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 2019

- In 2019, the Group's consolidated turnover amounted to RMB33,190,000,000, representing an increase of 4.2% year-on-year
- The Group's consolidated profit attributable to the shareholders of the Company for 2019 significantly increased by 34.3% to RMB1,312,000,000 year-on-year. The increase was mainly attributable to: (1) the decrease in impairment loss of fixed assets resulted from the implementation of production capacity optimization as compared with 2018; (2) cost savings from efficiency gain; (3) the contribution of Heineken China since the completion of its acquisition on 29 April 2019; and (4) as disclosed in the 2018 annual report of the Group, the Group initiated a new corporate annuity plan in 2018 with effect from 1 January 2017, and recorded an one-off provision of its staff cost for 2017 in 2018 with an approximate amount of RMB117,000,000, while no such extra provision was made in 2019
- The Group's earnings before interest and taxation amounted to RMB2,163,000,000, representing an increase of 47.6% year-on-year
- The overall sales volume of the Group delivered a 1.3% year-on-year growth to approximately 11,434,000 kiloliters. Benefitting from the brand repositioning strategy, further upgrade of product mix and contribution from the acquisition of Heineken China, the sales volume of the mid- to high-end beer expanded by 8.8%. The overall average selling price of the Group increased by 2.8% year-on-year
- The Group completed the acquisition of Heineken China on 29 April 2019 and formed a long-term strategic partnership with the Heineken Group
- The Board of Directors recommends a final dividend of RMB0.045 per share. Together with the interim dividend of RMB0.12 per share, the total dividend for 2019 will amount to RMB0.165 per share

FINANCIAL HIGHLIGHTS

	2019	2018
	RMB million	*RMB million*
Turnover	**33,190**	31,867
Profit attributable to shareholders of the Company	**1,312**	977
Basic and diluted earnings per share	**RMB0.40**	RMB0.30
Dividend per share		
- interim	**RMB0.120**	RMB0.09
- final	**RMB0.045**	RMB0.03
	RMB0.165	RMB0.12
	As at 31 December 2019	As at 31 December 2018
	RMB million	*RMB million*
Equity attributable to shareholders of the Company	**19,670**	18,848
Non-controlling interests	**57**	62
Total equity	**19,727**	18,910
Consolidated net cash	**1,897**	1,212
Gearing ratio [1]	**Net Cash**	Net Cash
Current ratio	**0.49**	0.46
Net assets per share - book value	**RMB6.06**	RMB5.81

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**	
	2019	2018	**2019**	2018
	RMB million	*RMB million*	***RMB million***	*RMB million*
Eastern region	**17,278**	16,065	**1,007**	199
Central region	**8,490**	7,860	**598**	396
Southern region	**8,466**	8,867	**714**	1,003
	34,234	32,792	**2,319**	1,598
Elimination of inter-segment transactions	**(1,044)**	(925)	**-**	-
Net corporate expenses	**-**	-	**(156)**	(133)
Total	**33,190**	31,867	**2,163**	1,465

2019 RESULTS

The board of directors ("Board") 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 2019 as follows:

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2019

	Notes	2019 RMB million	2018 RMB million
Turnover	3	**33,190**	31,867
Cost of sales		**(20,964)**	(20,669)
Gross profit		**12,226**	11,198
Other income	4	**1,017**	993
Selling and distribution expenses		**(5,925)**	(5,570)
General and administrative expenses		**(5,046)**	(5,041)
Finance costs	5	**(70)**	(48)
Profit before taxation		**2,202**	1,532
Taxation	6	**(892)**	(547)
Profit for the year	7	**1,310**	985
Attributable to:			
Shareholders of the Company		**1,312**	977
Non-controlling interests		**(2)**	8
		1,310	985
Earnings per share	9		
Basic		**RMB0.40**	RMB0.30
Diluted		**RMB0.40**	RMB0.30

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	2019	2018
	RMB million	*RMB million*
Profit for the year	**1,310**	985
Other comprehensive income/(expenses):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translating foreign operations	**1**	(31)
Other comprehensive income/(expenses) for the year, net of tax	**1**	(31)
Total comprehensive income for the year	**1,311**	954
Attributable to:		
Shareholders of the Company	**1,313**	946
Non-controlling interests	**(2)**	8
	1,311	954

