



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.





E34

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 in 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 57 beverage brands and distributes them to a franchise population of over 450 million people.



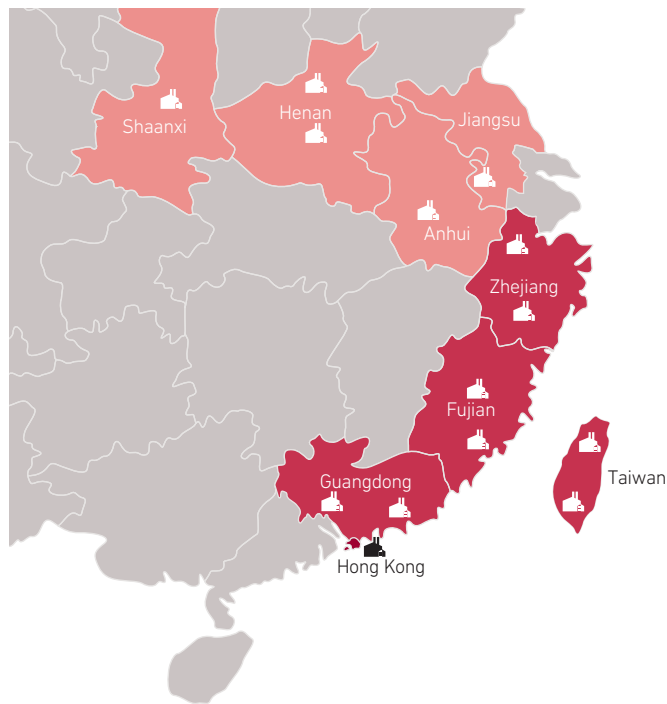
STRATEGY

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:

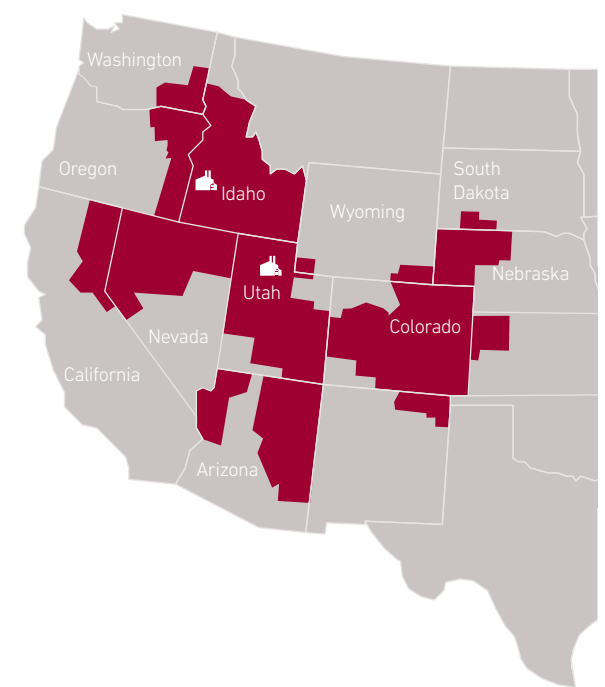
- An uncompromising commitment to safety and quality.
- A commitment to work with TCCC to improve our understanding of our customers' businesses, and to use that understanding to create value for our customers and consumers.
- A focus on market execution in sales outlets, recognising that our business 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.

Franchise Territories

GREATER CHINA



USA



2014 per capita consumption of Coca-Cola beverages (8oz servings)

> 100 51 to 100 25 to 50 Bottling plant

Per Capita Consumption in Franchise Territories

	Population (millions)	GDP per capita (US\$)	Sales volume (million unit cases)		Per capita consumption of Coca-Cola Beverages (8oz servings)	
			2014	2004	2004	2014
Mainland China						
Guangdong	78.0	12,470	200	88	~40	~60
Zhejiang	50.6	11,814	145	71	~40	~60
Anhui	60.7	5,623	82	13	~5	~30
Jiangsu	55.0	11,118	106	46	~20	~45
Fujian	38.0	10,283	92	29	~15	~50
Shaanxi	37.7	7,574	58	20	~10	~35
Henan	94.2	5,981	133	20	~5	~30
Hong Kong	7.2	38,966	65	46	~160	~210
Taiwan	23.4	21,575	55	46	~45	~55
USA	10.7	46,678	108	77	~310	~260

Note 1: A unit case comprises 24 8 oz servings.

