

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		2014	2013
	Note	HK\$M	HK\$M
Profit attributable to the Company's shareholders per financial statements		11,069	13,291
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(3,088)	(6,650)
Deferred tax on investment properties	(b)	710	573
Realised profit on sale of investment properties	(c)	598	94
Depreciation of investment properties occupied by the Group	(d)	23	20
Non-controlling interests' share of adjustments		427	1,143
Underlying profit attributable to the Company's shareholders		9,739	8,471
Other significant items:			
Profit on sale of investment properties		(529)	(21)
Profit on sale of property, plant and equipment and other investments		(93)	(197)
Net impairment of property, plant and equipment, leasehold land and intangible assets		254	161
Adjusted underlying profit		9,371	8,414
Underlying equity			
Equity attributable to the Company's shareholders per financial statements		218,775	220,297
Deferred tax on investment properties		4,290	3,713
Unrecognised valuation gains on hotels held as part of mixed-use developments	(e)	1,930	1,840
Revaluation of investment properties occupied by the Group		957	890
Cumulative depreciation of investment properties occupied by the Group		86	67
Underlying equity attributable to the Company's shareholders		226,038	226,807
Underlying non-controlling interests		45,005	43,694
Underlying equity		271,043	270,501

Notes:

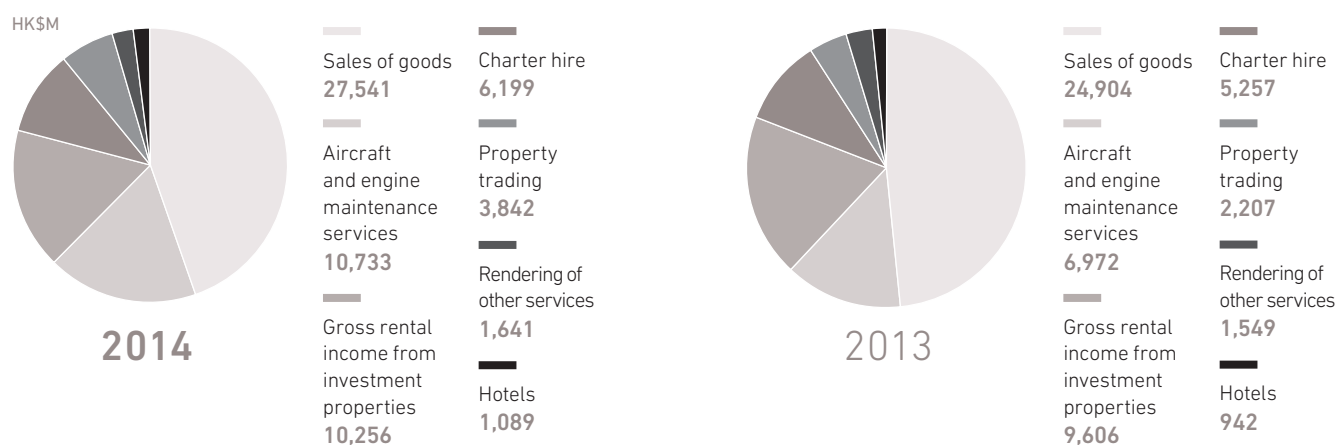
- (a) This represents the net revaluation movements as shown in the consolidated statement of profit or loss plus the Group's share of net revaluation movements of joint venture and associated companies.
- (b) This represents deferred tax movements on the Group's investment properties and the Group's 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 financial statements 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 FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

	Notes to the Financial Statements	2014	2013	Increase/(Decrease)	
		HK\$M	HK\$M	HK\$M	%
Revenue	4	61,301	51,437	9,864	19%
Cost of sales	6	(38,313)	(30,763)	7,550	25%
Expenses	6	(11,258)	(10,170)	1,088	11%
Other net gains	5	71	337	(266)	-79%
Change in fair value of investment properties		1,896	5,845	(3,949)	-68%
Operating profit		13,697	16,686	(2,989)	-18%
Net finance charges	9	(2,025)	(1,999)	26	1%
Share of profits less losses of joint venture companies	19(a)	2,253	1,682	571	34%
Share of profits less losses of associated companies	19(b)	1,678	1,521	157	10%
Taxation	10	(2,218)	(1,852)	366	20%
Profit for the year		13,385	16,038	(2,653)	-17%
Profit attributable to the Company's shareholders	33	11,069	13,291	(2,222)	-17%

Revenue by Category



Revenue

The increase in revenue of HK\$9,864 million compared to 2013 was due to improvements from all divisions, the Property Division (HK\$2,441 million), the Aviation Division (HK\$4,540 million), the Beverages Division (HK\$1,329 million), the Marine Services Division (HK\$942 million) and the Trading & Industrial Division (HK\$594 million).

