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華潤啤酒(控股)有限公司

**China Resources Beer (Holdings) Company Limited**

*(Incorporated in Hong Kong with limited liability)*

**(Stock Code: 291)**

# FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

- In 2018, the Group's consolidated turnover stood at RMB31,867,000,000, representing an increase of 7.2% year-on-year. Consolidated profit attributable to the Company's shareholders dropped by 16.9% to RMB977,000,000
- During the year under review, the Group adjusted the prices for certain products moderately and recorded a growth of 4.8% in mid- to high-end beer sales volume, which further boosted the product mix upgrade. As a result, the Group's overall average selling price recorded a year-on-year increase of 12.3%
- Despite the increase in the cost of sales due to rising costs of certain raw materials and packaging materials as well as a further upgrade in the product mix, gross profit in 2018 recorded a year-on-year increase of 11.7% to RMB11,198,000,000
- The recognized impairment loss of fixed assets and inventories of the Group for 2018 were RMB 961,000,000 and RMB340,000,000 respectively
- On 5 November 2018, the Group entered into a master share purchase agreement with the Heineken Group for the acquisition of the Heineken China Businesses, a trademark licensing agreement with the Heineken Group for the exclusive use of the Heineken® brand in mainland China, Hong Kong and Macau, and a framework agreement with the Heineken Group in relation to a long-term strategic partnership between the Group and the Heineken Group. This long term strategic collaboration will provide an important strategic opportunity for the Group to strengthen its presence in the premium beer market in China
- The Board of Directors recommends a final dividend of RMB0.03 per share. Together with the interim dividend of RMB0.09 per share, the total dividend for 2018 will amount to RMB0.12 per share

## FINANCIAL HIGHLIGHTS

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Turnover | **31,867** | 29,732 |
| Profit attributable to shareholders of the Company | **977** | 1,175 |
| Basic and diluted earnings per share | **RMB0.30** | RMB0.36 |
| Dividend per share | | |
| - interim | **RMB0.09** | RMB0.07 |
| - final | **RMB0.03** | RMB0.07 |
| | **RMB0.12** | RMB0.14 |

| | **As at 31 December 2018** | As at 31 December 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Equity attributable to shareholders of the Company | **18,848** | 18,421 |
| Non-controlling interests | **62** | 64 |
| Total equity | **18,910** | 18,485 |
| Consolidated net cash/(borrowings) | **1,212** | (1,030) |
| Gearing ratio [1] | **Net Cash** | 5.6% |
| Current ratio | **0.46** | 0.49 |
| Net assets per share - book value | **RMB5.81** | RMB5.68 |

Note:
1. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

## ANALYSIS OF TURNOVER AND EARNINGS BEFORE INTEREST AND TAXATION

| | Turnover | | Earnings before interest and taxation | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***RMB million*** | *RMB million* | ***RMB million*** | *RMB million* |
| Eastern region | **16,065** | 15,605 | **199** | 877 |
| Central region | **7,860** | 6,971 | **396** | 63 |
| Southern region | **8,867** | 7,893 | **1,003** | 1,014 |
| | **32,792** | 30,469 | **1,598** | 1,954 |
| Elimination of inter-segment transactions | **(925)** | (737) | **-** | - |
| Net corporate expenses | **-** | - | **(133)** | (103) |
| **Total** | **31,867** | 29,732 | **1,465** | 1,851 |

## CHAIRMAN'S STATEMENT

### *FINAL RESULTS*

In 2018, Chinese economy continued to perform steadily with sustained momentum of progress. The total retail sales of consumer goods maintained steady growth, retail consumption continued to be the strongest economic growth driver, and the market demand for premium products continued to increase. Focusing on its three key management themes of "Innovative Development, Transformation and Upgrade, Quality Growth", the Group made solid moves in 2018, implementing a series of strategic measures encompassing lean sales management, brand repositioning, operational reform, expanding internet sales channels, organizational restructuring and capacity optimization. The themes helped the Group seize market opportunities and provided a solid foundation for future success. For the year ended 31 December 2018, the Group's consolidated turnover and profit attributable to the Company's shareholders were RMB31,867,000,000 and RMB977,000,000, representing an increase of 7.2% and a decrease of 16.9%, respectively compared with 2017. The Group's earnings before interest and taxation in 2018 decreased by 20.9% to RMB1,465,000,000 compared with 2017.

### *FINAL DIVIDEND*

The Board of Directors (the "Board") recommends a final dividend of RMB0.03 per share for the year ended 31 December 2018 (2017: RMB0.07 per share), payable on or around 14 June 2019 to shareholders whose names appear on the register of members of the Company on 30 May 2019. Together with the interim dividend of RMB0.09 per share, the total dividend for 2018 will amount to RMB0.12 per share (2017: RMB0.14 per share), to show its appreciation to shareholders for their support of the Group.

### *STRATEGY IMPLEMENTATION*

The Chinese economy maintained steady growth in 2018. The beer market continued to see an upgrade in consumption, with continuous growth in the total retail sales of beer products. During the year under review, the Group adjusted the price of certain products moderately and recorded a growth of 4.8% in mid- to high-end beer sales volume, which further boosted the product mix upgrade. As a result, the Group's overall average selling price recorded a year-on-year increase of 12.3%. However, with the decrease of volume in the northeastern market and intensified competitions, as well as the decline in sales volume resulted from the increase of product price in certain areas, the Group's overall beer sales volume in 2018 decreased by 4.5% year-on-year to 11,285,000 kiloliters. The cost of sales increased due to the rising cost of certain raw materials and packaging materials, and also the further upgrade in the product mix. Based on the above mentioned factors, the gross profit in 2018 recorded a year-on-year increase of 11.7% to RMB11,198,000,000.

