (ii) above, the total projected cost of these transactions was calculated. A buffer of approximately 10% of the entire transaction amount was included in the calculations to allow 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.

We noted the proposed Annual Caps in respect of the purchase of packaged beer from the San Miguel Group for the three years ending 31 December 2025 has a year-on-year percentage growth of approximately 10.9% to 12.2%, which was mainly due to the projected year-on-year increase in demand for the Group's packaged beer as discussed under (i) above and year-on-year consumer price inflation in the Philippines of 3.0% to 3.1% for the three years ending 31 December 2025. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Caps in respect of the purchase of packaged beer from the San Miguel Group have also been fairly and reasonably arrived at.

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

Based on our review of the workings and discussion with the Management, the Annual Caps in respect of the sale of packaged beer and non-alcoholic beverages to the San Miguel Group were calculated as set out below:

- (i) Projected sales volumes of the relevant products was calculated for the years ending 31 December 2023, 2024 and 2025

Projected sales volumes for the years ending 31 December 2023, 2024 and 2025 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 2022 with reference to historical sales volume and indications from the San Miguel Group 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.

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## LETTER FROM ALTUS CAPITAL

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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; (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. 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. We have also reviewed the historical growth of the sales volume of the relevant products and noted that the average annual growth rate was approximately 11% from 2013 to 2020 and the growth rate increased to approximately 25% in 2021. On the above basis, the Group has assumed a 15% annual growth in the sales volume of the relevant products for 2023 to 2025.

- (ii) Total cost of the relevant products was calculated for the years ending 31 December 2023, 2024 and 2025

Total cost for the years ending 31 December 2023, 2024 and 2025 was calculated using the projected cost of individual products to be sold to the San Miguel Group for the year ending 31 December 2022 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, distribution cost and other variable production 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; (iii) the Management's expectations of future industry conditions; and (iv) the year-on-year consumer price inflation in the PRC or Hong Kong.

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## LETTER FROM ALTUS CAPITAL

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- (iii) Sales revenue received from such products was calculated for the years ending 31 December 2023, 2024 and 2025

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 (a) the historical profit margin earned by the Group; (b) 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 (c) 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 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 calculation and consider that the methodology employed in calculating the Annual Caps for the years ending 31 December 2023, 2024 and 2025 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 reasonably considered by the Management. In addition, we noted that the utilisation rates of the respective annual caps during 2016 to 2021 in relation to such transaction were relatively stable with an average of approximately 73%. Accordingly, we are of the view that the Annual Caps in respect of the sales of packaged beer and non-alcoholic beverage products to the San Miguel Group have also been fairly and reasonably arrived at.

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.

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## LETTER FROM ALTUS CAPITAL

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### 5. Internal control measures regarding the Continuing Connected Transactions

We understand from the Management that the Company has adopted a set of 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 or better 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, as discussed in details under section 3 above.

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) recommendations 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 respectively.

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 or better; 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 2021. The Company will continue to engage auditors to report on the Continuing Connected Transactions for each of the four years ending 31 December 2025. 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.

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## LETTER FROM ALTUS CAPITAL

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### 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 or better 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*

**Simon Kwok**  
*Senior Manager*

*Ms. Jeanny Leung (“**Ms. Leung**”) is a Responsible Officer of Altus Capital licensed to carry on 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 on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has over 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.*

*Mr. Simon Kwok (“**Mr. Kwok**”) is a Responsible Officer of Altus Capital licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. He has over eight years of experience in financial services industry, including over five years of corporate finance advisory experience in Hong Kong, in particular, he has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions. Mr. Kwok is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.*

## 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*

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

Name	Types of shares	Number of shares in Top Frontier			Total number of shares held	% of total issued shares
		Par Value (Philippine pesos)	Direct ownership	Indirect ownership		
Ramon S. Ang	Common	1.00	75,887	86,658,351	86,734,238	25.907003%
Carlos Antonio M. Berba	Common	1.00	364	—	364	0.000109%
Raymundo Y. Albano	Common	1.00	260	—	260	0.000078%
Roberto N. Huang	Common	1.00	3,039	—	3,039	0.000908%

Name	Types of shares	Number of shares in SMC			Total number of shares held	% of total issued shares
		Par Value (Philippine pesos)	Direct ownership	Indirect ownership		
Ramon S. Ang	Common	5.00	1,345,429	373,623,796	374,969,225	11.057337%
Carlos Antonio M. Berba	Common	5.00	2,600	—	3,645	0.000077%
Raymundo Y. Albano	Common	5.00	8,293	—	8,293	0.000348%
Roberto N. Huang	Common	5.00	42,397	—	42,397	0.001250%
Reynato S. Puno	Common	5.00	5,000	—	5,000	0.000147%



Name	Types of shares	Number of shares in SMFB			Total number of shares held	% of total issued shares
		Par Value (Philippine pesos)	Direct ownership	Indirect ownership		
Ramon S. Ang	Common	1.00	10	—	10	0.000000%
Roberto N. Huang	Common	1.00	10	—	10	0.000000%

Note:

All shares in SMFB were held by the Directors as corporate interests.