CONSOLIDATED BALANCE SHEET

As at 31 December 2019

	Notes	***2019*** ***RMB million***	*2018* *RMB million*
Non-current assets			
Fixed assets			
- Interests in leasehold land held for own use		**-**	3,141
- Other property, plant and equipment		**15,818**	16,491
Right-of-use assets		**3,595**	-
Goodwill		**9,365**	8,390
Other intangible assets		**384**	124
Financial assets at fair value through other comprehensive income		**9**	9
Prepayments		**113**	240
Deferred taxation assets		**2,532**	2,426
		31,816	30,821
Current assets			
Stocks		**6,018**	5,379
Trade and other receivables	*10*	**1,000**	906
Taxation recoverable		**349**	240
Pledged bank deposits		**68**	67
Cash and cash equivalents		**2,340**	1,858
		9,775	8,450
Current liabilities			
Trade and other payables	*11*	**(19,061)**	(17,637)
Short term loans		**(511)**	(704)
Lease liabilities		**(90)**	-
Taxation payable		**(194)**	(29)
		(19,856)	(18,370)
Net current liabilities		**(10,081)**	(9,920)
Total assets less current liabilities		**21,735**	20,901
Non-current liabilities			
Long term loans		**-**	(9)
Lease liabilities		**(124)**	-
Deferred taxation liabilities		**(678)**	(399)
Other non-current liabilities		**(1,206)**	(1,583)
		(2,008)	(1,991)
		19,727	18,910
Capital and reserves			
Share capital		**14,090**	14,090
Reserves		**5,580**	4,758
Equity attributable to shareholders of the Company		**19,670**	18,848
Non-controlling interests		**57**	62
Total equity		**19,727**	18,910

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 consolidated financial statements for the year ended 31 December 2019 have been prepared in accordance with accounting principles generally accepted in Hong Kong and requirements of the Hong Kong Companies Ordinance (Cap. 622).

As set out in Note 12, the Group acquired Heineken N.V.'s ("Heineken Group") operations in mainland China, Hong Kong and Macau on 29 April 2019. The provisional goodwill arising from the acquisition was recognised.

2. Principal Accounting Policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those applied in the consolidated annual financial statements for the year ended 31 December 2018, except for the adoption of new standard, amendments, improvements to existing standards and interpretation, which are effective for the Group's financial year beginning 1 January 2019.

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

The Hong Kong Institute of Certified Public Accountants ("HKICPA") has issued a number of new standard, amendments, improvements to existing standards and interpretation on Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") that are effective for the financial year beginning 1 January 2019. In the current year, the Group has adopted the following standard, amendments, improvements to existing standards and interpretation.

HKAS 19 (Amendment)	Plan Amendment, 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)	Prepayment Features with Negative Compensation
HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments

2. Principal Accounting Policies (continued)

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

The adoption of the standard, amendments, improvements to existing standards and interpretation has had no material effect on the results or financial positions of the Group for the current and prior accounting periods, except for HKFRS 16 "Leases" as set out below.

HKFRS 16 "Leases"

The Group has adopted HKFRS 16 "Leases" from 1 January 2019, which has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial information. In accordance with the transition provisions in HKFRS 16, the Group has adopted the modified retrospective approach for transition to the new leases standard. The adjustments arising from the new rules are therefore not reflected in the consolidated balance sheet as at 31 December 2018, but are recognised in the opening consolidated balance sheet on 1 January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessees' incremental borrowing rate as of 1 January 2019. The weighted average lessees' incremental borrowing rate applied to the lease liabilities on 1 January 2019 was around 4%.

For leases previously classified as finance leases, the Group recognised the carrying amount of the lease assets and lease liabilities (which were classified as short term loans and long term loans in the last financial year according to HKAS 17) immediately before transition as the carrying amount of the right-of-use assets and the lease liabilities at the date of initial application. The measurement principles of HKFRS 16 are only applied from 1 January 2019. The remeasurements to the lease liabilities were recognised as adjustments to the related right-of-use assets immediately after the date of initial application.

