



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.

Coca-Cola beverages bring a refreshing taste to consumers.



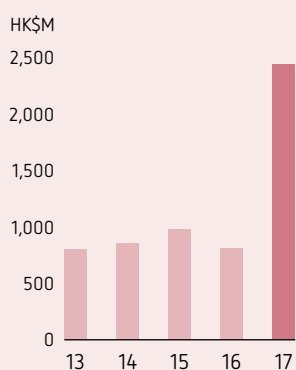




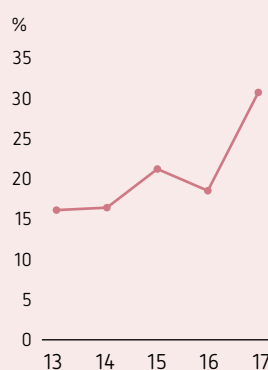
## BEVERAGES DIVISION

Swire Beverages has the exclusive right to manufacture, market and distribute products of The Coca-Cola Company (“TCCC”) in 11 provinces and the Shanghai Municipality in Mainland China, and in Hong Kong, Taiwan and an extensive area of the western USA.

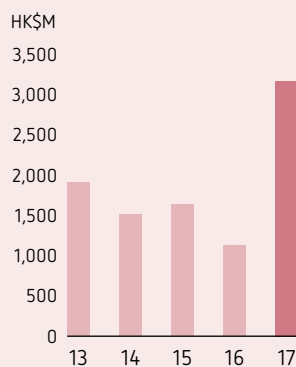
Profit Attributable to the Company's Shareholders



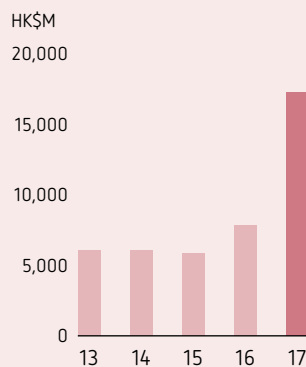
Return on Equity



Net Cash Generated from Operating Activities



Net Assets Employed



Swire Beverages has nine wholly-owned franchise businesses (in Hong Kong, Taiwan and the USA, and in Fujian, Anhui, Guangxi, Jiangxi and Hainan provinces and the cities of Zhanjiang and Maoming in Guangdong province in Mainland China) and six majority-owned franchise businesses (in Zhejiang, Jiangsu, Guangdong (excluding the cities of Zhanjiang and Maoming), Henan, Yunnan, and Hubei provinces in Mainland China). It has a joint venture interest in a franchise in the

Shanghai Municipality in Mainland China and an associate interest in Coca-Cola Bottlers Manufacturing Holdings Limited (“CCBMH”), which supplies still beverages to all Coca-Cola franchises in Mainland China.

At the end of 2017, Swire Beverages manufactured 61 beverage brands and distributed them to a franchise population of 724 million people.