Name	Types of shares	Number of shares in SMB			Total number of shares held	% of total issued shares
		Par Value (Philippine pesos)	Direct ownership	Indirect ownership		
Ramon S. Ang	Common	1.00	5,000	—	5,000	0.000033%
Carlos Antonio M. Berba	Common	1.00	5,000	—	5,000	0.000033%
Alonzo Q. Ancheta	Common	1.00	10,000	—	10,000	0.000065%
Roberto N. Huang	Common	1.00	5,000	—	5,000	0.000033%
Kenji Uchiyama	Common	1.00	5,000	—	5,000	0.000033%
Tomoki Yamauchi	Common	1.00	5,000	—	5,000	0.000033%
Reynato S. Puno	Common	1.00	5,000	—	5,000	0.000033%

Note:

Other than the common shares in SMB which were held by Mr. Alonzo Q. Ancheta and Mr. Reynato S. Puno as personal interests, all common shares in SMB were held by Directors as corporate interests.

As of 31 December 2021, the directors do not have interests in any underlying shares of the Company and its associated corporations above within the meaning of Part XV of the SFO.

All interests in the 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 under 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**

<b>Substantial shareholders</b>	<b>Number of ordinary shares held</b>	<b>% of total issued shares</b>
Inigo Zobel ( <i>note 1</i> )	245,720,000	65.78%
Top Frontier Investment Holdings, Inc. ( <i>note 1</i> )	245,720,000	65.78%
San Miguel Corporation ( <i>note 1</i> )	245,720,800	65.78%
Kirin Holdings Company, Limited ( <i>note 1</i> )	245,720,800	65.78%
San Miguel Food and Beverage, Inc. ( <i>note 1</i> )	245,720,800	65.78%
San Miguel Brewery Inc. ( <i>note 1</i> )		
San Miguel Brewing International Limited ( <i>note 1</i> )	245,720,800	65.78%
Neptunia Corporation Limited ( <i>note 1</i> )	245,720,800	65.78%
Cheung Kong (Holdings) Limited ( <i>note 2</i> )	23,703,000	6.34%
CK Hutchison Holdings Limited ( <i>note 2</i> )	23,703,000	6.34%

*Notes:*

- (1) Inigo Zobel, Top Frontier Investment Holdings, Inc. (“**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 Corporation Limited (“**Neptunia**”) in the Company because Inigo Zobel has a controlling interest in Top Frontier, Top Frontier has a controlling interest in SMC, SMC has a controlling interest in SMFB, and SMFB and Kirin hold 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 Executive Officer of SMC; the Vice Chairman, President and Chief Executive Officer of SMFB; and Chairman of SMB. Mr. Carlos Antonio M. Berba is a director of SMB; Chairman, Managing Director and President of SMBIL; and Chairman 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%

- \* With reference to the announcement of the Company dated 25 November 2020, Guangzhou San Miguel Brewery Co., Ltd. (“**GSMB**”) ceased business operations after the expiry of its business term on 29 November 2020 and commenced the liquidation process on 30 November 2020 in accordance with the applicable laws of the PRC. Accordingly, the shareholders of GSMB also approved the establishment of a liquidation team for GSMB to carry out the liquidation of GSMB throughout the liquidation period (“**Liquidation Team**”). With reference to the announcement of the Company dated 21 January 2022, during the liquidation process, the Liquidation Team determined that the assets of GSMB were insufficient to settle its debts. Despite the efforts undertaken by the Liquidation Team, GSMB was unable to reach a settlement with its creditors. In view thereof, pursuant to the Enterprise Bankruptcy Law of the PRC, on 21 January 2022, the Liquidation Team caused the filing of an application for bankruptcy of GSMB with the Guangzhou Intermediate People’s Court, PRC.

