

## Financial Review

Additional information is provided below to reconcile reported and underlying profit 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 the USA, and for other deferred tax provisions in relation to investment properties.

<b>Audited Financial Information</b>			
	Note	2016 HK\$M	2015 HK\$M
Underlying profit			
Profit attributable to the Company's shareholders		9,644	13,429
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(9,637)	(8,123)
Deferred tax on investment properties	(b)	1,459	1,090
Realised profit on sale of investment properties	(c)	3	2,180
Depreciation of investment properties occupied by the Group	(d)	28	23
Non-controlling interests' share of adjustments		1,566	1,293
<b>Underlying profit attributable to the Company's shareholders</b>		<b>3,063</b>	<b>9,892</b>
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 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 companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and the USA, 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.			

Adjusted underlying profit is provided below to show the effect of other significant non-recurring items.

	2016 HK\$M	2015 HK\$M
Adjusted underlying profit		
Underlying profit attributable to the Company's shareholders	3,063	9,892
Other significant items:		
Profit on disposal of HAESL's interest in SAESL, net of associated expenses	(587)	–
Profit on sale of investment properties	(65)	(2,023)
Loss/(profit) on sale of property, plant and equipment and other investments	18	(74)
Net impairment of property, plant and equipment and intangible assets	2,568	1,348
<b>Adjusted underlying profit</b>	<b>4,997</b>	<b>9,143</b>

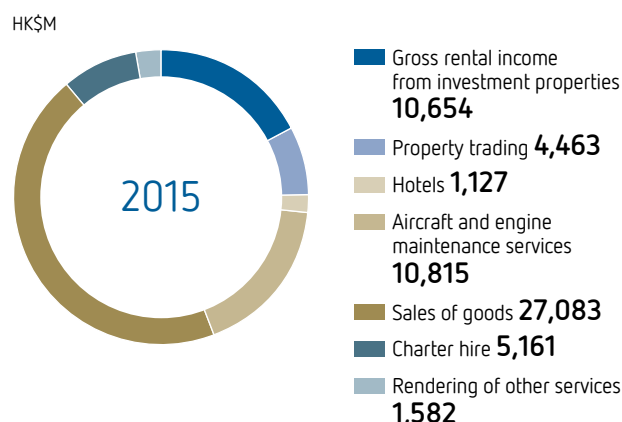
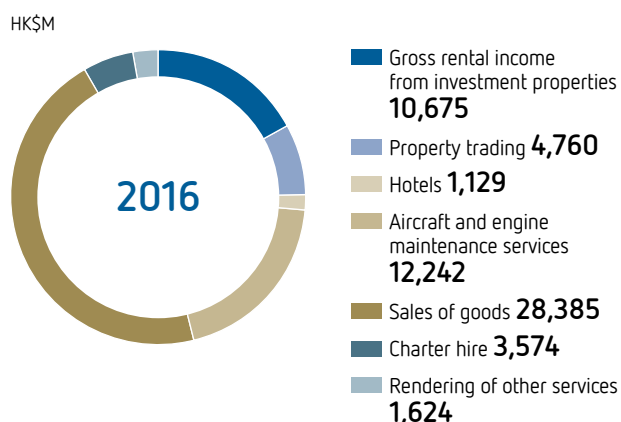
## Commentary on and Analysis of Major Balances and Year on Year Variances in the Financial Statements

### Consolidated Statement of Profit or Loss

	Notes to the Financial Statements	2016 HK\$M	2015 HK\$M	Increase / (Decrease)	
				HK\$M	%
Revenue	4	62,389	60,885	1,504	2%
Cost of sales	6	(40,392)	(38,000)	2,392	6%
Expenses	6	(12,777)	(11,905)	872	7%
Other net losses	5	(2,281)	(1,572)	709	45%
Change in fair value of investment properties		8,445	7,053	1,392	20%
<b>Operating profit</b>		<b>15,384</b>	<b>16,461</b>	<b>(1,077)</b>	<b>-7%</b>
Net finance charges	9	(2,297)	(2,146)	151	7%
Share of profits less losses of joint venture companies	19(a)	2,731	1,795	936	52%
Share of profits less losses of associated companies	19(b)	(70)	2,887	(2,957)	-102%
Taxation	10	(2,816)	(2,574)	242	9%
<b>Profit for the year</b>		<b>12,932</b>	<b>16,423</b>	<b>(3,491)</b>	<b>-21%</b>
<b>Profit attributable to the Company's shareholders</b>	34	<b>9,644</b>	<b>13,429</b>	<b>(3,785)</b>	<b>-28%</b>
<b>Underlying profit</b>	11	<b>3,063</b>	<b>9,892</b>	<b>(6,829)</b>	<b>-69%</b>

