Financial Review

Commentary on and Analysis of Major Balances and Year on Year Variances in the Financial Statements

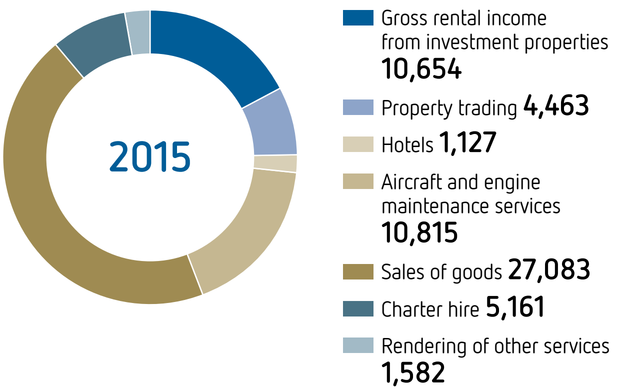
Consolidated Statement of Profit or Loss

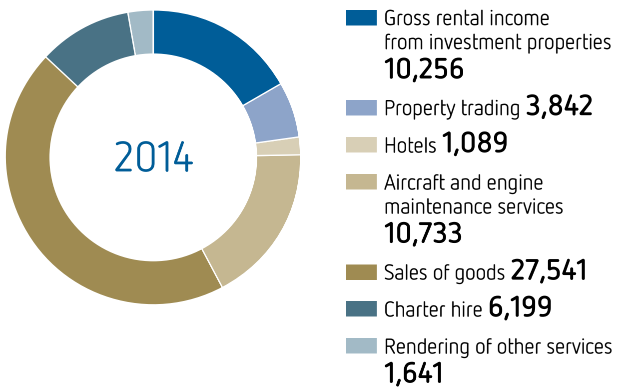
	Notes to the Financial Statements	2015 HK$M	2014 HK$M	Increase / (Decrease) HK$M	Increase / (Decrease) %
Revenue	4	60,885	61,301	(416)	-1%
Cost of sales	6	(38,000)	(38,313)	(313)	-1%
Expenses	6	(13,311)	(11,258)	2,053	18%
Other net (losses)/gains	5	(166)	71	(237)	-334%
Change in fair value of investment properties		7,053	1,896	5,157	272%
Operating profit		16,461	13,697	2,764	20%
Net finance charges	9	(2,146)	(2,025)	121	6%
Share of profits less losses of joint venture companies	19(a)	1,795	2,253	(458)	-20%
Share of profits less losses of associated companies	19(b)	2,887	1,678	1,209	72%
Taxation	10	(2,574)	(2,218)	356	16%
Profit for the year		16,423	13,385	3,038	23%
Profit attributable to the Company's shareholders	33	13,429	11,069	2,360	21%
Underlying profit	11	9,892	9,739	153	2%
Adjusted underlying profit		9,143	9,371	(228)	-2%

Revenue

Revenue by Category

HK$M





The decrease in revenue of HK$416 million compared to 2014 reflects lower revenue from the Marine Services Division (HK$1,246 million) and the Trading & Industrial Division (HK$1,185 million). These reductions were partially offset by increases in revenue from the Property Division (HK$1,054 million), the Aviation Division (HK$168 million) and the Beverages Division (HK$790 million).

In the Property Division, revenue from property trading increased by HK$621 million compared to 2014. This principally reflected the sales of 112 units at the AREZZO residential development in Hong Kong, partially offset by the fact that fewer units were sold at the MOUNT PARKER RESIDENCES and ARGENTA residential developments in Hong Kong. Gross rental income from property investment increased by HK$396 million.

In Hong Kong, there were positive rental reversions at Taikoo Place and Cityplaza offices and improvements in occupancy. There was higher rental income in Mainland China reflecting positive rental revisions and higher occupancy. Revenue from hotels increased by HK$38 million, principally reflecting higher revenue from the restaurant business in Hong Kong, partially offset by lower revenue from the managed hotels.