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## STRATEGY

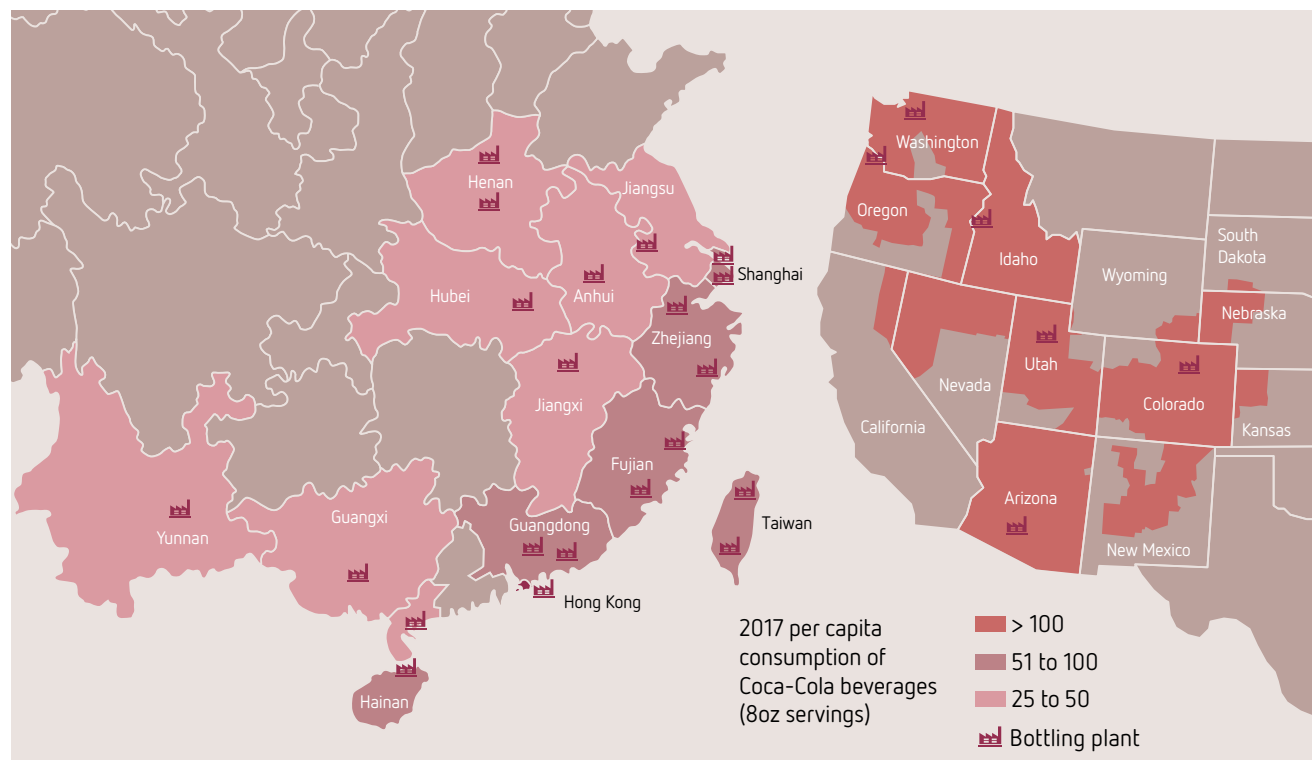
The strategic objective of Swire Beverages is to build a world-class bottling system which is recognised as a first class employer, a first class entity with which to do business and a first class corporate citizen in all territories where it does business. The strategies employed in order to achieve 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 route to market and 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 sustainable revenue growth and optimisation of pricing and product mix, and product premiumisation and innovation.
- 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



### Per Capita Consumption in Franchise Territories

	Franchise population (millions) (end 2017)	GDP per capita (US\$)	Sales volume (million unit cases)		Per capita consumption of Coca-Cola Beverages (8oz servings)
			2017	2007	
<b>Mainland China</b>	664.1	9,915	1,112	500	
<b>Hong Kong</b>	7.4	45,050	65	55	
<b>Taiwan</b>	23.6	25,119	53	46	
<b>USA</b>	28.7	46,223	282	86	

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

Note 2: Mainland China and the USA per capita consumption in 2017 includes annualised consumption figures for the new territories acquired during the year.

## 2017 PERFORMANCE

### Financial Highlights

	2017 HK\$M	2016 HK\$M
<b>Revenue</b>	<b>34,067</b>	<b>18,421</b>
<b>Operating profit derived from:</b>		
Operating activities	1,689	1,003
Non-recurring items	1,636	–
Total operating profit	3,325	1,003
Share of post-tax profits from joint venture and associated companies	112	218
<b>Attributable profit (excluding non-recurring items)</b>	<b>930</b>	<b>813</b>
<b>Gain on remeasurement of previously held interests in joint venture companies in Mainland China</b>	<b>975</b>	<b>–</b>
<b>Gain on disposal of a subsidiary company in Mainland China</b>	<b>247</b>	<b>–</b>
<b>Gain from the acquisition of new franchise territories and assets in the USA</b>	<b>289</b>	<b>–</b>
<b>Attributable profit</b>	<b>2,441</b>	<b>813</b>

### Segment Financial Highlights

	Revenue		Attributable Profit	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
<b>Mainland China</b>				
Operating activities	16,256	6,873	243	288
Non-recurring items	–	–	1,222	–
	16,256	6,873	1,465	288
<b>Hong Kong</b>	2,255	2,212	220	205
<b>Taiwan</b>	1,343	1,323	11	33
<b>USA</b>				
Operating activities	14,213	8,013	494	306
Non-recurring items	–	–	289	–
	14,213	8,013	783	306
<b>Central costs</b>	–	–	(38)	(19)
<b>Beverages Division</b>	<b>34,067</b>	<b>18,421</b>	<b>2,441</b>	<b>813</b>

The non-recurring gains included under attributable profit are after the deduction of tax and non-controlling interests.

#### Accounting for the Beverages Division

##### Before 1st April 2017

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) were accounted for as subsidiaries in the financial statements of Swire Pacific. Revenue and operating profit from these franchise businesses are included in the revenue and operating profit shown above. The division's joint venture interests in three other franchises in Mainland China (Guangdong, Zhejiang and Jiangsu) and its associate interest in CCBMH were accounted for using the equity method of accounting. Swire Pacific recognised its share of net profit or loss from each of these interests as a single line-item in the consolidated statement of profit or loss.

