

Financial Review

Additional information is provided below to reconcile reported and underlying profit and equity attributable to the Company's shareholders. The reconciling items principally adjust for net revaluation movements on investment properties and the associated deferred tax in Mainland China and for other deferred tax provisions in relation to investment properties. There is also an analysis of the effect of other significant non-recurring items.

Underlying profit	Note	2013 HK\$M	2012 (Restated) HK\$M
Profit attributable to the Company's shareholders per accounts		13,291	17,410
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(6,650)	(12,739)
Deferred tax on investment properties	(b)	573	661
Realised profit on sale of investment properties	(c)	94	763
Depreciation of investment properties occupied by the Group	(d)	20	20
Non-controlling interests' share of adjustments		1,143	2,155
Underlying profit attributable to the Company's shareholders		8,471	8,270
Other significant items:			
Profit on sale of investment properties		(21)	(651)
(Profit)/loss on sale of property, plant and equipment and other investments		(197)	135
Net impairment of property, plant and equipment, leasehold land and intangible assets		161	82
Adjusted underlying profit		8,414	7,836
Underlying equity			
Equity attributable to the Company's shareholders per accounts		220,297	208,467
Deferred tax on investment properties		3,713	3,236
Unrecognised valuation gains on hotels held as part of mixed-use developments	(e)	1,840	1,423
Revaluation of investment properties occupied by the Group		890	1,036
Cumulative depreciation of investment properties occupied by the Group		67	58
Underlying equity attributable to the Company's shareholders		226,807	214,220
Underlying non-controlling interests		43,694	41,227
Underlying equity		270,501	255,447

Notes:

- (a) This represents the net revaluation movements as shown in the consolidated statement of profit or loss plus the Group's share of net revaluation movements of joint venture and associated companies.
- (b) This represents deferred tax movements on the Group's investment properties and the Group's share of deferred tax movements on investment properties held by joint venture and associated companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.
- (c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the consolidated statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the consolidated statement of profit or loss.
- (d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.
- (e) Under HKAS 40, hotel properties are stated in the accounts at cost less accumulated depreciation and any provision for impairment losses, rather than at fair value. If HKAS 40 did not apply, those hotel properties owned by subsidiary and joint venture companies and held for the long-term as part of mixed-use property developments would be accounted for as investment properties. Accordingly, any increase or write-down in their value would be recorded in the revaluation reserve rather than the consolidated statement of profit or loss.

COMMENTARY ON AND ANALYSIS OF MAJOR BALANCES AND YEAR ON YEAR VARIANCES IN THE ACCOUNTS

Consolidated Statement of Profit or Loss

	Notes to the Accounts	2013	2012	Increase/(Decrease)	
		HK\$M	(Restated) HK\$M	HK\$M	%
Turnover	4	51,437	49,040	2,397	5%
Cost of sales	6	(30,763)	(28,532)	2,231	8%
Expenses	6	(10,170)	(9,436)	734	8%
Other net gains	5	337	268	69	26%
Change in fair value of investment properties		5,845	12,147	(6,302)	-52%
Operating profit		16,686	23,487	(6,801)	-29%
Net finance charges	9	(1,999)	(1,801)	198	11%
Share of profits less losses of joint venture companies		1,682	1,519	163	11%
Share of profits less losses of associated companies		1,521	582	939	161%
Taxation	10	(1,852)	(2,343)	(491)	-21%
Profit for the year		16,038	21,444	(5,406)	-25%
Profit attributable to the Company's shareholders	33	13,291	17,410	(4,119)	-24%