Note 2: USA per capita consumption in 2014 includes annualised consumption figures for the new territories assumed during the year. Per capita consumption (on an annualised basis) in the new territories is lower than in the existing territories.

2014 PERFORMANCE

Financial Highlights

	2014 HK\$M	2013 HK\$M
Revenue	16,383	15,054
Operating profit	1,095	864
Share of post-tax profits from joint venture and associated companies	291	397
Attributable profit	854	802

Sustainable Development Highlights

	2014	2013
Water use ratio	1.77	1.76
Energy use ratio	0.32	0.31
LTIR	0.69	0.85

Segment Information

	Revenue		Attributable Profit/(Loss)	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Mainland China	7,856	7,614	395	415
Hong Kong	2,164	2,145	185	177
Taiwan	1,415	1,418	23	22
USA	4,948	3,877	208	217
Central costs	–	–	43	(29)
Swire Beverages	16,383	15,054	854	802

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. Revenue 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 revenue from the joint venture interests in three franchises in Mainland China was HK\$9,187 million (2013: HK\$9,325 million). The revenue of Coca-Cola Bottlers Manufacturing Holdings Limited, excluding sales to the seven Mainland China franchises, was HK\$5,073 million (2013: HK\$5,488 million).

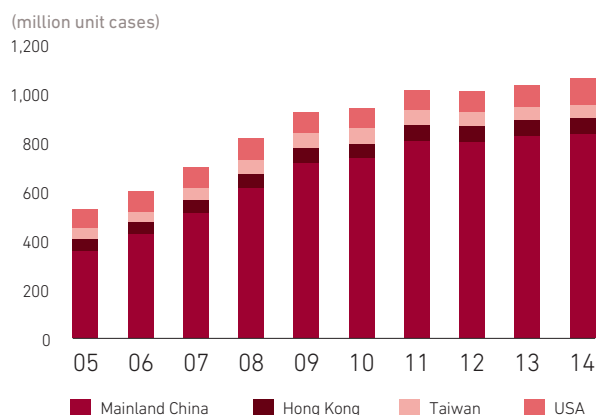
The sales volume for Mainland China shown in the chart on page 55 only represents sales in the seven franchises, including products supplied by Coca-Cola Bottlers Manufacturing Holdings Limited.

Segment Performance

		Percentage Change				
		Mainland China	Hong Kong	Taiwan	USA	Swire Beverages
Quality	Production Quality Index	+0.2%	+5.5%	+1.0%	-1.4%	n/a
Customers	Active Outlets	+0.6%	+1.3%	+2.2%	+81.5%	+2.8%
Revenue	Sales Volume	+1.1%	+0.1%	-1.0%	+25.5%	+3.0%
Management	Revenue *	-0.2%	+1.3%	+1.2%	+3.7%	+1.9%
Cost	Gross Margin *	+7.9%	+3.9%	+2.3%	+0.6%	+7.5%
Management	Operating Profit	+7.1%	-0.1%	+4.2%	+11.2%	+6.4%
Sustainability	Water Use Ratio	+1.2%	+2.1%	+0.8%	0.0%	+0.6%
	Energy Use Ratio	+7.7%	0.0%	+5.1%	+12.5%	+3.2%
Safety	LTIR	-35.9%	+15.3%	-45.3%	+0.7%	-18.8%

* Per unit case

Sales Volume



The popular 'Share A Coke' campaign in Hong Kong used names and nicknames to create personalised packaging.

BEVERAGE INDUSTRY BACKGROUND

In Mainland China, the volume of non-alcoholic ready-to-drink beverages grew by 7% in 2014. The volume of sparkling beverages grew by 1%, packaged water by 10% and bulk water by 10%. Juice and tea volumes declined by 1%.

The Hong Kong beverage market grew by 1% in 2014. Still beverage volume grew by 2%. Sparkling beverage volume declined slightly (by 0.2%).

The Taiwan ready-to-drink beverage market grew by 4% in 2014.

The volume of sparkling beverages sold in the USA declined by 2% in 2014. The volume of energy drinks and water sold increased by 5% and 8% respectively.

