

## Review of Operations

# BEVERAGES DIVISION

The Beverages Division has the right to manufacture, market and distribute the products of The Coca-Cola Company in Hong Kong, Taiwan, seven provinces in Mainland China and in an extensive area in the western USA.

	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M
<b>Turnover*</b>	<b>4,978</b>	4,955
<b>Operating profit</b>	<b>380</b>	364
<b>Share of profits before taxation</b>		
<b>jointly controlled companies</b>	<b>232</b>	205
<b>Attributable profit</b>	<b>385</b>	363

\* Turnover does not include the Mainland China operations which are all jointly controlled companies. Total turnover from Mainland China operations was HK\$4,496 million in 2004 (2003: HK\$3,798 million).

### Segment information

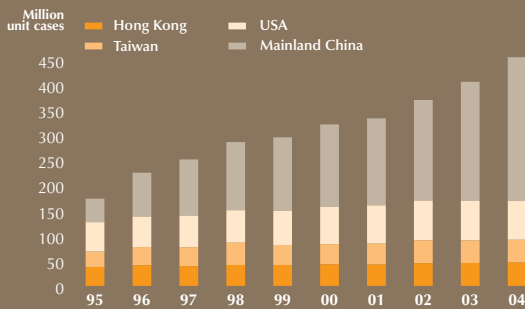
	<b>Turnover</b>		<b>Attributable profit</b>	
	<b>2004</b>	2003	<b>2004</b>	2003
	<b>HK\$M</b>	HK\$M	<b>HK\$M</b>	HK\$M
Hong Kong	<b>1,358</b>	1,351	<b>119</b>	127
Taiwan	<b>1,029</b>	997	<b>50</b>	42
USA	<b>2,591</b>	2,607	<b>122</b>	142
Mainland China	–	–	<b>124</b>	86
Head Office – costs	–	–	<b>(30)</b>	(34)
	<b>4,978</b>	4,955	<b>385</b>	363

	<b>Hong Kong</b>	<b>Taiwan</b>	<b>USA</b>	<b>Mainland China</b>	<b>2004 Total</b>	2003 Total
Sales volume (million cases)	46.5	45.4	77.1	286.6	<b>455.6</b>	406.6
Net assets employed (HK\$M)	687	469	826	1,070	<b>3,052</b>	3,236
Capital expenditure (HK\$M)	37	63	100	175	<b>375</b>	311

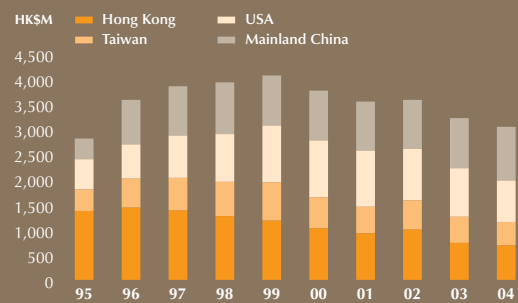


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Sales volume in million unit cases



Net assets employed



Net assets employed comprise shareholders' funds, minority interests and net borrowings of group companies, which include the share of net assets in jointly controlled companies in Mainland China.

# Review of Operations – BEVERAGES DIVISION

## 2004 OVERVIEW

The Beverages Division recorded strong volume growth in 2004 although attributable profits were impacted by raw material cost increases and higher taxes in the USA. For the division in total, attributable profits rose 6% to HK\$385 million and total volumes were up 12%.

Mainland China operations were the primary driver of the improved performance with very strong volume growth more than compensating for higher raw material and power costs.

### Hong Kong

Sales volume in the Hong Kong market grew by 2%, while net revenues were flat against 2003. The sustained pressure on pricing and increasing material costs lowered margins and profits fell in consequence.

Competition was particularly severe in the supermarket segment where efforts by competitors to increase market share resulted in lower pricing and heavier promotional expenditure. Sales were strong in other channels.

Non-carbonated beverages (“NCBs”) continue to outperform the rest of the market and, in total, now represent over 40% of sales. Growth was particularly strong for Bonaqua (+16%), Nestea (+14%) and Nescafé (+18%).

### Taiwan

Sales volume in Taiwan grew by 1% supported by successful line extensions to the Sprite and Nestea brands. Margins continue to be under pressure with pricing in the supermarket and convenience store channels being particularly aggressive.

Production and distribution efficiencies were major contributors to the growth in profits.

The material cost increases experienced in the second half of 2004 will make margin management a key issue for 2005.

### USA

Sales from the division’s USA operations were consistent with the market as a whole, declining slightly in 2004, with higher retail pricing in the supermarket channel in the second half of 2004 dampening demand.

The shift in consumer preference away from carbonated soft drinks has continued. In response the company has developed its range of NCB brands and enjoyed particular success in the promotion of the Powerade range of products.

Improved price management more than offset the impact of increases in raw material costs resulting in slightly improved margins. Operating expenses were tightly controlled although the USA operations experienced higher fuel costs, healthcare payments and an exceptional tax charge associated with a corporate restructuring resulting in attributable profits declining from HK\$142 million to HK\$122 million.