Turnover

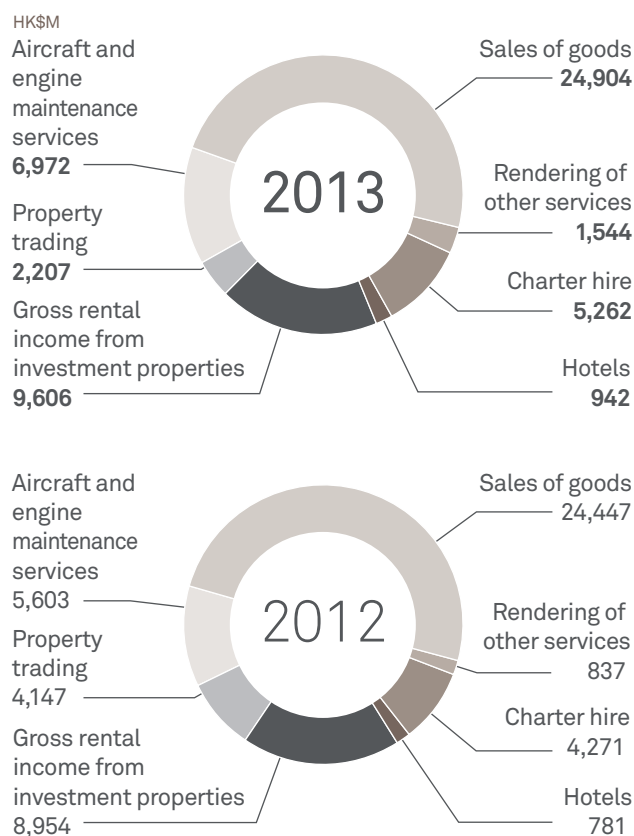
The increase in turnover of HK\$2,397 million compared to 2012 reflects improvements from the Aviation Division (HK\$1,557 million), the Marine Services Division (HK\$1,428 million) and the Beverages Division (HK\$657 million). These improvements were partially offset by a decrease in turnover from the Property Division (HK\$1,132 million) and the Trading & Industrial Division (HK\$120 million).

In the Property Division, turnover from property trading decreased by HK\$1,940 million compared to 2012 due to 77 fewer units sold at the AZURA development in Hong Kong partially offset by the handover and sale of 12 units at the ARGENTA development in Hong Kong. Gross rental income from property investment increased by HK\$652 million, principally reflecting positive rental reversions in Hong Kong, in particular at the Island East offices, and increased rental contributions in Mainland China from TaiKoo Hui in Guangzhou and Taikoo Li Sanlitun in Beijing. Turnover from hotels increased by HK\$161 million, reflecting the opening of the Mandarin Oriental at TaiKoo Hui in January 2013 and improved occupancy and average room rates in Hong Kong and the United Kingdom.

In the Aviation Division, the increase in turnover in the HAECO group principally reflected increased airframe maintenance and engine repair work in Mainland China and higher demand for line maintenance services in Hong Kong. This was partially offset by lower turnover from airframe maintenance and component overhaul services in Hong Kong due to a shortage of skilled and semi-skilled labour.

In the Beverages Division, the increase in turnover principally reflected higher sales volume of sparkling and juice beverages in Mainland China. Price increases in Hong Kong and higher sales volume of still beverages in the USA also contributed to the increased turnover. Turnover was lower in Taiwan reflecting a decline in sales volume.

Turnover by Category



In the Marine Services Division, the increase in turnover at SPO was due to the addition of six new vessels delivered during the year and a full year's turnover derived from the seven vessels delivered in 2012. The new vessels are larger and more sophisticated and command higher charter rates. Non-charter hire income increased, reflecting liquidated damages received in respect of delays in delivery of vessels and additional revenue from Altus Logistics and the salvage business.

In the Trading & Industrial Division, the Taikoo Motors group's turnover decreased by HK\$441 million, reflecting a reduction in the number of passenger cars sold in Taiwan following a product recall. The overall turnover from the Swire Resources group increased by HK\$312 million, reflecting increased retail demand in Hong Kong from visitors from Mainland China and increased sales of Columbia products in Mainland China.

Operating Profit

The decrease in operating profit of HK\$6,801 million compared to 2012 principally reflected a reduction in net valuation gains on investment properties of HK\$6,302 million. Excluding net valuation gains, operating profit decreased by HK\$499 million. The reduction reflected decreases in operating profit from the Property Division (HK\$938 million), the Aviation Division (HK\$168 million) and the Trading & Industrial Division (HK\$11 million), partially offset by increases in operating profit from the Marine Services Division (HK\$520 million) and the Beverages Division (HK\$99 million).

Excluding net valuation gains on investment properties, the Property Division's operating profit decreased by HK\$938 million. Profit from property trading decreased by HK\$1,360 million, principally reflecting fewer sales of units at residential developments in Hong Kong. Profit from property investment increased by HK\$448 million. There were increased operating losses from hotels due to a weaker performance from The Opposite House in Beijing and the opening of the Mandarin Oriental at TaiKoo Hui.

