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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)

ANNOUNCEMENT OF THE 2022 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 2022. 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	
		2022	2021
		\$'000	\$'000
	<i>Note</i>		
Revenue	3	312,984	266,395
Cost of sales		<u>(209,052)</u>	<u>(156,406)</u>
Gross profit		103,932	109,989
Other net income		18,756	13,078
Selling and distribution expenses		(74,501)	(78,778)
Administrative expenses		(39,295)	(37,267)
Other operating expenses		<u>(4,081)</u>	<u>(4,513)</u>
Profit from operations		4,811	2,509
Finance costs	4(a)	<u>(484)</u>	<u>(1,090)</u>
Profit before taxation	4	4,327	1,419
Income tax charge	5	<u>—</u>	<u>—</u>
Profit for the period		<u>4,327</u>	<u>1,419</u>
Attributable to:			
Equity shareholders of the Company		4,499	1,142
Non-controlling interests		<u>(172)</u>	<u>277</u>
Profit for the period		<u>4,327</u>	<u>1,419</u>
Earnings per share			
— Basic (cents)	7(a)	<u>1.2</u>	<u>0.3</u>
— Diluted (cents)	7(b)	<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME – UNAUDITED

(Expressed in Hong Kong dollars)

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Profit for the period	4,327	1,419
	-----	-----
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	(3,502)	734
	-----	-----
Total comprehensive income for the period	825	2,153
	=====	=====
Attributable to:		
Equity shareholders of the Company	2,301	2,245
Non-controlling interests	(1,476)	(92)
	-----	-----
Total comprehensive income for the period	825	2,153
	=====	=====

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

(Expressed in Hong Kong dollars)

		At 30 June 2022 \$'000	At 31 December 2021 \$'000
	<i>Note</i>		
Non-current assets			
Property, plant and equipment		342,965	346,750
Investment properties		110,526	112,173
		453,491	458,923
Intangible assets		4,771	4,771
		458,262	463,694
Current assets			
Inventories		66,367	69,374
Trade and other receivables	8	43,445	42,250
Amounts due from holding companies and fellow subsidiaries		33,929	12,103
Amount due from a related company		1,331	1,273
Bank deposits		23,386	30,579
Cash and cash equivalents		69,143	101,807
		237,601	257,386
Current liabilities			
Trade and other payables	9	(82,240)	(85,144)
Loans from related companies		(16,668)	(42,351)
Amounts due to holding companies and fellow subsidiaries		(7,425)	(7,618)
Amounts due to related companies		(11,139)	(9,452)
Lease liabilities		(360)	(362)
		(117,832)	(144,927)
Net current assets		119,769	112,459
Total assets less current liabilities		578,031	576,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION – UNAUDITED

(Continued)

(Expressed in Hong Kong dollars)

	At 30 June 2022 \$'000	At 31 December 2021 \$'000
	<i>Note</i>	
Non-current liabilities		
Retirement benefit liabilities	(3,207)	(1,757)
Lease liabilities	(2,897)	(3,294)
	<u>(6,104)</u>	<u>(5,051)</u>
NET ASSETS	<u>571,927</u>	<u>571,102</u>
CAPITAL AND RESERVES		
Share capital	252,524	252,524
Other reserves	352,612	350,311
	<u>605,136</u>	<u>602,835</u>
Total equity attributable to equity shareholders of the Company	605,136	602,835
Non-controlling interests	(33,209)	(31,733)
	<u>571,927</u>	<u>571,102</u>
TOTAL EQUITY	<u>571,927</u>	<u>571,102</u>

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 25 July 2022.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2021 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2022 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 2021 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 2021 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 2021 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

The HKICPA has issued several amendments to 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.

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 2022 and 2021 is set out below:

	Six months ended 30 June					
	Hong Kong		Mainland China		Total	
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Revenue from						
external customers	174,386	175,987	138,598	90,408	312,984	266,395
Inter-segment revenue	90	180	—	—	90	180
Reportable segment revenue	174,476	176,167	138,598	90,408	313,074	266,575
Reportable segment (loss)/profit from operations (adjusted EBIT)	(12,914)	(619)	15,654	3,024	2,740	2,405
	Hong Kong		Mainland China		Total	
	At 30 June	At 31 December	At 30 June	At 31 December	At 30 June	At 31 December
	2022	2021	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Reportable segment assets	921,615	958,307	151,470	137,776	1,073,085	1,096,083
Reportable segment liabilities	75,753	105,547	425,405	419,434	501,158	524,981

