



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 2007 INTERIM RESULTS

INTERIM RESULTS

The directors of San Miguel Brewery Hong Kong Limited (the “Company”) are pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the “Group”) for the six months ended 30 June 2007. The interim results have not been audited by the Company’s auditor, but were reviewed by the audit committee.

CONSOLIDATED INCOME STATEMENT — UNAUDITED

(Expressed in Hong Kong dollar thousands)

	Note	Six months period ended 30 June		Year ended 31 December
		2007	Restated 2006	2006
Turnover	2,3	358,385	372,119	826,817
Cost of sales		(175,302)	(208,183)	(444,311)
Gross profit		183,083	163,936	382,506
Other revenue		9,437	8,162	17,455
Other net expenses		(59)	(99)	(915)
Selling and distribution expenses		(133,059)	(134,640)	(286,873)
Administrative expenses		(40,267)	(45,898)	(104,343)
Other operating expenses		(12,923)	(7,281)	(19,437)
Profit/(loss) from operations		6,212	(15,820)	(11,607)
Finance costs		(4,596)	(3,645)	(8,105)
Restructuring costs		—	(7,896)	(93,159)
Profit/(loss) before taxation	4	1,616	(27,361)	(112,871)
Income tax (charge)/credit	5	(4,482)	(3,448)	6,549
Loss for the period/year		(2,866)	(30,809)	(106,322)
Attributable to:				
Equity shareholders of the Company		(3,707)	(22,594)	(70,144)
Minority interests		841	(8,215)	(36,178)
Loss for the period/year		(2,866)	(30,809)	(106,322)
Loss per share (expressed in Hong Kong cents per share)				
— Basic	7	1.0	6.0	18.8

CONSOLIDATED BALANCE SHEET – UNAUDITED*(Expressed in Hong Kong dollar thousands)*

<i>Note</i>	As at 30 June 2007	As at 31 December 2006
Non-current assets		
Fixed assets		
— Property, plant and equipment	1,602,191	1,578,156
— Investment properties	88,426	89,750
— Interests in leasehold land held for own use under operating leases	101,236	101,471
	1,791,853	1,769,377
Intangible assets	39,598	39,564
Goodwill	5,044	5,044
Other tangible assets	54,635	49,000
	1,891,130	1,862,985
Current assets		
Inventories	52,152	50,664
Trade and other receivables	101,363	116,050
Amounts due from holding companies and fellow subsidiaries	18,184	28,408
Cash and cash equivalents	407,720	416,335
	579,419	611,457
Current liabilities		
Bank loans (unsecured)	(96,991)	(80,374)
Trade and other payables	(148,303)	(194,780)
Amounts due to holding companies and fellow subsidiaries	(13,262)	(7,562)
Current tax payable	(104)	(104)
	(258,660)	(282,820)
Net current assets	320,759	328,637
Total assets less current liabilities	2,211,889	2,191,622
Non-current liabilities		
Bank loans (unsecured)	(95,000)	(95,000)
Retirement benefit liabilities	(12,562)	(14,870)
Deferred tax liabilities	(113,531)	(107,655)
	(221,093)	(217,525)
NET ASSETS	1,990,796	1,974,097
CAPITAL AND RESERVES		
Share capital	186,785	186,785
Reserves	1,765,748	1,751,097
Total equity attributable to equity shareholders of the Company	1,952,533	1,937,882
Minority interests	38,263	36,215
TOTAL EQUITY	1,990,796	1,974,097

NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Hong Kong dollar thousands unless otherwise indicated)

1 BASIS OF PREPARATION

This interim financial report is unaudited and has been prepared in accordance with the requirements of the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 34 “Interim financial reporting” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”).

The financial information relating to the financial year ended 31 December 2006 included in the interim financial report does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2006 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 6 March 2007.

The same accounting policies adopted in the 2006 financial statements have been applied to the interim financial report.

The notes on the interim financial report 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 2006 financial statements.

2 TURNOVER

The principal activities of the Group are the manufacture and distribution of bottled, canned and draught beers. As the Group’s turnover is almost entirely attributable to these activities, no analysis by activity is provided.

Turnover represents the invoiced value of products sold, net of discounts, returns, beer duty and consumption tax.