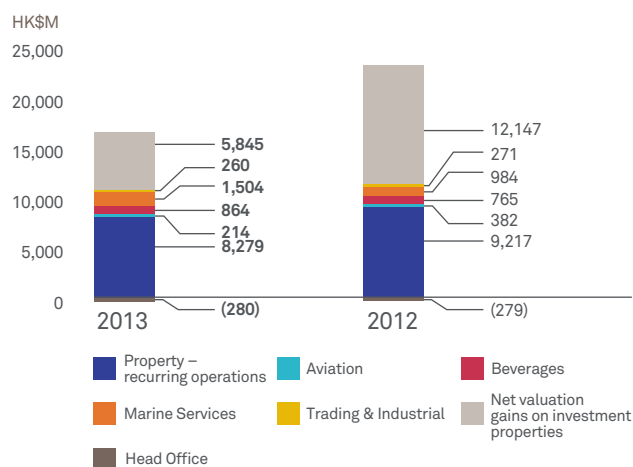
In the Aviation Division, the reduction in operating profit from the HAECO group was due to significantly lower profits from airframe maintenance and component overhaul services in Hong Kong partially offset by higher profits from airframe maintenance and engine repair work in Mainland China.

In the Beverages Division, the increase in operating profit was principally due to higher sales volume and lower raw material costs in Mainland China. There were also small increases in operating profit in the USA and Taiwan which benefited from lower raw material costs. Operating profit in Hong Kong was slightly lower due to higher operating costs.

In the Marine Services Division, the increase in operating profit at SPO reflected the contribution from new vessels delivered during 2013 and 2012, higher charter hire rates and liquidated damages received in respect of vessel delivery delays.

In the Trading & Industrial Division, the reduction in operating profit was due to a decrease in vehicle sales at Taikoo Motors and higher expenditure on developing new businesses at Taikoo Motors and Swire Pacific Cold Storage. There was an increase in operating profit in Swire Resources due to improved sales, partially offset by higher occupancy and staff costs.

Operating Profit by Division



Net Finance Charges

The increase in net finance charges mainly reflects higher borrowings during the year. Additional borrowings were principally incurred to finance capital expenditure in the Property Division and at SPO and advance of loans to joint venture companies.

Share of Profits Less Losses of Joint Venture Companies

In the Property Division, net valuation gains recorded on investment properties held by joint venture companies increased by HK\$115 million compared to 2012, mainly due to higher valuation gains in Mainland China. There was an increase in profit from investment properties owned by joint venture companies in Hong Kong, mainly from the Citygate Outlets retail mall.

In the Aviation Division, profits from joint venture companies in the HAECO group decreased, principally reflecting a reduction in engine output at HAESL following the early retirement of Boeing 747-400 aircraft owned by its customers.

In the Beverages Division, there was an increase in the contribution from joint venture companies in Mainland China. This reflected higher sales volume and lower raw material costs.

In the Trading & Industrial Division, there was an increase in profits from Akzo Nobel Swire Paints, reflecting higher sales volume, a favourable product mix and lower raw material costs, partially offset by higher staff and advertising costs. There was an increased loss in Campbell Swire, due to an impairment loss in respect of production facilities.

Share of Profits Less Losses of Associated Companies

The Cathay Pacific group contributed a profit of HK\$1,179 million in 2013 compared to a profit of HK\$387 million in 2012. The increase principally reflects lower operating expenses and an improvement in the passenger business partially offset by weak air cargo demand. Profit from Cathay Pacific's associated company, Air China, was lower in 2013, reflecting increased fuel costs.

In the Beverages Division, there was an increase in the contribution from Coca-Cola Bottlers Manufacturing Holdings in Mainland China. This reflected a non-recurring remeasurement gain, higher sales volume and lower raw material costs.

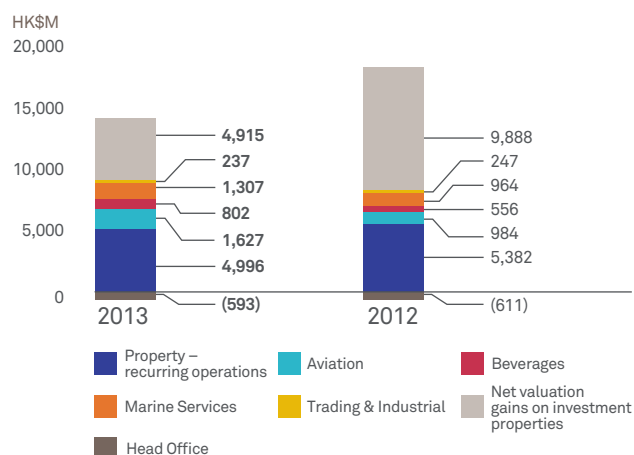
Taxation

The decrease in taxation principally reflects lower taxable profits in the Property Division as a result of fewer sales of units at residential properties in Hong Kong and lower deferred tax on valuation gains recorded on investment properties in Mainland China. There were also lower taxation charges in the HAECO group reflecting lower profits in Hong Kong and deferred tax movements in Mainland China.