In the Aviation Division, the increase in revenue from the HAECO group was principally due to higher line and airframe services revenue at HAECO Hong Kong and more engine repair work at TEXL. This was partially offset by a reduction in airframe services revenue at HAECO Americas and less private jet work at HAECO Xiamen.

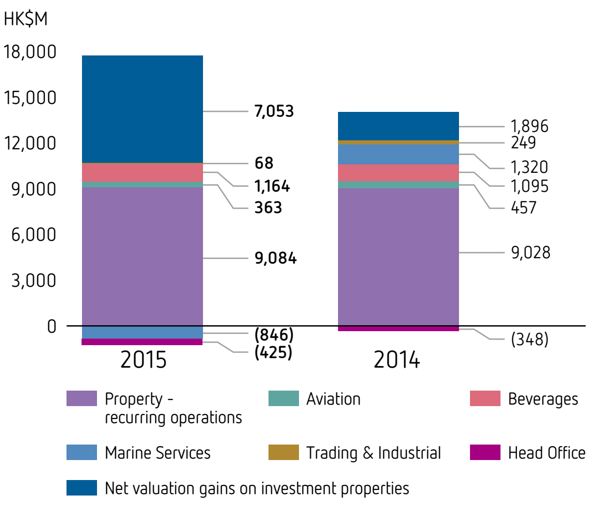
In the Beverages Division, the increase in revenue was principally due to increased sales volume in the USA which in turn principally reflected the first full year's contribution from the new franchise territories in Denver and Colorado Springs. The increase also reflected price increases in Hong Kong. Revenue was lower in Mainland China, principally due to adverse changes to the sales mix and promotional pricing.

In the Marine Services Division, the decrease in revenue at SPO was due to lower fleet utilisation and charter hire rates.

In the Trading & Industrial Division, the Swire Foods group's revenue increased by HK$804 million, which principally reflected the first full year's contribution from Qinyuan Bakery. Revenue from the Swire Retail group increased by HK$188 million, reflecting higher sales in Hong Kong. The Taikoo Motors group's revenue decreased by HK$2,208 million, principally due to the termination of the Volkswagen and Škoda vehicle importerships at Taikoo Motors in Taiwan at the end of 2014.

Operating Profit

Operating Profit by Division



The increase in operating profit of HK$2,764 million compared to 2014 principally reflected an increase in net revaluation gains on investment properties of HK$5,157 million. The increase in net revaluation gains on investment properties principally reflects higher rents in Hong Kong and Mainland China. Excluding net revaluation gains, operating profit decreased by HK$2,393 million.

The Property Division's operating profit from recurring operations increased by HK$56 million. Profit from property investment increased by HK$220 million due to higher net rental income. Profit from property trading increased by HK$148 million, principally reflecting the fact that more residential properties were sold in Hong Kong. The losses from hotels increased by HK$312 million, principally due to a loss on the disposal of four hotels in the UK and pre-opening costs at new hotels in Mainland China and the USA.

In the Aviation Division, the decrease in operating profit from the HAECO group was principally due to increased losses at HAECO Americas and lower profits at HAECO Xiamen. This was partially offset by higher profits at HAECO Hong Kong, TEXL and HAECO ITM.

In the Beverages Division, the higher operating profit included a larger gain on the sale of investments. Excluding this gain, the increase in operating profit was principally due to higher sales volume and price increases in the USA. There were higher profits in Hong Kong (principally due to price increases and lower raw material costs) and Taiwan (principally due to lower raw material costs and a favourable sales mix). These were partially offset by lower profits in Mainland China, which principally reflected adverse changes to the sales mix and promotional pricing.

In the Marine Services Division, the operating loss (compared to an operating profit in 2014) at SPO principally reflected significant impairment charges on vessels and on cancelled vessel construction contracts, and lower fleet utilisation and charter hire rates.

In the Trading & Industrial Division, the reduction in operating profit was principally due to the termination of the Volkswagen and Škoda vehicle importerships at Taikoo Motors in Taiwan at the end of 2014 and losses relating to the restructuring of loss-making Taikoo Motors businesses in Mainland China. This was partially offset by an increase in operating profit at Swire Foods, which reflected the first full year's contribution from Qinyuan Bakery.

