



BEVERAGES DIVISION

# Delivering Refreshing Soft Drinks

Swire Beverages manufactures, markets and distributes refreshing soft drinks to consumers in Hong Kong, Taiwan, Mainland China, and the USA.









## OVERVIEW OF THE BUSINESS

Swire Beverages has the exclusive right to manufacture, market and distribute products of The Coca-Cola Company (“TCCC”) in Hong Kong, Taiwan, seven provinces in Mainland China and an extensive area of the western USA.



Swire Beverages has two wholly-owned franchise businesses, in Taiwan and the USA, and five majority-owned franchise businesses, in Hong Kong and Fujian, Henan, Anhui and Shaanxi provinces in Mainland China. It has joint venture interests in three other franchises in Mainland China and an associate interest in a manufacturing company, Coca-Cola Bottlers Manufacturing Holdings Limited, which supplies still beverages to all Coca-Cola franchises in Mainland China.

Swire Beverages manufactures 56 beverage brands and distributes them to a franchise population of over 440 million people.

### The Beverages Supply Chain

#### CONCENTRATE PLANTS

TCCC manufactures concentrated beverage base which it distributes to its bottlers, including Swire Beverages.



#### BOTTLERS

As a Coca-Cola bottler, Swire Beverages converts concentrated beverage base into ready-to-drink packaged beverages at its 16 bottling plants.



#### SALES AND DISTRIBUTION

Swire Beverages sells and distributes ready-to-drink packaged beverages to customers in its franchise territories.



#### MARKETING

Swire Beverages markets the brands it distributes in accordance with plans developed in conjunction with TCCC.



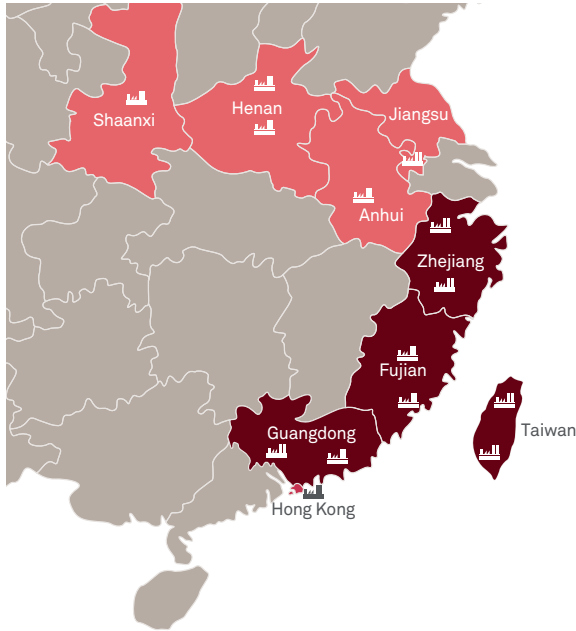
#### POTENTIAL ENVIRONMENTAL IMPACTS

Swire Beverages consumes water, energy and packaging materials. It affects the atmosphere and produces waste.