The Group continued to carry out lean sales management in 2018 to enhance cost input and output ratio. However, the increase in transportation and advertising costs resulted in an increase of 11.1% in overall selling and distribution expenses compared with 2017. The Group embarked on a new corporate annuity plan during the year under review, which was effective from 1 January 2017. Therefore, the Group recorded an one-off provision of its staff cost for 2017 in 2018 with an approximate amount of RMB117,000,000. In addition, the recognized impairment loss of fixed assets and inventory for 2018 were RMB961,000,000 and RMB340,000,000 respectively. To increase the average scale of production plants, 13 breweries ceased operation during the year under review. With a view to enhancing the productivity per staff and organizational efficiency, the Group continued the production capacity optimization and organizational restructuring during the year under review. As a result, there were compensation and staff resettlement expenses of approximately RMB483,000,000 in 2018 (2017: RMB215,000,000). The overall general and administrative expenses thus recorded an increase of 26.8% compared with 2017. As at the end of 2018, the Group operated 78 breweries in 24 provinces, municipalities and autonomous regions in mainland China, with an aggregate annual production capacity of approximately 21,000,000 kiloliters.

In terms of execution of the premiumization strategies, the Group staged a campaign to reposition its brand to diversify its product portfolio with the launch of its new products "Brave the World superX" and "Craftsmanship" in 2018. Besides, the Group entered into a master share purchase agreement with the Heineken Group for the acquisition of the Heineken China Businesses, a trademark licensing agreement with the Heineken Group for the exclusive use of the Heineken® brand in mainland China, Hong Kong and Macau, and a framework agreement with the Heineken Group in relation to a long-term strategic partnership between the Group and the Heineken Group on 5 November 2018. Under the aforementioned agreements, the Heineken Group will license the Group the right to use the Heineken® brand on an exclusive basis in mainland China, Hong Kong and Macau. The Heineken Group's beer operations in mainland China, Hong Kong and Macau will be combined with the Group's beer operations. Other international premium brands owned by the Heineken Group may be licensed by the Heineken Group to the Group for use exclusively in mainland China, Hong Kong and Macau in the future. In addition, the Group and the Heineken Group will work together to support the acceleration of the international development of the Group's Chinese beer brands. This long term strategic collaboration will provide an important strategic opportunity for the Group to strengthen its presence in the premium beer market in China. On 6 March 2019, the State Administration for Market Regulation issued a written decision to not restrict the acquisition from a concentration of undertaking under the PRC anti-trust law. The completion of the transactions is still subject to the fulfillment of other conditions precedent.

## *PROSPECTS*

In 2018, the Chinese economy remained steady while making progress, and the consumption growth continued to drive economic development. The Chinese beer market has steadily shifted from the stage of "high-speed volume growth" to "high-quality development". The high-end beer market is growing rapidly. The demand for personalized, diversified and premium products is constantly increasing, and the cost pressure has also been rising. These transformation in the industry bring in not only challenges, but also valuable opportunities. The Group believes that management and strategic initiatives with forward-looking vision can help the Group to seize these opportunities, consolidate its industry position and achieve remarkable profit growth in the future.

The Group will continue to improve the impact of its brand and mid- to high-end products by adhering to the three key management themes of “Innovative Development, Transformation and Upgrade, Quality Growth” and by further implementing strategic measures encompassing lean sales management, brand repositioning, operational reform, expanding internet sales channels, organizational restructuring, production capacity optimization, channel reform, information technology upgrade and corporate culture rebuilding. Premiumization is one of the Group’s core business strategies for driving business growth. For the development of the market in high-end products, in addition to continuous promotion of existing products, including the newly launched nationwide products of “Brave the World superX” and “Craftsmanship” in 2018, the Group will also continue to diversify its product portfolio by launching new products or refining existing products. Coupled with the enhancement of sales capability for high-end products, these initiatives are expected to propel the sales growth of mid- to-high end products.

To cope with the rising costs, the Group will continue to adopt different measures, such as production capacity optimization, organization restructuring, operational reform, expand procurement channels and enhance procurement measures to improve efficiency and to mitigate the heightened cost pressure. The Group's financial performance is expected to be affected by the implementation of production capacity optimization continuously.

Looking forward to 2019, there are increasing variables affecting the global economy and external environment, and the landscape of Chinese beer industry will continue to change. Amidst the uncertainties, the Group believes that the Chinese economy will maintain steady growth, and is confident in the Group’s premiumization strategy and profit growth. The Group will also continue to closely monitor the changes in the Chinese beer market and the possible impact of Sino-US trade friction on costs, and make corresponding forward-looking actions swiftly.

As a leading beer enterprise in China, the Group strives to lead the advancement in the beer industry and brew a better life. We look forward to working together with all stakeholders to create higher corporate values and to make the Group a trusted and beloved beer enterprise.

## *APPRECIATION*

On behalf of the Board, I would like to take this opportunity to express my gratitude to our shareholders, management and employees for their support, commitment and contributions, as well as to our customers and business partners for their long term trust. Looking ahead, we will continue to offer more quality products and services to our customers and deliver attractive returns to our shareholders.