Profit Attributable to the Company's Shareholders

The decrease in profit attributable to the Company's shareholders is mainly due to lower net valuation gains on investment properties and lower profits from the Property Division and the HAECO group partially offset by increased contributions from the Cathay Pacific group, SPO and the Beverages Division.

Profit Attributable to the Company's Shareholders by Division



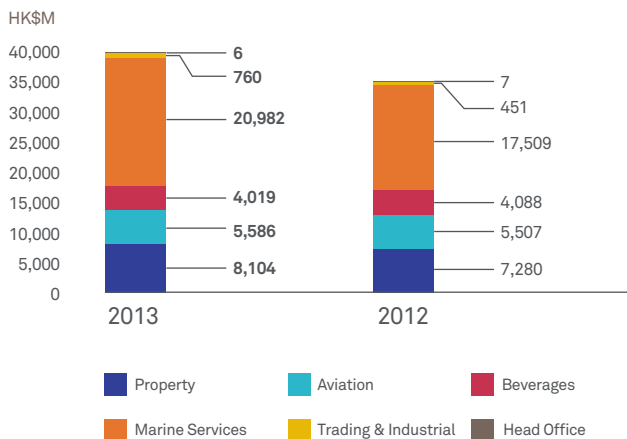
Consolidated Statement of Financial Position

	Notes to the Accounts	2013 HK\$M	2012 (Restated) HK\$M	Increase/(Decrease)	
				HK\$M	%
Property, plant and equipment	14	39,457	34,842	4,615	13%
Investment properties	15	216,524	205,588	10,936	5%
Intangible assets	17	4,634	4,612	22	0%
Joint venture companies	19(a)	21,805	20,222	1,583	8%
Associated companies	19(b)	30,699	27,420	3,279	12%
Properties for sale	23	7,982	6,910	1,072	16%
Stocks and work in progress	24	3,234	4,265	(1,031)	-24%
Trade and other receivables	25	9,187	9,164	23	0%
Cash and cash equivalents and short-term deposits	26	11,288	6,091	5,197	85%
Other assets		4,215	3,064	1,151	38%
Total Assets		349,025	322,178	26,847	8%
Trade and other payables	27	17,022	15,673	1,349	9%
Bank overdrafts, loans, bonds and perpetual capital securities	28, 29	61,844	50,397	11,447	23%
Deferred tax liabilities	30	6,357	5,673	684	12%
Other liabilities		1,294	2,053	(759)	-37%
Total liabilities		86,517	73,796	12,721	17%
Net Assets		262,508	248,382	14,126	6%
Equity attributable to the Company's shareholders	32, 33	220,297	208,467	11,830	6%
Non-controlling interests	34	42,211	39,915	2,296	6%
Total Equity		262,508	248,382	14,126	6%

Property, Plant and Equipment

The increase in property, plant and equipment in 2013 primarily represents the acquisition of new vessels by SPO, the cost of construction of cold storage facilities in Mainland China and the reclassification of certain investment properties to owner-occupied properties. The increase also reflected purchases of rotatable and repairable spare parts by the HAECO group and construction costs at the Mandarin Oriental at TaiKoo Hui and the hotel at the Brickell City Centre project in Miami, USA.