In the Property Division, revenue from property trading increased by HK\$1,635 million compared to 2013. This principally reflected the sales of 82 units at the MOUNT PARKER RESIDENCES residential development in Hong Kong, partially offset by the sales of fewer units at the AZURA and

ARGENTA residential developments in Hong Kong. Gross rental income from property investment increased by HK\$650 million. There were positive rental reversions in Hong Kong and rental income for a full year from developments completed in 2013. There was higher rental income in Mainland China. Revenue from hotels increased by HK\$147 million, principally reflecting higher room rates and occupancy at the hotels in Mainland China and the UK.

In the Aviation Division, the increase in revenue from the HAECO group was principally due to the inclusion of revenue from HAECO Americas of HK\$2,885 million following its acquisition in February 2014. The increase also reflected more engine repair and private jet work in Mainland

China and line services sold in Hong Kong. This was partially offset by a reduction in airframe and component services revenue in Hong Kong.

In the Beverages Division, the increase in revenue was principally due to increased sales volume in the USA as a result of the assumption of new franchise territories in Denver and Colorado Springs in May 2014. The increase also reflected higher sales volume in Mainland China and price increases in Hong Kong and the USA.

In the Marine Services Division, the increase in revenue at SPO was due to the addition of nine new vessels delivered during the year and a full year's revenue derived from the six vessels delivered in 2013. The new vessels

are of higher specification and command higher charter hire rates than existing vessels.

In the Trading & Industrial Division, the Taikoo Motors group's revenue increased by HK\$1,384 million, reflecting a 35% increase in the number of vehicles sold. Revenue from the Swire Retail group decreased by HK\$876 million, principally reflecting the absence of sales from the Columbia distributorship in Mainland China following its replacement with an interest in an associated company from January 2014.

Operating Profit

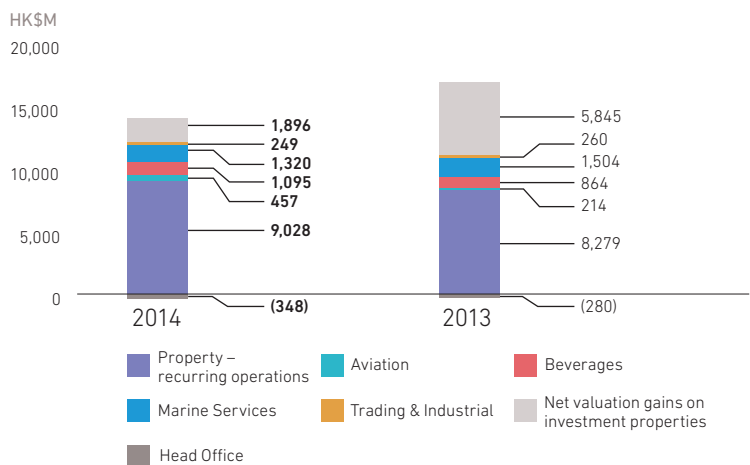
The decrease in operating profit of HK\$2,989 million compared to 2013 principally reflected a reduction in net valuation gains on investment properties of HK\$3,949 million. Excluding net valuation gains, operating profit increased by HK\$960 million.

The Property Division's operating profit from recurring operations increased by HK\$749 million. Profit from property investment increased by HK\$561 million due to higher gross rental income. Profit from property trading increased by HK\$145 million, principally reflecting the fact that more residential properties were sold in Hong Kong. There were reduced operating losses from hotels due to improved performances from all hotels.

In the Aviation Division, the increase in operating profit from the HAECO group was mainly due to higher profits from engine repair and private jet work in Mainland China and line services in Hong Kong. This was partially offset by lower profits from airframe and component services in Hong Kong. There was a small operating loss at HAECO Americas due to the costs of reducing the size of a seat manufacturing facility.

