



Coca-Cola beverages bring refreshing taste to consumers.



Photo courtesy, The Coca-Cola Company.

BEVERAGES DIVISION

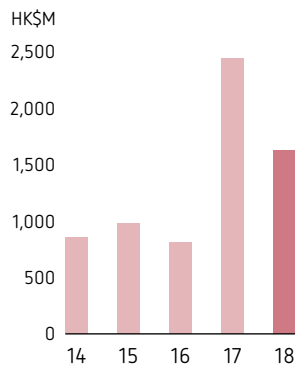
Delivering Refreshing Soft Drinks

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

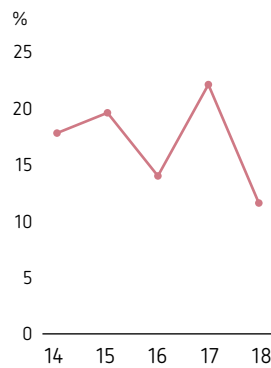
BEVERAGES DIVISION

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.

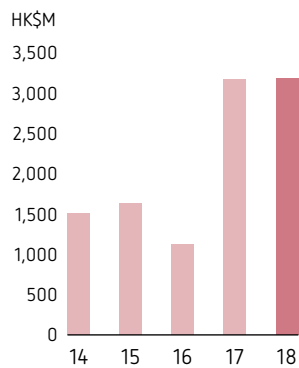
Profit Attributable to the Company's Shareholders



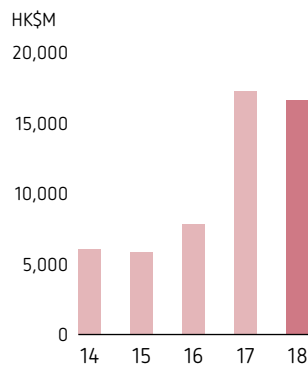
Return on Capital Employed



Net Cash Generated from Operating Activities



Capital 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 2018, Swire Beverages manufactured 61 beverage brands and distributed them to a franchise population of 728 million people.

STRATEGY

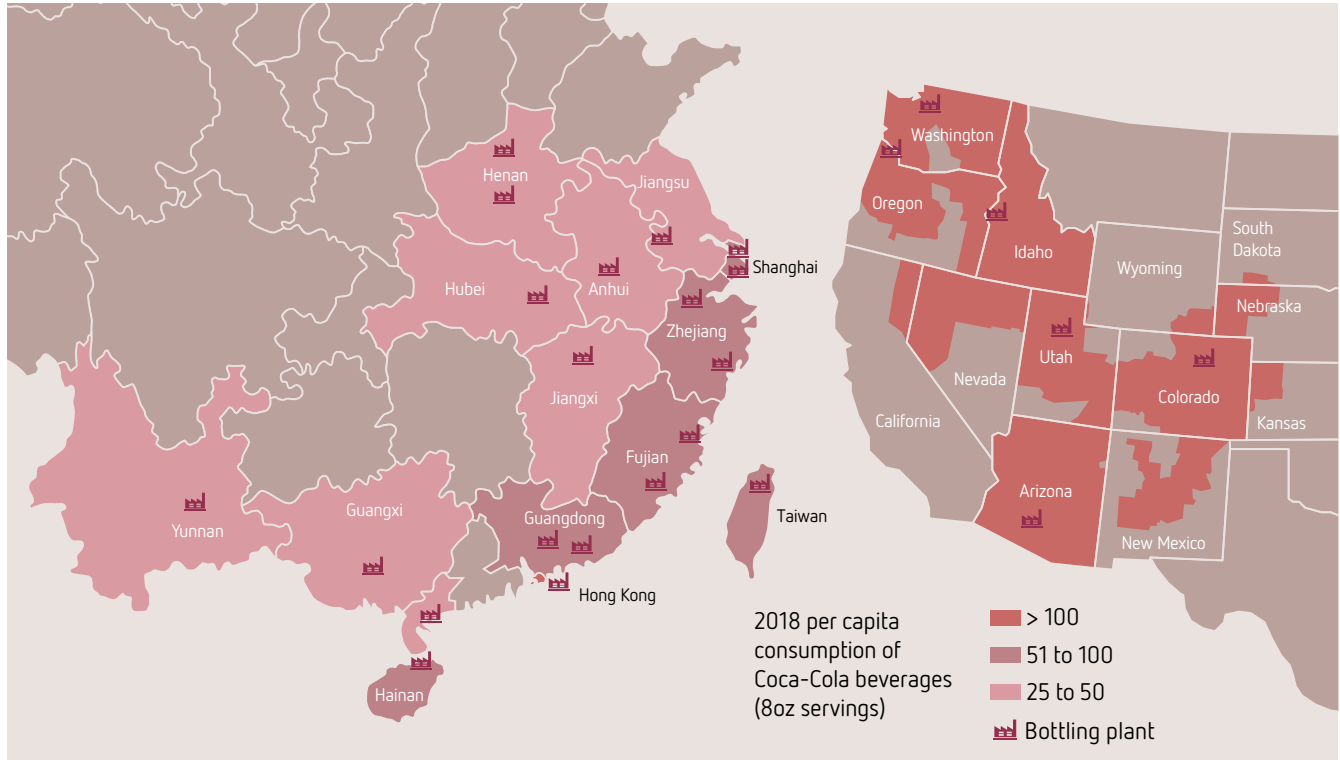
The strategic objective of Swire Beverages is to build a world-class bottling system which is recognised as a first class employer, a first class entity with which to do business and a first class corporate citizen in all territories where it does business. The strategies employed in order to achieve 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 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 growth management, through optimisation of pricing, product and channel mix, 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 waste reduction and by engaging with the communities in which we operate.