## Revenue

### Revenue by Category



The increase in revenue of HK\$1,504 million compared to 2015 reflected higher revenue from the Property Division (HK\$340 million), the Aviation Division (HK\$1,665 million), the Beverages Division (HK\$1,248 million) and the Trading & Industrial Division (HK\$31 million). These improvements were partially offset by a decrease in revenue from the Marine Services Division (HK\$1,751 million).

In the Property Division, revenue from property trading increased by HK\$297 million compared to 2015. This principally reflected the handover and sale of 347 units at Reach and 171 units at Rise at the Brickell City Centre development in the USA, partially offset by the fact that fewer units were sold at residential developments in Hong Kong. Gross rental income from property investment increased by HK\$21 million. In the USA, there was higher rental income due to a contribution from the newly completed office tower and shopping centre at Brickell City Centre. There was higher rental income in Mainland China, reflecting higher retail rents. In Hong Kong, gross rental income decreased slightly, mainly reflecting lower gross rental income from The Mall at Pacific Place, partially offset by higher gross rental income from the offices at Pacific Place and Taikoo Place (despite the loss of rental income from the Taikoo Place redevelopment). Revenue from hotels increased slightly compared to 2015.

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

In the Beverages Division, the increase in revenue was principally due to increased sales volume in the USA, which in turn was principally due to the acquisition of new franchise territories in Arizona and New Mexico in July 2016. Revenue

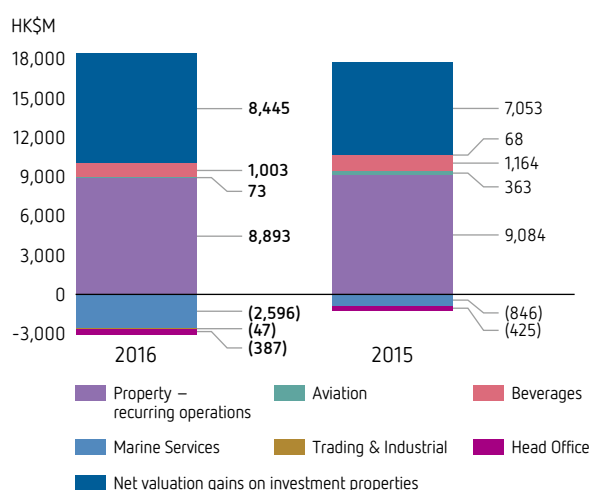
was lower in Mainland China and Taiwan, principally due to lower sales volume and, in the case of Mainland China, adverse changes in the sales mix and promotional pricing.

In the Marine Services Division, the decrease in revenue at SPO was due to lower fleet utilisation and charter hire rates and the disposal of 12 vessels and redelivery of one vessel to its owner during the year.

In the Trading & Industrial Division, there were small increases in revenue at Swire Retail, Taikoo Motors and Swire Pacific Cold Storage partially offset by a small decrease in revenue at Swire Foods.

## Operating Profit

### Operating Profit/(Loss) by Division



The operating profits in 2016 and 2015 include net valuation gains on investment properties of HK\$8,445 million and HK\$7,053 million, respectively. The higher net revaluation gains

on investment properties principally reflected an increase in the valuation of office properties in Hong Kong partially offset by a decrease in the valuation of retail properties in Hong Kong. Excluding net revaluation gains, operating profit decreased by HK\$2,469 million. This reflected adverse movements at all divisions, with the principal adverse movement being at the Marine Services Division.

The Property Division's operating profit from recurring operations decreased by HK\$191 million. Profit from property investment decreased by HK\$347 million, mainly due to lower net rental income from the retail portfolio in Hong Kong and pre-opening costs at Brickell City Centre, partially offset by higher net rental income from the office portfolio in Hong Kong and from Mainland China. Profit from property trading increased by HK\$4 million, principally reflecting the fact that more residential properties were sold in the USA, partially offset by the fact that fewer residential properties were sold in Hong Kong. The loss from hotels decreased by HK\$152 million, principally due to the absence of the loss on disposal of four hotels in the UK, partially offset by pre-opening costs at EAST, Miami in the USA.