In the Beverages Division, the increase in operating profit was principally due to lower prices of key raw materials in all territories and higher sales volume in Mainland China and the USA. This was partially offset by higher operating costs and additional expenses associated with the assumption of the new franchise territories in the USA.

Operating Profit by Division



In the Marine Services Division, the decrease in operating profit at SPO principally reflected a lower fleet utilisation rate and higher operating costs from the addition of new vessels.

In the Trading & Industrial Division, the reduction in operating profit was mainly due to the absence of an operating profit from the Mainland China Columbia distributorship in Swire Retail and higher expenditure on developing new cold stores in Mainland China at Swire Pacific Cold Storage. This was partially offset by an increase in operating profit in Taikoo Motors due to improved sales, a better sales mix and the release of provisions for dealer incentives.

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 SPO, investments in new subsidiary companies and advances of loans to joint venture companies. The effect of these factors was partially offset by a reduction in net finance charges in Mainland China (the reduction being financed by funds from Hong Kong and operating cash flows) and in net finance charges relating to the change in fair value of put options and increased capitalisation of interest on investment properties.

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\$273 million compared to 2013, mainly due to a higher valuation gain at Sino-Ocean Taikoo Li Chengdu in Mainland China. There was a share of profit of HK\$237 million from the sale of 52 units at the DUNBAR PLACE joint venture property development. There were also improved results from investment properties owned by joint venture companies in Mainland China.

In the Aviation Division, profits from joint venture companies in the HAECO group decreased by HK\$187 million, principally reflecting a reduction in engine output at HAESL as a result of the retirement of older aircraft types.

In the Beverages Division, there was an increase in the contribution from joint venture companies in Mainland China. This principally reflected lower prices of key raw materials.

In the Trading & Industrial Division, there were reduced losses at Campbell Swire, mainly due to the absence of 2013's impairment loss in respect of production facilities and lower operating costs in 2014, and higher profits from Akzo Nobel Swire Paints, the latter reflecting higher sales volume in Mainland China.

Share of Profits Less Losses of Associated Companies

The Cathay Pacific group contributed a profit of HK\$1,418 million in 2014 compared to a profit of HK\$1,179 million in 2013. The increase principally reflected stronger demand for passenger and (in the second half of the year) cargo services, partially offset by higher operating expenses. There were also improved results from Cathay Pacific's cargo terminal business and Air China Cargo. Profit from Cathay Pacific's associate company, Air China, was lower in 2014, principally reflecting weaker demand for passenger services and foreign exchange losses in the first half of Air China's financial year.

In the Beverages Division, there was a decrease in the contribution from Coca-Cola Bottlers Manufacturing Holdings Limited in Mainland China. This was mainly due to the absence of 2013's non-recurring remeasurement gain and lower sales volume in 2014.

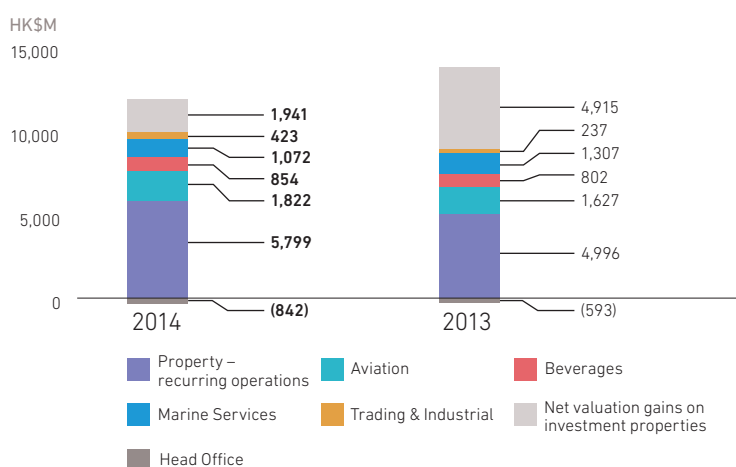
Taxation

The increase in taxation principally reflects higher taxable profits in the Property and Beverages Divisions. There were also higher taxation charges in the HAECO group as the taxation charge in 2013 was reduced by 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. Excluding valuation gains on investment properties, attributable profit increased by HK\$752 million.