2014 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$854 million in 2014, a 6% increase from 2013. Excluding non-recurring gains on disposal of available-for-sale investments in 2014 and on remeasurement of an associate in 2013 (which were accounted for under central costs and Mainland China respectively) attributable profit

increased by 6% to HK\$776 million in 2014.

The increase in attributable profit principally reflected lower prices of key raw materials in all territories and modest volume growth and an improved sales mix in Mainland China.

Overall sales volume increased by 3% to 1,044 million unit cases, compared with an increase of 2% in 2013. Volume grew in Mainland China and the USA, was unchanged in Hong Kong and declined in Taiwan.

Mainland China

Attributable profit from Mainland China was HK\$395 million, a 5% decrease from 2013. Excluding a non-recurring profit on remeasurement of an associate in 2013, attributable profit from Mainland China increased by 14%. This (underlying) increase in attributable profit reflected favourable raw material costs and an improved sales mix.

Total sales volume increased modestly (by 1%) compared with 2013. This reflected prolonged cool and wet weather in the east coast territories during the summer. Sparkling sales volume grew by 3% and water sales

volume grew by 5%. The volume of juice sales fell by 10%.

Margins improved by 8% per unit case. Raw material costs (mainly sweetener and resin) were substantially lower than in 2013, which resulted in a significant increase in gross margins. Careful cost control also contributed to the better attributable profit.

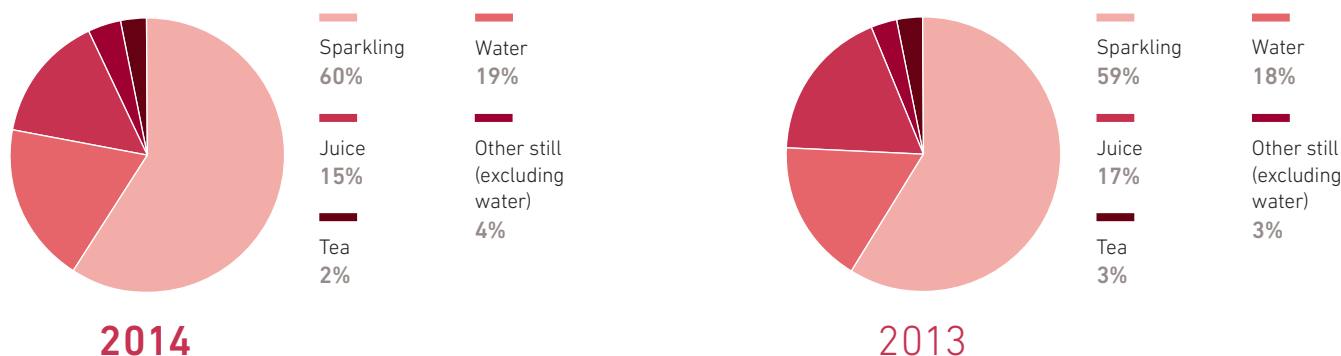
Two new production lines were commissioned in 2014.

Hong Kong

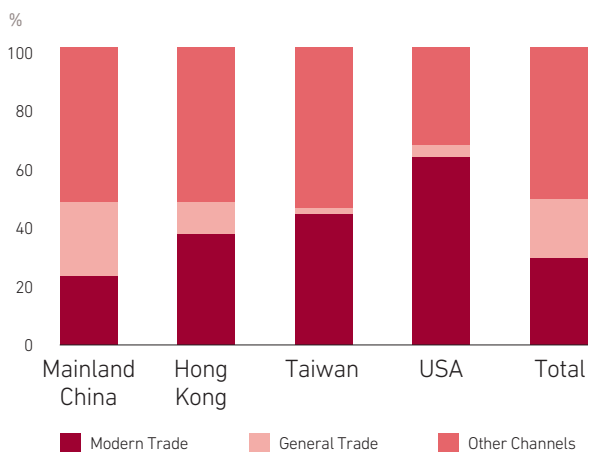
Attributable profit from Hong Kong in 2014 was HK\$185 million, a 5% increase from 2013.

Total sales volume was unchanged in 2014. Revenue per unit case increased by 1%, due to price increases in November 2013. A 1% decrease in raw material costs contributed to an increase in gross margins. The beneficial effect of increased gross margins was partially offset by higher production, delivery and warehouse costs (which rose in line with general inflation) and by higher staff costs.