	2019 **RMB million**
Operating lease commitments disclosed as at 31 December 2018	120
Discounted using the lessees' incremental borrowing rate of at the date of initial application	(16)
Add: finance lease liabilities recognised as at 31 December 2018	12
Lease liabilities recognised as at 1 January 2019	116
Of which are:	
Current lease liabilities	38
Non-current lease liabilities	78
	116

The right-of-use assets were measured at the amount equal to the lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to the leases recognised in the consolidated balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

2. Principal Accounting Policies (continued)

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

HKFRS 16 "Leases" (continued)

The recognised right-of-use assets relate to interests in leasehold land for own use, buildings and others.

Interests in leasehold land held for own use which were previously in fixed assets were reclassified to right-of-use assets as at 1 January 2019 after adoption of HKFRS 16.

The adjustments on the consolidated balance sheet as at 1 January 2019 are summarised below:

Consolidated balance sheet (extract)	31 December 2018 As originally presented RMB million	Effect of adoption of HKFRS 16 RMB million	1 January 2019 Restated RMB million
Fixed assets – Interests in leasehold land held for own use	3,141	(3,141)	-
Fixed assets – property, plant and equipment	16,491	(8)	16,483
Right-of-use assets	-	3,259	3,259
Trade and other receivables	906	(6)	900
Current lease liabilities	-	(38)	(38)
Non-current lease liabilities	-	(78)	(78)
Short term loans	(704)	3	(701)
Long term loans	(9)	9	-

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the group relied on its assessment made applying HKAS 17 and HK(IFRIC) - Interpretation 4 "Determining whether an Arrangement contains a Lease".

The Group leases various interests in leasehold land held for own use, buildings and others. Rental contracts for buildings and others are typically made for fixed periods of 1 to 14 years but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

2. Principal Accounting Policies (continued)

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

HKFRS 16 "Leases" (continued)

For leases of interests in leasehold land held for own use, buildings and others, the following factors are normally the most relevant:

- If there are significant penalties to not extend (or terminate), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

Most extension options in interests in leasehold land held for own use, buildings and others leases have not been included in the lease liability, because the Group could replace the assets without significant cost or business disruption.

Accounting standard, amendments to existing standards and framework that are not yet effective

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

HKAS 1 and HKAS 8 (Amendments)	Definition of Material
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting
HKAS 39, HKFRS7 and HKFRS 9 (Amendments)	Interest Rate Benchmark Reform
HKFRS 3 (Amendment)	Definition of a Business
HKFRS 17	Insurance Contracts
HKFRS 10 and HKAS 28 (Amendments)	Sale or contribution of assets between an investor and its associate or joint venture

These standard, amendments to exiting standards and framework are not 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	Central region	Southern region	Corporate / Elimination	Total
	RMB million	*RMB million*	*RMB million*	*RMB million*	*RMB million*
For the year ended 31 December 2019					
TURNOVER[1]					
External sales	16,927	8,073	8,190	-	33,190
Inter-segment sales	351	417	276	(1,044)	-
Total	17,278	8,490	8,466	(1,044)	33,190
Segment result[2]	1,007	598	714		2,319
Unallocated corporate expenses					(156)
Interest income					109
Finance costs					(70)
Profit before taxation					2,202
Taxation					(892)
Profit for the year					1,310
As at 31 December 2019					
ASSETS					
Segment assets	19,549	7,859	11,260		38,668
Deferred taxation assets					2,532
Taxation recoverable					349
Unallocated corporate assets					42
Consolidated total assets					41,591
LIABILITIES					
Segment liabilities	11,690	4,261	4,472		20,423
Taxation payable					194
Deferred taxation liabilities					678
Unallocated corporate liabilities					569
Consolidated total liabilities					21,864
OTHER INFORMATION					
Additions to non-current assets[3]	3,192	539	140	-	3,871
Depreciation and amortisation	920	422	375	7	1,724
Impairment loss recognised	487	240	325	-	1,052

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 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

Notes:

1. Turnover represents sales of beer products and was recognised at a point of time (Included RMB1,139 million contributed by Heineken China).
2. Segment result represents earnings before interest income, finance costs and taxation.
3. Additions to non-current assets included fixed assets, right-of-use assets, goodwill and other intangible assets (Included RMB2,710 million arising from the acquisition of Heineken China).

