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

(Incorporated in Hong Kong with limited liability)

(Stock Code: 236)

ANNOUNCEMENT OF THE 2023 INTERIM RESULTS

INTERIM RESULTS

The Board of Directors of San Miguel Brewery Hong Kong Limited (the "Company") submit herewith the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2023. The interim results are unaudited, but have been reviewed by the Company's Audit Committee.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

(Expressed in Hong Kong dollars)

		Six months ended 30 June	
		2023	2022
	Note	***$'000***	*$'000*
Revenue	*3*	**415,837**	312,984
Cost of sales		**(250,993)**	(209,052)
Gross profit		**164,844**	103,932
Other net income		**15,253**	18,756
Selling and distribution expenses		**(83,371)**	(74,501)
Administrative expenses		**(39,677)**	(39,295)
Other operating expenses		**(4,170)**	(4,081)
Profit from operations		**52,879**	4,811
Finance costs	*4(a)*	**(232)**	(484)
Profit before taxation	*4*	**52,647**	4,327
Income tax charge	*5*	**(1,922)**	—
Profit for the period		**50,725**	4,327
Attributable to:			
Equity shareholders of the Company		**48,518**	4,499
Non-controlling interests		**2,207**	(172)
Profit for the period		**50,725**	4,327
Earnings per share			
— Basic (cents)	*7(a)*	**13.0**	1.2
— Diluted (cents)	*7(b)*	**N/A**	N/A

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2023	2022
	$'000	*$'000*
Profit for the period	**50,725**	4,327
Other comprehensive income for the period (after tax):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong and monetary items that form part of the net investment in subsidiaries outside Hong Kong	**(4,694)**	(3,502)
Total comprehensive income for the period	**46,031**	825
Attributable to:		
Equity shareholders of the Company	**43,062**	2,301
Non-controlling interests	**2,969**	(1,476)
Total comprehensive income for the period	**46,031**	825

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

(Expressed in Hong Kong dollars)

	Note	At 30 June 2023 $'000	At 31 December 2022 $'000
Non-current assets			
Property, plant and equipment		**336,220**	338,844
Investment properties		**105,802**	108,162
		442,022	447,006
Intangible assets		**4,771**	4,771
		446,793	451,777
Current assets			
Inventories		**71,793**	89,643
Trade and other receivables	*8*	**42,456**	43,183
Amounts due from holding companies and fellow subsidiaries		**31,637**	17,976
Amount due from a related company		**1,947**	2,759
Tax recoverable		**2,673**	—
Cash and cash equivalents		**160,668**	114,006
		311,174	267,567
Current liabilities			
Trade and other payables	*9*	**(89,850)**	(93,241)
Loans from related companies		**(3,519)**	(3,632)
Amounts due to holding companies and fellow subsidiaries		**(4,931)**	(6,469)
Amounts due to related companies		**(10,803)**	(10,314)
Lease liabilities		**(368)**	(374)
		(109,471)	(114,030)
Net current assets		**201,703**	153,537
Total assets less current liabilities		**648,496**	605,314

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

(Continued)

(Expressed in Hong Kong dollars)

	Note	**At 30 June 2023** *$'000*	At 31 December 2022 *$'000*
Non-current liabilities			
Retirement benefit liabilities		**(13,964)**	(12,680)
Lease liabilities		**(2,518)**	(2,915)
		(16,482)	(15,595)
NET ASSETS		**632,014**	589,719
CAPITAL AND RESERVES			
Share capital		**252,524**	252,524
Other reserves		**404,638**	365,312
Total equity attributable to equity shareholders of the Company		**657,162**	617,836
Non-controlling interests		**(25,148)**	(28,117)
TOTAL EQUITY		**632,014**	589,719

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT:

(Expressed in Hong Kong dollars)

1 BASIS OF PREPARATION

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), including compliance with Hong Kong Accounting Standard ("HKAS") 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). It was authorised for issue on 24 July 2023.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2022 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2023 annual financial statements. Details of these changes in accounting policies are set out in note 2.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2022 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

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

The financial information relating to the financial year ended 31 December 2022 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for the financial year but is derived from those financial statements. Further information relating to these statutory financial statements disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2022 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance. The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under section 406(2), 407(2) or (3) of the Companies Ordinance.