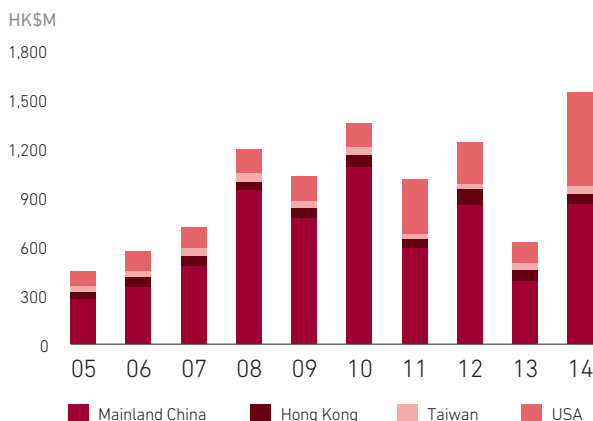
Breakdown of Total Volume by Category



Breakdown of Total Volume by Channel



Capital Expenditure by Operation



Taiwan

Attributable profit from Taiwan was HK\$23 million, a 5% increase from 2013.

Sales volume in 2014 decreased by 1% but revenue was unchanged due to a favourable sales mix. Sales volume declined mainly because of lower sales of sparkling beverages. Gross margins improved due to lower raw material costs, which in turn resulted in the improved attributable profit.

USA

Attributable profit from the USA was HK\$208 million, a 4% decrease from 2013.

Sales volume in the USA increased by 26% in 2014 as a result of the assumption of new franchise territories in Denver and Colorado Springs in May 2014. Attributable profit from the new territories was HK\$25 million. The new territories increased the franchise population by 4.5 million and contributed sales volume of 22 million unit cases in 2014.

Sparkling sales volume increased by 28%. Still sales volume increased by 20%, principally due to a significant increase in sales of water.

Revenue per unit case increased by 4%, due to price increases. Cost of goods per unit case increased by 6%. Higher selling

prices and increased volume together contributed to higher gross margins.

Operating expenses were higher than those in 2013 due to higher staff costs and additional expenses associated with the assumption of the new franchise territories.

Sustainable Development

Swire Beverages aims to save water by reusing more treated waste water and rinse water, by using water for cleaning more efficiently and by replacing and repairing water pipes.



Swire Coca-Cola USA assumed new franchise territories in Denver and Colorado Springs in May 2014, which increased its franchise population from 6.2 million to 10.7 million.



Swire Beverages in Hong Kong saved almost 290 tonnes of aluminium by resizing cans in 2014. This was achieved by reducing the diameter of the can end from 6.5cm to 5.9cm but without changing the 330ml can volume. The new can size also significantly reduces paper and plastic packaging.

The energy use ratio (which measures the amount of energy used to produce each unit of production) increased by 3% compared with 2013. Swire Beverages used more energy because it operated more blowing and preform bottle lines. It aims to save energy by improving lighting, by replacing and repairing the insulation of pipes and by detecting and dealing with leakages of compressed air.

Lost time injury rates decreased in 2014 by 19% compared with 2013. There were significant improvements at bottling plants in Mainland China and Taiwan.

OUTLOOK

The outlook for Mainland China in 2015 is good. Sparkling sales are expected to

continue to benefit from the introduction of new flavours and packaging and from investment in cold drink equipment and production capacity. Raw material prices are expected to be benign. Increases in other costs, in particular staff costs, will put pressure on margins.

The Hong Kong business expects to maintain its strong market position and to expand its product range. Raw material prices are expected to be slightly higher than in 2014, mainly due to increases in the prices of packaging materials and purchased products. Lack of capacity and space at the Shatin facility and shortage of labour are problems.

In Taiwan, the outlook is mixed. Food safety concerns are expected to affect sales of sparkling beverages and juice adversely. However, the introduction of

a third variant of Real Leaf tea and the revitalisation of the Nestea brand are expected to strengthen tea sales.

In the USA, the beverage market is expected to expand moderately in 2015. TCCC is expected to give strong marketing support to sparkling beverages. Sales of energy drinks and water are expected to continue to grow, assisted by the introduction of additional flavours.

The USA business is expected to benefit from the first full year's contribution from the franchised territories assumed in 2014.

Patrick Healy