4. Other income

	2019 *RMB million*	2018 *RMB million*
Other income includes the following:		
Interest income	**109**	115
Government grants recognised	**162**	187
Profit on disposal of fixed assets	**161**	94
Profit on disposal of interests in leasehold land held for own use	**6**	-

5. Finance costs

	2019 *RMB million*	2018 *RMB million*
Interests on finance leases	**-**	1
Interests on bank loans and other loans	**54**	62
Interests on leases liabilities	**12**	-
Financing charges	**1**	9
Exchange loss /(gain)	**4**	(13)
	71	59
Less: Interest capitalised	**(1)**	(11)
	70	48

6. Taxation

	2019 *RMB million*	2018 *RMB million*
Chinese Mainland income tax		
Current taxation	**771**	571
Deferred taxation	**121**	(24)
	892	547

Hong Kong Profits Tax is calculated at 16.5% (2018: 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 Mainland China. The applicable principal income tax rate for the year ended 31 December 2019 is 25% (2018: 25%).

The effective tax rate is higher than the domestic rates mentioned above as there were tax losses arising from certain loss-making subsidiaries, including breweries which were determined to be closed down, of which no deferred tax assets were recognised as the realisation of the related tax benefit through the future taxable profits is not probable.

7. Profit for the year

	2019	2018
	RMB million	*RMB million*
Profit for the year has been arrived at after charging:		
Depreciation		
- Owned assets	**1,552**	1,630
- Assets held under finance leases	**-**	1
- Right-of-use assets	**123**	-
Amortisation of other intangible assets (included in general and administrative expenses)	**49**	23
Impairment loss recognised on (included in general and administrative expenses)		
- Fixed assets	**700**	961
- Stocks	**352**	340
Operating leases charges on land and buildings	**-**	125
Expense relating to short-term leases	**51**	-
Cost of goods sold	**20,964**	20,669

8. Dividends

	2019	2018
	RMB million	*RMB million*
2019 interim dividend paid of RMB0.12 (2018: RMB 0.09) per ordinary share	**390**	292
2019 proposed final dividend of RMB0.045 (2018: RMB0.03) per ordinary share	**146**	97
	536	389

At the meeting held on 20 March 2020, the directors proposed final dividend of RMB0.045 (2018: RMB0.03) 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 consolidated financial statements. The total dividends paid by the Company, including the final dividend for the year 2018 and the interim dividend for the year 2019, amounting to RMB487 million (2018: RMB519 million) are reflected in the current year consolidated financial statements.

9. Earnings per share

	2019	2018
	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	**1,312**	977

	2019	2018
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

	2019	2018
	RMB	*RMB*
Basic and diluted earnings per share	**0.40**	0.30

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

10. Trade and other receivables

	2019	2018
	RMB million	*RMB million*
Trade receivables from third parties	**349**	457
Trade receivables from fellow subsidiaries	**26**	25
Provision for doubtful debts	**(46)**	(39)
	329	443
Value-added tax recoverable	**195**	173
Prepayments	**205**	173
Deposits paid	**20**	9
Other receivables (Note 1)	**249**	108
Amount due from a holding company (Note 2)	**1**	-
Amounts due from fellow subsidiaries (Note 2)	**1**	-
	1,000	906

Note:

1. Other receivables included the consideration refundable of RMB139 million from Heineken Group.
2. Amount due from a holding company and amounts due from fellow subsidiaries were unsecured, interest-free and repayable on demand.