2 CHANGES IN ACCOUNTING POLICIES

(a) New and amended HKFRSs

The HKICPA has issued several new and amended HKFRSs that are first effective for the current accounting period of the Group. None of these impacts on the accounting policies of the Group. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism

In June 2022, the Government of the Hong Kong SAR gazetted the Employment and Retirement Schemes Legislation (Offsetting Arrangement) (Amendment) Ordinance 2022 (the "Amendment Ordinance"), which will eventually abolish the statutory right of an employer to reduce its long service payment ("LSP") and severance payment payable to a Hong Kong employee by drawing on its mandatory contributions to the mandatory provident fund ("MPF") scheme (also known as the "offsetting mechanism"). The Government has subsequently announced that the Amendment Ordinance will come into effect from 1 May 2025 (the "Transition Date"). Separately, the Government is also expected to introduce a subsidy scheme to assist employers after the abolition of the offsetting mechanism.

Among other things, once the abolition of the offsetting mechanism takes effect, an employer can no longer use any of the accrued benefits derived from its mandatory MPF contributions (irrespective of the contributions made before, on or after the Transition Date) to reduce the LSP in respect of an employee's service from the Transition Date. However, where an employee's employment commenced before the Transition Date, the employer can continue to use the above accrued benefits to reduce the LSP in respect of the employee's service up to that date; in addition, the LSP in respect of the service before the Transition Date will be calculated based on the employee's monthly salary immediately before the Transition Date and the years of service up to that date.

In July 2023, the HKICPA published "Accounting implications of the abolition of the MPF-LSP offsetting mechanism in Hong Kong" that provides guidance on the accounting considerations relating to the offsetting mechanism and the abolition of the mechanism. In particular, the guidance indicates that entities may account for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed contributions by that employee towards the LSP. However, applying this approach, upon the enactment of the Amendment Ordinance in June 2022, it is no longer permissible to apply the practical expedient in paragraph 93(b) of HKAS 19, *Employee benefits*, and recognise such deemed contributions as reduction of current service cost in the period the related service is rendered, and any impact from ceasing to apply the practical expedient is recognised as a catch-up adjustment in profit or loss with a corresponding adjustment to the LSP liability during the year ended 31 December 2022.

2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(b) New HKICPA guidance on the accounting implications of the abolition of the MPF-LSP offsetting mechanism *(Continued)*

In this interim financial report and in prior periods, consistent with the HKICPA guidance, the Group has been accounting for the accrued benefits derived from its mandatory MPF contributions that are expected to be used to reduce the LSP payable to an employee as deemed employee contributions towards the LSP. However, the Group has been applying the above-mentioned practical expedient.

The Group has assessed the implications of this new guidance on the above accounting policies and has decided to change those accounting policies to conform with the guidance. Management has commenced the processes on implementing the change including additional data collection and impact assessment. However, the impact of the change is not reasonably estimable at the time this interim financial report is authorised for issue, as the Group has yet to fully complete its assessment of the impact of the HKICPA guidance. The Group expects to adopt this guidance with retrospective application in its annual financial statements for the year ending 31 December 2023.

3 REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting

(i) Segment results, assets and liabilities

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the periods ended 30 June 2023 and 2022 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2023	2022	**2023**	2022	**2023**	2022
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Revenue from external customers	**232,708**	174,386	**183,129**	138,598	**415,837**	312,984
Inter-segment revenue	**219**	90	**—**	—	**219**	90
Reportable segment revenue	**232,927**	174,476	**183,129**	138,598	**416,056**	313,074
Reportable segment profit/(loss) from operations (adjusted EBIT)	**10,525**	(12,914)	**39,811**	15,654	**50,336**	2,740

	Hong Kong		Mainland China		Total	
	At 30 June 2023	At 31 December 2022	**At 30 June 2023**	At 31 December 2022	**At 30 June 2023**	At 31 December 2022
	$'000	*$'000*	***$'000***	*$'000*	***$'000***	*$'000*
Reportable segment assets	**926,981**	917,178	**169,065**	138,010	**1,096,046**	1,055,188
Reportable segment liabilities	**81,344**	85,028	**382,688**	380,441	**464,032**	465,469

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

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

	Six months ended 30 June	
	2023	2022
	$'000	*$'000*
Revenue		
Reportable segment revenue	**416,056**	313,074
Elimination of inter-segment revenue	**(219)**	(90)
Consolidated revenue	**415,837**	312,984
Profit		
Reportable segment profit from operations	**50,336**	2,740
Interest income from bank deposits	**1,248**	361
Net gain on disposal of property, plant and equipment	**11**	2
Net foreign exchange gain	**1,220**	1,654
Interest expense on loans from related companies	**(138)**	(396)
Interest on lease liabilities	**(30)**	(34)
Consolidated profit before taxation	**52,647**	4,327