In the Aviation Division, the decrease in operating profit from the HAECO group was principally due to increased losses at HAECO Americas. These reflected an impairment charge in respect of goodwill of HK\$285 million and losses in the cabin and seats business, partially offset by higher profits at HAECO Hong Kong, TEXL and HAECO Xiamen.

In the Beverages Division, the lower operating profit included a smaller gain on the sale of investments. Disregarding these gains, operating profit was lower principally due to lower sales volume, adverse changes in the sales mix and promotional pricing in Mainland China. These were partially offset by higher profits in the USA, which principally reflected additional profit from new franchise territories and higher sales volume from existing franchise territories.

In the Marine Services Division, the increased operating loss at SPO principally reflected a higher impairment charge (HK\$2,313 million compared with HK\$1,228 million in 2015) in respect of vessels, a loss of HK\$118 million on the disposal of a logistics subsidiary and lower fleet utilisation and charter hire rates. These were partially offset by a gain of HK\$147 million on disposal of 12 vessels.

In the Trading & Industrial Division, the operating loss (compared to an operating profit in 2015) was principally due to higher operating costs at Qinyuan Bakery in Swire Foods, more discounting and costs relating to the termination of a distribution agreement at Swire Retail, the absence of non-recurring income recognised in 2015 at Taikoo Motors and costs associated with developing the cold storage business in Mainland China.

## Net Finance Charges

The increase in net finance charges mainly reflected an increased change in the fair value of put options in respect of non-controlling interests in subsidiary companies and higher net borrowings.

## 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 increased by HK\$154 million compared to 2015, reflecting higher valuations in Hong Kong and Mainland China. There was an increase in profit from investment properties owned by joint venture companies in Hong Kong and Mainland China.

In the Aviation Division, profits from joint venture companies in the HAECO group increased by HK\$826 million, principally reflecting an HK\$805 million gain on disposal of HAESL's interest in SAESL. Profits from HAESL also increased, mainly due to more work being done per engine.

In the Beverages Division, there was a decrease in the contribution from joint venture companies in Mainland China. This principally reflected lower sales volume, adverse changes in the sales mix and promotional pricing.

In the Trading & Industrial Division, the contribution from Akzo Nobel Swire Paints was slightly higher. This reflected higher sales volume and lower raw material costs, partly offset by lower average selling prices and higher operating costs in Mainland China.

## Share of Profits Less Losses of Associated Companies

The Cathay Pacific group contributed a loss of HK\$259 million in 2016 compared to a profit of HK\$2,700 million in 2015. This principally reflected lower passenger and cargo revenue partially offset by lower net fuel costs and increases in profits from non-airline subsidiaries and associates. Passenger and cargo revenue was adversely affected by intense and increasing competition with other airlines and by adverse economic factors. Profit from Cathay Pacific's associate company, Air China, was higher in 2016, principally reflecting lower fuel prices and strong passenger demand, partially offset by the adverse effect of the devaluation of the Renminbi.

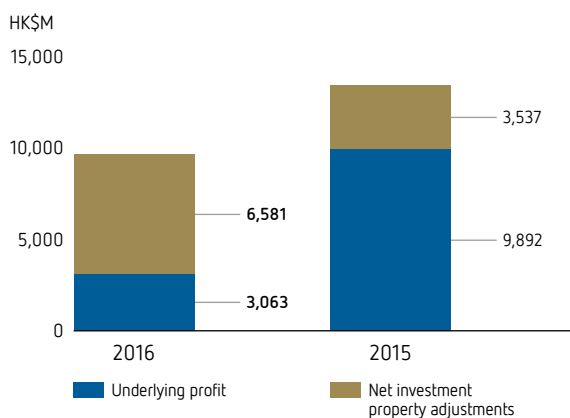
In the Property Division, profits from the four associate hotels in Hong Kong were similar to 2015.

In the Beverages Division, there was an increase in the contribution from Coca-Cola Bottlers Manufacturing Holdings Limited in Mainland China. This was principally due to lower raw material costs, partially offset by lower sales volume.

## Taxation

The increase in taxation principally reflected higher deferred tax recorded on investment properties in the Property Division partially offset by lower tax charges in the Trading & Industrial Division and at SPO.