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 2021, 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 (resigned effective on 16 January 2022), Mr. Alonzo Q. Ancheta, Mr. Raymundo Y. Albano (appointed to replace Mr. Torralba effective on 16 January 2022), Mr. Roberto N. Huang, Mr. Fumiaki Ozawa, Mr. Reynato S. Puno, Mr. Carmelo L. Santiago (passed away on 6 August 2021), 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 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 had any direct or indirect interest in any assets which had since 31 December 2021, 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 and the interest of Mr. Ramon S. Ang on the Continuing Connected Transactions and the Master Agreement in view of his substantial interest in Top Frontier and SMC as disclosed on page 22 of this circular, 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 2021, 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 will be published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://info.sanmiguel.com.hk>) for the period of 14 days from the date of this circular:

- (a) the Master Agreement;
- (b) the letter from Altus Capital, the text of which is set out in this circular;
- (c) the consent letter from Altus Capital referred to in the section headed “Qualifications and Consent of Expert” in this appendix; and
- (d) the circular of the Company dated 8 April 2022.

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## NOTICE OF EGM

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### SAN MIGUEL BREWERY HONG KONG LTD.

### 香港生力啤酒廠有限公司

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 236)**

#### 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 the San Miguel Head Office Complex, 40 San Miguel Avenue, Mandaluyong City, Metro Manila, Philippines on 25 April 2022, Monday, at 4:00 p.m. and streamed live via the audio webcast which may be accessed by the shareholders at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM), 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 7 March 2022 (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 “**Annual Caps**”) in relation to the transactions contemplated under the Agreement for each of the three financial years ending 31 December 2023, 2024 and 2025 as set out in the circular dated 8 April 2022 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 Annual Caps and the transactions thereby contemplated.”

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## NOTICE OF EGM

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

Hong Kong, 8 April 2022

*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. Raymundo Y. Albano, 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, Dr. the Hon. Sir David K. P. Li, Mr. Reynato S. Puno, Mr. Alonzo Q. Ancheta and Mr. Thelmo Luis O. Cunanan Jr.*

*Notes:*

1. Shareholders who are unable to physically attend the extraordinary general meeting (“EGM”), may still do so and exercise their voting rights in any of the following ways:
  - (1) appoint the chairman of the EGM or other persons as proxy to vote on the shareholders’ behalf. Shareholders are entitled to appoint one or more proxies to attend and vote in their stead at the EGM. A proxy need not be a shareholder of the Company; or
  - (2) attend the EGM via the live audio webcast which may be accessed at [http://meetings.computershare.com/SMB\\_2022EGM](http://meetings.computershare.com/SMB_2022EGM) on their computers, mobile phones, tablets and other browser-enabled devices from any place with an internet connection, and vote through the online platform. Shareholders may also likewise submit questions through the online platform. Shareholders may refer to the enclosed notification letter sent to them with the circular and the Online Meeting User Guide for further details on the procedures for the log in, voting and submission of questions at the EGM. The notification letter and Online Meeting User Guide are also published in the Company’s website. Please note that the proxy’s authority and instructions will be revoked if the shareholder who gave such proxy will attend the EGM and vote online. By logging on to the online EGM, the shareholders represent and warrant that (i) they are the shareholders to whom the log on credentials pertain and (ii) they are entitled to attend, participate and vote at the EGM.

Non-registered shareholders who wish to attend and participate in the EGM online should liaise with their respective bank(s), broker(s), custodian(s), nominee(s) or HKSCC Nominees Limited through which their shares are held (collectively, the “Intermediaries”) and provide their email addresses to the Intermediaries. Details regarding the arrangements of the EGM, including login details to access the live webcast and online voting, will be sent by Computershare Hong Kong Investor Services Limited to the email addresses provided by the non-registered shareholders.

For corporate shareholders who wish to attend the EGM and vote online, please contact the Company’s Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at (852) 2862 8555 on or before Tuesday, 19 April 2022 for arrangement.

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## NOTICE OF EGM

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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 EGM.
3. For the purpose of determining the shareholders who are entitled to attend and vote at the EGM, the transfer books and register of members of the Company will be closed from 20 April 2022, Wednesday, to 25 April 2022, Monday, both days inclusive. To qualify for attending the EGM of the Company to be held on 25 April 2022, Monday, 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 19 April 2022, Tuesday.
4. In light of the recent situation relating to COVID-19 and to protect the safety and health of shareholders, there shall be no distribution of physical corporate souvenirs/gifts and no refreshments will be served. To keep social distancing at the EGM venue, seats shall be limited and will be available on a first-come-first served basis. Given such limitation in seats, it is strongly recommended that the shareholders appoint the chairman of the meeting as his/her proxy to vote on the resolutions as they have indicated in their proxy forms on their behalf, instead of attending the above meeting in person. Shareholders may also opt to attend and vote at the EGM online through the live audio webcast of the EGM and online platform. Further announcements in relation to the precautionary measures at the EGM will be made by the Company as and when appropriate.
5. For any queries on the foregoing, please contact the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, via their hotline at (852) 2862 8555 from 9:00 a.m. to 6:00 p.m. (Monday to Friday, excluding Hong Kong public holidays).