Property, Plant and Equipment by Division



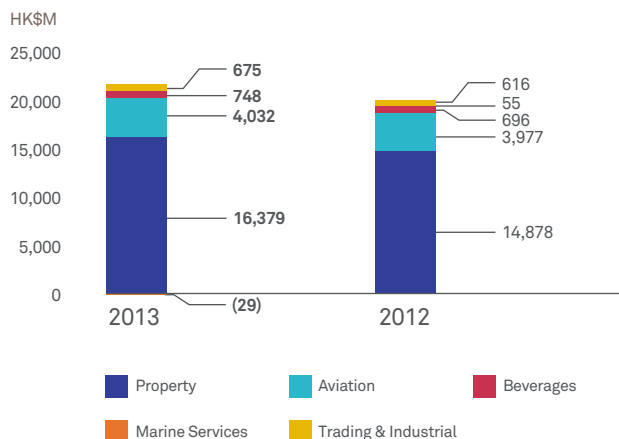
Investment Properties

The increase in investment properties mainly reflects net valuation gains of HK\$5,845 million during the year. The increase also reflected the acquisition of new investment properties in Hong Kong, construction costs incurred on new investment properties and renovation costs incurred on existing investment properties. There was also a favourable exchange gain on investment properties in Mainland China.

Investments in Joint Venture Companies

The increase in investments in joint venture companies primarily reflects advances of loans to acquire a commercial site adjacent to the existing Citygate Outlets development and the DCH Commercial Centre in Hong Kong. There were also increases in retained profits in the Property Division (mainly as a result of valuation gains on investment properties held by joint venture companies), the Beverages Division, HAESL and Akzo Nobel Swire Paints, partially offset by dividends received.

Investments in Joint Venture Companies by Division



Investments in Associated Companies

The increase in investments in associated companies principally reflects an increase in retained profits of the Cathay Pacific group.

Properties for Sale

The increase in properties for sale is principally due to construction costs incurred during the year on the ARGENTA, AREZZO, MOUNT PARKER RESIDENCES, Cheung Sha and Seymour Road residential projects in Hong Kong and on the residential component of the Brickell City Centre project in Miami, USA, partially offset by the effect of completion of the sale of units at AZURA and ARGENTA in Hong Kong and ASIA in Miami, USA.

Stocks and Work in Progress

The decrease in stocks and work in progress is principally due to a reduction in the stock of vehicles in Taikoo Motors in Taiwan and Columbia apparel and footwear products in Mainland China.

Trade and Other Receivables

The small increase in trade and other receivables principally reflects higher trade receivables due to increased turnover partially offset by the repayment of a secured loan advanced by Swire Properties to Sino-Ocean Land, its joint venture partner at Sino-Ocean Taikoo Li Chengdu.

Trade and Other Payables

The increase in trade and other payables principally reflects the grant of a put option in relation to a non-controlling interest in the retail portion of the Brickell City Centre development and an increase in the fair value of a put option in relation to a non-controlling interest in Taikoo Li Sanlitun. There were also higher trade creditors and accruals in the HAECO group, the Beverages Division and SPO and higher rental deposits from tenants in the Property Division.

Bank Overdrafts, Loans, Bonds and Perpetual Capital Securities

The increase in bank overdrafts, loans and bonds reflects funding required to finance the Group's property developments, the purchase of new vessels and other fixed assets and investments in joint venture companies.

Deferred Tax Liabilities

The increase in deferred tax liabilities is principally attributable to increased deferred tax on valuation gains on investment properties held by the Group in Mainland China.

Equity Attributable to the Company's Shareholders

In each year, the movement in equity attributable to the Company's shareholders represents the total comprehensive income for the year attributable to the Company's shareholders (HK\$17,115 million in 2013) less dividends paid to shareholders.

Non-Controlling Interests

The non-controlling interests principally reflect the 18% non-controlling interest in Swire Properties and the 25% non-controlling interest in the HAECO group.

Consolidated Statement of Cash Flows

	Notes to the Accounts	2013	2012	Increase/(Decrease)	
		HK\$M	(Restated) HK\$M	HK\$M	%
Cash generated from operations	39(a)	14,301	10,829	3,472	32%
Net interest paid		(1,969)	(1,956)	13	1%
Tax paid		(1,831)	(1,364)	467	34%
Dividends received		1,356	1,502	(146)	-10%
Investing activities					
Purchase of property, plant and equipment	39(b)	(6,385)	(7,532)	(1,147)	-15%
Additions of investment properties		(5,108)	(2,616)	2,492	95%
Proceeds from disposal of investment properties		48	995	(947)	-95%
Purchase of shares in subsidiary companies		12	(220)	(232)	-105%
Purchase of shares in joint venture companies		(63)	(296)	(233)	-79%
Purchase of shares in associated companies		(62)	(63)	(1)	-2%
Net loans to joint venture companies		(384)	(1,001)	(617)	-62%
Others		(126)	(94)	32	34%
Net cash used in businesses and investments		(211)	(1,816)	(1,605)	-88%
Dividends paid	33, 39(c)	(6,123)	(6,064)	59	1%
Loans drawn and refinancing		17,900	19,210	(1,310)	-7%
Repayment of loans and bonds		(6,743)	(9,332)	(2,589)	-28%
Capital contribution from non-controlling interests	34	20	97	(77)	-79%
Security deposits uplifted		—	42	(42)	-100%
Cash received from shareholders and net funding by external debt		5,054	3,953	1,101	28%
Increase in cash and cash equivalents		4,843	2,137	2,706	127%

