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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**

**Financial adviser**

**OSK Asia Capital Limited**

**Independent financial adviser**

**COMMERZBANK** 

**Commerzbank AG Hong Kong Branch**

The Group has been conducting certain continuing connected transactions with the SMC Group in the ordinary and usual course of business. The Group has been purchasing from the SMC Group (i) packaging materials for the Group's production and (ii) alcoholic and non-alcoholic beverage products for the Group's wholesale and retail distribution. As set out in the announcement of the Company dated 11 March 2005 and the circular of the Company dated 21 March 2005, the Existing Agreement pursuant to which the Continuing Connected Transactions have been transacting will expire on 31 December 2007. On 6 December 2007, the Company and SMC entered into the New Agreement with a view to renewing the agreement to carry out the Continuing Connected Transactions for a further term from 1 January 2008 to 31 December 2010 on substantially the same terms as those under the Existing Agreement.

SMC is the ultimate controlling shareholder of the Company and holds 245,720,800 Shares representing approximately 65.78% of the issued share capital of the Company. SMC and its associates are therefore connected persons of the Company for the purposes of the Listing Rules. Accordingly, the Continuing Connected Transactions including the purchase of packaging materials and alcoholic and non-alcoholic beverage products by the Group from the SMC Group under the New Agreement will constitute continuing connected transactions for the Company under the Listing Rules.

The Company is required to comply with the reporting, announcement and independent shareholders' approval requirements under Chapter 14A of the Listing Rules in respect of the New Agreement. SMC and its associates are required to abstain from voting at the EGM in respect of the resolution to approve the New Agreement, the Continuing Connected Transactions and the Caps.

The Independent Board Committee of the Company comprising independent non-executive Directors has been established to advise the Independent Shareholders in respect of the terms of the New Agreement, the Continuing Connected Transactions and the Caps. Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

A circular containing further details of the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Commerzbank to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the terms of the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders as soon as practicable.

## **BACKGROUND**

The principal business activities of the Group are the production and/or distribution of bottled, canned and draught beers and other beverage products. The Company is a non-wholly owned subsidiary of SMC. SMC is the largest publicly listed food, beverage, and packaging company in Southeast Asia and has over 120 facilities in the Philippines, Southeast Asia, China and Australia.

The Group has been carrying out the Continuing Connected Transactions including purchase from the SMC Group (i) packaging materials for the production of the Group and (ii) alcoholic and non-alcoholic beverage products for the Group's wholesale and retail distribution. Such transactions constitute continuing connected transactions for the Company in its ordinary and usual course of business. As set out in the announcement of the Company dated 11 March 2005 and the circular of the Company dated 21 March 2005, the Company entered into the Existing Agreement on 11 March 2005 setting out the principle terms of the Continuing Connected Transactions. The Existing Agreement will expire on 31 December 2007. Accordingly, on 6 December 2007, the Company and SMC entered into the New Agreement with a view to renewing the agreement to carry out the Continuing Connected Transactions from 1 January 2008 to 31 December 2010 on substantially the same terms as those under the Existing Agreement.

Under the Existing Agreement, the trade-related continuing connected transactions between the Group and the SMC Group include (i) purchase of packaging materials (comprising cans, bottles, crown seals and crates) by the Group from the SMC Group, (ii) purchase of packaged beer by the Group from the SMC Group, (iii) sales of packaged beer by the Group to the SMC Group and (iv) payment of commission by the Group to the SMC Group in respect of sales of packaged beer by the Group directly to customers in certain countries (other than Hong Kong, Macau and the PRC). The term of the Existing Agreement is from 1 January 2005 to 31 December 2007. Apart from beer, the Group also purchases other alcoholic and non-alcoholic beverage products from the SMC Group for the Group's wholesale and distribution business. Products sold by the Group under (iii) and (iv) above were manufactured in the Group's production facilities in Hong Kong. In 2007, the Group ceased the operation of its production facilities in Hong Kong. Accordingly, transactions under (iii) and (iv) above have discontinued.

Since April 2007, the Group has commenced to distribute juice sourced from the SMC Group in Hong Kong on a trial-basis with a view to further diversifying and broadening the product line, customer group and revenue base of the Group. The Group plans to formally launch its juice products on the market in 2008. The SMC Group may from time to time subsidize the marketing and selling expenses incurred by the Group in relation to the promotion and sale of the relevant juice products. For the purpose of the Listing Rules, such possible subsidy constitutes a financial assistance given by the SMC Group to the Group. As such financial assistance is to be provided by a connected person for the benefit of the Company on favourable terms to the Company where no security over any assets of the Group will be given in respect of the possible subsidy, such possible subsidy is exempted from all reporting, announcement and independent shareholders approval requirements under Rule 14A.65(4) of the Listing Rules.

