



Swire Pacific Cold Storage's facility in Fengxian, Shanghai.

TRADING & INDUSTRIAL DIVISION

EXPANDING RANGE OF PRODUCTS AND SERVICES



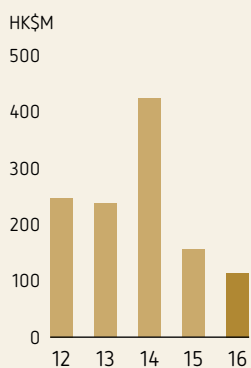
We aim to broaden the range of
our products and
to expand our cold storage business.

OVERVIEW OF THE BUSINESS

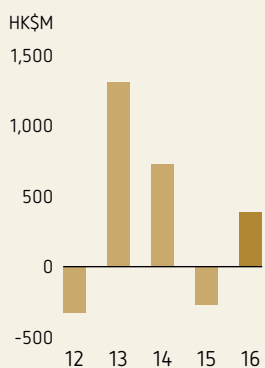
TRADING & INDUSTRIAL DIVISION

The Trading & Industrial Division has interests in the following companies: Swire Retail group, Taikoo Motors group, Swire Foods group, Swire Pacific Cold Storage group, Akzo Nobel Swire Paints and Swire Environmental Services group.

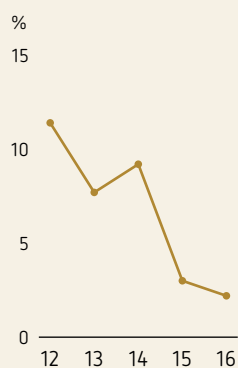
Profit Attributable to the Company's Shareholders



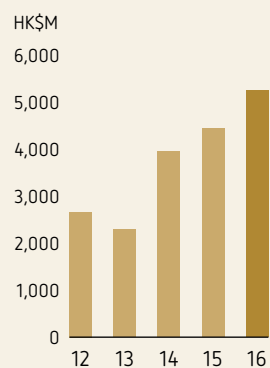
Net Cash Generated from/(Used in) Operating Activities



Return on Equity



Net Assets Employed



SWIRE RETAIL GROUP

Swire Resources group

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2016, it operated 187 retail outlets in Hong Kong and Macau and 18 retail outlets in Mainland China.

Swire Brands group

Swire Brands holds investments in brand-owning companies. It has an interest in an associated company with Columbia, which distributes and retails Columbia products in Mainland China, and a 9.4% minority interest in Rebecca Minkoff, which sells apparel, handbags and accessories.



TAIKOO MOTORS GROUP

Taikoo Motors sells passenger cars, commercial vehicles, motorcycles and scooters. Taikoo Motors' largest business is in Taiwan, where it sells Volkswagen, Mercedes Benz, Audi and Mazda cars, Volkswagen light commercial vehicles, Volvo trucks and buses, Harley-Davidson motorcycles and Vespa scooters. Taikoo Motors also distributes cars, motorcycles and commercial vehicles in Hong Kong, Macau, Mainland China and Malaysia.



SWIRE FOODS GROUP

Chongqing New Qinyuan Bakery Co., Ltd ("Qinyuan Bakery")

Qinyuan Bakery is a leading bakery chain in southwest China, with over 550 stores in Chongqing, Guiyang and Chengdu.

Swire Foods (including Taikoo Sugar)

Swire Foods distributes food products in Mainland China and Hong Kong. Taikoo Sugar packages and sells sugar in Hong Kong and Mainland China under the Taikoo Sugar brand.



SWIRE PACIFIC COLD STORAGE GROUP

Swire Pacific Cold Storage wholly owns cold storage facilities in Shanghai, Hebei, Nanjing and Ningbo and owns a 60% equity interest in a cold storage facility in Guangzhou. It owns land in Chengdu and (with a 35% joint venture partner) Xiamen, on which cold storage facilities are being built and are due to open later in 2017.

AKZO NOBEL SWIRE PAINTS

Akzo Nobel Swire Paints is a joint venture with Akzo Nobel which manufactures and distributes decorative paints, primarily under the Dulux brand, in Mainland China, Hong Kong and Macau. The joint venture has manufacturing plants in Guangzhou, Shanghai, Hebei and Chengdu.



SWIRE ENVIRONMENTAL SERVICES GROUP

Swire Waste Management

Swire Waste Management is a 50:50 joint venture with a subsidiary of Waste Management Inc. The joint venture seeks waste management contracts in Hong Kong. It has contracts to provide waste management services to seven outlying islands and to the north west New Territories.

