

## Chairman's Statement

Our consolidated profit attributable to shareholders for 2013 was HK\$13,291 million, HK\$4,119 million lower than in 2012.

Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK\$201 million or 2% to HK\$8,471 million. Adjusted to exclude the effect of non-recurring items, underlying profit increased by HK\$578 million or 7% to HK\$8,414 million.

This increase in underlying profit reflects higher profits from the Cathay Pacific group and from the Beverages and Marine Services Divisions. There were lower profits from the Property and Trading & Industrial Divisions and from the Hong Kong Aircraft Engineering Company Limited ("HAECO") group.

### Dividends

The Directors have declared second interim dividends of HK\$2.50 (2012: HK\$2.50) per 'A' share and HK\$0.50 (2012: HK\$0.50) per 'B' share which, together with the first interim dividends of HK\$1.00 per 'A' share and HK\$0.20 per 'B' share paid in October 2013, amount to full year dividends of HK\$3.50 per 'A' share and HK\$0.70 per 'B' share, the same as those paid in respect of 2012. The second interim dividends, which total HK\$3,761 million (2012: HK\$3,761 million), will be paid on 9th May 2014 to shareholders registered at the close of business on the record date, being Friday, 11th April 2014. Shares of the Company will be traded ex-dividend from Wednesday, 9th April 2014.

The register of members will be closed on Friday, 11th April 2014, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividends, all transfer forms, accompanied by the relevant share certificates, must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Thursday, 10th April 2014.

### The Economic Background in 2013

World economic conditions showed some improvement on those of 2012. In the USA, the recovery continued and the economy benefited from historically low interest rates. Economic conditions in Europe as a whole were weak, but

started to recover towards the end of the year. The Asian region performed quite well. In Hong Kong, economic growth was relatively robust, but measures introduced by the government adversely affected demand for luxury residential properties. Economic growth in Mainland China remained steady, which benefited consumer confidence and expenditure. The price of oil remained high. This continued to affect our airlines but also resulted in continued exploration and production by oil companies, which benefited our Marine Services Division.

### Operating Performance

The attributable underlying profit from the Property Division decreased by HK\$452 million to HK\$5,091 million. The decrease principally reflects lower trading profits from the sale of luxury residential properties in Hong Kong. Profit from property investment increased, reflecting positive rental reversions from the Hong Kong portfolio and higher overall rental income from the Mainland China portfolio.

The Property Division's net investment property valuation gain in 2013, before deferred tax in Mainland China, was HK\$6,946 million, compared to a net gain in 2012 of HK\$12,751 million.

The Aviation Division recorded an attributable profit of HK\$1,627 million in 2013, compared to a profit of HK\$984 million in 2012.

The Cathay Pacific group contributed a profit of HK\$1,179 million, compared with a profit of HK\$387 million in 2012. The improvement in the group's performance in 2013 was largely due to the strength of the passenger business and the positive impact of measures introduced in 2012 to protect the business from the high price of jet fuel. The cargo business continued to be affected by strong competition and weak demand, though there was some seasonal improvement in the last

quarter of 2013. The business overall continued to be affected by the sustained high price of jet fuel.

The HAECO group's profit attributable to shareholders in 2013 was HK\$469 million, a decrease of 24% compared to the corresponding figure in 2012 of HK\$618 million. HAECO's airframe maintenance and component overhaul services in Hong Kong continued to be affected by a shortage of skilled and semi-skilled labour. HAECO's line maintenance business in Hong Kong benefited from an increase in aircraft movements at Hong Kong International Airport. Results from Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") improved, with higher demand for its airframe maintenance services. The performance of Hong Kong Aero Engine Services Limited ("HAESL") was affected by the early retirement of Boeing 747-400 aircraft owned by its customers. In general, the operating results of HAECO's other subsidiaries and joint ventures in Mainland China improved.

The Beverages Division recorded an attributable profit of HK\$802 million in 2013, an increase of 44% compared to 2012. Excluding a non-recurring profit in 2013, attributable profit was HK\$733 million, a 32% increase from 2012. This increase principally reflected a strong performance in Mainland China and lower raw material costs in all territories. Overall sales volume increased by 2% to 1,013 million unit cases, compared with a reduction of 0.5% in 2012. Volume grew in Mainland China and the USA, was unchanged in Hong Kong and declined in Taiwan.

The Marine Services Division reported an attributable profit of HK\$1,307 million, an increase of 36% compared to 2012. At Swire Pacific Offshore ("SPO"), results benefited from the additional contribution from newer, more sophisticated vessels that commenced operations in 2013 and a full-year's contribution from the wind farm installation vessels delivered in 2012. Operating

costs increased, principally reflecting the entry of new vessels into service.

Attributable profit from the Trading & Industrial Division in 2013 decreased by 4% to HK\$237 million. The decrease principally reflected weaker results from Taikoo Motors and Campbell Swire and costs associated with developing the Swire Pacific Cold Storage business. This was partly offset by a much better result from Akzo Nobel Swire Paints. Swire Resources' results were similar to those of 2012.

### **Economic Outlook**

We are cautiously optimistic about economic prospects in 2014. Growth in the USA is expected to be good but the effect of the reduction in the Federal Reserve's asset purchase programme is uncertain. Economic growth in Europe is expected to be better than in 2013. The outlook for the Asian region is good. It appears that the Mainland China economy is experiencing steady growth and will benefit from favourable economic policy-making. Hong Kong is likely to benefit from this.