**Chen Lang**
*Chairman*

Hong Kong, 20 March 2019

## 2018 RESULTS

The Directors of China Resources Beer (Holdings) Company Limited (the "Company") are pleased to announce the audited consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018 as follows:

# CONSOLIDATED PROFIT AND LOSS ACCOUNT

*For the year ended 31 December 2018*

| | Notes | 2018<br>RMB million | 2017<br>RMB million |
|---|---|---|---|
| Turnover | 3 | **31,867** | 29,732 |
| Cost of sales | | **(20,669)** | (19,703) |
| Gross profit | | **11,198** | 10,029 |
| Other income | 4 | **993** | 903 |
| Selling and distribution expenses | | **(5,570)** | (5,012) |
| General and administrative expenses | | **(5,041)** | (3,976) |
| Finance costs | 5 | **(48)** | (128) |
| Profit before taxation | | **1,532** | 1,816 |
| Taxation | 6 | **(547)** | (630) |
| **Profit for the year** | 7 | **985** | 1,186 |
| | | | |
| **Attributable to:** | | | |
| Shareholders of the Company | | **977** | 1,175 |
| Non-controlling interests | | **8** | 11 |
| | | **985** | 1,186 |
| | | | |
| **Earnings per share** | 9 | | |
| Basic | | **RMB0.30** | RMB0.36 |
| Diluted | | **RMB0.30** | RMB0.36 |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

*For the year ended 31 December 2018*

| | **2018** *RMB million* | 2017 *RMB million* |
|---|---|---|
| **Profit for the year** | **985** | 1,186 |
| **Other comprehensive (expenses)/income :** | | |
| **Items that may be reclassified subsequently to profit or loss:** | | |
| Exchange differences on translating foreign operations | **(31)** | 135 |
| **Other comprehensive (expenses)/income for the year, net of tax** | **(31)** | 135 |
| **Total comprehensive income for the year** | **954** | 1,321 |
| **Attributable to:** | | |
| Shareholders of the Company | **946** | 1,309 |
| Non-controlling interests | **8** | 12 |
| | **954** | 1,321 |

# CONSOLIDATED BALANCE SHEET

*As at 31 December 2018*

| | Notes | ***2018*** ***RMB million*** | *2017* *RMB million* |
|---|---|---|---|
| **Non-current assets** | | | |
| Fixed assets | | | |
| - Interests in leasehold land held for own use under operating leases | | **3,141** | 3,253 |
| - Other property, plant and equipment | | **16,491** | 17,196 |
| Goodwill | | **8,390** | 8,318 |
| Other intangible assets | | **124** | 147 |
| Financial assets at fair value through other comprehensive income | | **9** | - |
| Available for sale investments | | **-** | 9 |
| Prepayments | | **240** | 81 |
| Deferred taxation assets | | **2,426** | 2,261 |
| | | **30,821** | 31,265 |
| **Current assets** | | | |
| Stocks | | **5,379** | 5,826 |
| Trade and other receivables | *10* | **906** | 1,006 |
| Taxation recoverable | | **240** | 114 |
| Pledged bank deposits | | **67** | 79 |
| Cash and cash equivalents | | **1,858** | 2,361 |
| | | **8,450** | 9,386 |
| **Current liabilities** | | | |
| Trade and other payables | *11* | **(17,637)** | (16,605) |
| Short term loans | | **(704)** | (2,383) |
| Taxation payable | | **(29)** | (207) |
| | | **(18,370)** | (19,195) |
| **Net current liabilities** | | **(9,920)** | (9,809) |
| **Total assets less current liabilities** | | **20,901** | 21,456 |
| **Non-current liabilities** | | | |
| Long term loans | | **(9)** | (1,087) |
| Deferred taxation liabilities | | **(399)** | (255) |
| Other non-current liabilities | | **(1,583)** | (1,629) |
| | | **(1,991)** | (2,971) |
| | | **18,910** | 18,485 |
| **Capital and reserves** | | | |
| Share capital | | **14,090** | 14,090 |
| Reserves | | **4,758** | 4,331 |
| **Equity attributable to shareholders of the Company** | | **18,848** | 18,421 |
| **Non-controlling interests** | | **62** | 64 |
| **Total equity** | | **18,910** | 18,485 |

**Notes:**

**1. Basis of preparation**

The announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

The financial statements for the year ended 31 December 2018 have been prepared in accordance with accounting principles generally accepted in Hong Kong and requirements of the Hong Kong Companies Ordinance (Cap. 622).

**2. Principal Accounting Policies**

The accounting policies used in the preparation of these financial statements are consistent with those applied in the annual financial statements for the year ended 31 December 2017, except for the adoption of new standards, amendments, improvements to existing standards and interpretations, which are effective for the Group's financial year beginning 1 January 2018.

<u>Adoption of new standards, amendments, improvements to existing standards and interpretations</u>

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new standards, amendments, improvements to existing standards and interpretations on Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") that are effective for the financial year beginning 1 January 2018. In the current year, the Group has adopted the following standards, amendments, improvements to existing standards and interpretations.

| | |
|---|---|
| HKAS 40 (Amendment) | Transfers of investment property |
| HKFRSs (Amendment) | Annual Improvements to HKFRSs 2014-2016 Cycle |
| HKFRS 2 (Amendment) | Classification and measurement of share-based payment transactions |
| HKFRS 4 (Amendment) | Applying HKFRS 9 "Financial instruments" with HKFRS 4 "Insurance contracts" |
| HKAS 9 | Financial Instruments |
| HKAS 15 | Revenue from Contracts with Customers |
| HKFRS 15 (Amendment) | Clarifications to HKFRS 15 |
| HK(IFRIC) 22 | Foreign Currency Transactions and Advance Consideration |

## 2. Principal Accounting Policies (continued)

Adoption of new standards, amendments, improvements to existing standards and interpretations (continued)

The adoption of the standards, amendments, improvements to existing standards and interpretations has had no material effect on the results or financial positions of the Group for the current and prior accounting periods, except for HKFRS 9 "Financial instruments" and HKFRS 15 "Revenue from contracts with customers" as set out below.

**HKFRS 9 "Financial Instruments"**

The Group has adopted HKFRS 9 "Financial Instruments" from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the financial information. In accordance with the transition provisions in HKFRS 9, the Group has adopted the modified retrospective approach for transition to the new financial instruments standard. The reclassification arising from the new rules is therefore not reflected in the consolidated balance sheet as at 31 December 2017, but is recognised in the opening consolidated balance sheet on 1 January 2018.