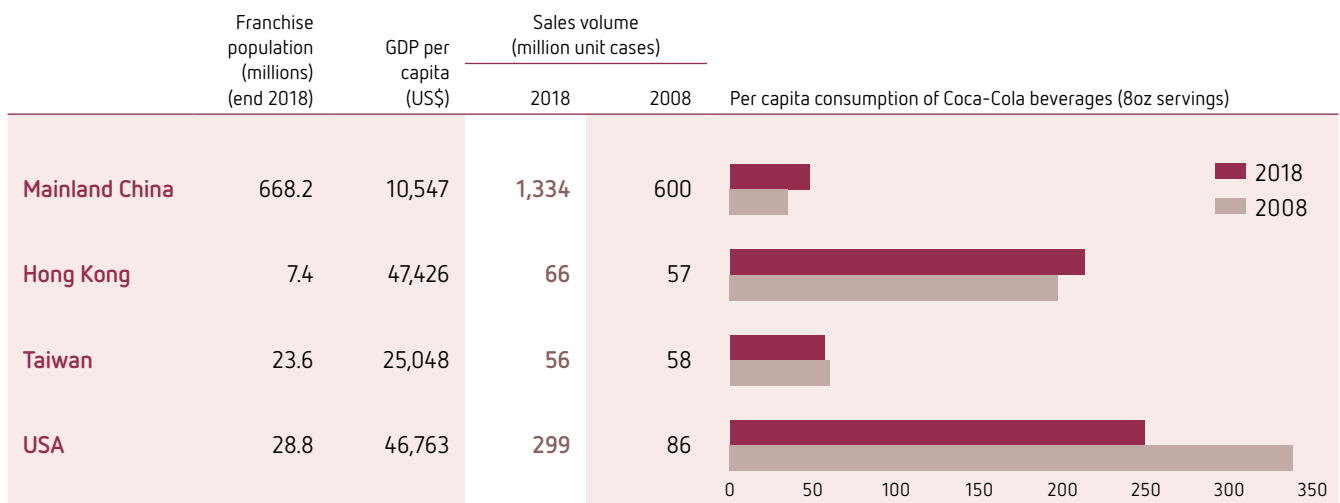
Franchise Territories

GREATER CHINA

USA



Per Capita Consumption in Franchise Territories



Note 1: A unit case comprises 24 8-ounce servings.