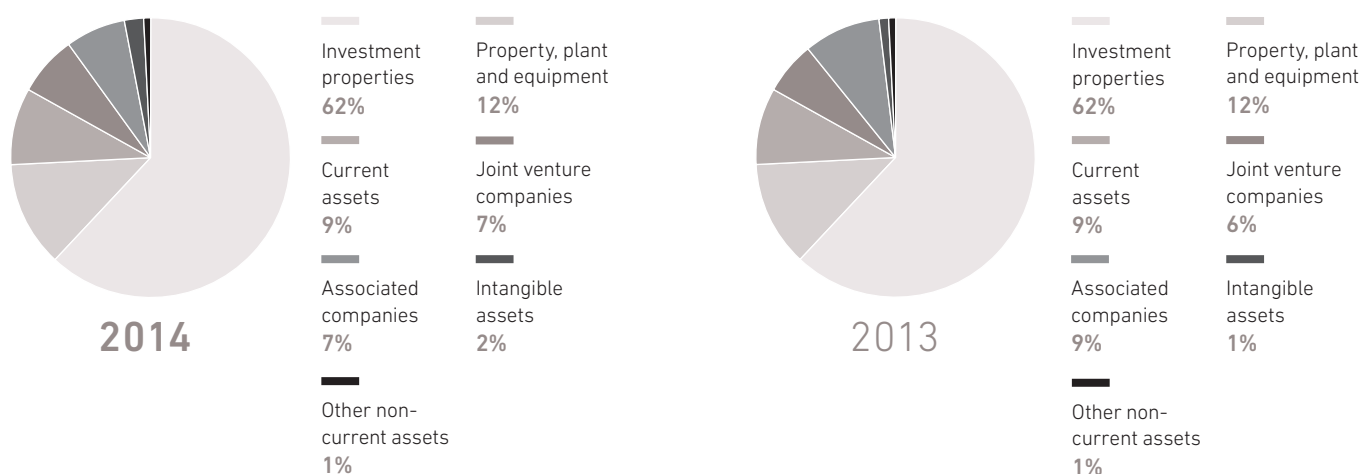
Profit Attributable to the Company's Shareholders by Division



Consolidated Statement of Financial Position

	Notes to the Financial Statements	2014 HK\$M	2013 HK\$M	Increase/(Decrease)	
				HK\$M	%
Property, plant and equipment	14	43,601	39,457	4,144	11%
Investment properties	15	220,869	216,524	4,345	2%
Intangible assets	17	7,442	4,634	2,808	61%
Joint venture companies	19(a)	23,703	21,805	1,898	9%
Associated companies	19(b)	26,039	30,699	(4,660)	-15%
Properties for sale	23	7,941	7,982	(41)	-1%
Stocks and work in progress	24	3,860	3,234	626	19%
Trade and other receivables	25	9,552	9,187	365	4%
Bank balances and short-term deposits	26	10,115	11,288	(1,173)	-10%
Other assets		4,213	4,215	(2)	0%
Total Assets		357,335	349,025	8,310	2%
Trade and other payables	27	17,933	17,059	874	5%
Loans, bonds and perpetual capital securities	28, 29	68,788	61,844	6,944	11%
Deferred tax liabilities	30	6,938	6,357	581	9%
Other liabilities		1,546	1,257	289	23%
Total liabilities		95,205	86,517	8,688	10%
Net Assets		262,130	262,508	(378)	0%
Equity attributable to the Company's shareholders	32, 33	218,775	220,297	(1,522)	-1%
Non-controlling interests	34	43,355	42,211	1,144	3%
Total Equity		262,130	262,508	(378)	0%

Total Assets by Category



Property, Plant and Equipment

The increase in property, plant and equipment in 2014 reflects the inclusion (following the acquisition of HAECO Americas and Qinyuan Bakery) of the property, plant and equipment belonging to them and of property, plant and equipment acquired upon the assumption of new beverages franchise territories in the USA. The increase also reflects the acquisition of new vessels by SPO and the cost of construction of cold storage facilities in Mainland China and of the EAST hotel at Brickell City Centre, Miami.