The adjustments on the consolidated balance sheet as at 1 January 2018 are summarised below:

| Consolidated balance sheet (extract) | 31 December 2017 As originally presented *RMB million* | Effect of adoption of HKFRS 9 *RMB million* | 1 January 2018 Restated *RMB million* |
|---|---|---|---|
| Available for sale investments | 9 | (9) | - |
| Financial assets at fair value through other comprehensive income | - | 9 | 9 |

The Group has assessed which business models apply to the financial assets held by the Group and has classified its financial assets and liabilities into the appropriate HKFRS 9 categories. There were no changes to the carrying amount of the financial assets and liabilities through transition. For the investment in equity securities previously classified as available for sale investments, the Group elected to present its change in fair value in other comprehensive income. As a result, the investment was reclassified from available for sale investments to financial assets at fair value through other comprehensive income. There is no longer any reclassification of accumulated amounts from reserves to profit or loss on the disposal of these investments.

There was no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities.

The Group has also assessed on a forward looking basis the expected credit losses associated with its financial assets carried at amortised cost. The Group has applied simplified approach to measure expected credit losses for trade receivables. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

## 2. Principal Accounting Policies (continued)

Adoption of new standards, amendments, improvements to existing standards and interpretations (continued)

There was no impact on the Group's hedge accounting after adoption of HKFRS 9, as the Group does not adopt any hedge accounting in current and near periods.

**HKFRS 15 "Revenue from Contracts with Customers"**

The Group has adopted HKFRS 15 "Revenue from contracts with customers" from 1 January 2018, resulting in changes in accounting policies. In accordance with the transition provisions in HKFRS 15, the Group has adopted the modified retrospective approach for transition to the new revenue standard. The receipt in advance on sales and majority of the accruals on promotion and marketing expenses, which were classified as receipt in advance and accruals respectively in the last financial year, will be classified as contract liabilities after the adoption of HKFRS 15. There were no material adjustments to the amounts of receipt in advance and accruals on promotion and marketing expense through transition.

Accounting standards, amendments, improvements to existing standards and interpretations that are not yet effective

The Group has not early applied the following new standards, amendments, improvements to existing standards and interpretations that have been issued but are not yet effective.

| | |
|---|---|
| HKAS 19 (Amendment) | Plan amendments, curtailment or settlement |
| HKAS 28 (Amendment) | Long-term Interests in an Associate or Joint Venture |
| HKFRSs (Amendment) | Annual Improvements to HKFRSs 2015 – 2017 Cycle |
| HKFRS 9 (Amendment) | Repayment Features with Negative Compensation |
| HKFRS 16 | Leases |
| HK(IFRIC) 23 | Uncertainty over Income Tax Treatments |
| HKAS 1 and HKAS 8 (Amendments) | Definition of Material |
| HKFRS 3 (Amendment) | Definition of a Business |
| HKFRS 17 | Insurance Contracts |

## 2. Principal Accounting Policies (continued)

Accounting standards, amendments, improvements to existing standards and interpretations that are not yet effective (continued)

| | |
|---|---|
| HKFRS 10 and HKAS 28 (Amendments) | Sale or contribution of assets between an investor and its associate or joint venture |

The Group has already commenced an assessment of the impact of these new standards, amendments, improvements to existing standards and interpretations in the period of initial application. So far the Group has identified some aspects of HKFRS 16 "Leases" which may have an impact on the Group. Further details of the expected impacts are discussed below.

**HKFRS 16 "Leases" (Effective for annual period beginning on or after 1 January 2019)**

Nature of change
HKFRS 16 was issued in May 2016. It will result in almost all leases being recognised on the consolidated balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

Impact
The standard will affect primarily the accounting for Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB120 million. The Group estimates those related to payments for short-term and low value lease which will be recognised on straight-line basis as an expense in profit or loss are insignificant.

Upon adoption of HKFRS16, the Group expects to recognise rights-of-use assets and lease liability on 1 January 2019. The Group expects that profit for the year will decrease for 2019 as a result of adopting the new rules. Further update of the impact will be provided in the interim report for the six months ending 30 June 2019.

Date of adoption by the Group
The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

There are no other new standards, amendments, improvements to existing standards and interpretations that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## 3. Segment information

| | Eastern region *RMB million* | Central region *RMB million* | Southern region *RMB million* | Corporate / Elimination *RMB million* | Total *RMB million* |
|---|---|---|---|---|---|
| **For the year ended 31 December 2018** | | | | | |
| **TURNOVER[1]** | | | | | |
| External sales | 15,639 | 7,680 | 8,548 | - | 31,867 |
| Inter-segment sales | 426 | 180 | 319 | (925) | - |
| Total | 16,065 | 7,860 | 8,867 | (925) | 31,867 |
| **Segment result[2]** | 199 | 396 | 1,003 | | 1,598 |
| Unallocated corporate expenses | | | | | (133) |
| Interest income | | | | | 115 |
| Finance costs | | | | | (48) |
| **Profit before taxation** | | | | | 1,532 |
| Taxation | | | | | (547) |
| **Profit for the year** | | | | | 985 |
| **As at 31 December 2018** | | | | | |
| **ASSETS** | | | | | |
| Segment assets | 17,288 | 7,762 | 11,542 | | 36,592 |
| Deferred taxation assets | | | | | 2,426 |
| Taxation recoverable | | | | | 240 |
| Unallocated corporate assets | | | | | 13 |
| **Consolidated total assets** | | | | | 39,271 |
| **LIABILITIES** | | | | | |
| Segment liabilities | 10,456 | 4,302 | 4,425 | | 19,183 |
| Taxation payable | | | | | 29 |
| Deferred taxation liabilities | | | | | 399 |
| Unallocated corporate liabilities | | | | | 750 |
| **Consolidated total liabilities** | | | | | 20,361 |
| **OTHER INFORMATION** | | | | | |
| Additions to non-current assets[3] | 810 | 831 | 448 | - | 2,089 |
| Depreciation and amortisation | 847 | 414 | 392 | 1 | 1,654 |
| Impairment loss recognised | 805 | 202 | 294 | - | 1,301 |