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:

	2019	2018
	RMB million	*RMB million*
The Group		
0 – 30 days	**34**	78
31 – 60 days	**40**	68
61 – 90 days	**25**	41
＞90 days	**230**	256
	329	443

Impairment on trade receivables is using the expected loss rates, which are based on credit assessments on each aging category of 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

	2019	2018
	RMB million	*RMB million*
Trade payables to third parties	**2,710**	2,339
Trade payables to fellow subsidiaries	**3**	1
	2,713	2,340
Contract liabilities (Note 1)	**7,427**	7,168
Accruals	**2,667**	2,374
Deposit received (Note 2)	**4,412**	3,891
Other payables	**1,801**	1,830
Amounts due to holding companies (Note 3)	**40**	33
Amounts due to fellow subsidiaries (Note 3)	**1**	1
	19,061	17,637

Note:

1. Included receipt in advance on sales of RMB941 million (2018: RMB652 million) and liabilities on promotion and marketing expenses of RMB6,486 million (2018: RMB 6,516 million).
2. Amounts mainly included deposits received for consumables and packing materials.
3. Amounts due to holding companies and fellow subsidiaries were unsecured, interest-free and repayable on demand.

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

	2019	2018
	RMB million	*RMB million*
0 – 30 days	**2,452**	1,963
31 – 60 days	**110**	132
61 – 90 days	**13**	176
＞90 days	**138**	69
	2,713	2,340

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

12. Acquisition of Heineken Group's Operations in mainland China, Hong Kong and Macau

On 29 April 2019, the Group acquired from Heineken Group the entire equity interest of seven companies, namely Heineken (China) Management Services Co., Ltd., Heineken Trading (Shanghai) Co., Ltd., Heineken (Shanghai) Co., Ltd., Heineken Brewery (Guangzhou) Co., Ltd., Heineken Brewery (Zhejiang) Co., Ltd., Heineken Brewery (Hainan) Co., Ltd., and Heineken Hong Kong Limited (collectively "Heineken China"). Total cash consideration being the agreed enterprise value of HK$2,355 million and as adjusted by the agreed price adjustment items. The initial provisional consideration of HK$2,882 million (equivalent to RMB2,472 million) was paid as at 31 December 2019. While the price adjustment items and final consideration had not been agreed as at the reporting date, the subsequent provisional consideration of RMB2,333 million after deducting the balance of consideration refundable for RMB139 million was applied for the calculation of provisional goodwill. The Group will closely monitor the status of the transaction and may further adjust the provisional amounts within the measurement period of twelve months following the acquisition date, if there are any new information obtained about the facts and circumstances related to the acquisition.

Identifiable assets and liabilities acquired at the date of acquisition are as follows:

	Provisional fair value RMB million
Fixed assets	**1,125**
Right-of-use assets	**337**
Other intangible assets	**308**
Deferred taxation assets	**117**
Other assets	**261**
Cash and bank balances	**256**
Trade and other payables	**(795)**
Lease liabilities	**(29)**
Other liabilities	**(31)**
Deferred taxation liabilities	**(156)**
	1,393

Provisional goodwill arising from the acquisition was amounting to RMB940 million, which is attributable to the profitability and the synergies expected to arise from the acquired businesses.

Turnover of RMB1,139 million and net profit of RMB145 million was contributed by Heineken China since the date of acquisition to the end of the reporting period.

13. Event after reporting date

Since the outbreak of COVID-19 in China in early 2020, provincial and municipal governments implemented various prevention and emergency measures, such as a partial lockdown policy and extending the holiday period of Chinese New Year, in order to mitigate the threat of spreading the epidemic across the country. It is anticipated that the above epidemic situation would have certain negative impact on the production and sales of the Group in the first quarter of 2020. As at the date on which this set of consolidated financial statements were authorised for issue, the outbreak of COVID-19 is a non-adjusting post balance sheet event and does not result in any material adjustments to the consolidated financial statements of the Group for the year ended 31 December 2019. The Group will continue to monitor the development of the epidemic and perform further assessment of its financial impact.

14. Other information

The consolidated financial statements of the Group for the year ended 31 December 2019 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 2019 and 2018 included in this preliminary announcement of annual results for the year ended 31 December 2019 does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those consolidated 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 consolidated financial statements for the year ended 31 December 2018 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 consolidated financial statements for the year ended 31 December 2019 to the Registrar of Companies in due course.

The Company's auditor has reported on the consolidated 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 2019 was RMB33,190,000,000. This represents an increase of 4.2% compared with 2018. The Group's consolidated profit attributable to the Company's shareholders and earnings before interest and taxation in 2019 increased by 34.3% and 47.6% to RMB1,312,000,000 and RMB2,163,000,000 respectively, compared with 2018.