2018 PERFORMANCE

Financial Highlights

	2018 HK\$M	2017 HK\$M
Revenue	41,190	34,067
EBITDA	3,915	4,689
Operating profit derived from:		
Operating activities	2,034	1,719
Non-recurring items	255	1,606
Total operating profit	2,289	3,325
Share of post-tax profits from joint venture and associated companies	151	112
Attributable profit (excluding non-recurring items)	1,354	962
Non-recurring items:		
Gain on remeasurement of previously held interests in joint venture companies in Mainland China	–	975
Gain on disposal of a subsidiary company in Mainland China	–	247
Gain from the acquisition of new franchise territories and assets in the USA	132	289
Gain/(loss) on disposal of Kaohsiung plant in Taiwan	144	(32)
Attributable profit	1,630	2,441

Segment Financial Highlights

	Revenue		EBITDA		Attributable Profit	
	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M
Mainland China						
Operating activities	21,358	16,256	1,974	1,454	634	243
Non-recurring items	–	–	–	1,356	–	1,222
	21,358	16,256	1,974	2,810	634	1,465
Hong Kong	2,343	2,255	323	310	230	220
Taiwan						
Operating activities	1,551	1,343	129	115	67	43
Non-recurring items	–	–	148	(39)	144	(32)
	1,551	1,343	277	76	211	11
USA						
Operating activities	15,938	14,213	1,300	1,239	491	494
Non-recurring items	–	–	107	289	132	289
	15,938	14,213	1,407	1,528	623	783
Central costs	–	–	(66)	(35)	(68)	(38)
Beverages Division	41,190	34,067	3,915	4,689	1,630	2,441

Accounting for the Beverages Division

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

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. was completed by 1st July 2017. The division's joint venture interest in this company is accounted for using the equity method of accounting.

2017 central costs are arrived at after crediting gains on disposal of available-for-sale investments of HK\$1 million.

Segment Performance

	Note	Percentage Change in 2018				
		Mainland China	Hong Kong	Taiwan	USA	Swire Beverages
Active Outlets		0.9%	0.4%	1.0%	-1.2%	0.7%
Revenue	1	23.4%	3.6%	7.9%	11.4%	19.9%
Sales Volume	2	19.9%	1.1%	5.1%	6.2%	16.0%
Gross Profit*		3.2%	1.0%	1.8%	6.4%	3.6%
Water Use Ratio [^]		-2.0%	–	-7.0%	-3.0%	-2.0%
Energy Use Ratio [^]		-7.0%	–	-21.0%	21.0%	-9.0%
LTIR		+38%	+84%	+112%	-4%	+6%

	Note	Mainland China	Hong Kong	Taiwan	USA	Swire Beverages
EBITDA Margin	3					
2018		8.5%	14.0%	8.6%	9.1%	9.0%
2017		8.2%	14.5%	8.2%	9.8%	9.2%
EBIT Margin	3					
2018		5.0%	11.2%	5.2%	5.1%	5.4%
2017		4.5%	11.4%	4.4%	6.0%	5.5%

* Per unit case.

[^] Refer to the Glossary on page 234.

Note 1: Revenue for the Beverages Division including that of joint venture companies and excluding sales to other bottlers was HK\$42,659 million (2017: HK\$35,582 million).

Note 2: The sales volume for Mainland China shown in the table above represents sales in seven franchise territories from 1st January 2017 to 31st March 2017, sales in 12 franchise territories from 1st April 2017 to 30th June 2017 and sales in 13 franchise territories starting from 1st July 2017, in each case including products supplied by CCBMH.

Note 3: (i) EBITDA and EBIT for the Beverages Division including that of joint venture companies and excluding non-recurring gains and central costs were HK\$3,840 million (2017: HK\$3,261 million) and HK\$2,299 million (2017: HK\$1,942 million) respectively.

(ii) EBITDA margin and EBIT margin represent EBITDA and EBIT expressed as percentages of revenue.

2018 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$1,630 million in 2018. This included a non-recurring gain of HK\$144 million arising from the disposal of the Kaohsiung plant in Taiwan and a non-recurring gain in relation to the acquisition of production assets in the USA of HK\$132 million. This compares with an attributable profit of HK\$2,441 million in 2017. The 2017 figure included non-recurring gains of HK\$1,222 million arising from the realignment of the Coca-Cola bottling system in Mainland China, non-recurring gains in the USA aggregating HK\$289 million arising from changes to the division's franchise terms and production and distribution assets acquired, and a loss on disposal of the Kaohsiung plant in Taiwan of HK\$32 million.