Swire sustainability fund

The Swire sustainability fund has an associate interest in Green Biologics and minority equity interests in NanoSpun Technologies and Avantium. Green Biologics is a biotechnology company which is developing renewable chemical and biofuel technology. NanoSpun Technologies is a company which is developing a water treatment process using nanotechnology. Avantium is a biotechnology company that develops and commercialises bioplastics and chemicals.

STRATEGY

The strategic objective of the Trading & Industrial Division is to expand the businesses which it operates and to seek new business opportunities in related fields where advantage can be taken of existing skills, assets or relationships. The strategies employed in order to achieve this objective are these:

- Strengthening the capability of Swire Resources in branded footwear, apparel and related accessories by expanding the range and quality of those branded goods and by increasing the number of retail outlets and sales channels (including online channels) through which products are sold.
- Strengthening the capability of Taikoo Motors in the import and distribution of motor vehicles, including by selective additions to brands represented.
- Using Taikoo Motors' existing capability in order to expand into other motor-related businesses.
- Broadening the range of products sold by Swire Foods.
- Strengthening the capability of Qinyuan Bakery by increasing the range of products and the number of stores.
- Expanding the network of the cold storage business in Mainland China in order to improve operating efficiency and customer service and thereby to acquire new customers.
- Expanding and strengthening the distribution network and sales channels of Akzo Nobel Swire Paints in Mainland China.
- Increasing the number of waste management contracts awarded to Swire Waste Management.

INDUSTRY BACKGROUND

Retailing in Hong Kong and Mainland China

Hong Kong retail sales declined by 8% in 2016 as the number of visitors from Mainland China decreased by 7%. The growth in retail sales of 10% in Mainland China in 2016 was similar to that in 2015.

Car sales in Taiwan

Car registrations in Taiwan increased by 5% to 434,727 units in 2016.

Sugar sales in Mainland China

The total amount of sugar sold in Mainland China increased by 1% to 33,069 million pounds in 2016.

Cold storage demand in Mainland China

Demand for frozen food and food safety concerns are increasing. This is in turn increasing demand for high quality cold storage facilities

Paint sales in Mainland China

Total sales of decorative paints in Mainland China increased by 4% to 3,031 million litres in 2016.

2016 PERFORMANCE

Financial Highlights

	2016 HK\$M	2015 HK\$M
Revenue		
Swire Retail group	3,216	3,208
Taikoo Motors group	4,514	4,498
Swire Foods group	1,540	1,589
Swire Pacific Cold Storage group	80	34
	9,350	9,329
Operating profits/(losses)		
Swire Retail group	27	53
Taikoo Motors group	18	38
Swire Foods group	61	105
Swire Pacific Cold Storage group	(102)	(94)
Swire Environmental Services group	(7)	(1)
Other subsidiary companies and central costs	(44)	(33)
	(47)	68
Attributable profits/(losses)		
Swire Retail group	83	93
Taikoo Motors group	15	3
Swire Foods group	59	41
Swire Pacific Cold Storage group	(126)	(102)
Swire Environmental Services group	(79)	(44)
Akzo Nobel Swire Paints	198	197
Other subsidiary companies and central costs	(36)	(33)
Attributable profit	114	155

2016 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2016 decreased by 26% to HK\$114 million. The decrease principally reflected weaker results from Swire Retail, costs associated with developing the cold storage business and losses from Swire Environmental Services. The attributable profits of Swire Foods and Taikoo Motors increased. Results from Akzo Nobel Swire Paints were similar compared to last year.

Swire Retail group

Attributable profit decreased by 11% in 2016 to HK\$83 million. There was a non-recurring expense of HK\$13 million on termination of a distribution agreement. The multibrand business in Hong Kong recorded lower profits. The results of the Columbia associated company improved. Losses in Mainland China decreased.

Revenue in Hong Kong and Macau was similar to that in 2015. Gross margins declined due to more discounting in response to

competitive activities. Operating costs, in particular advertising costs, decreased, although occupancy and employment costs were higher. The group managed 187 retail outlets in Hong Kong and Macau at the end of 2016, one less than at the end of 2015.

The number of retail outlets operated in Mainland China decreased by seven (to 18) at the end of 2016. The decrease principally reflects the closure of loss-making outlets.

The attributable profit of the Columbia associated company in 2016 was HK\$56 million, 33% higher than in 2015. Cold weather early in the year helped to increase sales.

Taikoo Motors group

Attributable profit in 2016 was HK\$15 million, compared with an attributable profit of HK\$3 million in 2015. The results in 2015 included non-recurring income relating to the termination of Volkswagen and Škoda importerships in Taiwan and were after restructuring costs of HK\$62 million relating to loss-making businesses in Mainland China and Hong Kong.