During the year under review, China's economy maintained growth and the market consumption continued to upgrade. The Group's overall beer sales volume outperformed the market, delivering a 1.3% growth compared with 2018, to approximately 11,434,000 kiloliters.

During the year under review, the Group implemented its brand repositioning strategy and further boosted the product mix upgrade of the "雪花 Snow" beer products, in addition to the acquisition of Heineken China. As a result, the Group recorded an increase of 8.8% in mid- to high-end beer sales volume compared with 2018, which led to the increase in average selling price by 2.8% compared with 2018. Meanwhile, the Group saved certain cost of sales from efficiency gain brought by its production capacity optimization and organizational restructuring, offset the increase in cost after the acquisition of Heineken China and the rising cost of certain raw materials. Due to the above mentioned factors, the gross profit in 2019 recorded a year-on-year increase of 9.2% to RMB12,226,000,000.

In 2019, the Group's acquisition of Heineken China resulted in an increase of 6.4% in overall selling and distribution expenses compared with 2018. During the year under review, the Group continued to implement its production capacity optimization and organizational restructuring, the staff compensation and resettlement expenses was approximately RMB826,000,000 in 2019 (2018: approximately RMB483,000,000). The one-off annuity provision of its staff cost that the Group accrued for 2017 in 2018 (approximately RMB117,000,000) and the reduction in impairment loss of fixed assets recognized, offset the increased costs driven by the staff compensation and resettlement expenses along with the acquisition of Heineken China, as a result, general and administrative expenses for 2019 remained broadly stable over 2018.

The Group continued with its product portfolio diversification. In addition to the introduction of Heineken beer products, the Group launched two series of high-end beer products in 2019, "SNOW MARRSGREEN BEER" and "Löwen White Beer", respectively in April and July, in conjunction with high-end beer product "Craftsmanship" and mid- to high-end beer product "Brave the World superX" that launched in 2018, further supporting the growth of mid- to high-end beer sales volume. In particular, "SNOW MARRSGREEN BEER" was successfully launched through the strategy of "trendy product launch activity + spokesperson promotion". Furthermore, the Group continued to promote "Brave the World superX" and "Craftsmanship" products through IP-based promotion, to enhance the brand image, as well as elevate the brand value and bring dynamics to create new feature of the "雪花 Snow". In terms of internet sales channels, it further promoted WeChat online-fans mini-programme sales channel, together with the strategic co-operation with JD.com, an e-commerce platform, to provide specialized products and jointly organize online activities.

The recognized impairment loss of fixed assets and inventory for 2019 were RMB700,000,000 and RMB352,000,000 respectively. In particular, the Group continued to optimize its deployment of production capacity by removing the inefficient production capacity and increasing the average scale of the breweries. During the year under review, 7 breweries ceased operations. By the end of 2019, the Group operated 74 breweries in 25 provinces, municipalities and autonomous regions in mainland China, with an aggregate annual production capacity of approximately 20,500,000 kiloliters.

In terms of executing the premiumization strategies, the acquisition of Heineken China was completed on 29 April 2019, whilst the Heineken trademark licensing agreement and framework agreement became effective on the same date. 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. During the year under review, the Group completed the integration of Heineken China and set up nationwide sales for Heineken beer products.

Since the outbreak of COVID-19 in China in early 2020, provincial and municipal governments implemented various prevention and emergency measures, such as a partial lockdown policy and extending the holiday period of Chinese New Year, in order to mitigate the threat of spreading the epidemic across the country. During the outbreak of the epidemic, the Group gradually resumed operation and production by allowing staff to work in remote offices and implementing work shifts, in adherence to the approval of the provincial and municipal governments, so as to prepare for a swift return to normal operation and production once the epidemic eases. Nevertheless, it is anticipated that the above epidemic situation would have certain negative impact on the production and sales of the Group. The Group’s unaudited consolidated turnover and earnings before interest and taxation for the two months ended 29 February 2020 decreased by approximately 26% and 42% year-on-year respectively.