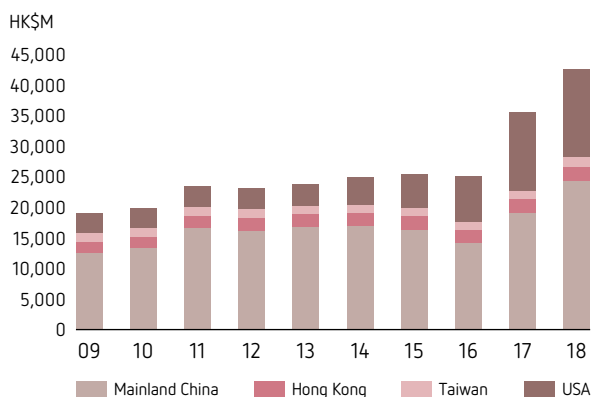
Disregarding the non-recurring gains in both years, Swire Beverages made an attributable profit of HK\$1,354 million in 2018, a 41% increase compared with an attributable profit of HK\$962 million in 2017.

Total revenue (including that of joint venture companies and excluding sales to other bottlers) increased by 20% to HK\$42,659 million. Overall sales volume increased by 16% to 1,755 million unit cases. Revenue and volume grew in Mainland China and the USA, mainly due to the inclusion of sales in the territories acquired in 2017. Revenue and volume also grew in Hong Kong and Taiwan.

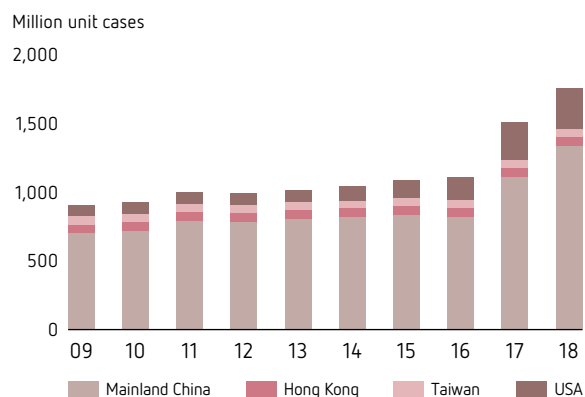
EBITDA (including that of joint venture companies and excluding non-recurring gains and central costs) increased by 18% to HK\$3,840 million. Revenue growth was reflected in improved EBITDA margins in Mainland China and Taiwan. In the USA and Hong Kong, the positive effect of revenue growth on EBITDA margins was more than offset by increases in raw material and operating costs.

Swire Beverages will continue to make significant investments in production assets, logistics infrastructure, merchandising equipment and digital capabilities. Capital commitments at 31st December 2018 were HK\$931 million.