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	
	2022	2021
	\$'000	\$'000
Revenue		
Reportable segment revenue	313,074	266,575
Elimination of inter-segment revenue	(90)	(180)
	<u>312,984</u>	<u>266,395</u>
Consolidated revenue	<u><u>312,984</u></u>	<u><u>266,395</u></u>
Profit		
Reportable segment profit from operations	2,740	2,405
Interest income from bank deposits	361	653
Gain on disposal of fixed assets	2	40
Net foreign exchange gain/(losses)	1,654	(639)
Interest expense on loans from related companies	(396)	(1,015)
Interest on lease liabilities	(34)	(25)
	<u>4,327</u>	<u>1,419</u>
Consolidated profit before taxation	<u><u>4,327</u></u>	<u><u>1,419</u></u>
	At 30 June	At 31 December
	2022	2021
	\$'000	\$'000
Assets		
Reportable segment assets	1,073,085	1,096,083
Elimination of inter-segment receivables	(377,222)	(375,003)
	<u>695,863</u>	<u>721,080</u>
Consolidated total assets	<u><u>695,863</u></u>	<u><u>721,080</u></u>
Liabilities		
Reportable segment liabilities	501,158	524,981
Elimination of inter-segment payables	(377,222)	(375,003)
	<u>123,936</u>	<u>149,978</u>
Consolidated total liabilities	<u><u>123,936</u></u>	<u><u>149,978</u></u>

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 fixed assets, intangible assets and other tangible 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 fixed assets and other tangible assets and, the location of the operation to which they are allocated, in the case of intangible assets.

	Revenue from		Specified	
	external customers		non-current assets	
	Six months		At	At
	ended 30 June		30 June	31 December
	2022	2021	2022	2021
	\$'000	\$'000	\$'000	\$'000
Hong Kong (place of domicile)	107,016	118,983	423,001	427,562
Mainland China	31,156	37,485	35,261	36,132
Philippines	169,817	105,637	—	—
Others	4,995	4,290	—	—
	205,968	147,412	35,261	36,132
	312,984	266,395	458,262	463,694

4 PROFIT BEFORE TAXATION

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Profit before taxation is arrived at after charging:		
(a) Finance costs		
Interest expenses on loans from related companies	396	1,015
Interest on lease liabilities	34	25
Bank charges	54	50
	<u>484</u>	<u>1,090</u>
(b) Staff costs		
Retirement costs	5,663	4,994
Salaries, wages and other benefits	61,097	58,235
	<u>66,760</u>	<u>63,229</u>
(c) Other items:		
Depreciation		
— Property, plant and equipment	9,160	9,175
— Investment properties	2,368	2,355
Cost of inventories	208,352	156,074
Provision for impairment losses on trade and other receivables	168	161
	<u>168</u>	<u>161</u>

5 INCOME TAX

Taxation in the consolidated income statement represents:

	Six months ended 30 June	
	2022	2021
	\$'000	\$'000
Current tax – Hong Kong Profits tax		
— Provision for the period	—	—
	-----	-----
Deferred tax		
— Origination and reversal of temporary differences	—	—
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Income tax charge	—	—
	=====	=====

No provision for Hong Kong Profits Tax for the six months ended 30 June 2022 is made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the period or the entities sustained losses for taxation purposes.

No provision for current taxation has been made for the subsidiaries established in the PRC because accumulated tax losses brought forward exceed the estimated assessable profits or the entities sustained losses for taxation purposes.

6 DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2022 (2021: Nil).

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 2022 of \$4,499,000 (30 June 2021: \$1,142,000) and on 373,570,560 ordinary shares (at 30 June 2021: 373,570,560 ordinary shares), being the number of ordinary shares in issue throughout the period.

(b) Diluted earnings per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary share 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	At 31 December
	2022	2021
	\$'000	\$'000
Current	29,677	28,933
Less than 1 month past due	1,308	1,433
1 to 3 months past due	141	479
More than 3 months but less than 12 months past due	1,348	165
More than 12 months past due	28	71
	<hr/>	<hr/>
	32,502	31,081
	<hr/> <hr/>	<hr/> <hr/>

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 customer. 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	At 31 December
	2022	2021
	\$'000	\$'000
Current and less than 1 month past due	36,037	39,691
1 to 3 months past due	318	1,843
More than 3 months but less than 6 months past due	8	98
More than 6 months past due	2	—
	<hr/>	<hr/>
	36,365	41,632
	<hr/> <hr/>	<hr/> <hr/>

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\$4.3 million in the first semester of 2022, compared to HK\$1.4 million in 2021. As a result, net profit attributable to equity shareholders for 2022 was HK\$4.5 million, compared to HK\$1.1 million the previous year.

