CHAIRMAN'S STATEMENT

Year in Review

The global economy in 2015 was affected by uncertainty over the timing of the rise in interest rates in the USA and slower economic growth in Mainland China. Economic growth in the USA remained robust and economies in the Eurozone showed some improvement. Financial markets were volatile, in particular in Mainland China. The Renminbi weakened unexpectedly in August. Consumer spending was weak in Hong Kong. Currency movements had an adverse impact on tourism. Consumer spending was relatively robust in major Chinese cities. Oil prices were low throughout the year.

Results Summary

The 2015 results of the Group were affected by the global economic factors described above. Consolidated profit attributable to shareholders for 2015 was HK$13,429 million, HK$2,360 million higher than in 2014. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK$153 million or 2% to HK$9,892 million.

The Property Division was the largest contributor to underlying profits. The profits of Swire Properties fell, principally on account of a loss on the disposal of four hotels in the UK. Excluding this loss, the profits of Swire Properties rose compared to those of 2014. The business benefited from strong sales of luxury residential properties in Hong Kong for much of the year. Rental income in Hong Kong benefited from strong demand for office space. Retail properties in Mainland China performed well. Significant underlying profits were recorded on the sale of eight units in OPUS HONG KONG, a property owned directly by Swire Pacific.

The results of the Aviation Division improved, principally as a result of higher profits from the airlines and higher attributable profits from Cathay Pacific's associate, Air China. Cathay Pacific's own results improved but were affected by pressure on passenger yield, weak cargo demand and higher fuel hedging losses. HAECO's results were affected by higher losses from its business in the USA.

Swire Beverages' results were mixed. The business in Mainland China was affected by slowing economic growth. Other territories, in particular in the USA, produced good results. The Marine Services Division performed poorly in a weak market. Swire Pacific Offshore ("SPO") recorded significant impairment charges in relation to older vessels in the fleet and the cancellation of shipbuilding contracts in Brazil. The Trading & Industrial Division's profits were lower.

Dividends

The Directors have declared second interim dividends of HK¢278.0 per 'A' share and HK¢55.6 per 'B' share which, together with the first interim dividends paid in October 2015, amount to full year dividends of HK¢390.0 per 'A' share and HK¢78.0 per 'B' share.

Dividends paid in respect of 2015 are unchanged from those paid in respect of 2014. The Group's policy is to pay out approximately half of underlying profits attributable to shareholders over the economic cycle.

Implementing Our Strategy

The Group's aim is to generate sustainable long-term growth in shareholder value. This can be measured by capital appreciation and a rising dividend. Over the last ten years, the Group has seen equity attributable to shareholders and dividends (excluding special distributions) increase by compound average rates of 6% and 4% per year respectively.

In order to achieve our stated aim, we deploy capital (and people) where we see opportunities to generate long-term value. We make such deployments in our businesses with a view to maximising the returns on our capital over the long term.

The largest recipient of capital is Swire Properties. This reflects its size and the identified opportunities in the property sector. In Hong Kong, we are reinforcing our successful Quarry Bay development by redeveloping older buildings into prime office space. In Mainland China, we intend to undertake a retail and residential development in Dalian and a second (retail) development in Shanghai. Our mixed-use project in Miami is nearing completion and will open in phases this year.

The Aviation Division is a significant investment for the Group. We are supportive of the long term investment plans of the Cathay Pacific group, which include investments in new aircraft and in maintaining a significant ownership interest in Air China. Cathay Pacific finances its investments itself.

In 2014 HAECO invested in an aircraft maintenance business in the USA. This extended HAECO's capabilities and geographical coverage. The acquired business underperformed in 2015 due to the termination of some major airframe maintenance contracts. We are concentrating on integrating the acquired business within the HAECO group.

The Beverages Division earns an attractive return on investment. In 2015 we acquired the minority interests held by the CITIC group in our beverages companies in Mainland China. We also agreed to acquire additional distribution rights in Arizona and additional production assets in Arizona and Colorado. The former acquisition is expected to be completed later this year, the latter no later than 2018.

In the Marine Services Division, SPO has, since 2011, made major investments in new offshore support vessels. Weak market conditions make further significant commitments to purchase new vessels unlikely in the short term.

The Trading & Industrial Division has been a large recipient of capital relative to its size. In 2013, we started to expand our motor dealership business and the number of brands of vehicles which we represent. In 2014 we acquired a majority interest in a bakery business in southwest China. Swire Pacific Cold Storage has been investing in cold stores in Mainland China. Five are operating and two are due to open in 2016.

Our strategy of allocating surplus capital to a diversified range of businesses continues. New investments in businesses other than property have increased in recent years. This reflects our belief that attractive returns are available over the long term in these businesses and the scarcity of opportunities for investment in property on sufficiently favourable terms. Current allocations of capital reflect our belief that this state of affairs is likely to continue in the medium term.

Outlook

In the Property Division, rental income in Hong Kong is expected to benefit from continued high occupancy. Demand for retail space, however, is expected to weaken. Investment property results in Mainland China are expected to be better as retail sales continue to grow. Overall profits from the investment property business are expected to grow slowly until new properties are completed and opened in 2017 and 2018. Property trading profits are expected to be recognised on sales of units in the USA.

In the Aviation Division, the Cathay Pacific group is expected to continue to face pressure on passenger yield and weak cargo demand. Fuel prices are expected to remain low. This is expected to continue to provide a benefit to Cathay Pacific and its associated companies, Air China and Air China Cargo.

The HAECO group is expected to benefit from a significant one-off gain resulting from the restructuring of its interests in Rolls-Royce engine overhaul facilities in Hong Kong and Singapore. The prospects for the HAECO group's different businesses in 2016 are mixed.

The Beverages Division expects overall sales volume growth in 2016 as a result of new territories assumed in the USA and modest growth in existing markets. Results will also benefit from the acquisition of minority interests in Mainland China completed during 2015. Raw material costs are expected to remain favourable.

The oil price is expected to remain low in 2016. This will adversely affect the results of the Marine Services Division. It is difficult to know when oil prices will recover. Until they do, exploration and production activity will remain at low levels. In order to address weak demand, SPO has adjusted its fleet size by stacking older vessels. This will reduce operating costs and preserve cash flow. SPO is well positioned to take advantage of market opportunities when conditions improve.

The Trading & Industrial Division will continue to develop its portfolio of businesses. The results of the division as a whole will be affected by the cost of new business development, in particular start-up costs relating to the Swire Pacific Cold Storage business.

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.

John Slosar
Chairman
Hong Kong, 10th March 2016