## 3. Segment information (continued)

| | Eastern region | Central region | Southern region | Corporate / Elimination | Total |
|---|---|---|---|---|---|
| | *RMB million* | *RMB million* | *RMB million* | *RMB million* | *RMB million* |
| **For the year ended 31 December 2017** | | | | | |
| **TURNOVER[1]** | | | | | |
| External sales | 15,154 | 6,930 | 7,648 | - | 29,732 |
| Inter-segment sales | 451 | 41 | 245 | (737) | - |
| Total | 15,605 | 6,971 | 7,893 | (737) | 29,732 |
| **Segment result[2]** | 877 | 63 | 1,014 | | 1,954 |
| Unallocated corporate expenses | | | | | (103) |
| Interest income | | | | | 93 |
| Finance costs | | | | | (128) |
| **Profit before taxation** | | | | | 1,816 |
| Taxation | | | | | (630) |
| **Profit for the year** | | | | | 1,186 |
| **As at 31 December 2017** | | | | | |
| **ASSETS** | | | | | |
| Segment assets | 18,859 | 7,413 | 11,979 | | 38,251 |
| Deferred taxation assets | | | | | 2,261 |
| Taxation recoverable | | | | | 114 |
| Unallocated corporate assets | | | | | 25 |
| **Consolidated total assets** | | | | | 40,651 |
| **LIABILITIES** | | | | | |
| Segment liabilities | 12,137 | 3,877 | 4,520 | | 20,534 |
| Taxation payable | | | | | 207 |
| Deferred taxation liabilities | | | | | 255 |
| Unallocated corporate liabilities | | | | | 1,170 |
| **Consolidated total liabilities** | | | | | 22,166 |
| **OTHER INFORMATION** | | | | | |
| Additions to non-current assets[3] | 554 | 508 | 690 | - | 1,752 |
| Depreciation and amortisation | 906 | 393 | 406 | 1 | 1,706 |
| Impairment loss recognised | 383 | 256 | 100 | - | 739 |

Notes:

1. Turnover represents sales of beer products and was recognised at a point of time.
2. Segment result represents earnings before interest income, finance costs and taxation.
3. Additions to non-current assets included fixed assets.

## 4. Other income

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| **Other income includes the following:** | | |
| Interest income | **115** | 93 |
| Government grants recognised | **187** | 206 |
| Profit on disposal of fixed assets | **94** | 101 |

## 5. Finance costs

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Interests on finance leases | **1** | - |
| Interests on bank loans and other loans | **62** | 99 |
| Financing charges | **9** | 19 |
| Exchange (gain)/loss | **(13)** | 26 |
| | **59** | 144 |
| Less: Interest capitalised | **(11)** | (16) |
| | **48** | 128 |

## 6. Taxation

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| **Chinese Mainland income tax** | | |
| Current taxation | **571** | 889 |
| Deferred taxation | **(24)** | (259) |
| | **547** | 630 |

Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year.

Chinese Mainland income tax has been provided for based on the estimated assessable profits in accordance with the relevant tax laws applicable to the subsidiaries in the Chinese Mainland. The applicable principal income tax rate for the year ended 31 December 2018 is 25% (2017: 25%).

## 7. Profit for the year

| | **2018**<br>***RMB million*** | 2017<br>*RMB million* |
|---|---|---|
| **Profit for the year has been arrived at after charging:** | | |
| Depreciation | | |
| - Owned assets | **1,630** | 1,683 |
| - Assets held under finance leases | **1** | - |
| Amortisation of other intangible assets (included in general and administrative expenses) | **23** | 23 |
| Impairment loss recognised on (included in general and administrative expenses) | | |
| - Fixed assets | **961** | 415 |
| - Stocks | **340** | 324 |
| Operating leases charges on land and buildings | **125** | 120 |
| Cost of goods sold | **20,669** | 19,703 |

## 8. Dividends

| | **2018**<br>***RMB million*** | 2017<br>*RMB million* |
|---|---|---|
| 2018 interim dividend paid of RMB0.09 (2017: RMB 0.07) per ordinary share | **292** | 227 |
| 2018 proposed final dividend of RMB0.03 (2017: RMB0.07) per ordinary share | **97** | 227 |
| | **389** | 454 |

At the meeting held on 20 March 2019, the directors proposed final dividend of RMB0.03 (2017: RMB0.07) per ordinary share. This proposed dividend, which is calculated on the Company's number of ordinary shares as at the date of the board meeting, is not recognised as a liability in these financial statements. The total dividends paid by the Company, including the final dividend for the year 2017 and the interim dividend for the year 2018, amounting to RMB519 million (2017: RMB 487 million) are reflected in the current year financial statements.