Net Finance Charges

The increase in net finance charges was principally due to a decrease in the capitalisation of interest on properties for sale and vessels.

Share of Profits Less Losses of Joint Venture Companies

In the Property Division, net revaluation gains recorded on investment properties held by joint venture companies decreased by HK$128 million compared to 2014. The reduction also reflected the absence of most of 2014's substantial profits arising from the sale of units at the DUNBAR PLACE joint venture development in Hong Kong.

In the Aviation Division, profits from joint venture companies in the HAECO group decreased by HK$68 million, principally reflecting a reduction in engine output at HAESL. This reduction resulted from the retirement of older aircraft types and reduction in the required frequency of maintenance of certain engines.

In the Beverages Division, there was a decrease in the contribution from joint venture companies in Mainland China. This principally reflected adverse changes to the sales mix and promotional pricing, partially offset by lower raw material costs.

In the Trading & Industrial Division, there were lower profits from Akzo Nobel Swire Paints. This reflected an unfavourable sales mix in Mainland China.

Share of Profits Less Losses of Associated Companies

The Cathay Pacific group contributed a profit of HK$2,700 million in 2015 compared to a profit of HK$1,418 million in 2014. The increase principally reflected lower net fuel costs and increases in profits from non-airline subsidiaries and associates, partially offset by lower passenger and cargo revenue. Passenger and cargo revenue were adversely affected by a reduction in fuel surcharges and foreign currency movements and, in the case of cargo revenue, weak demand. Profit from Cathay Pacific's associated company, Air China, was higher in 2015, principally reflecting lower fuel prices, partially offset by foreign exchange losses caused by the depreciation of the Renminbi.

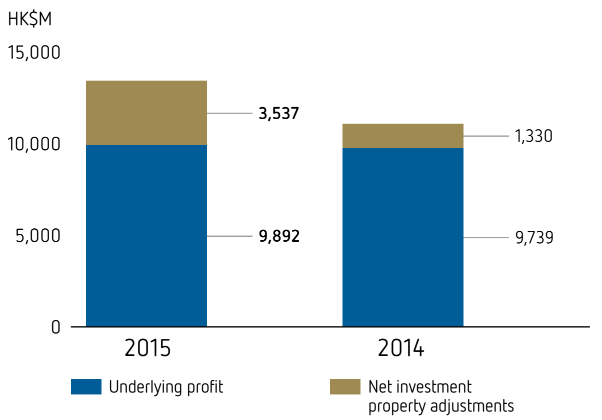
In the Property Division, the four associate hotels in Hong Kong contributed lower profits in 2015.

In the Beverages Division, there was a decrease in the contribution from Coca-Cola Bottlers Manufacturing Holdings Limited in Mainland China. This was principally due to lower sales volume in 2015.

Taxation

The increase in taxation principally reflected higher deferred tax recorded on net revaluation gains on investment properties and higher taxable profits in the Property Division.

Profit and Underlying Profit Attributable to the Company's Shareholders



The increase in profit attributable to the Company's shareholders was principally due to higher net revaluation gains on investment properties. Excluding net investment property adjustments, underlying profit increased by HK$153 million. The increase principally reflected significantly higher underlying profits within Head Office resulting from the sale of eight units at OPUS HONG KONG (2014: two units) and higher profits from the Cathay Pacific group and the Beverages Division. This was partially offset by losses from SPO and lower profits from the Property and Trading & Industrial Divisions and the HAECO group.