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Qinyuan Bakery became a wholly-owned subsidiary in 2016.

In total, 16,985 cars, commercial vehicles and motorcycles were sold in 2016, 3% less than in 2015. 91% of these units were sold by businesses in Taiwan.

Gross margins declined due to an unfavourable sales mix. This was offset in part by lower operating costs, in particular employment costs and promotional expenditure.

Swire Foods group

During the year, Swire Foods acquired the 35% interest in Qinyuan Bakery which it did not already own for HK\$640 million. Qinyuan Bakery was accounted for as a 100% owned subsidiary from 1st January 2016.

Swire Foods reported an attributable profit of HK\$59 million in 2016, compared with an attributable profit of HK\$41 million in 2015.

The attributable profit of Qinyuan Bakery in 2016 was HK\$55 million, compared with an attributable profit of HK\$27 million in 2015. The increase in attributable profits reflected the fact that the business was treated as 100% owned during 2016 (as opposed to 65% owned in 2015) and the release of tax provisions.

Revenue of Qinyuan Bakery decreased by 5% compared with 2015. This principally reflected the depreciation of the Renminbi against the Hong Kong dollar. In Renminbi terms, revenue was little changed. A decline of 3% in same store sales was offset by an increase in store numbers. The gross margin rate was higher than in 2015 due to a favourable sales mix, partially offset by higher material costs. Higher operating costs (consequent upon the integration of the business into the Swire Foods group) reduced operating profits. A new factory in Chongqing started operations in May 2016. Qinyuan Bakery operated 550 stores in southwest China at the end of 2016, a net increase of 49 stores since 31st December 2015.

Volumes of sugar sold decreased by 13% in Hong Kong and increased by 5% in Mainland China.

A 34% owned sugar refinery in Guangdong will start operating in April 2017.

Swire Pacific Cold Storage group

Swire Pacific Cold Storage recorded an attributable loss of HK\$126 million in 2016 compared with a loss of HK\$102 million in 2015. The loss principally reflected operating losses at the cold stores in Ningbo and Nanjing, and the cost of developing new cold stores in Chengdu and Xiamen. The Guangdong cold store recorded a small profit.

The businesses in Shanghai, Hebei, Ningbo and Nanjing are growing. Average occupancy rates at these facilities in 2016 were 55%, 61%, 23% and 13% respectively. The Ningbo and Nanjing facilities were opened in July 2015 and January 2016 respectively.

The Xiamen and Chengdu facilities are expected to be completed in 2017.

The capital commitments of the Swire Pacific Cold Storage group at 31st December 2016 were HK\$685 million.

Swire Environmental Services group

Swire Environmental Services reported an attributable loss of HK\$79 million in 2016, compared with an attributable loss of HK\$44 million in 2015. The higher loss principally reflected start-up costs at Green Biologics' renewable fuel plant.

The Swire sustainability fund's other investments are accounted for at cost.



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In late 2016, Swire Resources opened Go Wild, a travel specialist shop featuring outdoor and travel apparel, footwear and accessories.

In September 2016, Swire Waste Management started a 10-year contract to operate the North West New Territories Refuse Transfer Station in Hong Kong.

Akzo Nobel Swire Paints

The attributable profit for 2016 was HK\$198 million, compared with an attributable profit of HK\$197 million in 2015.

Sales volume in Mainland China increased by 20% from 2015. Revenue increased by 5% in Renminbi terms. The sales mix was unfavourable and average selling prices were lower. Gross margins increased as a result of lower average material costs. Attributable profit was adversely affected by higher operating costs. Akzo Nobel Swire Paints distributed paint in approximately 541 cities in Mainland China at the end of 2016.

A fourth plant (in Chengdu) started operating in April 2016.

OUTLOOK

The retail market in Hong Kong is expected to remain weak and highly competitive. More discounting and higher employment costs are expected to put pressure on profit margins at Swire Resources.

Taikoo Motors will open more dealerships and enter into additional motor-related businesses in Taiwan. Some loss-making businesses elsewhere will be closed.

Qinyuan Bakery plans to increase the number of its stores, to upgrade existing stores, to broaden the range of its products and to improve its supply chain.

Taikoo Sugar will increase retail prices to offset the effect of increase in the cost of sugar. The new sugar refinery in Mainland China is expected to start commercial production in the second quarter of 2017.

Occupancy rates at Swire Pacific Cold Storage are expected to increase progressively but the market remains highly competitive with pricing under pressure.

Akzo Nobel Swire Paints expects to continue to expand and strengthen its distribution network in Mainland China.

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.

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