CHAIRMAN'S STATEMENT

Year in Review

The results of the Group in 2016 were affected by difficult economic conditions. Oil prices recovered somewhat but this did not lead to a recovery in exploration and production spending by oil majors. Retail sales in Hong Kong slowed. Intense competition and overcapacity reduced demand for our airlines' passenger and cargo services. Economic growth in the USA was robust, but a stronger US dollar and depreciation of the Renminbi adversely affected our results.

Results Summary

Our consolidated profit attributable to shareholders for 2016 was HK$9,644 million, a 28% decrease compared to 2015. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, fell 69% to HK$3,063 million. The decrease primarily reflected weak results from our Aviation and Marine Services Divisions (which included impairment charges at Swire Pacific Offshore ("SPO") and HAECO) and the absence of profits from sales of units in OPUS HONG KONG recorded in 2015.

The Property Division was the largest contributor to the Group's underlying profits in 2016. The profits of Swire Properties were little changed from those in 2015. Gross rental income from investment properties fell in Hong Kong but increased in Mainland China and the USA. The reduction in Hong Kong largely reflected lower retail rental income consequent on lower retail sales. Office rental income in Hong Kong increased despite the loss of rental income resulting from the Taikoo Place redevelopment. In Mainland China, gross rental income increased despite depreciation of the Renminbi. Profits from property trading increased in the USA. Fewer residential properties were sold in Hong Kong. The performance of the hotels in Mainland China improved, while at the same time the results of the hotels in Hong Kong were adversely affected by a reduction in the number of visitors to Hong Kong.

The profits at the Aviation Division were significantly lower. This principally reflected a loss at Cathay Pacific's airline operations, with a number of factors adversely affecting performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for the cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the HK dollar. All these factors put severe competitive pressure on yields.

HAECO's profits were higher. The increase was principally due to a gain on disposal of HAESL's interest in SAESL. Disregarding the gain on disposal and impairment charges at HAECO Americas and HAECO Landing Gear Services, profits were slightly higher. The benefits of more engine repair work at HAESL and TEXL, more line services work at HAECO Hong Kong and better results at HAECO Xiamen were partly offset by a higher loss in HAECO Americas' cabin and seats businesses and the HAECO group's share of SAESL's results for the first half year of 2016 being lower than that for the whole of 2015.

Swire Beverages' profits fell. The business in the USA continued to grow, with existing and new territories (Arizona and New Mexico) doing well. However, sales volumes and profits fell in Mainland China. Sales volumes fell in Hong Kong and Taiwan, but profits were little changed from those in 2015.

The Marine Services Division recorded higher losses. Low oil prices and a reduction in exploration and production spending by oil majors continued to have a material adverse effect on the market. The oversupply of offshore support vessels has resulted in reduced charter hire and utilisation rates. This in turn has led to the widespread stacking of vessels. SPO recorded further impairment charges in respect of its fleet. The business continued to generate positive operating cash flows in 2016.

The Trading & Industrial Division's profits were lower, principally due to weaker retail sales, costs associated with developing the cold storage business and losses from Swire Environmental Services.

Dividends

The Directors have declared second interim dividends of HK¢110.0 per 'A' share and HK¢22.0 per 'B' share which, together with the first interim dividends paid in October 2016, amount to full year dividends of HK¢210.0 per 'A' share and HK¢42.0 per 'B' share.

Implementing Our Strategy

The Group's aim is to generate sustainable long-term growth in shareholder value. We deploy capital where we see opportunities to generate long-term value.

The difficult market conditions faced by some of our businesses have led them to take measures to improve efficiency, to reduce costs where possible and to focus on core operations. This should serve us well in the longer term when market conditions improve.

The largest recipient of capital in the group is Swire Properties. This year, returns will be generated from two large mixed-used developments which were completed in 2016, the Brickell City Centre development in Miami and HKRI Taikoo Hui in Shanghai. Swire Properties is investing HK$15 billion in the redevelopment of Taikoo Place in Hong Kong. The first phase of this redevelopment is expected to be completed in 2018, the second in 2021 or 2022. Swire Properties conditionally agreed to sell its 100% interest in the company which owns an uncompleted investment property development in Kowloon Bay, Hong Kong for a cash consideration of HK$6,528 million, subject to adjustments. Completion is expected in 2018.