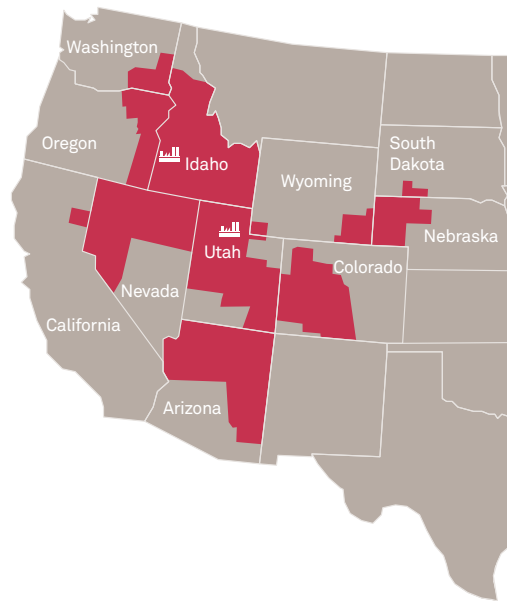


## Franchise Territories

## GREATER CHINA



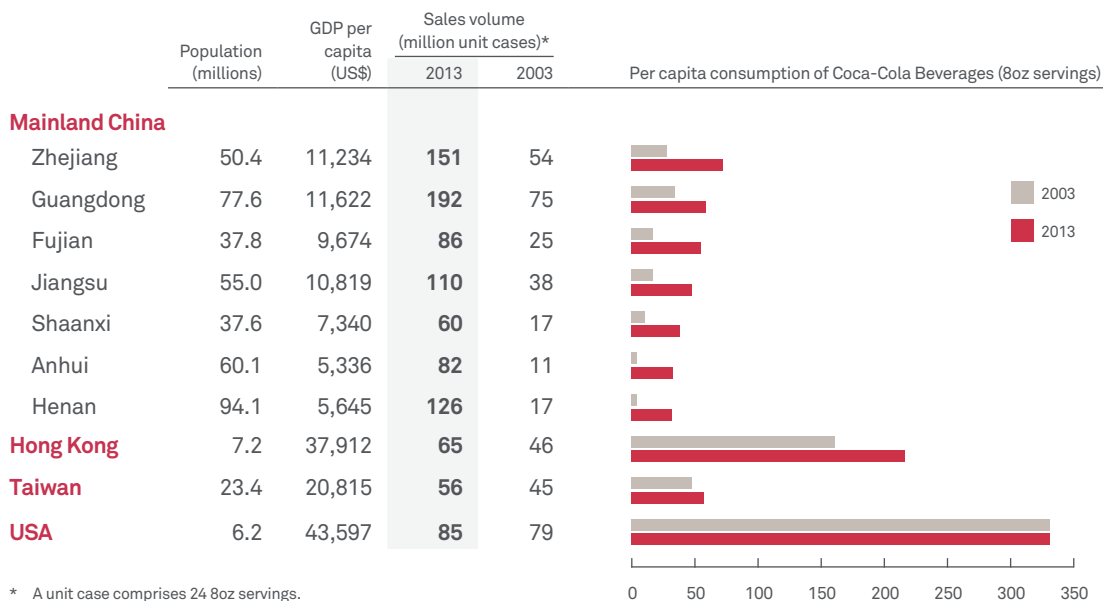
## USA



2013 per capita consumption of Coca-Cola beverages (8oz servings)



## Per Capita Consumption in Franchise Territories





## STRATEGY

The strategic objective of Swire Beverages is to build a world-class bottling system which is recognised as a first class employer, a first class entity with which to do business and a first class corporate citizen in all territories where it does business. The strategies employed in order to achieve this objective are:

- An uncompromising commitment to safety and quality.
- A commitment to work with TCCC to improve our understanding of our customers' businesses, and to use that understanding to create value for our customers and consumers.
- A focus on market execution in sales outlets, recognising that our business depends critically on selling to millions of consumers through such outlets in our franchise territories.
- Effective revenue management, through volume growth and optimisation of pricing and product mix.
- Effective management of costs, through improvements in productivity and efficiency in our supply chain and in sales and distribution.
- A commitment to sustainability, by seeking to reduce the environmental impact of our operations, with a particular focus on water conservation, and by engaging with the communities in which we operate.

## IMPLEMENTING STRATEGIES

### Sales Volume

Swire Beverages aims to increase volume and to do so profitably. This can be achieved in existing territories by marketing our existing brand and package portfolio more effectively, by improving market execution and by expanding our portfolio of beverage categories, brands and packages to satisfy more consumer needs on more occasions. This can also be achieved by obtaining additional territory grants from TCCC, as this increases the number of people Swire Beverages can sell to.

### Turnover

Swire Beverages aims to ensure that sales volume growth is translated into revenue growth. This can be achieved by maintaining or increasing sales prices and by improving the sales mix. The extent to which this is possible depends on the state of the economies in which it operates, consumer habits, competition and resistance by consumers to price increases.

### Cost of Sales

Swire Beverages aims to reduce the costs associated with the manufacturing and distribution of its beverage products and at the same time to ensure that high quality goods and services are provided to customers in a cost efficient and effective manner. Swire Beverages seeks to minimise overheads by improving productivity and efficiency.

## 2013 Performance

### Revenue Management

Sales Volume

Percentage Change

+3.0%	-0.2%
-3.8%	+2.0%

Revenue\*

Percentage Change

-1.6%	+2.7%
-0.3%	-0.5%

### Cost Management

Gross Margin\*

Percentage Change

+4.7%	+8.0%
+5.8%	-0.2%

Operating Profit

Percentage Change

+22.5%	-0.9%
+67.1%	+0.6%

### Quality

Production Quality Index

Percentage Change

-0.8%	-7.2%
+0.4%	+0.7%

### Customers

Active Outlets

Percentage Change

+7.2%	-1.3%
-10.7%	+4.3%

## Sustainability

Swire Beverages is committed to the sustainable development of the business, in particular by reducing consumption of water and energy and by adopting safe working practices.

