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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)

### **CONNECTED TRANSACTION**

On 25 July 2007, SMGB, a 92% indirectly owned subsidiary of the Company, and ArchEn, a wholly owned subsidiary of SMC (the ultimate controlling shareholder of the Company), entered into the Engineering Design Services Agreement pursuant to which ArchEn will provide process and engineering design services to SMGB in respect of SMGB's proposed expansion of its brewery facilities in Shunde District, Foshan City, Guangdong Province, the PRC.

The total fees payable by SMGB to ArchEn is US\$220,000 (equivalent to approximately HK\$1.72 million). The Directors (including the independent non-executive Directors) consider that the terms of the Engineering Design Services Agreement are fair and reasonable and in the best interests of the Company and the Shareholders as a whole and the Engineering Design Services Agreement is on normal commercial terms.

The Engineering Design Services Agreement constitutes a connected transaction for the Company. Based on the consideration, the Engineering Design Services Agreement, aggregated with the technical support services provided by SMC in respect of the first phase of the brewery expansion project of SMGB, shall only be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but shall be exempted from the independent shareholders' approval requirement pursuant to Rule 14A.32 of the Listing Rules.

### **THE ENGINEERING DESIGN SERVICES AGREEMENT**

**Date:**

25 July 2007

**Parties:**

SMGB, a 92% indirectly owned subsidiary of the Company

ArchEn, a wholly owned subsidiary of SMC

**Services to be provided:**

Pursuant to the Engineering Design Services Agreement, ArchEn will provide process and engineering design services to SMGB in relation to the proposed expansion of the capacity of the brewery plant of SMGB in Shunde District, Foshan City, Guangdong Province, the PRC by 1 million HL to 2 million HL. The process and engineering services to be provided by ArchEn will include:

- Design of all mechanical and electrical works
- Preparation and compilation of the required tender documents for the various construction and engineering works
- Technical evaluation of various proposals from suppliers and contractors
- Engineering follow up and design audit
- Project supervision

It is estimated that the expansion project will take about 10 months to complete.

**Fees:**

The service fee is US\$220,000 (equivalent to approximately HK\$1.72 million), which is payable by SMGB to ArchEn in stages upon completion of certain pre-agreed benchmarks.

The service fee payable by SMGB to ArchEn under the Engineering Design Services Agreement was agreed after arm's length negotiation between SMGB and ArchEn with reference to the estimated costs expected to be incurred by ArchEn for the provision of its services under such agreement with a mark-up of around 5%, which is relatively small as compared with the mark-ups charged by independent service providers to SMGB in respect of other similar services. The Directors (including the independent non-executive Directors) consider that the terms of the Engineering Design Services Agreement are fair and reasonable and in the best interests of the Company and the Shareholders as a whole and the Engineering Design Services Agreement is on normal commercial terms.

**REASONS FOR THE TRANSACTION**

The Group is principally engaged in the production and sale of beer products in Hong Kong, Macau and the PRC. SMGB is principally engaged in the production and sale of beer products in the PRC. The Group has recently been reorganising its production arrangement and more reliance will be placed on the production facilities of the Group in the PRC. Since 2006, the Group has been expanding its brewery facilities in Shunde District, Foshan City, Guangdong Province, the PRC. Expansion of brewery facilities requires extensive technical knowledge and expertise, in respect of which the Group needs external assistance. The Group, as a licensee of a number of trademarks owned by the SMC Group, is also required to observe the product quality standards set by the SMC Group, as the licensors. Accordingly, the Company considers it in the interests of the Company and the Shareholders as a whole to engage ArchEn, a professional project management company within the SMC Group with the necessary experience, knowledge and expertise, to assist SMGB in planning, designing and managing the brewery expansion project. Before engaging ArchEn, the Group sought technical assistance

from a technical division of SMC (the “Corporate Technical Services Division”) in relation to the expansion of SMGB’s facilities. In 2006, SMGB paid SMC total charges of approximately US\$44,000 (equivalent to approximately HK\$344,000) for these services. In 2007, total charges of approximately US\$85,800 (equivalent to approximately HK\$671,000) in respect of technical support services provided by SMC in respect of the brewery expansion project of SMGB was paid/ are payable by SMGB to SMC to date. As a result of a recent restructuring within the SMC Group, the Corporate Technical Services Division was dissolved. It is expected that from the signing of the Engineering Design Services Agreement, the ongoing expansion project of SMGB will be managed by ArchEn pursuant to such agreement.