##### On and after 1st April 2017

After completion of the majority of the realignment of the Coca-Cola Bottling system in Mainland China on 1st April 2017, the division's joint venture interests in three franchise businesses in Mainland China (Guangdong, Zhejiang and Jiangsu) became subsidiary companies. These three franchise businesses were accordingly accounted for as subsidiaries in the financial statements of Swire Pacific from 1st April 2017. Revenue and operating profit from these three franchise businesses were included in the revenue and operating profit from 1st April 2017. The division's associate interest in CCBMH continued to be accounted for using the equity method of accounting.

##### On and after 1st July 2017

The transfer of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. ("Shanghai") was completed by 1st July 2017. The division's joint venture interest in this company is accounted for using the equity method of accounting.

The sales volume for Mainland China shown in the table on page 50 represents sales in seven franchise territories from 1st January 2017 to 31st March 2017, sales in twelve franchise territories from 1st April 2017 to 30th June 2017, and sales in thirteen franchise territories from 1st July 2017 to 31st December 2017, in each case including products supplied by CCBMH.

Central costs are arrived at after crediting gains on disposal of available-for-sale investments of HK\$1 million (2016: HK\$11 million).

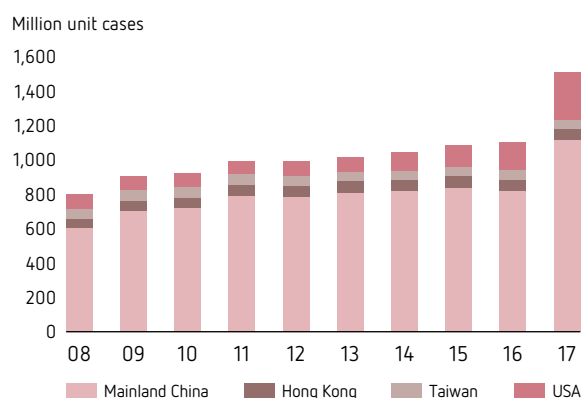
## Segment Performance

		Percentage Change in 2017				
		Mainland China**	Hong Kong	Taiwan	USA	Swire Beverages
Customers	Active Outlets	5.3%	-2.6%	2.6%	34.4%	6.6%
Revenue Management	Sales Volume	35.7%	0.8%	-0.4%	67.7%	36.8%
	Revenue*	1.0%	1.3%	3.1%	3.5%	4.0%
Cost Management	Gross Margin*	2.3%	-0.3%	6.2%	8.1%	6.4%
	Operating Profit	20.9%	1.4%	9.7%	86.9%	34.8%
Sustainability	Water Use Ratio	-1.2%	-4.7%	8.1%	-4.1%	-6.0%
	Energy Use Ratio	-6.3%	-	1.3%	17.0%	-8.8%
Safety	LTIR	-23.0%	-38.0%	59.0%	15.0%	-12.0%

\* Per unit case.

\*\* Segment performance for Mainland China represents performance in thirteen franchise territories.

## Sales Volume



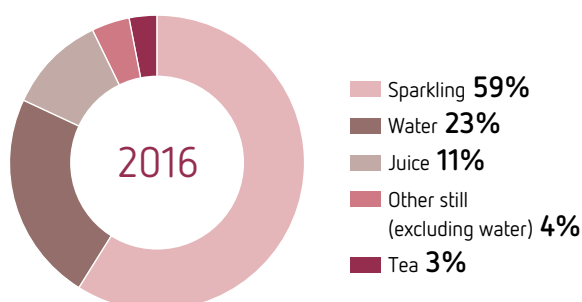
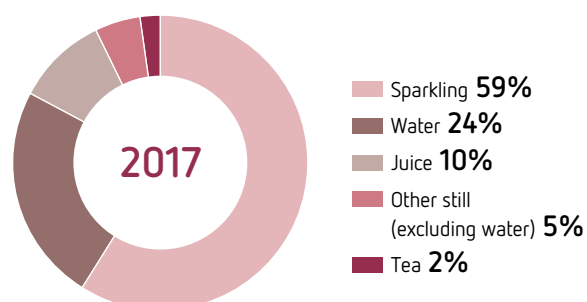
## 2017 BEVERAGE INDUSTRY REVIEW

In Mainland China, the total volume of non-alcoholic ready-to-drink beverages sold grew by 5% in 2017. The volume of sparkling beverages sold grew by 3%. The volume of water and juice sold grew by 8% and 4% respectively.