## 9. Earnings per share

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| The calculation of the basic and diluted earnings per share is based on the following data: | | |
| **Earnings** | | |
| Profit attributable to shareholders of the Company for the purposes of calculating basic and diluted earnings per share | **977** | 1,175 |

| | **2018** | 2017 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic and diluted earnings per share | **3,244,176,905** | 3,244,176,905 |

| | **2018** | 2017 |
|---|---|---|
| | ***RMB*** | *RMB* |
| **Basic and diluted earnings per share** | **0.30** | 0.36 |

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

## 10. Trade and other receivables

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Trade receivables from third parties | **457** | 609 |
| Trade receivables from fellow subsidiaries | **25** | 33 |
| Provision for doubtful debts | **(39)** | (35) |
| | **443** | 607 |
| Value-added tax recoverable | **173** | 125 |
| Prepayments | **173** | 154 |
| Deposits paid | **9** | 7 |
| Other receivables | **108** | 112 |
| Amounts due from fellow subsidiaries | **-** | 1 |
| | **906** | 1,006 |

The Group normally trades with its customers under the following credit terms:
(a) cash upon delivery; or
(b) open credit from 30 to 90 days

The following is the aging analysis of trade receivables from third parties and fellow subsidiaries as at the balance sheet date by invoice date:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| **The Group** | | |
| 0 – 30 days | **78** | 78 |
| 31 – 60 days | **68** | 58 |
| 61 – 90 days | **41** | 34 |
| ＞ 90 days | **256** | 437 |
| | **443** | 607 |

Impairment on trade receivables is using the expected loss rates, which are based on credit assessments on individual customers and adjusted for forward-looking information affecting the ability of the customers to settle the trade receivables. Impairment on other receivables is measured as either 12-month expected credit losses or lifetime expected credit loss, depending on whether there has been a significant increase in credit risk since the initial recognition. Based on the assessments performed by management, the fair value of the Group's trade and other receivables at balance sheet date was approximate to the corresponding carrying amount.

## 11. Trade and other payables

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| Trade payables to third parties | **2,339** | 1,616 |
| Trade payables to fellow subsidiaries | **1** | 1 |
| | **2,340** | 1,617 |
| Contract liabilities | **7,168** | - |
| Receipt in advance | **-** | 654 |
| Accruals | **2,374** | 8,734 |
| Deposit received | **3,891** | 4,243 |
| Other payables | **1,830** | 1,329 |
| Amounts due to holding companies | **33** | 28 |
| Amounts due to fellow subsidiaries | **1** | - |
| | **17,637** | 16,605 |

As set out in Note 2, the Group has adopted the modified retrospective approach for transition to the HKFRS 15. As a result of the adoption, the receipt in advance on sales and majority of the accruals on promotion and marketing expenses, which were classified as receipt in advance and accruals respectively in the last financial year, will be classified as contract liabilities as at 31 December 2018. The contract liabilities as at the balance date, which are expected to be recognised within one year, includes receipt in advance on sales of RMB652 million (2017: RMB654 million) and accruals on promotion and marketing expenses of RMB6,516 million (2017: RMB 6,775 million).

The following is an aging analysis of trade payables as at the balance sheet date by invoice date:

| | **2018** | 2017 |
|---|---|---|
| | ***RMB million*** | *RMB million* |
| 0 – 30 days | **1,963** | 1,535 |
| 31 – 60 days | **132** | 17 |
| 61 – 90 days | **176** | 8 |
| ＞ 90 days | **69** | 57 |
| | **2,340** | 1,617 |

The fair value of the Group's trade and other payables as at balance sheet date was approximate to the corresponding carrying amount.

## 12. Subsequent event after reporting date

On 5 November 2018, the Group entered into a master share purchase agreement with the Heineken Group, pursuant to which the Group has agreed to acquire from Heineken Group its current operations in mainland China, Hong Kong and Macau (or the Exclusive Territory) at a consideration of HK$2,354,670,000 (subject to completion adjustment).

On the same date, the Group also entered into (i) a trademark licensing agreement with the Heineken Group in relation to the use of the Heineken® brand on an exclusive basis in the Exclusive Territory; and (ii) a framework agreement with the Heineken Group in relation to the long term strategic collaboration between the Group and the Heineken Group.

Subsequent to the reporting date on 6 March 2019, the State Administration for Market Regulation issued a written decision to not restrict the acquisition from a concentration of undertaking under the PRC anti-trust law. The completion of the transaction is still subject to the fulfillment of other conditions precedent.

Management expected the transactions will be completed within 2019. If the transaction is completed, the excess of the consideration transferred over the fair value of the net identifiable assets acquired would be recorded as goodwill.

## 13. Other information

The consolidated financial statements of the Group for the year ended 31 December 2018 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, PricewaterhouseCoopers. An unqualified auditor's report will be included in the Annual Report to shareholders.

The financial information relating to the years ended 31 December 2018 and 2017 included in this preliminary announcement of annual results for the year ended 31 December 2018 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Hong Kong Companies Ordinance (Cap. 622) is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance (Cap. 622). The Company will deliver the financial statements for the year ended 31 December 2018 to the Registrar of Companies in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The auditor's reports were unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its reports; and did not contain a statement under sections 406(2), 407(2) or 407(3) of the Hong Kong Companies Ordinance (Cap. 622).

## MANAGEMENT DISCUSSION AND ANALYSIS

### *REVIEW OF OPERATIONS*

The consolidated turnover of the Group in 2018 was RMB31,867,000,000. This represents an increase of 7.2% compared with 2017. The Group's consolidated profit attributable to the Company's shareholders and earnings before interest and taxation in 2018 decreased by 16.9% and 20.9% to RMB977,000,000 and RMB1,465,000,000 respectively, compared with 2017.

During the year under review, the Chinese economy maintained steady growth. The beer market continued to see an upgrade in consumption, with continuous growth in total retail sales of beer products.

During the year under review, the Group adjusted the price of certain products moderately and recorded a growth of 4.8% in mid- to high-end beer sales volume, which further boosted the product mix upgrade. As a result, the Group's overall average selling price recorded a year-on-year increase of 12.3%. With the decrease of volume in the northeastern market and intensified competitions, as well as the decline in sales volume resulted from the increase of product price in certain areas, the Group's overall beer sales volume in 2018 decreased by 4.5% year-on-year to 11,285,000 kiloliters. The cost of sales increased due to the rising cost of certain raw materials and packaging materials, and also the further upgrade in the product mix. Based on the above mentioned factors, the gross profit in 2018 recorded a year-on-year increase of 11.7% to RMB11,198,000,000.