## **LISTING RULES REQUIREMENTS**

SMC is the ultimate controlling shareholder of the Company, indirectly holding 245,720,800 Shares representing approximately 65.78% of the issued share capital of the Company. ArchEn, which is engaged in the business of providing construction, management and development services such as architectural and engineering services, is wholly owned by SMC and thus is a connected person of the Company. Accordingly, the Engineering Design Services Agreement constitutes a connected transaction for the Company. For the purposes of Chapter 14A of the Listing Rules, (i) the Engineering Design Services Agreement and (ii) the technical support services provided by the SMC Group in respect of the first phase of the brewery expansion project of SMGB are aggregated as one single transaction as both services provided under items (i) and (ii) are of similar nature and are related to the brewery expansion project of SMGB. Based on the aggregate transaction amount and the results of the applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules), the transactions shall only be subject to the reporting and announcement requirements under Chapter 14A of the Listing Rules but shall be exempted from the independent shareholders’ approval requirement pursuant to Rule 14A.32 of the Listing Rules.

As all applicable percentage ratios (as defined in Rule 14.07 of the Listing Rules) based on the total service fees paid/payable by the Group to the SMC Group in respect of the technical services in 2006 are less than 0.1%, the aggregate transactions in 2006 were exempt from the reporting, announcement and independent shareholders’ approval requirements pursuant to Rule 14A.31(2) of the Listing Rules.

Save as disclosed herein, there were no other process and engineering design services fee paid/ payable by the Group to the SMC Group in relation to any expansion project of any brewery plant of the Group.

*As at the date of this announcement, the Board of the Company comprises the executive director, Mr. Chong Yoon Fatt; the non-executive directors, Mr. Ramon S. Ang (Chairman), Mr. Faustino F. Galang (Deputy Chairman), Mr. Carlos Antonio M. Berba, Ms. Minerva Lourdes Bibonia, Mr. Ferdinand K. Constantino, Mr. Iwan D.N. Evans and Mr. Francis H. Jardeleza; and the independent non-executive directors, Dr. The Hon. Sir David K. P. Li and Mr. Ng Wai Sun.*

## DEFINITIONS

Unless the context requires otherwise, the use of capitalised terms in this announcement shall have the following meanings:

“ArchEn”	ArchEn Technologies, Inc., a corporation duly organised and existing under and by virtue of Philippine laws
“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Company”	San Miguel Brewery Hong Kong Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
“connected person(s)”	has the meaning ascribed to it under the Listing Rules
“Director(s)”	the director(s) of the Company
“Engineering Design Services Agreement”	the engineering design services agreement entered into between SMGB and ArchEn on 25 July 2007 in connection with the expansion plan of SMGB’s brewery in Shunde District, Foshan City, Guangdong Province, the PRC
“Group”	the Company and its subsidiaries
“HL”	Hectoliter, a metric unit of volume or capacity equal to 100 liters
“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	the People’s Republic of China, excluding Hong Kong, Macau and Taiwan for the purposes of this announcement
“Shareholders”	the shareholders of the Company
“Shares”	shares of HK\$0.50 each in the Company
“SMC”	San Miguel Corporation, the ultimate controlling shareholder of the Company
“SMC Group”	SMC and its subsidiaries (excluding members of the Group)

“SMGB”	San Miguel (Guangdong) Brewery Company Limited, a company incorporated in the PRC with limited liability and a 92% indirectly owned subsidiary of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“US\$”	United States dollars

By Order of the Board  
**Kenneth T.C. Wong**  
*Company Secretary*

Hong Kong, 26 July 2007