Adjusted Underlying Profit

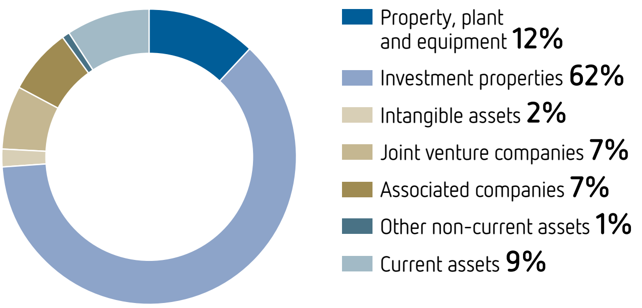
	2015 HK$M	2014 HK$M
Underlying profit attributable to the Company's shareholders	9,892	9,739
Other significant items		
Profit on sale of investment properties	(2,023)	(529)
Profit on sale of property, plant and equipment and other investments	(74)	(93)
Net impairment of property, plant and equipment, leasehold land and intangible assets	1,348	254
Adjusted underlying profit	9,143	9,371

Adjusted underlying profit principally adjusts for capital profits and losses less impairments. Profit on sale of investment properties in 2015 included gains on the sale of eight units at OPUS HONG KONG (2014: two units). Net impairment in 2015 included the impairment charges at SPO referred to above.

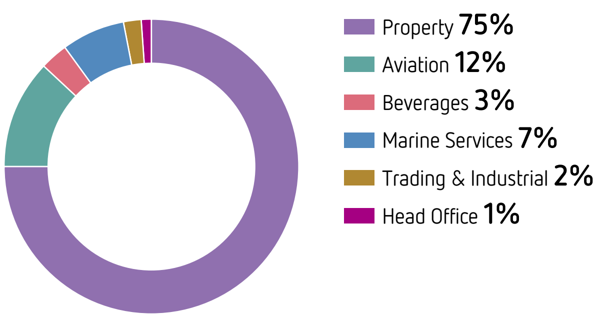
Consolidated Statement of Financial Position

	Notes to the Financial Statements	2015 HK$M	2014 HK$M	Increase / (Decrease) HK$M	%
Property, plant and equipment	14	42,935	43,601	(666)	-2%
Investment properties	15	227,300	220,869	6,431	3%
Intangible assets	17	7,377	7,442	(65)	-1%
Joint venture companies	19(a)	24,988	23,703	1,285	5%
Associated companies	19(b)	24,321	26,039	(1,718)	-7%
Properties for sale	23	7,615	7,941	(326)	-4%
Stocks and work in progress	24	4,599	3,860	739	19%
Trade and other receivables	25	10,428	9,610	818	9%
Bank balances and short-term deposits	26	8,985	10,115	(1,130)	-11%
Other assets		3,817	4,155	(338)	-8%
Total assets		362,365	357,335	5,030	1%
Trade and other payables	27	20,008	17,933	2,075	12%
Loans, bonds and perpetual capital securities	28, 29	68,617	68,788	(171)	0%
Deferred tax liabilities	30	7,605	6,938	667	10%
Other liabilities		2,149	1,546	603	39%
Total liabilities		98,379	95,205	3,174	3%
Net assets		263,986	262,130	1,856	1%
Equity attributable to the Company's shareholders	32, 33	218,449	218,775	(326)	0%
Non-controlling interests	34	45,537	43,355	2,182	5%
Total equity		263,986	262,130	1,856	1%

Total Assets by Category



Total Assets by Division



Property, Plant and Equipment

The decrease in property, plant and equipment principally reflected impairment charges at SPO and the disposal of four hotels in the UK. This was partially offset by capital expenditure in the Group (net of depreciation) and the transfer of certain investment properties to owner-occupied properties.

Investment Properties

The increase in investment properties principally reflected net revaluation gains and construction and renovation costs incurred on existing investment properties. This was partially offset by the disposal of eight units at OPUS HONG KONG, foreign exchange translation losses on investment properties in Mainland China and the transfer of certain investment properties to property, plant and equipment.

Investments in Joint Venture Companies

The increase in investments in joint venture companies principally reflected advances of loans to fund joint venture property projects in Mainland China. There were also increases in retained profits in the Property Division (principally as a result of valuation gains on investment properties held by joint venture companies), the Beverages Division and HAESL, partially offset by dividends paid and foreign exchange translation losses from joint venture companies in Mainland China.

