CHAIRMAN'S STATEMENT

Year In Review

The results of the Group in 2017 were affected by difficult market conditions facing our aviation and marine services divisions. Overcapacity in the passenger market led to intense competition with other airlines and continued pressure on yields on many of our airlines' key routes. The performance of the HAECO business in the USA was also poor. Exploration and production spending by oil majors remained weak despite an increase in oil prices. This adversely affected vessel utilisation and charter hire rates. Our property and beverages businesses performed well, with the latter completing significant territory expansions in Mainland China and the USA.

Results Summary

The consolidated profit attributable to shareholders for 2017 was HK$26,070 million, a 170% increase compared to 2016. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by 55% to HK$4,742 million. Disregarding significant non-recurring items in 2017 and 2016, the 2017 adjusted underlying profit was HK$4,762 million, compared with HK$4,997 million in 2016. Better results from the Property, Beverages and Trading & Industrial Divisions were more than offset by weaker results from the Aviation and Marine Services Divisions.

The Property Division is the largest contributor to the Group's underlying profit. The underlying attributable profit from the Property Division was HK$6,403 million, 11% higher than in 2016. Rental income from office properties in Hong Kong increased due to positive rental reversions and firm occupancy. Retail rental income in Hong Kong was little changed. In Mainland China, gross rental income increased due to positive rental reversions and improved occupancy. In the USA, gross rental income increased following the opening of the first phase of the Brickell City Centre development in Miami in 2016. Gross profit from property trading in Hong Kong increased slightly, mainly due to the handover of pre-sold units at the ALASSIO development. There were fewer sales of residential units at the Reach and Rise developments in the USA. Losses from hotels were lower than in 2016, reflecting improved results from EAST, Miami since its opening.

The Aviation Division recorded a loss in 2017 due to higher operating losses at Cathay Pacific and continued losses and asset impairments in the HAECO business in America.

Swire Pacific's attributable share of Cathay Pacific's 2017 losses was HK$567 million, compared with HK$259 million in 2016. The 2017 results of Cathay Pacific were affected by several one-off events. In March, Cathay Pacific was fined approximately HK$498 million for infringing European competition law. In the same month, Cathay Pacific recorded a gain of HK$244 million as a result of the dilution of its shareholding in Air China upon an issue of new A shares by Air China. In April, Cathay Pacific disposed of its interest in TravelSky Technology Limited at a profit of HK$586 million. Swire Pacific's net share of these amounts was a gain of HK$149 million on an attributable basis.

Cathay Pacific's passenger revenue decreased in 2017 by 1%. Competition was intense as other airlines increased capacity, with more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. The cargo business benefited from robust demand, with revenue and tonnage carried increasing by 21% and 11% respectively. Higher fuel prices adversely affected operating costs.

Attributable loss from HAECO was HK$406 million in 2017, compared to an attributable profit of HK$731 million in 2016. HAECO's 2017 losses included an impairment charge of HK$625 million in respect of the goodwill attributable to HAECO USA Holdings, Inc. ("HAECO Americas") and a write-off of HAECO Americas' net deferred tax assets of HK$249 million. Disregarding the write-off of deferred tax assets in 2017, all impairment charges in both years and the gain on disposal of HAESL's interest in SAESL in 2016, HAECO's profit was HK$340 million in 2017, compared with HK$516 million in 2016. The reduction was principally due to a higher loss at HAECO Americas, which more than offset better results elsewhere in the HAECO group.

Swire Beverages' profit of HK$2,441 million in 2017 included gains of HK$1,222 million arising out of the realignment of the Coca-Cola bottling system in Mainland China. These gains arose from the disposal of the Shaanxi franchise business and the remeasurement of the fair value of interests in three joint venture franchise businesses when they became subsidiary companies. There were non-recurring gains in the USA of HK$289 million. These gains arose out of the terms on which new franchise territories and production and distribution assets were acquired. Disregarding these gains, Swire Beverages made an attributable profit of HK$930 million in 2017, a 14% increase from 2016. Overall sales volume increased by 37% to 1,512 million unit cases. Sales revenue increased by 85% to HK$34,067 million. Volume and revenue grew in Mainland China and the USA, principally reflecting the inclusion of sales from additional territories. Volume and revenue increased in Hong Kong. In Taiwan, volume was in line with 2016 and revenue increased.

The Marine Services Division recorded a loss of HK$2,232 million in 2017. The loss included an impairment charge of HK$1,015 million. Disregarding impairment charges and profits and losses on disposal of vessels in both years and the loss on disposal of Altus Oil & Gas Services in 2016, the Division's loss was HK$1,201 million in 2017, compared with a loss of HK$729 million in 2016. The level of exploration and production spending by oil majors remained weak in 2017. The oversupply of offshore support vessels resulted in reduced charter hire and utilisation rates.