In Hong Kong, the total volume of non-alcoholic ready-to-drink beverages sold in the modern trade grew by 2% in 2017. Sparkling beverages volume declined by 2%. Still beverages volume grew by 3%. Tea grew by 6%. Water volume grew by 4%.

In Taiwan, the total volume of non-alcoholic ready-to-drink beverages sold grew by 2% in 2017. The volume of tea and juice sold grew by 2% and 1% respectively. Sparkling beverages volume declined by 3%.

## Breakdown of Total Volume by Category





In the USA, the total volume of sparkling beverages sold declined by 3% in 2017. Still beverages volume grew by 4%. The volume of energy drinks and water sold grew by 1% and 6% respectively.

## 2017 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$2,441 million in 2017. This included non-recurring gains of HK\$1,222 million arising out of the realignment of the Coca-Cola bottling system in Mainland China. These gains arose from the disposal of the Shaanxi franchise business and the remeasurement of the fair value of interests in three joint venture franchise businesses (in Guangdong, Zhejiang and Jiangsu) when they became subsidiary companies. There were non-recurring gains in the USA aggregating HK\$289 million. These gains arose out of the terms on which new franchise territories and new production and distribution assets were acquired.

Disregarding non-recurring gains, Swire Beverages made an attributable profit of HK\$930 million in 2017, a 14% increase from 2016. Overall sales volume increased by 37% to 1,512 million unit cases. Sales revenue (including the joint venture companies) increased by 42% to HK\$35,582 million. Volume and revenue grew in Mainland China, reflecting the inclusion of sales in the provinces of Hubei, Guangxi, Yunnan, Jiangxi and Hainan and the cities of Zhanjiang and Maoming in Guangdong with effect from April 2017 and Shanghai with effect from July 2017. Volume and revenue grew in the USA, reflecting the inclusion of sales in the states of Arizona and New Mexico with effect from August 2016, Washington and Idaho from March

2017 and Oregon from May 2017. Volume and revenue increased in Hong Kong. In Taiwan, volume was in line with 2016 and revenue increased.

### Mainland China

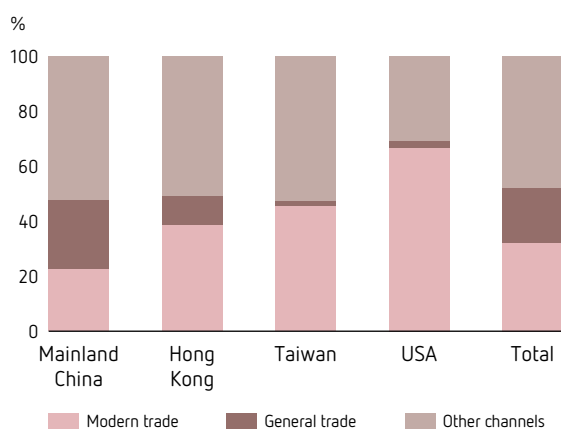
Attributable profit from Mainland China was HK\$1,465 million in 2017.

In November and December 2016, Swire Beverages Holdings Limited ("SBHL") entered into conditional agreements with TCCC and a subsidiary of China Foods Limited ("China Foods") for the realignment of the Coca-Cola bottling system in Mainland China. SBHL also agreed (conditionally on the realignment proceeding) to acquire from a subsidiary of TCCC the 12.5% interest in Swire Beverages Limited ("SBL") which was not already owned by SBHL.

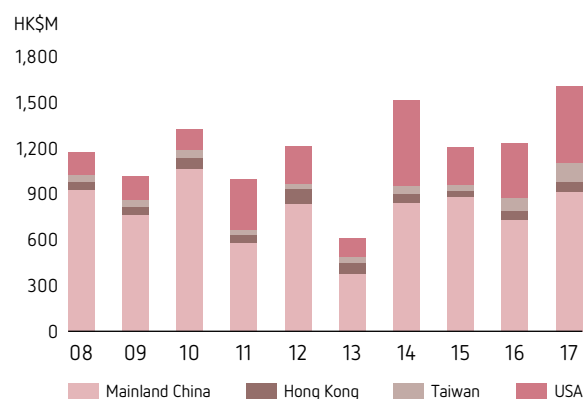
The realignment was completed on 1st April 2017 except for the transfer to SBHL of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. and the acquisition of the 12.5% interest in SBL. SBHL took on franchise territories in the provinces of Hubei, Guangxi, Yunnan, Jiangxi and Hainan and the cities of Zhanjiang and Maoming in Guangdong, and increased its interests in franchise territories in Jiangsu, Zhejiang, and Guangdong. The Shaanxi territory was transferred to a subsidiary of China Foods.