The Group upholds its strategic management philosophy of "Quality Development for Success in High-end Segment", and will carry out various high-quality growth measures, such as production capacity optimization, excel in brewing, operational reform, use of intelligential information, and information sharing and co-creation, whilst actively implementing measures for developing high-end segment. With the long-term strategic co-operation with the Heineken Group, the Group will strengthen the competitiveness of its brands in high-end segment and explore new sales channel for its high-end beer products. At the same time, the Group will enhance its competitiveness in first tier cities through measures such as building competent professional teams specified for high-end segment, brand portfolio with 4 Chinese brands+4 International brands, obtaining leading edge for its business, expanding sales channels, implementing operation mechanisms for major customers etc.

FINANCIAL REVIEW

Capital and Funding

As at 31 December 2019, the Group's consolidated cash and bank deposits amounted to RMB2,408,000,000. The Group's borrowings as at 31 December 2019 were RMB511,000,000 and were repayable within 1 year.

The Group was in a net cash position as at 31 December 2019 and 31 December 2018.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 31 December 2019, 6.0% of the Group's cash and bank deposit balance was held in Hong Kong dollars, 84.7% in Renminbi and 9.3% in US dollars; whereas 99.9% of the Group's borrowings was denominated in Hong Kong dollars. The Group's borrowings are principally on a floating rate basis.

As at 31 December 2019, the Group's current liabilities and current ratio were RMB19,856,000,000 and 0.49, respectively. The current liabilities included receipts in advance on sales and accruals on promotion and marketing expenses, 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 unutilized 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 2019, assets with a carrying value of RMB68,000,000 (31 December 2018: RMB67,000,000) were pledged for notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2019.

EMPLOYEES

As at 31 December 2019, the Group had a staff size of around 30,000, amongst which more than 99% were employed in the Mainland China, 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 RMB0.045 per share for the year ended 31 December 2019 (2018: RMB0.03 per share) payable on or around 12 June 2020 to shareholders whose names appear on the register of members of the Company on 28 May 2020. 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 RMB0.12 per share, the total dividend for 2019 will amount to RMB0.165 per share (2018: RMB0.12 per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 18 May 2020 to Friday, 22 May 2020, 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 22 May 2020 (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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Friday, 15 May 2020 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, 28 May 2020, and the register of members of the Company will be closed on Thursday, 28 May 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Wednesday, 27 May 2020 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 2019, save and except the following:

In respect of Code Provisions A.2.1 to A.2.6 and A.2.8 to A.2.9 of the CG Code, since the resignation of Mr. Chen Lang as the Chairman with effect from 11 July 2019, the position of the

Chairman has been vacant and has not been filled up as at the date of this announcement. The Board of the Company as a whole and its members have discharged the duties under the aforementioned Code Provisions of the CG Code as appropriate. The Board and the Nomination Committee of the Company will continuously review and discuss the adjustment to the composition of the Board.

Pursuant to Code Provision A.2.7, the Chairman should at least annually hold meetings with Independent Non-executive Directors without other Directors present. In 2019, the Chairman did not hold meetings with the Independent Non-executive Directors without other Directors present, which deviates from the Code Provision A.2.7 from 1 January 2019 to 10 July 2019. Following the resignation of Mr. Chen Lang as the Chairman with effect from 11 July 2019, the deviation from Code Provision A.2.7 has ceased. For the period from 1 January 2019 to 10 July 2019, the Board is of the view that, the Independent Non-executive Directors can express their opinions to other Directors more directly and effectively at the Board meetings, hence it is of the view the deviation from the Code Provision does not have a material impact on the operation of the Board.

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 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.

In respect of Code Provision E.1.2 of the CG Code, Mr. Chen Lang, the then Chairman could not attend the annual general meeting of the Company held on 24 May 2019 (the "AGM") due to business appointments. Mr. Jian Yi, an Executive Director of the Company who took the chair of the AGM, together with other members of the Board who attended the AGM, were of sufficient calibre for answering questions at the AGM and had answered questions at the AGM competently.

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 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 2019.

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
JIAN YI
Executive Director

Hong Kong, 20 March 2020

As at the date of this announcement, the Executive Directors of the Company are 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. Lai Ni Hium, Frank, Mr. Tuen Muk Lai Shu and Mr. Rudolf Gijsbert Servaas van den Brink. 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.