The Group continued to carry out lean sales management in 2018 to enhance cost input and output ratio. However, the increase in transportation and advertising costs resulted in an increase of 11.1% in overall selling and distribution expenses compared with 2017. With a view to enhancing the productivity per staff and organizational efficiency, the Group continued the production capacity optimization and organizational restructuring during the year under review. As a result, there were compensation and staff resettlement expenses of approximately RMB483,000,000 in 2018 (2017: RMB215,000,000). Along with the provision and impairment loss resulted from production capacity optimization, the overall general and administrative expenses recorded an increase of 26.8% compared with 2017. Moreover, the Group embarked on a new corporate annuity plan during the year under review, which was effective from 1 January 2017. Therefore, the Group recorded an one-off provision of its staff cost for 2017 in 2018 with an approximate amount of RMB117,000,000.

The Group staged a campaign to reposition its brand in 2017 to diversify its product portfolio with the launch of its new product line, "Concept Series", with the theme "You Define Your Future", and the new products "Brave the World superX" and "Craftsmanship" in 2018. In particular, "Brave the World superX", as the Group's first core product for brand repositioning, targets young consumers with emphasis on internet marketing. Through the strategy of "trendy product launch activity + IP-based promotion + spokesperson-fans economy + scenario-based marketing", it achieved a breakthrough in the marketing of beer products, which created an innovative marketing method that conformed to habits and interests from the perspective of consumers. Such move not only contributed to the successful marketing of "Brave the World superX” but also provided a strong impetus to the value enhancement and the renewal of the entire brand of “雪花 Snow”.

The recognized impairment loss of fixed assets and inventories for 2018 were RMB961,000,000 and RMB340,000,000 respectively. The Group continued to optimize its deployment of production capacity by removing the inefficient production capacity and increasing the average scale of production plants. During the year under review, 13 breweries ceased operation. As at the end of 2018, the Group operated 78 breweries in 24 provinces, municipalities and autonomous regions in mainland China, with an aggregate annual production capacity of approximately 21,000,000 kiloliters.

In terms of execution of the premiumization strategies, the Group entered into a master share purchase agreement with the Heineken Group for the acquisition of the Heineken China Businesses, a trademark licensing agreement with the Heineken Group for the exclusive use of the Heineken® brand in mainland China, Hong Kong and Macau, and a framework agreement with the Heineken Group in relation to a long-term strategic partnership between the Group and the Heineken Group on 5 November 2018. Under the aforementioned agreements, the Heineken Group will license the Group the right to use the Heineken® brand on an exclusive basis in mainland China, Hong Kong and Macau. The Heineken Group's beer operations in mainland China, Hong Kong and Macau will be combined with the Group's beer operations. Other international premium brands owned by the Heineken Group may be licensed by the Heineken Group to the Group for use exclusively in mainland China, Hong Kong and Macau in the future. In addition, the Group and the Heineken Group will work together to support the acceleration of the international development of the Group's Chinese beer brands. This long term strategic collaboration will provide an important strategic opportunity for the Group to strengthen its presence in the premium beer market in China. On 6 March 2019, the State Administration for Market Regulation issued a written decision to not restrict the acquisition from a concentration of undertaking under the PRC anti-trust law. The completion of the transactions is still subject to the fulfillment of other conditions precedent.

Looking ahead, competition is expected to remain fierce in the industry. The Group will continue to focus on three main management themes – “Innovative Development, Transformation and Upgrade, Quality Growth”. The Group will strive to implement a series of strategic measures such as lean sales management, brand repositioning, operational reform, expanding internet sales channel, organizational restructuring, capacity optimization, channel reform, information technology upgrade and corporate culture rebuilding, to enhance the market share of mid- to high-end beer volume, productivity per staff, average size of production plants and capacity utilization. The Group's financial performance is expected to be affected by the implementation of production capacity optimization continuously. To cope with the pressure from the rising cost of raw material, the Group will continue to expand procurement channels and enhance procurement measures to mitigate the heightened cost pressure. In addition, the Group has also established an integrated taskforce to coordinate the integration of businesses and develop a joint business plan to better prepare for the long-term strategic collaboration with the Heineken Group.

*FINANCIAL REVIEW*

**Capital and Funding**

As at 31 December 2018, the Group's consolidated cash and bank deposits amounted to RMB1,925,000,000. The Group's borrowings as at 31 December 2018 were RMB713,000,000 with RMB704,000,000 repayable within 1 year and RMB9,000,000 repayable after 1 year but within 5 years.

The Group was in a net cash position as at 31 December 2018. On the basis of the Group's net borrowings relative to the shareholders' funds and non-controlling interests, the Group's gearing ratio was approximately at 5.6% as at 31 December 2017.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 31 December 2018, 1.6% of the Group's cash and bank deposit balance was held in Hong Kong dollars, 85.9% in Renminbi and 12.5% in US dollars; whereas 98.2% of the Group's borrowings was denominated in Hong Kong dollars and 1.7% in Renminbi with 0.1% in US dollars. The Group's borrowings are principally on a floating rate basis.

As at 31 December 2018, the Group's current liabilities and current ratio were RMB18,370,000,000 and 0.46, respectively. The current liabilities as at 31 December 2018 included receipts in advance on sales and accruals on promotion and marketing expenses of RMB7,168,000,000, majority of these amounts would be offset by trade receivables or be realized through sale discounts in the future, with no significant net cash outflow in short run. Taking into account the gearing ratio, historical and expected future cash flows from operations and unutilised available banking facilities of the Group, management expected the Group has adequate resources to meet its liabilities and commitment as and when they fall due and to continue in operational existence for the foreseeable future.