3 SEGMENT REPORTING

Segment information is presented in respect of the Group’s geographical segments. Information relating to geographical segments based on the location of customers is chosen.

	Hong Kong			PRC			Inter-segment elimination			Consolidated		
	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December	Six months period ended 30 June		Year ended 31 December
	2007	Restated 2006	2006	2007	Restated 2006	2006	2007	Restated 2006	2006	2007	Restated 2006	2006
Revenue from external customers	170,773	193,697	408,664	187,612	178,422	418,153	—	—	—	358,385	372,119	826,817
Inter-segment revenue	16,624	17,727	36,825	—	—	—	(16,624)	(17,727)	(36,825)	—	—	—
Other revenue from external customers	2,804	2,248	5,052	—	—	—	—	—	—	2,804	2,248	5,052
Total revenue	190,201	213,672	450,541	187,612	178,422	418,153	(16,624)	(17,727)	(36,825)	361,189	374,367	831,869
Results:												
Segment result	(14,767)	(10,824)	(32,379)	14,346	(10,911)	8,369				(421)	(21,735)	(24,010)
Unallocated operating income										6,633	5,915	12,403
Finance costs										(4,596)	(3,645)	(8,105)
Restructuring costs	—	—	—	—	(7,896)	(93,159)				—	(7,896)	(93,159)
Income tax (charge)/credit										(4,482)	(3,448)	6,549
Loss for the period/year										(2,866)	(30,809)	(106,322)

4 PROFIT/(LOSS) BEFORE TAXATION

	Six months period ended 30 June		Year ended 31 December
	2007	Restated 2006	2006
Profit/(loss) before taxation is stated after charging and crediting the following items:			
Charging			
(a) Finance costs			
Interest on bank loans	4,505	3,562	7,851
Bank charges	91	83	254
	<u>4,596</u>	<u>3,645</u>	<u>8,105</u>
(b) Staff costs			
Retirement costs	5,687	9,604	15,087
Equity-settled share-based payment expenses	52	—	400
Salaries, wages and other benefits	53,636	58,960	118,836
Severance payments	—	7,896	49,623
	<u>59,375</u>	<u>76,460</u>	<u>183,946</u>
(c) Other items:			
Amortisation			
— Land lease premium	1,281	1,257	2,517
— Bottles and crates	5,036	3,528	8,617
Depreciation			
— Investment properties	1,324	1,092	2,641
— Property, plant and equipment	31,939	36,560	70,472
Cost of inventories	172,092	205,273	437,874
Impairment losses			
— Investment properties	—	—	12,000
— Trade and other receivable	6,428	1,752	11,086
	<u>6,428</u>	<u>1,752</u>	<u>11,086</u>
Crediting			
Net foreign exchange gain	1,451	662	834
Write back of impairment losses			
— Bottles and crates	2,519	—	—
	<u>2,519</u>	<u>—</u>	<u>—</u>

5 INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

Taxation in the consolidated income statement represents:

	Six months period ended		Year ended
	30 June		31 December
	2007	2006	2006
Current tax — Hong Kong Profits Tax			
Provision for the year	—	—	194
Over-provision in respect of prior years	—	—	(55)
	<u>—</u>	<u>—</u>	<u>139</u>
Deferred tax			
Origination and reversal of tax losses and temporary differences	—	—	10,169
Tax effect of recognising tax losses and deductible temporary differences not previously recognised for deferred tax purposes	<u>4,482</u>	<u>3,448</u>	<u>(16,857)</u>
	<u>4,482</u>	<u>3,448</u>	<u>(6,688)</u>
Income tax charge/(credit)	<u>4,482</u>	<u>3,448</u>	<u>(6,549)</u>

The provision for Hong Kong Profits Tax for 2007 is calculated at 17.5% (2006: 17.5%) of the estimated assessable profits for the period. No provision for Hong Kong Profits Tax has been made for the Company and other Hong Kong subsidiaries either because the accumulated tax losses brought forward exceed the estimated assessable profits for the year or the entities sustained losses for taxation purposes.

No provision for overseas taxation has been made for the foreign subsidiaries because the accumulated tax losses brought forward exceed the estimated assessable profits for the period.