The transfer of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. and the acquisition of the 12.5% interest in SBL were completed on 1st July 2017.

### Breakdown of Total Volume by Channel



### Capital Expenditure







The realignment of the Coca-Cola bottling system in Mainland China has resulted in a more efficient franchise system, with Swire Beverages controlling a larger and contiguous territory in Mainland China.

The net amount paid by SBHL in respect of the realignment (including the acquisition of the 12.5% interest in SBL) was RMB5,535 million.

A gain of HK\$247 million was recorded on the disposal of the Shaanxi franchise business.

A gain of HK\$975 million was recorded on the remeasurement of the fair value of interests in three joint venture franchise businesses (in Guangdong, Zhejiang and Jiangsu) when they became subsidiary companies.

The attributable profit from operating activities from Mainland China in 2017 was HK\$243 million, a 16% decrease from 2016.

Total sales volume and revenue (including from Shanghai and the three joint venture franchise businesses which became subsidiaries under the realignment) increased by 36% and 37% respectively in local currency, compared with 2016, principally as a result of the acquisition of new franchise territories in the second and third quarters of 2017.

Sparkling and juice sales volume grew by 36% and 30% respectively. Water sales volume grew by 37%.

Revenue grew by 37%, faster than volume growth, reflecting a favourable product and package mix. The beneficial effect of these factors was more than offset by higher operating costs and finance charges relating to the capital cost of the realignment.

### Hong Kong

Attributable profit from Hong Kong in 2017 was HK\$220 million, a 7% increase from 2016. The increase reflected the additional share of profits in Hong Kong resulting from the acquisition of the 12.5% interest in SBL. The operating profit increased by 1%.

Sales volume increased by 1%. Sparkling sales volume decreased by 0.3%. Still sales volume increased by 2%. Sales of tea increased by 10%. Sales of water were unchanged.

Revenue (excluding sales to other bottlers) increased by 2%, faster than volume, as a result of reduced discounting. However, the increase in revenue was partly offset by increases in raw material and operating costs.

### Taiwan

Attributable profit from Taiwan in 2017 was HK\$11 million, a 67% decrease from 2016.

Sales volume declined by 0.4%. Sparkling sales volume decreased by 1%. Still sales volume was unchanged. Tea and juice sales volumes decreased by 2% and 5% respectively. Revenue in local currency increased by 3%.

Gross margins increased owing to a favourable sales mix. However, the beneficial effect of this was more than offset by losses resulting from restructuring of production and logistics assets which will be completed later in 2018 and which will generate cost advantages after completion.

The franchise territories of Swire Coca-Cola, USA have been extended to Washington, Oregon and Idaho in the Pacific Northwest.



Photo courtesy: The Coca-Cola Company.

## USA

Attributable profit from the USA was HK\$783 million in 2017. Disregarding the non-recurring gains referred to above, the attributable profit from operating activities was HK\$494 million, a 61% increase from 2016.

Sales volume and revenue (excluding sales to other bottlers) increased by 68% and 74% respectively in local currency compared with 2016, principally as a result of the inclusion of sales in the states of Arizona and New Mexico from August 2016, Washington and Idaho from March 2017 and Oregon from May 2017.

Sparkling sales volume increased by 63%. Still sales volume increased by 78%, principally due to increases in sales of water drinks of 80% and energy drinks of 80%.

Gross margins increased, principally as a result of higher sales volume, but the beneficial effect of this was partially offset by higher operating costs in the newly acquired territories.

In August and October 2017, Swire Beverages completed the acquisition of production assets in Arizona and Colorado respectively.

## OUTLOOK

Sales volume and revenue in the Swire Beverages franchise territories in Mainland China are expected to grow modestly in 2018. Revenue is expected to grow faster than volume,

reflecting a better category mix, the introduction of new products and packaging, strong marketing support and improved market execution. Additional operating profits will be earned from the new territories. However, increased raw materials, staff and finance costs will put pressure on profits.

Modest growth in sales volume and revenue is expected in Hong Kong in 2018. Raw material costs are expected to increase. Supply constraints are adversely affecting operations.

The retail market in Taiwan is expected to be weak in 2018. The adverse effect of this is expected to be mitigated to an extent by improvements in the mix of packaging and in the management of sales channels. Closure of the Kaohsiung plant is expected to be completed by the end of the first half of 2018. The closure is expected to result in long-term efficiency improvements through operating cost savings.

In the USA, the beverages market is expected to grow moderately in 2018. Sales of energy drinks and water are expected to continue to grow. Additional profits will be earned from the newly acquired businesses in Washington, Idaho, and Oregon.

Patrick Healy