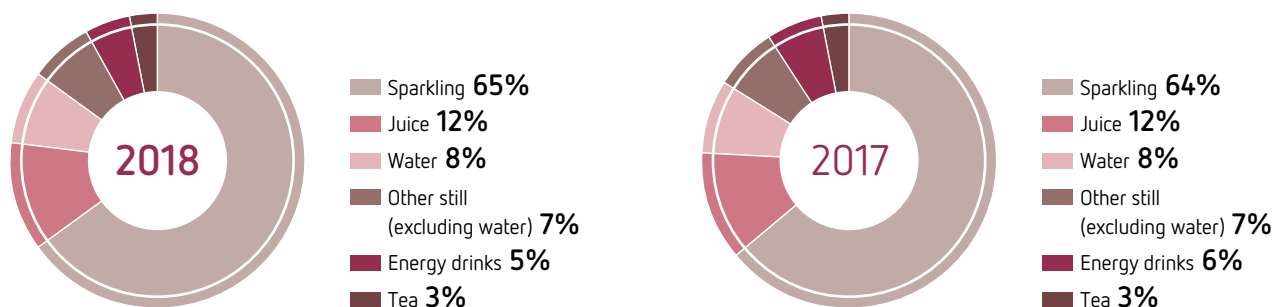
Sales Revenue#



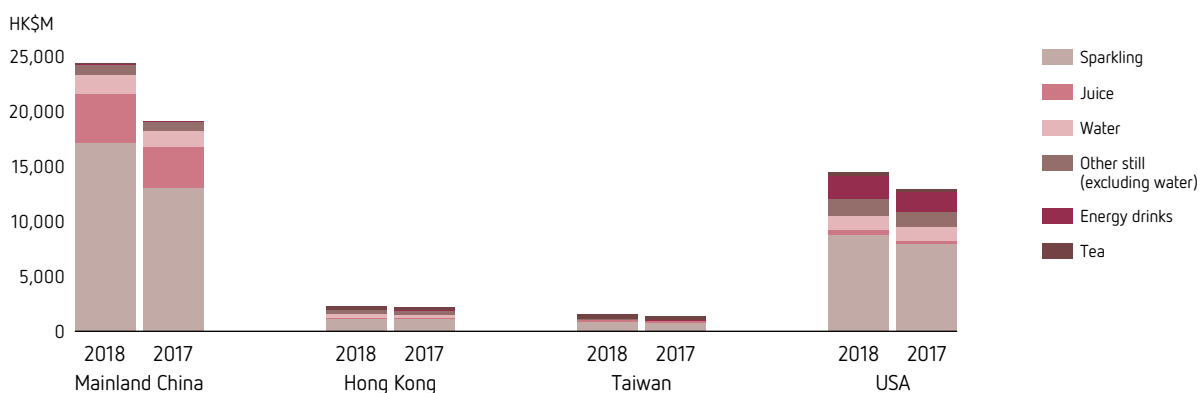
Sales Volume#



Breakdown of Total Revenue by Category#



Breakdown of Revenue by Region and Category#



Growth in Revenue and Volume in 2018 by Category##

	Mainland China		Hong Kong		Taiwan		USA	
	Revenue	Volume	Revenue	Volume	Revenue	Volume	Revenue	Volume
Sparkling	27%	23%	5%	3%	4%	1%	11%	5%
Juice	13%	14%	4%	2%	4%	4%	8%	-2%
Water	24%	19%	-6%	-3%	54%	33%	7%	7%
Other still (excluding water)	4%	-14%	3%	2%	16%	33%	11%	5%
Energy drinks	9%	7%	16%	4%	208%	212%	22%	27%
Tea	409%	188%	6%	4%	6%	9%	-1%	-4%

Revenue and volume includes joint venture companies and excludes sales to other bottlers.

Revenue (in local currency terms) and volume includes joint venture companies and excludes sales to other bottlers.

Mainland China

Attributable profit from Mainland China was HK\$634 million in 2018. Disregarding non-recurring gains in 2017, the attributable profit in 2018 increased by 161% from 2017.

Revenue (including that of joint venture companies and excluding sales to other bottlers) grew by 23% in local currency terms. This principally reflected the acquisition of new franchise territories in 2017 and a 8% increase in revenue in existing territories. Revenue grew faster than volume. This reflected improvements in product and package mixes and price increases.

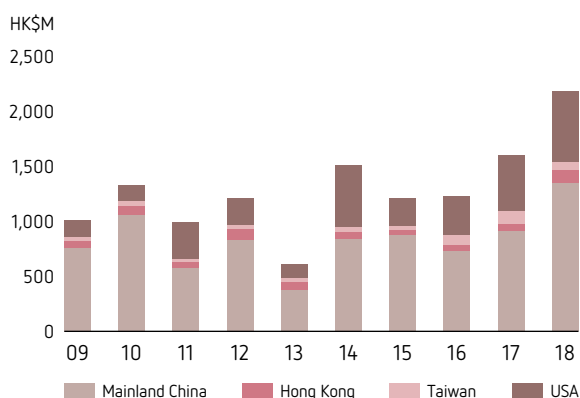
Sparkling revenue increased by 27%. Still revenue increased by 15%. Juice and water revenue increased by 13% and 24% respectively.

Total sales volume increased by 20%. Sales volume in existing territories increased by 7%.

The increase in revenue was partly offset by higher raw material and operating costs.