	At 30 June	At 31 December
	2023	2022
	$'000	*$'000*
Assets		
Reportable segment assets	**1,096,046**	1,055,188
Elimination of inter-segment receivables	**(338,079)**	(335,844)
Consolidated total assets	**757,967**	719,344
Liabilities		
Reportable segment liabilities	**464,032**	465,469
Elimination of inter-segment payables	**(338,079)**	(335,844)
Consolidated total liabilities	**125,953**	129,625

3 REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment reporting *(Continued)*

(iii) Geographic information

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

	Revenue from external customers		**Specified non-current assets**	
	Six months ended 30 June		**At 30 June**	At 31 December
	2023	2022	**2023**	2022
	$'000	*$'000*	***$'000***	*$'000*
Hong Kong (place of domicile)	**127,143**	107,016	**412,638**	416,141
Mainland China	**31,523**	31,156	**34,155**	35,636
International	**257,171**	174,812	**—**	—
	288,694	205,968	**34,155**	35,636
	415,837	312,984	**446,793**	451,777

4 PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2023	2022
	$'000	*$'000*
Profit before taxation is arrived at after charging:		
(a) Finance costs		
Interest expenses on loans from related companies	**138**	396
Interest on lease liabilities	**30**	34
Bank charges	**64**	54
	232	484
(b) Staff costs		
Retirement costs	**5,578**	5,663
Salaries, wages and other benefits	**65,154**	61,097
	70,732	66,760
(c) Other items:		
Depreciation		
— Owned property, plant and equipment	**3,716**	3,507
— Right-of-use assets	**8,049**	8,021
Cost of inventories	**250,278**	208,352
Provision for impairment of trade and other receivables	**186**	168

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2023	2022
	$'000	*$'000*
Current tax – Outside Hong Kong		
— Provision for the period	**1,922**	—
Deferred tax		
— Origination and reversal of temporary differences	**—**	—
Income tax charge	**1,922**	—

No provision for Hong Kong Profits Tax in 2023 and 2022 has been made for the Group because the accumulated tax losses brought forward exceed the estimated assessable profits for the both periods.

The provision for current taxation in 2023 is calculated at 25% of the estimated assessable profits for the subsidiaries established in the PRC. No provision for current taxation had been made in 2022 for the subsidiaries established in the PRC because the accumulated tax losses brought forward exceeded the estimated assessable profits or the entitles sustained losses for taxation purposes.

6 DIVIDENDS

Dividends payable to equity shareholders attributable to the previous financial year, approved and paid during the interim period

	Six months ended 30 June	
	2023	2022
	$'000	*$'000*
Final dividend in respect of the previous financial year, approved and paid during the following interim period, of $0.01 per ordinary share (six months ended 30 June 2022: $Nil per ordinary share)	**3,736**	—

7 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six months ended 30 June 2023 of $48,518,000 (six months ended 30 June 2022: $4,449,000) and on 373,570,560 ordinary shares (at 30 June 2022: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted earnings per share

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

8 TRADE AND OTHER RECEIVABLES

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

	At 30 June 2023	At 31 December 2022
	$'000	*$'000*
Current	**29,002**	32,589
Less than 1 month past due	**2,694**	1,151
1 to 3 months past due	**1,406**	679
More than 3 months but less than 12 months past due	**426**	97
More than 12 months past due	**11**	34
	33,539	34,550

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

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

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

9 TRADE AND OTHER PAYABLES

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

	At 30 June 2023	At 31 December 2022
	$'000	*$'000*
Current and less than 1 month past due	**37,639**	46,615
1 to 3 months past due	**49**	950
	37,688	47,565

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

FINANCIAL RESULTS

The Group registered a consolidated profit of HK$50.7 million in the first semester of 2023, compared to HK$4.3 million in 2022. As a result, net profit attributable to equity shareholders for 2023 was HK$48.5 million, compared to HK$4.5 million the previous year.

The Group's consolidated revenue was HK$415.8 million, 32.9% higher than in 2022. Gross profit reached HK$164.8 million, a 58.6% increase versus 2022, with a gross profit margin of 39.6%.

As of 30 June 2023, cash and cash equivalents and bank deposits amounted to HK$160.7 million (HK$114.0 million as of 31 December 2022).

As of 30 June 2023, loans totalled HK$3.5 million (HK$3.6 million as of 31 December 2022). Total net assets stood at HK$632.0 million (HK$589.7 million as of 31 December 2022), with a loan-to-equity ratio of 0.01 (31 December 2022: 0.01).

DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2023.

BUSINESS REVIEW

Hong Kong Operations

With the lifting of all anti-pandemic measures and restrictions in Hong Kong by the early part of 2023 and with the full re-opening of its borders, Hong Kong's economy continued on the path to recovery. Retail sales have been increasing in the past months on improved labour market conditions and the continued uptick in tourism, supported by the government's Consumption Voucher Scheme.