## 2013 Performance

### Sustainability

Water Use Ratio

Percentage Change

+1.1%	+0.8%
+0.9%	+6.5%

Energy Use Ratio

Percentage Change

0.0%	-8.9%
-2.5%	0.0%

### Safety

LTIR

Percentage Change

-18.0%	-7.5%
+361.0%	-30.0%

Mainland China

Hong Kong

Taiwan

USA

\* per unit case

## 2013 PERFORMANCE

## Financial Highlights

	2013 HK\$M	2012 HK\$M
<b>Turnover</b>	<b>15,054</b>	14,397
<b>Operating profit</b>	<b>864</b>	765
<b>Share of post-tax profits from joint venture and associated companies</b>	<b>397</b>	204
<b>Attributable profit</b>	<b>802</b>	556

## Sustainable Development Highlights

	2013	2012
<b>Water consumption (Millions of cubic metres)</b>	<b>6,077</b>	5,497
<b>Energy consumption (Thousands of Gigajoules)</b>	<b>1,458</b>	1,381
<b>LTIR</b>	<b>0.85</b>	0.99

## Segment Information

	Turnover		Attributable Profit/(Loss)	
	2013 HK\$M	2012 HK\$M	2013 HK\$M	2012 HK\$M
Mainland China	<b>7,614</b>	6,950	<b>415</b>	207
Hong Kong	<b>2,145</b>	2,123	<b>177</b>	175
Taiwan	<b>1,418</b>	1,500	<b>22</b>	18
USA	<b>3,877</b>	3,824	<b>217</b>	178
Central costs	–	–	<b>(29)</b>	(22)
<b>Swire Beverages</b>	<b>15,054</b>	14,397	<b>802</b>	556

## Notes:

- Swire Pacific has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 full-year comparative results for the division have been restated from those in the Group's 2012 full-year statutory accounts.
- Swire Pacific has considered the impact of revised accounting standard HKFRS 11: Joint Arrangements (effective from 1st January 2013) on its Mainland China franchise businesses and has concluded that three of these franchise businesses, which were previously accounted for as jointly controlled interests, should now be accounted for as subsidiaries and fully consolidated into its financial statements. As a result, the 2012 full-year comparative results for the division have been restated from those in the Group's 2012 full-year statutory accounts.
- Please refer to pages 239 to 242 for further sustainable development statistics.

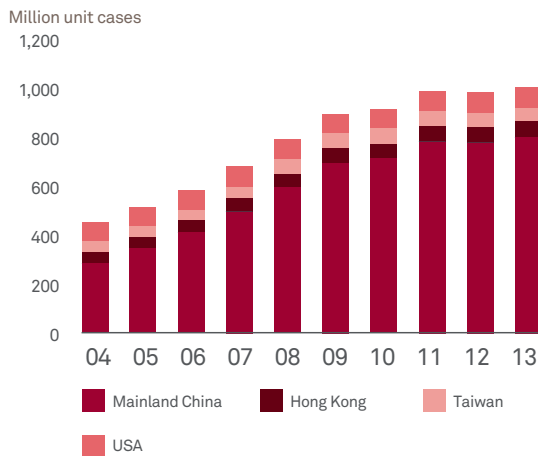
## Accounting for the Beverages Division

The seven wholly-owned and majority-owned franchise businesses (in Hong Kong, Taiwan and the USA and in Fujian, Henan, Anhui and Shaanxi provinces in Mainland China) are accounted for as subsidiaries and fully consolidated in the financial statements of Swire Pacific. Turnover and operating profit shown above, therefore, are attributable to these franchise businesses only. The division's joint venture interests in three other franchises in Mainland China and its associate interest in Coca-Cola Bottlers Manufacturing Holdings Limited are accounted for using the equity method of accounting. Swire Pacific recognises its share of net profit or loss from each of these companies as a single line-item in the consolidated statement of profit or loss.