Investment Properties

The increase in investment properties mainly reflects net valuation gains, construction costs incurred on new investment properties and renovation costs incurred on existing investment properties. This was partially offset by the disposal of two residential units at OPUS HONG KONG and foreign exchange translation losses on investment properties in Mainland China.

Intangible Assets

The increase in intangible assets in 2014 includes goodwill of HK\$1,932 million and other intangible assets recognised as a result of the acquisitions of HAECO Americas and Qinyuan Bakery and as a result of the assumption of new beverages franchise territories in the USA.

Investments in Joint Venture Companies

The increase in investments in joint venture companies principally reflects advances of loans to fund the acquisition of Berkshire House and the Wong Chuk Hang Road development 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 and foreign exchange translation losses from joint venture companies in Mainland China.

Investments in Associated Companies

The decrease in investments in associated companies principally reflects a decrease in the share of net assets of the Cathay Pacific group. The decrease in net assets of the Cathay Pacific group is mainly due to unrealised losses from fuel hedging contracts, partially offset by profits retained for the year. The decrease in investments in associated companies was partially offset by the cost of acquiring an additional interest in Green Biologics and an increase in retained profits at Coca-Cola Bottlers Manufacturing Holdings Limited.

Properties for Sale

The decrease in properties for sale is principally due to the sale of residential properties at the MOUNT PARKER

RESIDENCES, ARGENTA and AZURA projects in Hong Kong, partially offset by construction costs incurred during the year on the AREZZO, 160 South Lantau Road and 100 Caine Road residential projects in Hong Kong and on the residential component of the Brickell City Centre project in Miami.

Stocks and Work in Progress

The increase in stocks and work in progress is principally due to the inclusion of stock and work in progress of HAECO Americas and as a result of the assumption of new beverages franchise territories in the USA, partially offset by a reduction in Taikoo Motors' stock of vehicles.

Trade and Other Receivables

The increase in trade and other receivables principally reflects increased balances on stakeholder accounts arising from pre-sales of residential properties at the Brickell City Centre project, the inclusion of the trade and other receivables of HAECO Americas and dividends receivable from joint venture companies in the Beverages and Trading & Industrial Divisions. The effect of these items was partially offset by a decrease in trade debtors in the Property Division and the settlement of insurance claims in the HAECO group.

Trade and Other Payables

The increase in trade and other payables principally reflects increased balances

on stakeholder accounts arising from pre-sales of residential properties at the Brickell City Centre and AREZZO projects, an increase in rental deposits from tenants and the inclusion of the trade and other payables of HAECO Americas and of contingent consideration relating to the assumption of new beverages franchise territories in the USA. The effect of these items was partially offset by the settlement of a put option in respect of a 20% interest in Taikoo Li Sanlitun.

Loans, Bonds and Perpetual Capital Securities

The increase in loans and bonds reflects funding to finance the Group's property developments, the purchase of new vessels

and other fixed assets and investments in subsidiary companies and advances of loans to joint venture companies.

Deferred Tax Liabilities

The increase in deferred tax liabilities is principally attributable to higher deferred tax relating to depreciation allowances on investment properties and 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\$3,888 million in 2014) less dividends paid to shareholders (HK\$5,417 million in 2014). The decrease in equity attributable to the Company's shareholders is principally due to the Company's share of unrealised losses on fuel hedging contracts in the Cathay Pacific group recognised in the statement of other comprehensive income.