## Profit and Underlying Profit Attributable to the Company's Shareholders



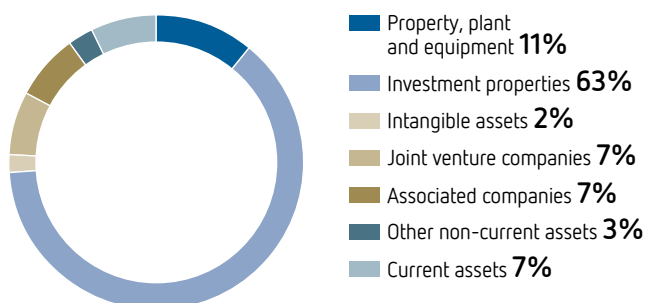
The decrease in profit attributable to the Company's shareholders is after net revaluation gains on investment properties of HK\$6,581 million and HK\$3,537 million in 2016 and 2015 respectively. Excluding net investment property adjustments, underlying profit decreased by HK\$6,829 million. The decrease principally reflected the absence of underlying profits from the sale of eight units at OPUS HONG KONG within head office in 2016, a loss from the Cathay Pacific group (compared with a profit in 2015) and increased losses at SPO.

## Consolidated Statement of Financial Position

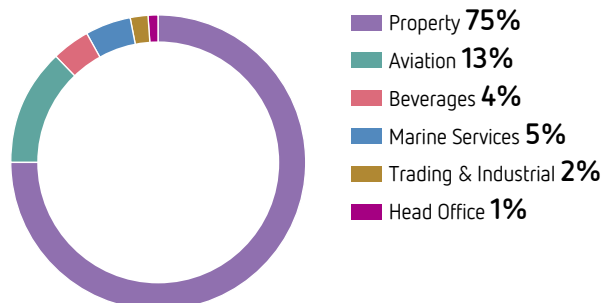
	Notes to the Financial Statements	2016 HK\$M	2015 HK\$M	Increase / (Decrease)	
				HK\$M	%
Property, plant and equipment	14	40,922	42,935	(2,013)	-5%
Investment properties	15	233,718	227,300	6,418	3%
Intangible assets	17	9,195	7,377	1,818	25%
Joint venture companies	19(a)	25,908	24,988	920	4%
Associated companies	19(b)	27,546	24,321	3,225	13%
Other non-current assets	32	5,479	–	5,479	N/A
Properties under development and for sale	23	5,669	7,615	(1,946)	-26%
Stocks and work in progress	24	4,790	4,599	191	4%
Trade and other receivables	25	9,646	10,428	(782)	-7%
Bank balances and short-term deposits	26	6,477	8,985	(2,508)	-28%
Other assets		4,148	3,817	331	9%
<b>Total assets</b>		<b>373,498</b>	<b>362,365</b>	<b>11,133</b>	<b>3%</b>
Trade and other payables	27	20,875	20,086	789	4%
Loans, bonds and perpetual capital securities	28, 29	70,570	68,617	1,953	3%
Deferred tax liabilities	30	8,291	7,605	686	9%
Other liabilities		1,594	2,071	(477)	-23%
<b>Total liabilities</b>		<b>101,330</b>	<b>98,379</b>	<b>2,951</b>	<b>3%</b>
<b>Net assets</b>		<b>272,168</b>	<b>263,986</b>	<b>8,182</b>	<b>3%</b>
Equity attributable to the Company's shareholders	33, 34	224,879	218,449	6,430	3%
Non-controlling interests	35	47,289	45,537	1,752	4%
<b>Total equity</b>		<b>272,168</b>	<b>263,986</b>	<b>8,182</b>	<b>3%</b>

## Total Assets

### Total Assets by Category



### Total Assets by Division



### Property, Plant and Equipment

The decrease in property, plant and equipment principally reflected impairment charges and disposal of vessels at SPO. This was partially offset by capital expenditure (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, construction costs incurred on new investment properties and renovation costs incurred on existing investment properties. This was partially offset by foreign exchange translation losses on investment properties in Mainland China and the transfer of an uncompleted development in Kowloon Bay, Hong Kong to other non-current assets.

### Intangible Assets

The increase in intangible assets in 2016 includes intangible assets (principally franchise rights) of HK\$2,198 million recognised as a result of the acquisition of the new beverages franchise territories in the USA. This was partially offset by an impairment charge in respect of goodwill at HAECO Americas.

### 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 Hong Kong and the acquisition of an additional 5% interest in HAESL. 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, HAESL and Akzo Nobel Swire Paints, partially offset by dividends paid and foreign exchange translation losses from joint venture companies in Mainland China.