The Aviation Division is a significant investment for the Group. In response to weak revenues, Cathay Pacific has undertaken a critical review of its business. In the short term, it is implementing measures designed to improve revenues and reduce costs. The longer term strategy which is being developed in response to the review is designed to improve performance over a three-year period. We remain supportive of the long term investment plans of Cathay Pacific.

At HAECO, the disposal of HAESL's stake in SAESL will allow HAESL to compete more effectively for Rolls Royce engine overhaul business. At HAECO Americas, costs were incurred in 2016 with a view to improving efficiency and work flow. The HAECO Americas line service business was closed having regard to a review of its long term viability.

The Beverages Division continues to expand. In Mainland China, conditional agreements were entered into in 2016 which, if they become unconditional, will result in a realignment of the Coca-Cola bottling system in Mainland China. If the realignment proceeds, it will result in Swire Beverages having controlling interests in companies operating in territories in which 49% of the Mainland China population live (compared to 31% prior to the realignment). Swire Beverages will control larger bottling operations in contiguous territories. This is expected to improve efficiency and save costs. In the USA in 2016, Swire Beverages expanded its bottling territories in Arizona and New Mexico, and agreed to acquire additional territory rights and production facilities in the Pacific Northwest.

SPO is reducing its operating costs by cutting costs and the disposal and stacking of vessels. SPO has also disposed of its non-core logistics subsidiary, Altus Oil & Gas Services.

The Trading & Industrial Division has terminated certain loss-making dealerships at Taikoo Motors in Mainland China and Hong Kong, and a loss-making distributorship at Swire Resources. The division acquired the 35% interest which it did not already own in a bakery business in Southwest China in 2016 and continues to invest in its cold storage business.

Outlook

In the Property Division, high occupancy is expected to result in office rents being resilient in Hong Kong despite increased supply in Kowloon East and other districts. Demand for space from Hong Kong retailers dependent on tourism is likely to remain weak in 2017. Demand for space from other retailers is likely to be stable. Retail sales are expected to grow modestly in Guangzhou and Beijing and more briskly in Chengdu. Property trading profits are expected to be recognised in 2017 from the handover of pre-sold units at ALASSIO and sales of units at WHITESANDS in Hong Kong, and at the Reach and Rise developments in Miami. Trading conditions for our hotels are expected to be difficult.

In the Aviation Division, the operating environment for the Cathay Pacific group in 2017 is expected to remain challenging. Strong competition from other airlines and the adverse effect of the strength of the HK dollar are expected to continue to put pressure on yield. The cargo market got off to a good start, but overcapacity is expected to persist. The prospects of the HAECO group's different businesses in 2017 are mixed. Demand for airframe services work is expected to improve. Demand for line services in Hong Kong is expected to be firm. The engine overhaul businesses are expected to be stable. The cabin and seats businesses in the USA are expected to be weak.

The Beverages Division expects sales volume in its franchise territories in Mainland China to grow modestly in 2017. In Hong Kong, the market will be difficult. Moderate growth in sales volume is expected. The retail market in Taiwan is expected to be weak. In the USA, the beverages market is expected to grow moderately. The business is expected to start to benefit from the acquisition of additional bottling territories and production facilities in the Pacific Northwest.

In the Marine Services Division, industry conditions for SPO are expected to remain difficult and a market recovery is expected to take longer than previously expected. Exploration and production projects have been delayed and the oversupply of vessels will take time to correct.

The overall profits of the Trading & Industrial Division are expected to increase, but to continue to be affected by the cost of new business development.

In 2016, the Swire business celebrated its 200th anniversary and the 150th anniversary of the opening of its first office in Mainland China. We believe that seeking sustainable growth in a broad range of businesses will be a successful strategy in the long term. The commitment and hard work of employees of the Group and its joint venture and associated companies are central to our future success. I take this opportunity to thank them.

John Slosar
Chairman
Hong Kong, 16th March 2017