6 DIVIDENDS

Directors have resolved that no interim dividends will be declared for 2007. No dividends have been declared or paid during 2006.

7 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company for the period ended 30 June 2007 of \$3,707,000 (30 June 2006 loss of: \$22,594,000; 31 December 2006 loss of \$70,144,000) and on 373,570,560 ordinary shares (at 30 June and 31 December 2006: 373,570,560 ordinary shares), being the weighted average number of ordinary shares in issue throughout the period/year.

(b) Diluted loss per share

The diluted loss per share is not presented as the Company does not have dilutive potential ordinary share for the period/year.

INTERIM DIVIDEND

The directors have resolved that no dividend be declared for the first six months ended 30th June 2007.

FINANCIAL RESULTS

The Company continues to refine its business strategy in 2007. Its performance for the first half of the year demonstrated the Company's ability to balance challenges and opportunities across our businesses to deliver creditable financial results. Having completed the restructuring of our South China operations in 2006, the Company has since announced the closure of its brewing operations in Hong Kong sometime end-September 2007. Production capability will be transferred to our Foshan (Shunde) brewery in PRC, where the Company can meet consumer demand better while streamlining operations, improving capacity utilization and gross margins for the business. Collectively, our restructuring initiatives are designed to result in improved efficiencies and fixed cost savings that align with our strategy of strengthening long-term operating performance.

For the first six months of 2007, consolidated volume and turnover were 13.0% and 3.7% behind 2006 respectively, due largely to lower export volumes and the short supply of Guang's pineapple beer in Guangzhou. Despite this, consolidated gross profit margin improved and increased from 44.1% to 51.1%, a direct result of our decision to push for high-priced products in our South China operations.

Consolidated loss after taxation attributable to equity shareholders of the Company for the six months ended 30 June 2007 was HK\$3.7 million against last year's reported loss of HK\$22.6 million. This, however, included a one-time restructuring cost for South China operations of HK\$5.1 million after minority interests in 2006. Without the restructuring cost in 2006, consolidated loss for the same period last year would have been HK\$17.5 million.

The Company remains cash positive in 2007. Net cash balances at 30 June 2007 amounted to HK\$215.7 million. Total net assets are maintained at HK\$1,990.8 million, along with a low debt-to-equity ratio of 0.11 and current ratio of 2.24 times.

BUSINESS REVIEW

HONG KONG OPERATIONS

The growing popularity of wine and whisky continued to chisel away at beer's share of alcoholic beverage market. As of June 2007, the beer industry suffered a volume decline of 3.3% over the same period last year. However, the Company has performed ahead of the industry and recorded an overall 0.5% gain in market share (Source: AC Nielsen Retail Audit in June 2007).

Total local sales volume for the first six months of 2007 was almost at par with 2006. Nevertheless, the San Miguel brand still possesses strong brand equity, recording double-digit growth in both May and June 2007, which largely mitigated the decline in volumes to 4.6% over the same period last year. Our imported premium brands' volumes grew 21.3%, while low-priced brands grew at a slower 1.4%. Macau continued to maintain a double-digit volume growth over the previous year.

In June 2007, the Company proposed to restructure the Group's production logistics with a view to improving the long-term profitability of the Group. With the relatively high production and operating cost of the Yuen Long brewery compared to our South China brewery, it has been decided that the Yuen Long brewery will cease brewing operations sometime end-September 2007 and that the Group will utilise instead its Foshan (Shunde) brewery in the PRC after closure of brewing operations at the Yuen Long brewery. Management is now formulating a detailed restructuring plan, including the alternative deployment of the Yuen Long brewery and the relevant assets. The Company will make further announcements with respect to the restructuring proposal in accordance to the disclosure requirements under the Listing Rules.

Building on the huge success of "San Miguel WildDayOut", the Company has organized more WildDayOut bar shows in the first half of 2007 to solidify the brand San Miguel communication platform to young consumers. Together with the giant neon-sign atop the Excelsior Hotel at Causeway Bay, sponsorship of popular movies and stepped-up market wide promotion activities in Chinese restaurants, retail chains and provisional stores, San Miguel continues to reinforce its brand presence in the local beer market.