Cash Generated from Operations

The increase in cash generated from operations is mainly due to higher operating profits at SPO and the Beverages Division and a reduction of stocks at Taikoo Motors and Swire Resources, partially offset by lower operating profits in the Property Division and the HAECO group.

Tax Paid

The increase in tax paid is principally due to higher taxable profits from property trading in the Property Division in 2012.

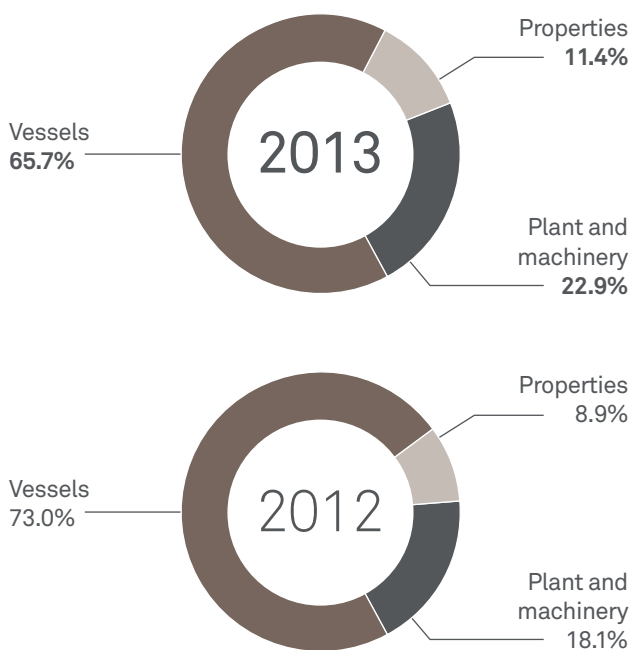
Dividends Received

The decrease in dividends received principally reflects the receipt in 2013 of a lower 2012 second interim dividend from Cathay Pacific partially offset by increased dividends from the JW Marriott hotel, Akzo Nobel Swire Paints and the HUD group.

Purchase of Property, Plant and Equipment

The decrease in purchases of property, plant and equipment in 2013 is mainly due to lower capital expenditure on vessels by SPO and lower construction costs on the Mandarin Oriental at TaiKoo Hui following its opening in January 2013, partially offset by increased capital expenditure on cold storage facilities in Mainland China and rotatable and repairable spare parts in the HAECO group.

Purchase of Property, Plant and Equipment by Category



Additions of Investment Properties

The additions of investment properties in 2013 include the acquisition of a commercial site in Kowloon Bay in Hong Kong, construction costs incurred at the TaiKoo Hui and Brickell City Centre developments and renovation costs incurred at the TaiKoo Place offices and at The Mall at Pacific Place.

Purchase of Shares in Joint Venture Companies

In 2013, the Group purchased an additional interest in Campbell Swire (HK\$62 million).

Purchase of Shares in Associated Companies

In 2013, the Group purchased a 40% interest in Columbia China (HK\$62 million).

Net Loans to Joint Venture Companies

In 2013, the Group advanced loans to fund the acquisition of a commercial site adjacent to the existing Citygate Outlets development and the DCH Commercial Centre in Hong Kong. The loan advances were partially offset by loan repayments from the Dazhongli property project in Shanghai.

Loans Drawn and Refinancing

In 2013, loans drawn and refinancing comprised new financing under the Medium-Term Note Programmes of Swire Pacific and Swire Properties and new loans and drawdown of existing financing from banks. Refer to the Financing section on page 118 for further details.

Investment Appraisal and Performance Review

Swire Pacific focuses on the long-term development of businesses where it can add value through its industry-specific expertise and particular knowledge of the Greater China region. The Group endeavours to create value for shareholders by making investments which exceed the target rate of return appropriate for each of its businesses.