For reference, the total turnover from the joint venture interests in three franchises in Mainland China was HK\$9,325 million (2012: HK\$9,292 million). The turnover of Coca-Cola Bottlers Manufacturing Holdings Limited, excluding sales to the seven Mainland China franchises, was HK\$5,488 million (2012: HK\$4,763 million).

The sales volume for Mainland China shown in the chart on page 61 only represents sales in the seven franchises, including products supplied by Coca-Cola Bottlers Manufacturing Holdings Limited.

### Sales Volume



### BEVERAGE INDUSTRY BACKGROUND

In Mainland China, the volume of non-alcoholic ready-to-drink beverages grew by 13% in 2013. The volume of sparkling beverages grew by 8%; juice grew by 10%; tea grew by 14%; packaged water grew by 16%; and bulk water grew by 14%.

The Hong Kong beverage market grew by 2%. Sparkling soft drinks volume was unchanged. Still drinks volume grew by 2%.

The Taiwanese beverage market declined by 1% in 2013.

The USA beverage market was stable. A decrease in sparkling beverage volumes was offset by growth in still beverage volumes.

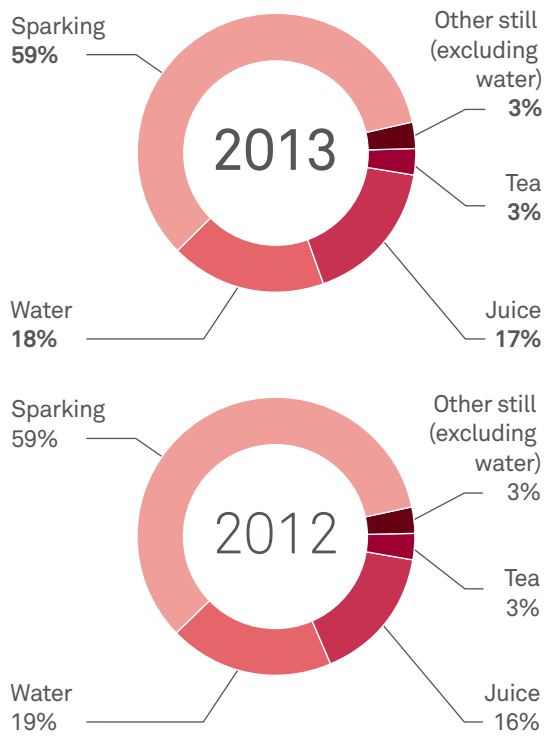
### 2013 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$802 million in 2013, a 44% increase from 2012. Excluding a non-recurring profit on remeasurement of an associate in the first half of 2013, attributable profit was HK\$733 million, a 32% increase from 2012.

This increase principally reflected a strong performance in Mainland China and lower raw material costs in all territories.

Overall sales volume increased by 2% to 1,013 million unit cases, compared with a reduction of 0.5% in 2012. Volume grew in Mainland China and the USA, was unchanged in Hong Kong and declined in Taiwan.

### Breakdown of Total Volume by Category



### Mainland China

Attributable profit from Mainland China was HK\$415 million, a 101% increase from 2012. Excluding a non-recurring profit on remeasurement of an associate, attributable profit from Mainland China was HK\$346 million, a 67% increase from 2012.



*Swire Coca-Cola in Hong Kong launched the first PlantBottle under the Bonaqua brand in 2013. Unlike regular PET bottles, which are made from materials derived from fossil fuels, the PlantBottle is made from up to 30% plant-based materials and is 100% recyclable, giving it a much lighter carbon footprint.*



Having been weak in 2012, demand recovered in Mainland China in 2013. This was reflected in stronger sales of sparkling and juice beverages. Total sales volume increased by 3% compared with 2012. Sparkling sales volume grew by 4% and juice sales volume grew by 7%. The volume of water sales fell by 2%.

Margins improved by 5% per unit case. Raw material costs (mainly sweetener and resin) were substantially lower than in 2012, which resulted in a significant increase in gross margin. Careful cost control also contributed to the better attributable profit.

Two new production lines were installed in Mainland China by our associated company responsible for manufacturing still beverages.

### Hong Kong

Attributable profit from the Hong Kong operation was HK\$177 million, a 1% increase from 2012.

*Schweppes +C* was introduced into Mainland China in 2013 following its successful launch in Hong Kong.



*Real Leaf* was launched into the bottled green tea market, one of the most popular beverage segments in Taiwan.