For the remainder of 2007, the Company will launch a new marketing campaign for brand San Miguel, which including new themed television commercials complemented with similarly-themed market promotions to ensure its leadership position and meet the challenges of the market.

SOUTH CHINA OPERATIONS

South China operations recovered strongly after the restructuring in 2006: turnover grew by 5.2% over previous year and recorded a profit before tax of HK\$7.4 million against a loss of HK\$19.0 million in 2006.

San Miguel (Guangdong) Brewery Company Limited ("SMGB") continued its growth momentum during the first six months of 2007. Sales volume increased by 84.3% over the previous year, mainly driven by double-digit growth of Dragon and Valor brand. A new packaging of Dragon Gold was introduced to the local beer market to further enhance its product competitiveness. Dragon brand preference was further sustained in Shunde developing counties and roll-out regions through various market-wide promotional activities. SMGB has also completed a review of its selling and distribution activities and incentive scheme to support the selling of higher-priced products and to rationalise its advertising and promotion expenses in Dongguan.

Phase I of the expansion of the brewery facility of SMGB is almost complete, increasing annual brewing capacity to 1.3 million hectoliters, just in time for the peak season. In the mean time, SMGB has also started on Phase II of the expansion program last May 2007 and this will increase brewing capacity to 2.3 million hectoliters. Phase II is targeting for completion by the end of first quarter 2008.

Meanwhile, Guangzhou San Miguel Brewery Company Limited ("GSMB") also recorded a double-digit volume growth of San Mig Light during the first six months of 2007. However, the short supply of Guang's pineapple beer in the second quarter of 2007 resulted in overall decrease of 26.9% in GSMB's total sales volume.

During the first six months of 2007, GSMB continued to invest in above-the-line campaigns and market wide consumer promotions for San Mig Light to drive brand awareness and preference. The Company was able to secure volumes in Chinese restaurants in downtown Guangzhou and Dongguan, thus paving the way for our plan to rebuild San Miguel brand. In addition, GSMB converted its wholesale-based operations to retail-based model in Guangzhou and Foshan, and was able to stabilize wholesale prices through better control of cross boundary selling.

For the remainder of 2007, SMGB will capitalize on the growth momentum to further increase penetration in roll-out regions and gain market share in the fast growing supermarket segment. SMGB will also launch the Dragon television commercial to continue to sustain brand awareness and preference in Shunde and selected roll-out markets. Meanwhile, GSMB will launch a new marketing campaign to reinvigorate the San Miguel brand. Resources will also be prioritized to high volume outlets to improve overall yield per outlet and to night outlets to improve presence and volume.

OUTLOOK

The outlook for the rest of the year remains positive. Our recent restructuring efforts should help create a solid foundation for the Company's future growth. Clearly, we still have more work to do to drive the Company towards improved profitability. Nevertheless, with our highly motivated teams both in Hong Kong and South China, we remain committed to our promise of becoming a company that will perform consistently year after year.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2007.

CORPORATE GOVERNANCE

The Company has applied the principles of the Code Provisions under the Code on Corporate Governance Practices contained in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules") during the six-month period ended 30 June 2007, save for the deviations discussed below:

1. All of the non-executive directors are not appointed for a specific term (Code Provision A.4.1) but are subject to retirement by rotation once every three years and re-election at the annual general meeting under the Company's Articles of Association.
2. Subsequent to the resignation of Mr. Ian F. Wade on 15 June 2007, the board and the audit committee of the Company included only two independent non-executive directors (including one with appropriate professional qualifications). For the purpose of bringing into compliance with Rules 3.10(1) and 3.21 of the Listing Rules, Mr. Carmelo L. Santiago was appointed as an independent non-executive director, a member of the audit committee and a member of the remuneration committee of the Company on 4 September 2007.

PUBLICATION OF DETAILED INTERIM RESULTS

A detailed results announcement containing all the information required by the Rules Governing the Listing of Securities on the Exchange will be published on the Exchange's website and the Company's website, <http://info.sanmiguel.com.hk> in due course.

By order of the Board
Ramon S. Ang
Chairman

Hong Kong, 4 September 2007

(All monetary values in this announcement are expressed in Hong Kong Dollars unless stated otherwise.)

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, Mr. Ng Wai Sun and Mr. Carmelo L. Santiago.