### Investments in Associated Companies

The increase in investments in associated companies principally reflected an increase in the share of net assets of the Cathay Pacific group. The increase in net assets of the Cathay Pacific group is principally due to a reduction in unrealised losses from fuel hedging contracts in the cash flow hedge reserve.

### Other Non-current Assets

Other non-current assets arose from the transfer of an uncompleted property in Kowloon Bay, Hong Kong from Investment Properties (at fair value of HK\$5,200 million) upon signing of a sale and purchase agreement for the sale of the subsidiary company owning the development. The carrying value of the property at 31st December 2016 represents its fair value at the date of transfer plus the development costs incurred from the date of transfer to 31st December 2016.

### Properties Under Development and for Sale

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

### Stocks and Work in Progress

The increase in stocks and work in progress was principally due to the inclusion of stock and work in progress at the new beverages franchise territories in the USA.

### Trade and Other Receivables

The decrease in trade and other receivables principally reflected settlement of receivables from the sale of units at OPUS HONG KONG and of claims relating to the cancellation (in 2015) of vessel construction contracts and lower trade receivables at the HAECO group and SPO. These were partially offset by higher trade and other receivables in the Beverages Division, principally

reflecting the inclusion of the new beverages franchise territories in the USA.

### Trade and Other Payables

The increase in trade and other payables principally reflected the inclusion of trade and other payables and the recognition of contingent consideration in respect of the new beverages franchise territories in the USA, and deposits received on the sale of a subsidiary owning an uncompleted property in Kowloon Bay, Hong Kong. These were partially offset by the settlement of contingent consideration in the Swire Foods group and lower trade and other payables in the Property Division, HAECO group and SPO.

### Bank Balances and Short-Term Deposits/Loan, Bonds and Perpetual Capital Securities

The increase in net borrowings reflects funding to finance the Group's property developments, the purchase of new vessels and other fixed assets and investments in subsidiary and joint venture companies and new businesses.

### 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 and the USA.

### 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\$12,068 million in 2016) less dividends paid to shareholders (HK\$5,686 million in 2016).

### Non-controlling Interests

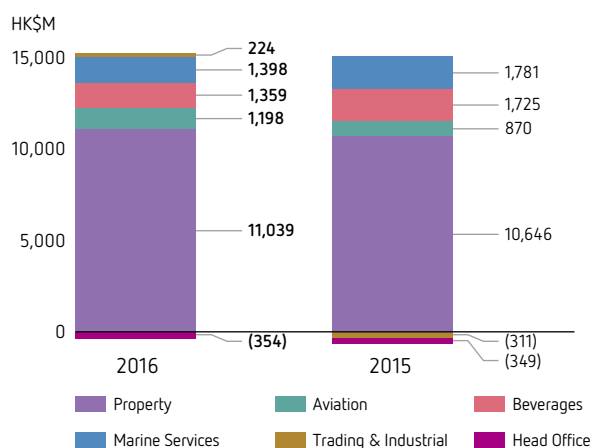
The non-controlling interests principally reflect the 18% non-controlling interest in Swire Properties and the 25% non-controlling interest in HAECO.

## Consolidated Statement of Cash Flows

	Notes to the Financial Statements	2016 HK\$M	2015 HK\$M	Increase/ (Decrease) HK\$M
Cash generated from operations	42(a)	14,864	14,362	502
Net interest paid		(2,354)	(2,297)	57
Tax paid		(1,993)	(1,909)	84
Dividends received		2,673	1,807	866
Investing activities				
Purchase of property, plant and equipment	42(b)	(3,551)	(4,245)	(694)
Additions of investment properties		(5,883)	(3,624)	2,259
Additions of other non-current assets		(254)	–	254
Proceeds from disposals of property, plant and equipment		1,364	275	1,089
Proceeds from disposals of investment properties		735	2,543	(1,808)
Proceeds from disposals of subsidiary companies, net of cash disposed of		(16)	373	(389)
Proceeds from disposals of available-for-sale assets		35	209	(174)
Purchase of shares in new subsidiary companies		–	(116)	(116)
Purchase of shares in joint venture companies		(543)	(114)	429
Purchase of shares in associated companies		(23)	(39)	(16)
Purchase of new businesses	37	(1,455)	–	(1,455)
Purchase of available-for-sale assets		(41)	(4)	37
Net loans to joint venture companies		(474)	(438)	36
Others		(253)	41	(294)
<b>Net cash generated from businesses and investments</b>		<b>2,831</b>	<b>6,824</b>	<b>(3,993)</b>
Dividends paid	34, 42(c)	(6,716)	(6,924)	(208)
Loans drawn and refinancing		15,321	12,993	2,328
Repayment of loans and bonds		(13,195)	(12,979)	216
Capital contributions from non-controlling interests		90	767	(677)
Repurchase of the Company's shares	33	–	(35)	(35)
Purchase of shares in existing subsidiary companies		(640)	(1,541)	(901)
<b>Cash paid to shareholders and net funding by external debt</b>		<b>(5,140)</b>	<b>(7,719)</b>	<b>(2,579)</b>
<b>Decrease in cash and cash equivalents</b>		<b>(2,309)</b>	<b>(895)</b>	<b>1,414</b>