Non-controlling Interests

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

Consolidated Statement of Cash Flows

	Notes to the Financial Statements	2014	2013	Increase/(Decrease)	
		HK\$M	HK\$M	HK\$M	%
Cash generated from operations	40(a)	16,250	14,301	1,949	14%
Net interest paid		(2,316)	(1,969)	347	18%
Tax paid		(1,358)	(1,831)	(473)	-26%
Dividends received		1,898	1,356	542	40%
Investing activities					
Purchase of property, plant and equipment	40(b)	(6,181)	(6,385)	(204)	-3%
Additions of investment properties		(4,362)	(5,108)	(746)	-15%
Proceeds from disposal of investment properties		834	48	786	1,638%
Purchase of shares in new subsidiary companies	35	(3,530)	12	3,542	N/A
Purchase of shares in associated companies		(208)	(62)	146	235%
Purchase of new businesses		(117)	-	117	100%
Purchase of available-for-sale assets		(245)	(56)	189	338%
Net loans to joint venture companies		(1,347)	(384)	963	251%
Others		467	(133)	(600)	N/A
Net cash used in businesses and investments		(215)	(211)	4	2%
Dividends paid	33, 40(c)	(6,425)	(6,123)	302	5%
Loans drawn and refinancing		19,714	17,900	1,814	10%
Repayment of loans and bonds		(12,697)	(6,743)	5,954	88%
Capital contributions from non-controlling interests	34	4	20	(16)	-80%
Proceeds from disposal of shares in a subsidiary company		79	-	79	100%
Purchase of shares in an existing subsidiary company		(1,256)	-	1,256	100%
Cash (paid to)/received from shareholders and net funding by external debt		(581)	5,054	(5,635)	N/A
(Decrease)/Increase in cash and cash equivalents		(796)	4,843	(5,639)	N/A

Net Interest Paid

The increase in net interest paid is mainly attributable to higher borrowings.

Tax Paid

The decrease in tax paid is principally due to lower taxable profits in Hong Kong from property trading in the Property Division in 2013 (the base period for tax paid in 2014) compared with 2012.

Dividends Received

The increase in dividends received principally reflects dividends received from the DUNBAR PLACE and PCCW TOWER property joint ventures and increased dividends from Cathay Pacific, partially offset by reduced dividends from HAESL.

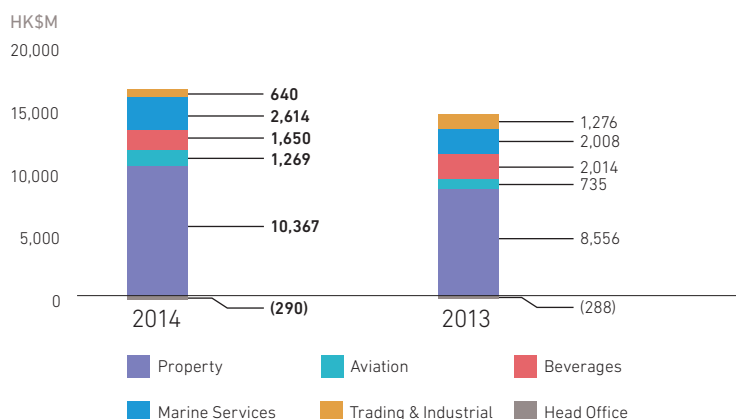
Purchase of Property, Plant and Equipment

The decrease in purchases of property, plant and equipment in 2014 is mainly due to lower capital expenditure on vessels by SPO, partially offset by increased capital expenditure on hotels and restaurants in the Property Division, cold storage facilities in Mainland China, rotatable and repairable spare parts in the HAECO group and production and marketing equipment in the Beverages Division.

Additions of Investment Properties

The decrease in additions of investment properties in 2014 principally reflects the absence of the acquisition of a commercial site in Kowloon Bay, Hong Kong in 2013. This was partially offset by increased construction costs incurred at the Brickell City Centre development in the USA and development costs for Somerset House and TAIKOO PLACE APARTMENTS at Taikoo Place in Hong Kong in 2014.

Cash Generated from Operations by Division



Proceeds from the Disposal of Investment Properties

Proceeds from the disposal of investment properties include the disposal of two residential units at OPUS HONG KONG.

Purchase of Shares in New Subsidiary Companies

In 2014, the Group purchased a 100% interest in HAECO Americas (HK\$2,942 million) and a 65% interest in Qinyuan Bakery (HK\$588 million).

Purchase of Shares in Associated Companies

In 2014, the Group purchased an additional interest in Green Biologics, increasing its interest to 31%.

Purchase of New Businesses

In 2014, the Group assumed new beverages franchise territories in Denver and Colorado Springs in the USA.

Purchase of Available-For Sale-Assets

In 2014, the Group purchased minority interests in Rebecca Minkoff and Avantium.

Net Loans to Joint Venture Companies

In 2014, the Group advanced loans to fund the acquisition of Berkshire House and the Wong Chuk Hang Road development in Hong Kong.