Attributable profit from the Trading & Industrial Division in 2017 was HK$69 million. This included a loss of HK$94 million on disposal of Swire Brands' interest in Rebecca Minkoff. Disregarding this loss, the Division's attributable profit in 2017 was HK$163 million, compared with HK$114 million in 2016. The increase principally reflected better results from Taikoo Motors and Akzo Nobel Swire Paints and a reduction in losses at Swire Environmental Services. The losses of Swire Pacific Cold Storage increased, and profits from Swire Retail and Swire Foods decreased.

Dividends

The Directors have declared second interim dividends of HK$1.10 per 'A' share and HK$0.22 per 'B' share which, together with the first interim dividends paid in October 2017, amount to full year dividends of HK$2.10 per 'A' share and HK$0.42 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 reduce costs and to improve efficiency where possible and to focus on profitable core operations. This should serve us well in the longer term.

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 the last quarter of 2018, the second in 2021 or 2022. In February 2018, Swire Properties entered into a conditional equity transfer agreement related to a joint venture (in which Swire Properties will have a 50% interest) to develop a retail project with an aggregate gross floor area of approximately 1.25 million square feet in Qiantan, Pudong New District in Shanghai. If the agreement becomes unconditional, the development is expected to be completed in 2020. In 2016, 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 later this year.

In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges which it is facing in the current airline industry environment. The programme has the goal of making the company more consumer focused and responsive and in doing so increasing revenue and containing costs. We remain supportive of the prospects and long term investment plans of Cathay Pacific.

The HAECO group continues to invest in order to increase the scale of its operations and technical capabilities and to improve and widen the range of services it can offer to customers.

The 2017 realignment of the Coca-Cola bottling system in Mainland China resulted in Swire Beverages having controlling interests in bottling companies in territories in which 49% of the Mainland China population live (compared to 31% prior to the realignment). In the USA, Swire Beverages expanded its business in Colorado, Arizona and New Mexico and in the Pacific Northwest.

In the Marine Services Division, SPO is reducing its operating costs by stringent cost controls and the disposal and removal from active service of underutilised and loss-making vessels.

The Trading & Industrial Division has disposed of its equity interest in Rebecca Minkoff and is investing in its motor and bakery businesses.

Outlook

In the Property Division, high occupancy is expected to result in office rents in our Pacific Place and Taikoo Place developments in Hong Kong being resilient despite increased supply in Kowloon East and other districts. Demand for retail space in Hong Kong is expected to be stable in 2018. In the absence of significant new supply in Guangzhou, office rents are expected to increase in 2018. In Beijing, office rents are expected to come under pressure in 2018. In Shanghai, office rents are expected to be stable in 2018. Retail sales are expected to grow satisfactorily in Guangzhou and Beijing, and to be robust in Chengdu. In Shanghai, retail sales are expected to grow steadily. Retail rents in Chengdu and Shanghai are expected to grow moderately despite increased supply of space and competition. In the USA, demand for office space is expected to be stable, but weak retail sales in Miami have made some retailers cautious about expansion. Trading conditions for our existing hotels are expected to be stable in 2018. Two new hotels are expected to open in Shanghai later in the first half of 2018. Trading profits are expected to be recognised in 2018 from sales of houses at the WHITESANDS development in Hong Kong and of units at the Reach and Rise developments in Miami.

The priorities for Cathay Pacific in 2018 are its transformation programme and changing the way that it works so as to better contain costs, which will strengthen its passenger business further. Cathay Pacific is confident of a successful outcome from these efforts. It also looks to benefit from a slowing of the decline in passenger yields as global economic conditions improve. The outlook for its cargo business is positive and it will take best advantage of opportunities in the growing global cargo market. Increased fuel costs are increasing operating costs and adversely affecting results. Fuel hedging losses are declining.

The prospects for the HAECO group's different businesses in 2018 are satisfactory. Demand for engine services should be robust but airframe services business results will depend on the outcome of efforts to improve efficiency and work flow at HAECO Americas.

The Beverages Division expects sales volume in its franchise territories in Mainland China to grow in 2018, with revenue expected to grow faster than volume. In Hong Kong, modest growth in sales volume is expected, but raw material costs are expected to increase. The retail market in Taiwan is expected to be weak. In the USA, the beverages market is expected to grow moderately.

In the Marine Services Division, industry conditions for SPO remain difficult, but there are signs that the offshore support market may be bottoming out. Exploration and production spending is expected to increase modestly in 2018. Utilisation of mobile offshore drilling units and of offshore supply vessels is gradually recovering. However, charter hire rates remain depressed. SPO will remain vigilant in controlling costs.

The overall profits of the Trading & Industrial Division are expected to increase in 2018.

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. On behalf of the Directors, I would like to take this opportunity to thank them for their great efforts.

John Slosar
Chairman
Hong Kong, 15th March 2018