## Cash Generated from Operations

### Cash Generated from/(Used in) Operations by Division



## Dividends Received

Dividends received in 2016 principally reflected dividends from Cathay Pacific, HAESL (including a special dividend received following the disposal of interests in SAESL), Akzo Nobel Swire Paints, the Property Division's associate hotels in Hong Kong and the Beverages Division's joint venture companies in Mainland China.

## Purchase of Property, Plant and Equipment

Purchase of property, plant and equipment in 2016 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 the purchase of new production and marketing equipment in the Beverages Division and of rotatable and repairable spare parts in the HAECO group.

## Additions of Investment Properties

The additions of investment properties in 2016 principally reflected capital expenditure on the Taikoo Place office redevelopment and other projects in Hong Kong and the Brickell City Centre development in the USA.

## Additions of Other Non-current Assets

The additions of other non-current assets represented the development costs incurred on the uncompleted property in Kowloon Bay, Hong Kong following its transfer from Investment Properties.

## Proceeds from Disposals of Property, Plant and Equipment

The proceeds from disposals of property, plant and equipment principally reflected proceeds from the disposal of 12 vessels.

## Proceeds from Disposals of Investment Properties

Proceeds from disposals of investment properties principally reflected proceeds received from the sale (in 2015) of units at OPUS HONG KONG.

## Purchase of Shares in Joint Venture Companies

In 2016, the HAECO group purchased an additional 5% interest in HAESL for HK\$452 million, increasing its interest to 50%.

## Purchase of New Businesses

In 2016, the Beverages Division acquired new franchise territories in Arizona and New Mexico in the USA.

## Net Loans to Joint Venture Companies

Loans to joint venture companies in 2016 principally reflected funding made available to joint venture property projects.

## Loans Drawn and Refinancing

In 2016, 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.

## Purchase of Shares in Existing Subsidiary Companies

In 2016, the Swire Foods group purchased the remaining 35% interest in Qinyuan Bakery for HK\$640 million.

## Investment Appraisal and Performance Review

	Net assets employed		Capital commitments*	
	2016 HK\$M	2015 HK\$M	2016 HK\$M	2015 HK\$M
Property investment	248,252	235,846	17,628	19,564
Property trading	6,616	7,452	–	–
Hotels	7,520	7,928	700	234
Property – overall	262,388	251,226	18,328	19,798
Aviation	42,606	39,311	1,593	2,184
Beverages	7,845	5,833	9,231	2,098
Marine Services	18,170	22,293	2,365	2,770
Trading & Industrial	5,246	4,445	875	1,736
Head Office	(41)	462	–	–
<b>Total net assets employed</b>	<b>336,214</b>	<b>323,570</b>	<b>32,392</b>	<b>28,586</b>
Less: net debt	(64,046)	(59,584)		
Less: non-controlling interests	(47,289)	(45,537)		
<b>Equity attributable to the Company's shareholders</b>	<b>224,879</b>	<b>218,449</b>		

	Equity attributable to the Company's shareholders		Return on average equity attributable to the Company's shareholders	
	2016 HK\$M	2015 HK\$M	2016	2015
Property investment	177,455	168,721	6.6%	6.6%
Property trading	1,689	2,388	48.2%	39.9%
Hotels	5,401	5,842	-1.7%	-4.2%
Property – overall	184,545	176,951	6.8%	6.6%
Aviation	36,089	32,557	1.3%	9.0%
Beverages	4,544	4,247	18.5%	21.2%
Marine Services	10,197	12,873	-26.1%	-9.4%
Trading & Industrial	5,388	4,818	2.2%	3.0%
Head Office	(15,884)	(12,997)		
<b>Total</b>	<b>224,879</b>	<b>218,449</b>	<b>4.4%</b>	<b>6.1%</b>

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