Loans Drawn and Refinancing

In 2014, loans drawn and refinancing comprised new financing under the Medium-Term Note Programmes of Swire Pacific and Swire Properties and new loans and drawdowns of existing financing from banks. Refer to the Financing section on page 103 for further details.

Purchase of Shares in an Existing Subsidiary Company

In 2014, Swire Properties purchased the remaining 20% interest in Taikoo Li Sanlitun for HK\$1,256 million.

Investment Appraisal and Performance Review

	Net assets employed		Capital commitments*	
	2014 HK\$M	2013 HK\$M	2014 HK\$M	2013 HK\$M
Property investment	226,596	218,446	23,659	28,200
Property trading	8,210	9,408	–	–
Hotels	7,801	7,200	481	1,254
Property – overall	242,607	235,054	24,140	29,454
Aviation	41,195	43,801	1,575	4,669
Beverages	6,048	6,032	420	97
Marine Services	23,537	21,412	5,209	7,210
Trading & Industrial	3,950	2,286	1,553	2,175
Head Office	3,417	4,428	–	–
Total net assets employed	320,754	313,013	32,897	43,605
Less: net debt	(58,624)	(50,505)		
Less: non-controlling interests	(43,355)	(42,211)		
Equity attributable to the Company's shareholders	218,775	220,297		

	Equity attributable to the Company's shareholders		Return on average equity attributable to the Company's shareholders	
	2014 HK\$M	2013 HK\$M	2014	2013
Property investment	161,812	156,481	4.4%	6.3%
Property trading	2,084	3,619	29.3%	19.8%
Hotels	6,074	5,505	0.4%	-0.7%
Property – overall	169,970	165,605	4.6%	6.3%
Aviation	34,445	39,525	4.9%	4.3%
Beverages	4,970	5,421	16.4%	16.1%
Marine Services	13,830	12,344	8.2%	11.2%
Trading & Industrial	5,664	3,566	9.2%	7.7%
Head Office	(10,104)	(6,164)		
Total	218,775	220,297	5.0%	6.2%

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

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 101 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\$8,150 million (4%) during the year, principally due to revaluation gains on investment properties and 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 6.3% in 2013 to 4.4% in 2014, reflecting a decrease in profit, which in turn principally reflected lower property valuation gains.

The decrease in net assets employed in property trading was principally due to the sale of units at the MOUNT PARKER RESIDENCES, ARGENTA and AZURA residential projects in Hong Kong, partially offset by the construction costs incurred during the year on the AREZZO, 160 South Lantau Road and 100 Caine Road residential projects in Hong Kong and on the residential component of the Brickell City Centre project in Miami, USA.

The increase in net assets employed in hotels was principally due to the construction costs of The Temple House at Sino-Ocean Taikoo Li Chengdu and the EAST hotel at the Brickell City Centre in Miami.

AVIATION DIVISION

Net assets employed in the Aviation Division decreased by HK\$2,606 million (6%). The decrease principally reflects the Group's share of unrealised losses on fuel hedging contracts in the Cathay Pacific group. This was partially offset by the Group's share of capital expenditure on new aircraft in the Cathay Pacific group and the investment in HAECO Americas by the HAECO group.

The return on average equity increased from 4.3% in 2013 to 4.9% in 2014. The increase principally reflected higher profits from the Cathay Pacific group.

BEVERAGES DIVISION

Net assets employed increased by HK\$16 million (0.3%), principally as a result of higher capital expenditure, partially offset by the sale of investments.

The return on average equity increased from 16.1% to 16.4%, reflecting an increase in attributable profit.

MARINE SERVICES DIVISION

Net assets employed increased by HK\$2,125 million (10%) principally due to the acquisition of nine new vessels by SPO.

The return on average equity decreased from 11.2% to 8.2%, principally reflecting a decrease in attributable profit.

TRADING & INDUSTRIAL DIVISION

Net assets employed increased by HK\$1,664 million (73%), principally due to investments in Qinyuan Bakery, Green Biologics, Rebecca Minkoff and Avantium and capital expenditure on cold storage facilities in Mainland China.

The return on average equity increased from 7.7% in 2013 to 9.2% in 2014. This principally reflected an increase in attributable profit.