## **THE NEW AGREEMENT**

### **Date**

6 December 2007

### **Parties**

The Company and SMC

### **Continuing Connected Transactions and the Caps**

Under the New Agreement, the Group will enter into the Continuing Connected Transactions with the SMC Group, including the purchase of packaging materials and alcoholic and non-alcoholic beverage products by the Group from the SMC Group.

### **Term**

Subject to the Independent Shareholders' approval on the Continuing Connected Transactions, the New Agreement and the proposed Caps, the New Agreement shall have a term for the period from 1 January 2008 to 31 December 2010. In the event that the Continuing Connected Transactions and the Caps are not approved by the Independent Shareholders, the Company has the right to and will terminate the New Agreement.

### **Pricing**

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from Commerzbank) confirm that 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 SMC Group, which are described below:

- (a) With respect to the sourcing of packaging materials from the SMC Group, the relevant members of the Group have historically negotiated and shall continue to negotiate supply terms with the SMC Group on an annual basis with reference to the prices and credit terms available 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 agreement between the parties based upon reasonable commercial principles.
- (b) The prices payable by and the credit terms offered to the Group for the alcoholic and non-alcoholic beverage products purchased from the SMC Group have been and shall continue to be determined 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 agreement between the parties based upon reasonable commercial principles.

There is no provision in the New Agreement requiring the Group to exclusively source packaging materials and alcoholic and non-alcoholic beverage products from the SMC Group.

The Directors (excluding the independent non-executive Directors who will express their view after receiving advice from Commerzbank) consider that the Continuing Connected Transactions have been entering into in the ordinary course of business of the Group and the terms of the New Agreement are on normal commercial terms, fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

## REASONS FOR 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 SMC Group has established itself as a competitively priced and dependable supplier to the Group which meet the Group's stringent quality requirements and delivery schedules.

The Group also purchases alcoholic and other non-alcoholic (including juice) beverage products from the SMC Group for sale to the Group's customers in Hong Kong to complement the range of products sold by the Group. The Group believes that this will enhance the product range and earnings potential of the Group.

## HISTORICAL VALUES AND ANNUAL CAPS

Set out below is a summary of (i) the amounts of the Continuing Connected Transactions for the two years ended 31 December 2006 and the ten months ended 31 October 2007, (ii) the relevant cap amounts under the Existing Agreement for each of the three years ending 31 December 2007 and (iii) the proposed Caps for the three years ending 31 December 2010:

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	Year ended 31 December 2005		Year ended 31 December 2006		Actual amount from 1 January 2007 to 31 October 2007 (unaudited)	Year ending 31 December 2007 Cap amount	Caps for the three years ending 31 December 2010		
	Actual amount (audited)	Cap amount	Actual amount (audited)	Cap amount			2008	2009	2010
Purchase of packaging materials by the Group from the SMC Group	33,255	47,800	33,569	92,600	33,680	105,700	42,100	52,000	60,000
Purchase of alcoholic and non-alcoholic beverage products by the Group from the SMC Group (Note)	2,716	4,300	2,873	4,700	2,452	5,000	7,500	8,200	9,200

Note: At the time when the caps for the two years ending 31 December 2007 were determined, there were only purchases of packaged beer. The Group purchased a small amount of alcoholic and non-alcoholic beverage products (other than packaged beer) from the SMC Group during the year ended 31 December 2006 and the year ending 31 December 2007.

The Company is optimistic about the future growth in its sale of alcoholic and non-alcoholic beverage products which will lead to possible growth in the purchase of packaging materials, alcoholic and non-alcoholic beverage products from the SMC Group. The formal launch of the Group's juice products in 2008 is another important factor which is likely to lead to an increase in the quantum of the Continuing Connected Transactions. The Group has ceased its production operation in Hong Kong since October 2007 and has streamlined its operations. Financial resources previously used for the Hong Kong production operations may be allocated to marketing and promotional activities with a view to boosting the sales of the Group's products.

The proposed Caps were determined by reference to a number of factors such as historical transaction amounts, marketing plan of the Group's products, the expected growth in demand for the Group's products and the consequential increase in the need for the relevant packaging materials to meet the Group's production requirements, the Company's optimistic expectations on the growing demand for the Group's beer and non-alcoholic beverage products (in particular where juice is a new product to be formally launched in 2008) which are distributed/to be distributed by the Group, after taking into account, among other factors, more financial resources available for the Group's marketing and promotional activities after cessation of the Hong Kong production since October 2007 and the possible inflation. Buffer of 10% has been built in when the Caps were determined with a view to taking into account possible further market demand and possible exchange rates fluctuations. Given that the purchase of packaging materials by the Group from the SMC Group amounted to approximately HK\$33.6 million for the year ended 31 December 2006 and approximately HK\$33.7 million from 1 January 2007 to 31 October 2007, the proposed cap amounts in respect of the purchase of packaging materials by the Group from the SMC Group for the three years ending 31 December 2010, which were determined with reference to, among other factors, actual transaction values, are less than the relevant cap amount for the year ending 31 December 2007.