Investments in Associated Companies

The decrease in investments in associated companies principally reflected a decrease in the share of net assets of the Cathay Pacific group. The decrease in net assets of the Cathay Pacific group is principally due to increases in unrealised losses from fuel hedging contracts, partially offset by profits retained for the year.

Properties for Sale

The decrease in properties for sale principally reflected the sales of residential properties at the AREZZO, MOUNT PARKER RESIDENCES, ARGENTA and AZURA developments in Hong Kong, partially offset by construction and development costs incurred during the year on the Reach and Rise developments at Brickell City Centre, Miami, and on the ALASSIO and WHITESANDS developments in Hong Kong.

Stocks and Work in Progress

The increase in stocks and work in progress was principally due to an increase in the stock of aircraft materials and spare parts and engine work-in-progress in the HAECO group and higher stocks of vehicles at Taikoo Motors.

Trade and Other Receivables

The increase in trade and other receivables principally reflected receivables from the sale of units at OPUS HONG KONG and claims relating to the cancellation of vessel construction contracts. These were partially offset by lower trade receivables at SPO and a decrease in dividends receivable from joint venture companies in the Beverages Division.

Trade and Other Payables

The increase in trade and other payables principally reflected an overall net increase in deposits from pre-sales of residential properties at Brickell City Centre and in Hong Kong, an increase in accrued capital expenditure on property projects and the recognition of contingent consideration in the Swire Foods group.

Deferred Tax Liabilities

The increase in deferred tax liabilities was principally attributable to higher deferred tax relating to depreciation allowances on investment properties and on revaluation 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 principally represents the total comprehensive income for the year attributable to the Company's shareholders (HK$7,445 million in 2015) less dividends paid to shareholders (HK$5,898 million in 2015). In 2015, the movement in equity attributable to the Company's shareholders also included the effect of acquiring additional interests in three subsidiaries in the Beverages Division in Mainland China (HK$1,310 million) and the recognition of contingent consideration in the Swire Foods group (HK$541 million).

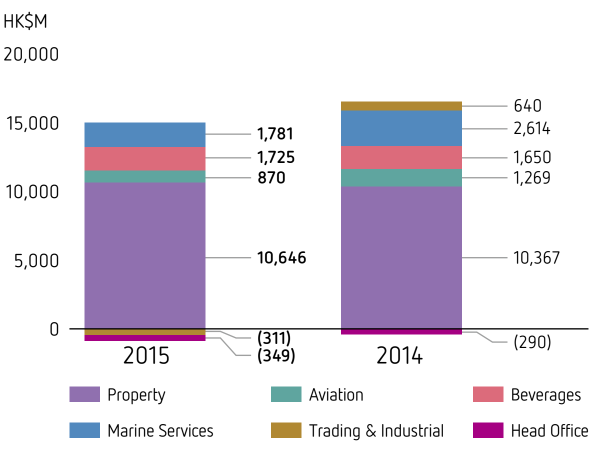
Non-controlling Interests

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	2015 HK$M	2014 HK$M	Increase/ (Decrease) HK$M
Cash generated from operations	41(a)	14,362	16,250	(1,888)
Net interest paid		(2,297)	(2,316)	(19)
Tax paid		(1,909)	(1,358)	551
Dividends received		1,807	1,898	(91)
Investing activities				
Purchase of property, plant and equipment	41(b)	(4,245)	(6,181)	(1,936)
Additions of investment properties		(3,624)	(4,362)	(738)
Proceeds from disposals of investment properties		2,543	834	1,709
Proceeds from disposals of subsidiary companies	41(c)	373	–	373
Proceeds from disposals of available-for sale assets		209	82	127
Purchase of shares in new subsidiary companies	36	(116)	(3,530)	(3,414)
Purchase of shares in joint venture companies		(114)	(43)	71
Purchase of shares in associated companies		(39)	(208)	(169)
Purchase of new businesses		–	(117)	(117)
Purchase of available-for-sale assets		(4)	(245)	(241)
Net loans to joint venture companies		(438)	(1,347)	(909)
Others		316	428	(112)
Net cash generated from/(used in) businesses and investments		6,824	(215)	7,039
Dividends paid	33, 41(d)	(6,924)	(6,425)	499
Loans drawn and refinancing		12,993	19,714	(6,721)
Repayment of loans and bonds		(12,979)	(12,697)	282
Capital contributions from non-controlling interests		767	4	763
Repurchase of the Company's shares	32	(35)	–	35
Proceeds from disposal of shares in an existing subsidiary company		–	79	(79)
Purchase of shares in existing subsidiary companies	34(b)	(1,541)	(1,256)	285
Cash paid to shareholders and net funding by external debt		(7,719)	(581)	7,138
Decrease in cash and cash equivalents		(895)	(796)	99