Correspondingly, the Hong Kong beer market grew by 6.2% with much of the improvement coming from the on-premise segment. While the Company reversed its negative on-premise volume performance from 2022, total domestic volumes for the first six months were on par with last year. This is because the performance of the lower-priced economy brands in the off-premise channels declined, in line with the contraction of the beer industry's economy segment. Nevertheless, San Mig Light continued outperforming all our brands, registering double-digit solid growth as of the first half of 2023.

Robust export growth resulted in a 28% increase in total volumes over the same period last year. Along with higher domestic average selling prices and the improvement in export margins, the Company turned around operating results, registering a profit for the first six months, compared to a loss in the same period last year.

As market conditions improved, the Company embarked on an aggressive re-penetration of on-premise outlets in the first half, and implemented an intensified promotion campaign in the retail chains. This was supported by airing a new cut of San Miguel Pale Pilsen's ("SMPP") "A True Friend" TVC in April and May and the implementation of the "Friends, Fly Together" market-wide lucky draw promotion in June. These initiatives helped improve consumer awareness and disposition toward the brand.

To sustain its growth momentum, San Mig Light ("SML") continued to air its "No. 1 Light Beer" TVC throughout the first quarter of the year. The Company also collaborated with local artist, Jin Lio for the "SML x Jin Lio" gift-with-purchase promotion in convenience stores in April and May and a 12-pack promotions in supermarkets.

The San Miguel Cerveza Blanca "Perfect Moment" lucky draw promotion was also rolled out, supported by in-store merchandising display and out-of-home and online advertising.

In February, the Company launched its new seasonal specialty beer offering, San Miguel Chocolate Lager, bringing excitement to the brand.

Meanwhile, gift-with-purchase promotions were also implemented for the Blue Ice brand at convenience stores to support volumes.

With life in Hong Kong returning to normal, popular festivals and events have also resumed. To restore the San Miguel brands' strong association with these events and enhance its international image, we sponsored the World City Championship at the Hong Kong Golf Club in March and the Soccer Sevens Event at the Hong the Kong Football Club in May.

South China Operations

Market conditions in China likewise improved following the lifting of all pandemic restrictions and lockdowns across the country beginning in December 2022.

As a result, San Miguel (Guangdong) Brewery Co., Ltd. ("SMGB") grew its domestic volumes in the first semester. With SMGB's export markets continuing to register healthy volume growth and better margins and production costs improving, operating profit for the first semester grew significantly over the last year.

SMGB's unrelenting efforts throughout the pandemic to expand its distribution network paid off, as it quickly took advantage of the full re-opening of the economy. SMPP sustained its visibility by launching the "Share San Miguel" Campaign, highlighted by a Chinese New Year-themed program early in the year, supported by a merchandising drive at the outlets. Initially launched in Fujian Province, the new SMPP 250ml bottle pack size, was also rolled out in Guangdong, further improving volume.

OUTLOOK

As markets and economies continue to recover and move further away from the pandemic, we will continue to work towards recovering market share from both Hong Kong and South China markets. We will do this by improving brand preference and distribution coverage and maximizing the potential of all brands in our portfolio.

Still, we recognize many challenges and uncertainties that lie ahead. For instance, further interest rate increases in the global banking sector will impact economies, particularly consumer demand.

Also, despite the easing of cost pressures, we will continue to improve efficiencies across our operations and protect our profitability.

We have strategies to help us cope with the risks we foresee. We will closely monitor market conditions to enable us to implement appropriate strategies and programs to accelerate volume recovery, manage costs effectively, and strengthen profitability.

We thank our employees for their hard work and perseverance, and the members of our Board for their guidance. Most of all, we thank all our shareholders, consumers, customers, and business partners for their continued support.

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

There was no purchase, sale or redemption by the Company or any of its subsidiaries of its listed shares during the six months ended 30 June 2023.

CORPORATE GOVERNANCE

The Company has applied the principles of the Code Provisions under the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Listing Rules during the six months ended 30 June 2023, save for the deviation discussed below:

- The Company will be scheduling the board and other meetings in respect of CG Code provisions C.5.1 and C.2.7 for the rest of the year.

PUBLICATION OF DETAILED INTERIM RESULTS

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

By order of the Board
Ramon S. Ang
Chairman

Hong Kong, 24 July 2023

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. Yoshinori Inazumi, Mr. Fumiaki Ozawa and Mr. Yoshinori Tsuchiya; and the independent non-executive directors, Mr. Alonzo Q. Ancheta, Mr. Thelmo Luis O. Cunanan Jr., Dr. the Hon. Sir David K. P. Li and Mr. Reynato S. Puno.