## **GENERAL**

The SMC Group controls approximately 65.78% of the issued share capital of the Company. SMC and its associates are therefore connected persons of the Company for the purposes of the Listing Rules. The Continuing Connected Transactions under the New Agreement constitute non-exempt continuing connected transactions under the Listing Rules and are subject to the annual review requirements under Rules 14A.37 to 14A.39 and the reporting requirements under Rules 14A.45 to 14A.47 and are subject to the approval of the Independent Shareholders requirements under Rule 14A.48 of the Listing Rules.

An EGM will be convened to seek Independent Shareholders' approval for the terms of the New Agreement, the Continuing Connected Transactions and the Caps. In view of the interest of the SMC Group in the Continuing Connected Transactions, SMC and its associates (as defined in the Listing Rules), which control approximately 65.78% of the issued share capital of the Company, will abstain from voting at the EGM. The votes to be taken at the EGM will be taken by poll, the results of which will be announced after the EGM. An independent board committee comprising Dr. The Hon. Sir. David K.P. Li, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago has been established to advise the Independent Shareholders in respect of the terms of the New Agreement, the Continuing Connected Transactions and the Caps. Commerzbank has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the New Agreement and whether the Continuing Connected Transactions and the 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.

A circular containing the particulars of the New Agreement, the Continuing Connected Transactions, the Caps, the advice from the Independent Board Committee to the Independent Shareholders, the advice from Commerzbank to the Independent Board Committee and the Independent Shareholders and a notice convening the EGM to approve the terms of the New Agreement, the Continuing Connected Transactions and the Caps will be despatched to the Shareholders as soon as practicable.

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 David Nevyn Evans and Mr. Francis H. Jardeleza; and the independent non-executive Directors, Dr. The Hon. Sir. David K.P. Li, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago.

## DEFINITIONS

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

“associate(s)”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of Directors
“Cap(s)”	the maximum annual aggregate value for each of the Continuing Connected Transactions under the New Agreement for the three years ending 31 December 2010
“Commerzbank”	Commerzbank AG, acting through its Hong Kong Branch, a licensed bank under the Banking Ordinance and an authorised financial institution under the Securities and Futures Ordinance to conduct type 1 (dealing in securities), type 4 (advising on securities) and type 6 (advising on corporate finance) regulated activities as set out in Schedule 5 to the Securities and Futures Ordinance, appointed as the independent financial adviser to make recommendations to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions
“Company”	San Miguel Brewery Hong Kong Limited, a company incorporated in Hong Kong with limited liability, whose shares are listed in the Stock Exchange
“Continuing Connected Transactions”	the transactions between the Group and the SMC Group pursuant to the Existing Agreement and/or the New Agreement
“Directors”	the directors of the Company
“EGM”	the extraordinary general meeting to be convened by the Company to consider, and if thought fit, approve the New Agreement, the Continuing Connected Transactions and the Caps
“Existing Agreement”	the agreement dated 11 March 2005 entered into between the Company and SMC in respect of the Continuing Connected Transactions
“Group”	the Company and its subsidiaries



“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	an independent committee of the Board, comprising Dr. The Hon. Sir. David K.P. Li, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago, all of them being independent non-executive Directors, which has been established by the Board to advise the Independent Shareholders in respect of the New Agreement, the Continuing Connected Transactions and the Caps
“Independent Shareholder(s)”	the shareholder(s) of the Company, other than SMC and its associates
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“New Agreement”	the agreement dated 6 December 2007 entered into between the Company and SMC in respect of the Continuing Connected Transactions
“PRC”	the People’s Republic of China which, for the purpose of this announcement, excludes Hong Kong, Macau and Taiwan
“Share(s)”	ordinary share(s) of HK\$0.5 each in the share capital of the Company
“Shareholders”	the shareholders of the Company
“SMC”	San Miguel Corporation, the ultimate controlling shareholder of the Company
“SMC Group”	SMC and its associates, excluding the Group, for the purpose of this announcement
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong

By Order of the Board  
**Chong Yoon Fatt**  
*Managing Director*

Hong Kong, 6 December 2007