### **Prospects**

Demand for office space, particularly from the financial sector, is likely to remain weak and as a result rents will remain under pressure in the Central district of Hong Kong. Occupancy rates are expected to be lower. Pacific Place, however, has no major leases expiring in 2014. At Island East, rents are expected to remain resilient owing to high occupancy. In Guangzhou, rents are expected to be under pressure due to the large supply of existing and new office space. There is expected to be limited new supply of office space in Beijing. As a result, occupancy rates are expected to remain high in 2014.

Hong Kong retail sales are expected to grow, albeit more slowly than in 2013. Demand for retail space at prime locations and well-managed shopping malls is expected to continue to increase. In Guangzhou, demand for new space from luxury retailers has weakened. This reflects the effect of government measures on the consumption of luxury goods. In Beijing, retailers of international

brands are continuing to look for space in prime locations and well-managed malls.

In Hong Kong, stamp duty increases have reduced the number of transactions in the luxury residential market. However, there continues to be demand for high quality properties albeit at more subdued levels. Profits from property trading are expected to be higher in 2014 than in 2013, with expected sales of completed units at the DUNBAR PLACE and MOUNT PARKER RESIDENCES developments and of remaining units at the AZURA and ARGENTA developments.

Results in 2014 from the hotel portfolio are expected to benefit from improved performances at the Mandarin Oriental in TaiKoo Hui, The Opposite House and EAST, Beijing.

The business outlook for the Cathay Pacific group in 2014 looks to be improved when compared with 2013. The passenger business continues to perform well and will benefit from further expansion of frequencies on long-haul routes. The cargo business continues to be problematic. Cathay Pacific, however, still has confidence in Hong Kong's future as an air cargo centre and believes that its reshaped freighter fleet and its new cargo terminal will allow it to compete successfully in the long term. Cathay Pacific will continue to invest to make its business stronger, while keeping its financial position strong, and remains committed to strengthening the world class aviation hub in its home, Hong Kong.

HAECO's operations in Hong Kong will continue to suffer from shortages of skilled and semi-skilled labour. Airframe maintenance capacity in 2014 is expected to remain low. The group continues to improve remuneration, career development opportunities and training. The acquisition of TIMCO Aviation Services, Inc. in February 2014 will improve the HAECO group's ability to offer aircraft maintenance and cabin modification services.

Swire Beverages' results in 2014 are likely to be similar to those in 2013. Sales volume growth is expected, but this is likely to be offset by rising staff costs in Mainland China. The retail environment in Taiwan is expected to remain

very challenging. The outlook for the Hong Kong business is better due to its established market position. The USA is expected to benefit from a territory grant in Colorado.

The price of oil is expected to remain high in 2014, leading to a further increase in offshore exploration and production commitments by energy companies in deeper waters. In turn, demand for larger and more specialised offshore support vessels is expected to continue to improve, which should benefit SPO. However, the rising cost of production may affect demand for offshore services.

The performance of the Trading & Industrial Division is likely to be affected by the replacement of a major distributorship with a joint venture and to continue to be affected by the cost of new business development.

## Finance

In 2013, we raised HK\$23,703 million of new finance. This principally comprised issues of HK dollar, US dollar and Renminbi denominated medium-term notes under the Group's medium-term note programmes. The remaining finance raised mainly consists of HK dollar, US dollar and Renminbi bank loans.

Net debt at 31st December 2013 was HK\$50,505 million, an increase of HK\$6,251 million since 31st December 2012. The increase principally reflects investments in property projects in Hong Kong and the USA and in new vessels for SPO. Gearing increased by 1.4 percentage points to 19.2%. Cash and undrawn committed facilities totalled HK\$30,806 million at 31st December 2013, compared with HK\$22,452 million at 31st December 2012.

## Sustainable Development

Swire Pacific does not view sustainability as a cost, but rather as an opportunity for innovation, growth and improved efficiency. Sustainable development is part of our long-term strategy.

Our ultimate goal is for our operating companies to achieve zero impact on the environment. We also aim to achieve zero harm to those involved in our

operations. We try to conduct our operations in a manner which safeguards the health and safety of our employees, those with whom we do business, our visitors and the communities in which we operate. We work hard to recruit the best people, to offer competitive remuneration and benefits and to provide training to enable staff to realise their potential. We support the communities in which we operate with charitable donations from the Swire Group Charitable Trust and by supporting our staff who volunteer their time and skills to help those communities. We share information and best practices with suppliers and encourage them to adopt appropriate sustainability and other standards.

In 2013, we began reporting sustainable development statistics on a quarterly basis in the Swire Pacific management accounts. A number of group companies announced revised and more ambitious carbon emission and energy reduction targets. We held our third sustainable development forum. We made our first investments in businesses devoted to sustainable development, taking two minority equity interests in businesses developing clean technologies. The Swire Group Charitable Trust's donations in 2013 included one to the Global Ocean Commission to assist it to examine the key threats facing the world's oceans. We developed a sustainable procurement policy.

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The commitment and hard work of employees of the Group and its joint venture and associated companies are central to our continuing success. I take this opportunity to thank them.

**Christopher Pratt**

Chairman

Hong Kong, 13th March 2014