The Group's consolidated revenue was HK\$313.0 million, 17.5% higher than the same period in 2021. Gross profit reached HK\$103.9 million, a 5.5% decrease versus 2021, with a gross profit margin of 33.2%.

As of 30 June 2022, cash and cash equivalents and bank deposits amounted to HK\$92.5 million (HK\$132.4 million as of 31 December 2021).

Loans as of 30 June 2022 totaled HK\$16.7 million (HK\$42.4 million as of 31 December 2021). Total net assets stood at HK\$571.9 million (HK\$571.1 million as of 31 December 2021), with a loan-to-equity ratio of 0.03 (31 December 2021: 0.07).

DIVIDENDS

The Board resolved that no dividends will be declared for the six months ended 30 June 2022.

BUSINESS REVIEW

Hong Kong Operations

Hong Kong's economy gradually recovered in 2021 but the first half of 2022 saw a marked weakening, brought about by slower global demand and pandemic-induced disruptions on cross-boundary transportation, which affected exports. With the Omicron variant dominating the number of new cases (at the start of the year), Hong Kong moved from having one of the lowest Covid-19 death rates in the world to having the highest daily death rate per capita in the middle of March, 2022. Heightened restrictions and increased cautiousness by the public weighed heavily on a broad range of economic activities. The beer industry was not spared.

This year is the fourth consecutive year of decline for the Hong Kong beer market. The market slowed in 2019 due to social unrest and has not recovered since, due to the pandemic. The market further declined by 7% in the first half of 2022, with consumption at on-premise channels down by 14% versus last year. Our own volumes in Hong Kong declined over this period. However, with some volume gains in Macau and an increase in exports, we achieved a modest 2% improvement in the total sales volumes in the first six months of the year.

Still, our Hong Kong operations posted a loss due to the notable drop in volume from higher margin domestic consumption, coupled with a significant increase in the cost of aluminum cans, glass bottles, and fuel.

As off-premise channels still account for more than 90% of the Hong Kong beer market, the Company launched a new thematic campaign for San Mig Light, “Hong Kong’s No. 1 Light Beer”, aimed at asserting the brand’s position in this segment. The campaign featured a new television commercial and was supported by point-of-sales visibility activities, out-of-home advertising, premium redemption promotions, and the launch of the small can 4-pack.

San Miguel Pale Pilsen has also focused on off-premise consumption, implementing a series of premium redemption promotions in various retail chains. Despite these programs, San Miguel brand volumes declined by 7%, consistent with the contraction of the industry’s mainstream segment.

San Miguel Cerveza Blanca, launched in 2020, meanwhile continued to defy the market trend, achieving double-digit growth amidst a similar decline in the total premium segment.

Our Blue Ice brand, supported by the retail chain-wide promotion “Bring the Ice Home” and online and bus advertisements, also managed to outperform the entire lower-priced segment.

South China Operations

Similar to Hong Kong, the Covid-19 pandemic in Guangdong has adversely impacted the domestic economy of South China. Broad restrictions and lockdowns across different cities significantly affected our Company’s sales volume, especially from night outlets. However, a notable improvement in its export volumes coupled with cost containment measures resulted in a quadruple increase in profits from our South China operations.

Amidst the continuing challenges brought on by the pandemic, we are using this time to expand our network of dealers and wholesalers, in anticipation of the eventual full reopening of the economy. We are also expanding distribution of San Miguel products in the off-premise supermarkets and grocery stores.

Along with widening our distribution, we implemented programs to further improve visibility for San Miguel. We launched a San Miguel Chinese New Year-themed campaign, supported by a social media engagement and merchandising drive. The Company also launched the new regional carton packaging design for San Miguel Pale Pilsen and San Mig Light to refresh their brand image to both trade and consumers in April. This was followed by the roll-out of the new San Mig Light merchandising campaign in all channels in June.

OUTLOOK

The Covid-19 pandemic will continue to have wide-ranging socio-economic impacts throughout Hong Kong and South China. But with the rest of the world slowly easing into some semblance of normality and as the vaccination rate in Hong Kong increases, the hope is that restrictions will slowly ease and that the economy will recover.

We continue to adapt in the face of continuing changes in the economic environment. We are confident that we have built the capacity and capability to act quickly and deploy the right plans and programs to yield better distribution and consumption in the right places and right target markets.

We thank our employees for their effort and perseverance. We also thank the members of the Board for their continued guidance. Finally, we thank all our business partners, customers, and consumers for their continued support and trust.

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 2022.

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 2022, 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, 25 July 2022

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.