Cash Generated from Operations by Division



Dividends Received

Dividends received in 2015 principally reflected dividends from Cathay Pacific, HAESL, Akzo Nobel Swire Paints and the Beverages Division's joint venture companies in Mainland China.

Purchase of Property, Plant and Equipment

Purchase of property, plant and equipment in 2015 principally reflected the acquisition of new vessels by SPO, the cost of construction of cold storage facilities in Mainland China and of the EAST hotel at Brickell City Centre, Miami and purchase of new production and marketing equipment in the Beverages Division and of rotable and repairable spare parts in the HAECO group.

Additions of Investment Properties

The additions of investment properties in 2015 principally reflected capital expenditure on the Brickell City Centre development in the USA, and on the Kowloon Bay development and the Taikoo Place office redevelopment in Hong Kong.

Proceeds from Disposals of Investment Properties

Proceeds from the disposals of investment properties included those from the disposal of eight units at OPUS HONG KONG (2014: two units).

Proceeds from Disposals of Subsidiary Companies

In 2015, the Group disposed of subsidiary companies owning four hotels in the UK.

Net Loans to Joint Venture Companies

Loans to joint venture companies in 2015 principally reflects funding to joint venture property projects.

Loans Drawn and Refinancing

In 2015, loans drawn and refinancing comprised new financing under the Group's medium term note programmes and new loans and drawdowns of existing financing from banks. Refer to the Financing section on page 90 for further details.

Capital Contributions from Non-controlling Interests

In 2015, a minority shareholder in the retail portion of the Brickell City Centre project made a contribution of HK$767 million.

Purchase of Shares in Existing Subsidiary Companies

In 2015, the Beverages Division purchased additional interests in three of its subsidiaries in Mainland China for HK$1,541 million.

Investment Appraisal and Performance Review

	Net assets employed		Capital commitments*	
	2015 HK$M	2014 HK$M	2015 HK$M	2014 HK$M
Property investment	235,846	226,596	19,564	23,659
Property trading	7,452	8,210	–	–
Hotels	7,928	7,801	234	481
Property – overall	251,226	242,607	19,798	24,140
Aviation	39,311	41,195	2,184	1,575
Beverages	5,833	6,048	2,098	420
Marine Services	22,293	23,537	2,770	5,209
Trading & Industrial	4,445	3,950	1,736	1,553
Head Office	462	3,417	–	–
Total net assets employed	323,570	320,754	28,586	32,897
Less: net debt	(59,584)	(58,624)		
Less: non-controlling interests	(45,537)	(43,355)		
Equity attributable to the Company's shareholders	218,449	218,775		

	Equity attributable to the Company's shareholders		Return on average equity attributable to the Company's shareholders	
	2015 HK$M	2014 HK$M	2015	2014
Property investment	168,721	161,812	6.6%	4.4%
Property trading	2,388	2,084	39.9%	29.3%
Hotels	5,842	6,074	-4.2%	0.4%
Property – overall	176,951	169,970	6.6%	4.6%
Aviation	32,557	34,445	9.0%	4.9%
Beverages	4,247	4,970	21.2%	16.4%
Marine Services	12,873	13,830	-9.4%	8.2%
Trading & Industrial	4,818	5,664	3.0%	9.2%
Head Office	(12,997)	(10,104)		
Total	218,449	218,775	6.1%	5.0%

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