**Pledge of Assets**

As at 31 December 2018, assets with a carrying value of RMB67,000,000 (31 December 2017: RMB79,000,000) were pledged for notes payable.

**Contingent Liabilities**

The Group did not have any material contingent liabilities as at 31 December 2018.

**EMPLOYEES**

As at 31 December 2018, the Group had a staff size of around 40,000, amongst which more than 99% were employed in the Chinese Mainland, whilst the rest were mainly in Hong Kong. Remuneration packages are assessed in accordance with the nature of job duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

## DIVIDENDS

The Board recommends a final dividend of RMB0.03 per share for the year ended 31 December 2018 (2017: RMB0.07 per share) payable on or around 14 June 2019 to shareholders whose names appear on the register of members of the Company on 30 May 2019. The final dividend, if approved, is to be payable in cash in Hong Kong dollars which will be converted from RMB at the average CNY Central Parity Rate announced by the People's Bank of China for the five business days prior to and including the date of the Annual General Meeting (as defined in the below section headed "Closure of Register of Members"). Together with the interim dividend of RMB0.09 per share, the total dividend for 2018 will amount to RMB0.12 per share (2017: RMB0.14 per share).

## CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 20 May 2019 to Friday, 24 May 2019, both days inclusive, during which no transfer of shares of the Company will be registered. In order to determine the identity of members who are entitled to attend and vote at the annual general meeting to be held on 24 May 2019 (the "Annual General Meeting"), all share transfer documents accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 17 May 2019 for registration.

Subject to the approval of shareholders at the Annual General Meeting, the proposed final dividend will be payable to shareholders whose names appear on the register of members of the Company after the close of business at 4:30 p.m. on Thursday, 30 May 2019, and the register of members of the Company will be closed on Thursday, 30 May 2019, during which no transfer of shares of the Company will be registered. In order to qualify for the proposed final dividend, all share transfer documents, accompanied by the relevant share certificates must be lodged with the Company's Share Registrar, Tricor Standard Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 29 May 2019 for registration.

## CORPORATE GOVERNANCE

It is the firm belief of the Company that a good and solid corporate governance framework is essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to attaining and maintaining high standards of corporate governance and adopts principles of corporate governance emphasising a quality Board, accountability to all stakeholders, open communication and fair disclosure.

On 8 April 2005, the Company adopted the Corporate Governance Practice Manual ("CG Manual"). The CG Manual which was revised on 31 March 2009, 18 November 2010, 21 March 2012, 7 December 2015, 18 March 2016 and 21 November 2018, incorporates almost all the Code Provisions of the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules and includes the implementation details for the Code Provisions and, where appropriate, the Recommended Best Practices. The CG Manual can be downloaded from the

Company’s website and copies are available on request to the Company Secretary.

The Company has complied with the Code Provisions set out in the CG Code throughout the year ended 31 December 2018, save and except the following:

In respect of Code Provision A.4.1 of the CG Code, all the non-executive Directors are not appointed for a fixed term. The Board does not believe in any arbitrary term of office. The current arrangement will give the Company sufficient flexibility to organize the composition of the Board to serve the needs of the Group. Further, the Articles of Association of the Company requires that one-third of the Directors (including executive and non-executive Directors) shall retire each year and every Director shall be subject to retirement by rotation at least once every three years. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

In respect of Code Provision A.5.6 of the CG Code, the Board did not have a policy concerning diversity of the Board members before 21 November 2018 and the Board resolved to adopt a diversity policy at its meeting held on 21 November 2018.

In respect of Code Provision C.1.2 of the CG Code, the Company has not provided all members of the Board with monthly updates to enable the Board as a whole and each Director to discharge their duties. However, the Company has based on business situation, provided to the Board from time to time, updated business information to enable the Board as a whole and each Director to discharge their duties.

In respect of Code Provision D.1.4 of the CG Code, the Company did not have formal letters of appointment for Directors. However, the Directors are subject to retirement by rotation at least once every three years in accordance with the Articles of Association of the Company. In addition, the Directors are required to refer to the guidelines set out in “A Guide on Directors’ Duties” issued by the Companies Registry and “Guidelines for Directors”, and, if applicable, “Guide for Independent Non-Executive Directors” published by the Hong Kong Institute of Directors in performing their duties and responsibilities as Directors of the Company. Besides, the Directors are required to comply with the requirements under the Listing Rules, legal and other regulatory requirements.

On 8 April 2005, the Company has adopted a Code of Ethics and Securities Transactions (“Code of Ethics”) which incorporates the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) set out in Appendix 10 to the Listing Rules. The Code of Ethics has been amended, approved and reconfirmed by the Board of directors of the Company on 6 April 2006, 4 April 2007, 31 March 2008 and further revised on 31 March 2009, 18 November 2010, and 7 December 2015 respectively. The prohibitions on securities dealing and disclosure requirements in the Code of Ethics also apply to specified individuals who include the Group’s senior management and persons who are privy to inside information of the Group. The Code of Ethics is on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry with the directors, all directors confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

## PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

By order of the Board
**CHEN LANG**
*Chairman*

Hong Kong, 20 March 2019

*As at the date of this announcement, the Executive Directors of the Company are Mr. Chen Lang (Chairman), Mr. Jian Yi, Mr. Hou Xiaohai (Chief Executive Officer) and Mr. Lai Po Sing, Tomakin (Chief Financial Officer). The Non-executive Directors of the Company are Mr. Chen Rong and Mr. Lai Ni Hium, Frank. The Independent Non-executive Directors of the Company are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Moses, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.*