*Sales volume grew by 12% and attributable profits rose 6% to HK\$385 million.*

### Mainland China

The division’s jointly controlled operating companies hold bottling and distribution franchises for Henan, Fujian, Anhui, and Shaanxi provinces and most of Zhejiang, Jiangsu and Guangdong provinces.

Volume growth of 21% in these provinces has been facilitated by continued investment in training, refrigeration and distribution equipment.

Non-carbonated products continue to outperform with Nestea in its first full year growing significantly, and Minute Maid, a second juice brand, making a strong debut. Further growth of 43% in Sensation Water helped lift NCBs to 22% of the total product mix.

Increased promotion of single-serve packages helped to overcome the impact of slightly lower general pricing and higher material costs, which were particularly evident in the second half.

Attributable profit rose 44% to HK\$124 million.

### 2005 Outlook

The Beverages Division's franchise territories, especially in Mainland China, have significant potential for further growth illustrated by the relatively low levels of per capita consumption which currently stand at 18 8oz servings across our franchise territories compared to the Hong Kong average of 164.

The Beverages Division expects to develop new distribution channels and points of sale in each of its markets. This will require new investment which will be directed towards broadening the product range to meet changing consumer preferences. Such investment will emphasise the portfolio of NCB brands where growth prospects are attractive.

The recent increases in material costs experienced by all of the Beverages Division's operations will keep pressure on margins. However, these should improve over time through a combination of operational efficiencies and an increased emphasis on higher margin products.

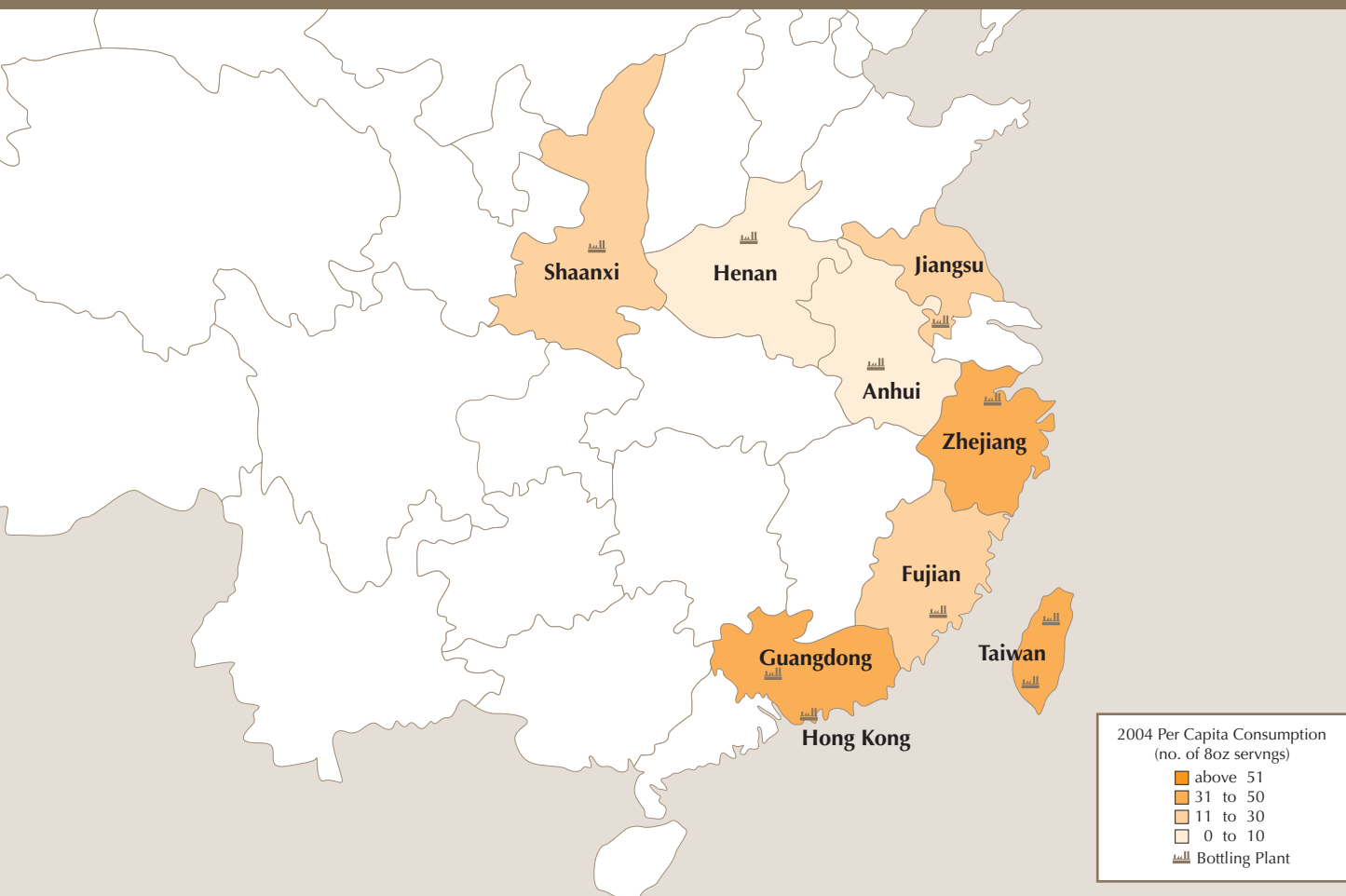
The Hong Kong franchise continues to offer volume growth opportunities but further margin pressure is expected as competitors continue to focus on the use of price as their primary marketing tool. The Beverages Division will further invest in its brands to help differentiate products while improving availability through the expansion of 'direct-to-consumer' distribution capabilities such as vending, home delivery and school tuck shops.