Swire Beverages works closely with The Coca-Cola Company on brand development and marketing.

Overall sales volume was unchanged compared with 2012. Revenue per unit case increased by 3% as prices benefited from the full-year effect of a price increase in November 2012. An improvement in sales mix and a 2% decrease in raw material costs contributed to a significant increase in gross contribution. Raw material cost savings were partially offset by increases in production, delivery and other operating costs due to general inflation and by higher staff costs.

### Taiwan

Attributable profit from Taiwan was HK\$22 million, a 22% increase from 2012.

Continued economic weakness affected ready-to-drink beverage demand. Sales volume declined by 4%. The decline in sales volume was more than offset by savings in raw material and operating costs.

### USA

Attributable profit from the USA was HK\$217 million, a 22% increase from 2012.

Sales volume in the USA increased by 2% in 2013. Sparkling sales volume decreased by 6%. Still sales volume increased by 29%. Sales of energy drinks and water grew significantly.

Prices were weak during the year due to lower pricing for national accounts.

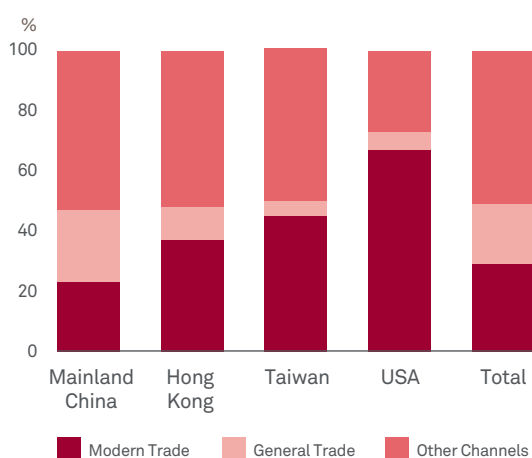
Raw material and marketing expenses were lower. These were offset by higher selling and transportation expenses and depreciation on the expanded warehouse in Salt Lake City.

## Sustainable Development

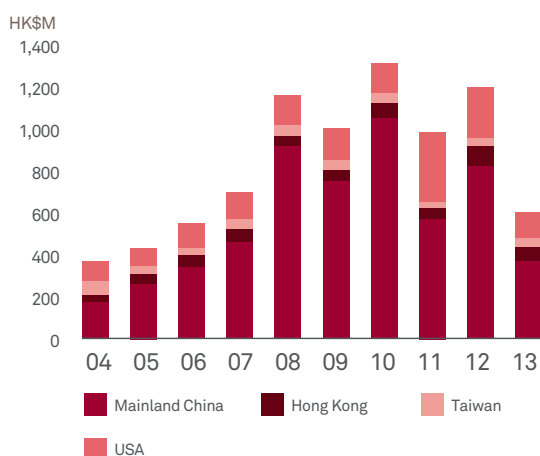
Water consumption increased by 11% in 2013 due to increased production volume. The water use ratio, which measures the amount of water used to produce each unit of production, increased by 1%.

Lost time injury rates improved by 14% due to efforts made to raise awareness of safety issues and careful analysis of the causes of injuries.

Breakdown of Total Volume by Channel



Capital Expenditure by Operation



*Dasani Drops, a zero-calorie beverage enhancer with fruit flavouring, has been well-received by US consumers.*

## USA TERRITORY GRANT

TCCC announced in April 2013 its intention to grant distribution rights to Swire Coca-Cola USA for a territory in Colorado encompassing the cities of Denver and Colorado Springs. It is expected that Swire Coca-Cola USA will take control of this new territory in 2014. This will increase our USA franchise population by 3.2 million people.

## OUTLOOK

The outlook for Mainland China in 2014 is positive, with growth in consumer spending expected to exceed economic growth. The business will continue to expand its brand and package portfolio, to invest in cold drink equipment and to improve its systems. Rising costs, in particular staff costs, will continue to put pressure on margins.

The outlook for Hong Kong is fair. Swire Beverages will continue to use its strong market position to grow its business. Capacity constraints at the Shatin facility and labour shortages are challenges.

The retail environment in Taiwan is expected to remain very challenging. There are plans to strengthen the product portfolio in 2014.

In the USA, the beverage market is expected to expand moderately in 2014. Price rises will continue to be difficult to implement. The business is expected to benefit from the territory grant in Colorado from TCCC.

**Patrick Healy**