EBITDA and EBIT (including those of joint venture companies and excluding non-recurring gains and central costs) increased by 28% and 39% in local currency terms respectively. The EBITDA margin increased from 8.2% in 2017 to 8.5% in 2018. The EBIT margin increased from 4.5% to 5.0%.

Capital Expenditure



Hong Kong

Attributable profit from Hong Kong in 2018 was HK\$230 million, a 5% increase from 2017. The increase included the additional share of profits in Hong Kong resulting from the acquisition in 2017 of the 12.5% of Swire Beverages Limited previously owned by TCCC. The operating profit increased by 2%.

Revenue (excluding sales to other bottlers) increased by 4%, representing a higher growth rate than that of volume. This reflected the introduction of new products, an improved product mix and price increases.

Sparkling revenue increased by 5%. Still revenue increased by 2%. Tea and juice revenue increased by 6% and 4% respectively. Water revenue decreased by 6%.

Total sales volume increased by 1%.

The increase in revenue was partly offset by higher raw material and operating costs.

EBITDA and EBIT (excluding the impact of the acquisition of additional shares in Swire Beverages Limited in 2017) increased by 0.3% and 2% respectively. The EBITDA margin decreased from 14.5% in 2017 to 14% in 2018. The EBIT margin decreased from 11.4% to 11.2%.

Swire Beverages is setting up a joint venture to establish Hong Kong's first dedicated PET and HDPE recycling facility.

Taiwan

Attributable profit from Taiwan in 2018 was HK\$211 million. Disregarding the non-recurring gain/(loss) on disposal of the Kaohsiung plant, the attributable profit was HK\$67 million, a 56% increase from 2017.

Revenue in local currency terms increased by 8%, representing a higher growth rate than that of volume. This reflected price increases and an improved product mix.

Sparkling revenue increased by 4%, reflecting improved market execution and sales promotion. Still revenue increased by 12%. Tea revenue increased by 6%, reflecting the introduction of new products. Water revenue increased by 54%.

Total sales volume increased by 5%.

Profits were adversely affected by higher raw material costs but benefited from a slower increase in operating expenses (4%) and favourable exchange rate movements.



Swire Beverages expanded its product and package portfolio after the successful integration of new franchises in Mainland China.

EBITDA and EBIT (excluding non-recurring gains and central costs) increased by 13% and 27% in local currency terms respectively. The EBITDA margin increased from 8.2% in 2017 to 8.6% in 2018. The EBIT margin increased from 4.4% to 5.2%.

USA

Attributable profit from the USA was HK\$623 million in 2018. Disregarding non-recurring gains, the attributable profit was HK\$491 million in 2018, a 0.6% decrease from the corresponding figure in 2017.

Revenue in local currency terms (excluding sales to other bottlers) grew by 11%. This principally reflected the inclusion of sales in the states of Washington and Idaho from March 2017 and Oregon from May 2017. Revenue grew faster than volume. This reflected price increases.

Sparkling revenue increased by 11%. Still revenue increased by 13%. The latter increase principally reflected a 22% increase in revenue from energy drinks.

Total sales volume increased by 6%. The revenue from existing territories increased by 1%.

Gross profits increased, principally as a result of higher selling prices and sales volume, but the beneficial effect of this was more than offset by higher finance charges and higher raw material and operating costs.

EBITDA (excluding non-recurring gains and central costs) increased by 3% in local currency terms. EBIT decreased by 6%. The EBITDA margin decreased from 9.8% in 2017 to 9.1% in 2018. The EBIT margin decreased from 6% to 5.1%.

OUTLOOK

Revenue in Mainland China is expected to continue to grow in 2019. Revenue is expected to grow faster than volume, reflecting better product and package mix, and improved market execution. However, increased operating costs particularly staff costs will put pressure on profits.

Continued growth in revenue is expected in Hong Kong in 2019, with revenue growing faster than volume. Operating costs are expected to increase. Increased capital expenditure will put pressure on profits in the short term.

Revenue is expected to continue to grow in Taiwan, reflecting improvements in product and package mix and in the management of sales channels.

In the USA, the beverages market is expected to grow moderately in 2019. Sales of energy drinks are expected to continue to grow. However, increased costs will put pressure on profits.

Patrick Healy