In Taiwan the dominance of own brands in the supermarket and convenience channels present significant challenges to the distribution of the Coca-Cola portfolio of products. The division will broaden its distribution network into alternative channels and stimulate consumer demand with new brands and flavours.

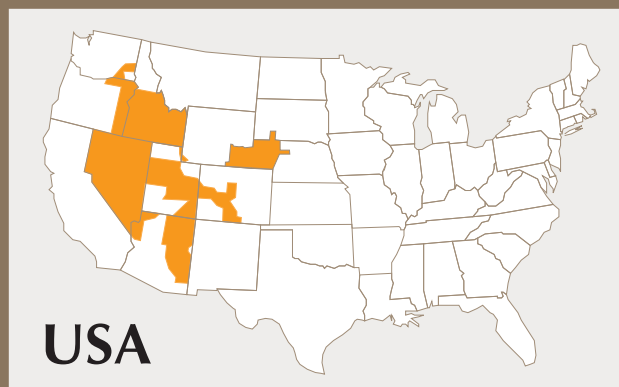
The Beverages Division anticipates continued strong growth from Mainland China franchises although this will require further investment. Incremental production capacity is currently being introduced. The division will increase investment in marketing, direct delivery equipment, sales technology and training of its workforce. Continued volume growth is expected to produce production and operational efficiencies and so mitigate the pressure of higher raw material costs.

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## Franchise Territories

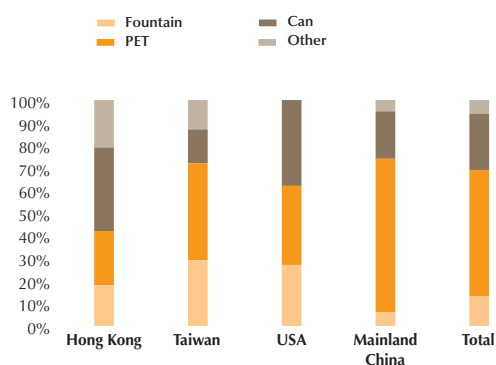


	Population	Employees	GDP per capita (US\$)
Shaanxi	36.9m	988	783
Henan	96.7m	1,172	915
Jiangsu	56.4m	1,714	2,033
Anhui	64.1m	599	780
Zhejiang	45.5m	1,605	3,008
Fujian	35.0m	1,309	2,000
Guangdong	53.6m	2,012	2,132
Hong Kong	6.8m	1,235	23,297
Taiwan	22.7m	936	14,945
USA	5.8m	1,706	39,071

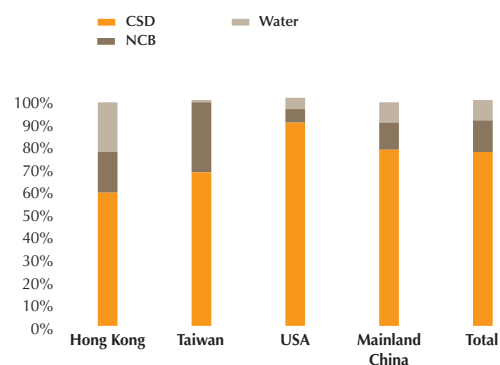


## Volume Analysis

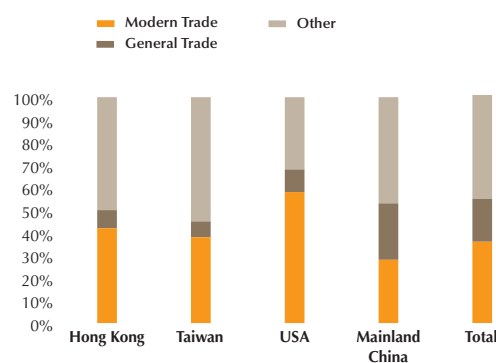
Breakdown of total volumes by package



Breakdown of total volumes by category



Breakdown of total volumes by channel



Franchise population (million)

Per capita consumption per annum (8oz serving)

GDP per capita (US\$)

Number of customers

Number of plants

Number of employees

	Hong Kong	Taiwan	USA	Mainland China	2004 Total	2003 Total
Franchise population (million)	6.8	22.7	5.8	388.2	<b>423.5</b>	418.3
Per capita consumption per annum (8oz serving)	164	48	319	18	<b>26</b>	23
GDP per capita (US\$)	23,297	14,945	39,071	1,554	<b>N/A</b>	N/A
Number of customers	63,626	68,146	21,054	481,162	<b>633,988</b>	624,447
Number of plants	1	2	2	7	<b>12</b>	14
Number of employees	1,235	936	1,706	9,399	<b>13,276</b>	12,312