The tables on page 117 show where the Group's net assets are employed, capital commitments by division and returns on equity attributable to the Company's shareholders.

PROPERTY DIVISION

Net assets employed in property investment increased by HK\$11,783 million (5.7%) during the year, principally due to revaluation gains on investment properties and continued investment in property projects in Hong Kong and the USA.

Capital commitments at the year-end include the Group's share of the capital commitments of joint venture companies undertaking property development projects in Hong Kong and Mainland China.

The return on average equity from property investment decreased from 8.8% in 2012 to 6.3% in 2013, reflecting a decrease in profit, which in turn principally reflected lower property valuation gains.

The increase in net assets employed in property trading was principally due to the costs of constructing residential projects in Hong Kong and the USA, partly offset by the effect of completion of the sale of units at the AZURA and ARGENTA developments in Hong Kong.

The increase in net assets employed in hotels was principally due to the construction costs of the Mandarin Oriental at TaiKoo Hui.

AVIATION DIVISION

Net assets employed in the Aviation Division increased by HK\$3,497 million (8.7%). The increase principally reflects the Group's share of capital expenditure on new aircraft by the Cathay Pacific group and movements in the retained profit of the Cathay Pacific group and the HAECO group.

The return on average equity increased from 2.7% in 2012 to 4.3% in 2013. The increase reflected higher profits from the Cathay Pacific group.

BEVERAGES DIVISION

Net assets employed decreased by HK\$168 million (2.7%), principally as a result of lower capital expenditure and a decrease in working capital.

The return on average equity increased from 12.1% to 16.1%, reflecting an increase in attributable profit.

MARINE SERVICES DIVISION

Net assets employed increased by HK\$3,781 million (21.4%) principally due to the acquisition of six new vessels by SPO.

The return on average equity increased from 9.3% to 11.2%, reflecting an increase in attributable profit.

TRADING & INDUSTRIAL DIVISION

Net assets employed decreased by HK\$377 million (14.2%),

primarily due to a decrease in stocks at Taikoo Motors and Swire Resources, partially offset by capital expenditure on cold storage facilities in Mainland China.

The return on average equity decreased from 11.4% in 2012 to 7.7% in 2013. This principally reflected a decrease in attributable profit and increased investments in cold storage facilities in Mainland China which have not commenced operation.

Investment Appraisal and Performance Review

	Net assets employed		Capital commitments*	
	2013 HK\$M	2012 (Restated) HK\$M	2013 HK\$M	2012 (Restated) HK\$M
Property investment				
– at cost	82,090	73,896	28,200	14,144
– valuation surplus	149,979	143,127	–	–
– deferred taxation	(6,079)	(5,333)	–	–
– other net liabilities	(7,544)	(5,027)	–	–
	218,446	206,663	28,200	14,144
Property trading	9,408	7,309	–	–
Hotels	7,200	7,111	1,254	1,770
Property – overall	235,054	221,083	29,454	15,914
Aviation	43,801	40,304	4,669	531
Beverages	6,032	6,200	97	41
Marine Services	21,412	17,631	7,210	10,329
Trading & Industrial	2,286	2,663	2,175	19
Head Office	4,428	4,755	–	48
Total net assets employed	313,013	292,636	43,605	26,882
Less: net debt	(50,505)	(44,254)		
Less: non-controlling interests	(42,211)	(39,915)		
Equity attributable to the Company's shareholders	220,297	208,467		

	Equity attributable to the Company's shareholders		Return on average equity attributable to the Company's shareholders	
	2013 HK\$M	2012 (Restated) HK\$M	2013	2012 (Restated)
Property investment	156,481	149,611	6.3%	8.8%
Property trading	3,619	2,362	19.8%	75.4%
Hotels	5,505	5,319	-0.7%	0.2%
Property – overall	165,605	157,292	6.3%	9.2%
Aviation	39,525	36,142	4.3%	2.7%
Beverages	5,421	4,521	16.1%	12.1%
Marine Services	12,344	10,949	11.2%	9.3%
Trading & Industrial	3,566	2,604	7.7%	11.4%
Head Office	(6,164)	(3,041)		
Total	220,297	208,467	6.2%	8.0%

* The capital commitments represent the Group's capital commitments plus the Group's share of the capital commitments of joint venture companies.