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.

Audited Financial Information

Underlying profit	Note	2017 HK$M	2016 HK$M
Profit attributable to the Company's shareholders		26,070	9,644
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(26,714)	(9,637)
Deferred tax on investment properties	(b)	573	1,459
Realised profit on sale of investment properties	(c)	50	3
Depreciation of investment properties occupied by the Group	(d)	28	28
Non-controlling interests' share of adjustments		4,735	1,566
Underlying profit attributable to the Company's shareholders		4,742	3,063

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.

Adjusted underlying profit	2017 HK$M	2016 HK$M
Underlying profit attributable to the Company's shareholders	4,742	3,063
Other significant non-recurring items:		
Profit on disposal of HAESL's interest in SAESL, net of associated expenses	–	(587)
Profit on sale of investment properties	(12)	(65)
(Profit)/loss on sale of property, plant and equipment and other investments	(200)	18
Gain by Swire Beverages from territory and business changes in Mainland China and the USA	(1,511)	–
Impairment of property, plant and equipment and intangible assets and write-off of deferred tax assets	1,743	2,568
Adjusted underlying profit	4,762	4,997

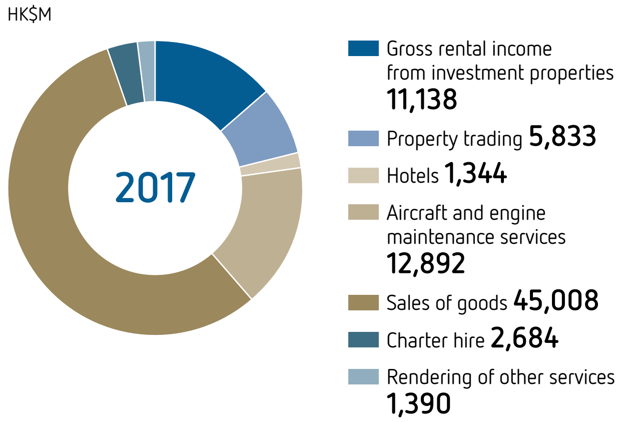
Commentary on and Analysis of Major Balances and Year on Year Variances in the Financial Statements

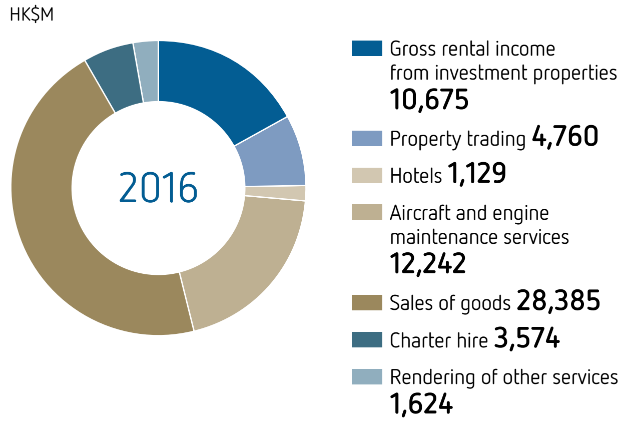
Consolidated Statement of Profit or Loss

	Notes to the Financial Statements	2017 HK$M	2016 HK$M	Increase / (Decrease) HK$M	%
Revenue	4	80,289	62,389	17,900	29%
Cost of sales	6	(51,991)	(40,392)	11,599	29%
Expenses	6	(18,010)	(12,777)	5,233	41%
Other net gains/(losses)	5	245	(2,281)	2,526	-111%
Change in fair value of investment properties		25,331	8,445	16,886	200%
Operating profit		35,864	15,384	20,480	133%
Net finance charges	9	(2,239)	(2,297)	(58)	-3%
Share of profits less losses of joint venture companies	19(a)	2,209	2,731	(522)	-19%
Share of losses less profits of associated companies	19(b)	(328)	(70)	(258)	369%
Taxation	10	(3,124)	(2,816)	308	11%
Profit for the year		32,382	12,932	19,450	150%
Profit attributable to the Company's shareholders	34	26,070	9,644	16,426	170%
Underlying profit	11	4,742	3,063	1,679	55%

Revenue

Revenue by Category





The increase in revenue of HK$17,900 million compared to 2016 reflected higher revenue from the Property Division (HK$1,752 million), the Aviation Division (HK$786 million), the Beverages Division (HK$15,646 million) and the Trading & Industrial Division (HK$887 million). These improvements were partially offset by a decrease in revenue from the Marine Services Division (HK$1,171 million).

In the Property Division, revenue from property trading increased by HK$1,073 million compared to 2016. This principally reflected the sales proceeds from 197 ALASSIO units and 14 WHITESANDS units in Hong Kong and from 12 Reach units and 28 Rise units at the Brickell City Centre development in the USA in 2017, which significantly exceeded the sales proceeds from Reach and Rise units and from AREZZO and other units in Hong Kong in 2016. Gross rental income from property investment increased by HK$463 million. There was higher rental income in Mainland China, reflecting higher retail rents. In the USA, there was higher rental income following the opening of the office towers and shopping centre at the Brickell City Centre development in 2016. In Hong Kong, gross rental income increased slightly, principally reflecting higher rentals from the office portfolio. Revenue from hotels increased by HK$215 million, largely due to revenue from EAST, Miami since its opening in June 2016.

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

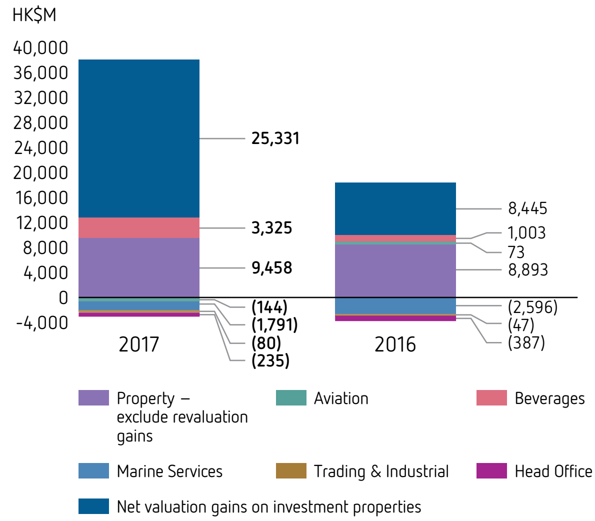
In the Beverages Division, the increase in revenue was principally due to increased sales volumes in Mainland China and the USA. The increase mainly arose from the acquisition of new franchise territories in Mainland China (Guangxi, Hainan, Hubei, Jiangxi, Yunnan and Zhanjiang), the inclusion of revenue from three existing joint venture companies (Jiangsu, Zhejiang and Guangdong) when they became subsidiary companies and the acquisition of new franchise territories in Washington, Oregon and Idaho in the USA. Revenue was marginally higher in Hong Kong and Taiwan, principally due to higher sales volume and lower discounting in Hong Kong and a better sales mix in Taiwan.

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 five vessels (with a further vessel having been redelivered to its owner).

In the Trading & Industrial Division, there were increases in revenue at Taikoo Motors , Swire Foods and Swire Pacific Cold Storage, partially offset by a small decrease in revenue at Swire Retail due to closure of retail outlets in Hong Kong and in Mainland China (those in Mainland China being loss making).

Operating Profit

Operating Profit/(Loss) by Division



The operating profits in 2017 and 2016 include net valuation gains on investment properties of HK$25,331 million and HK$8,445 million, respectively. The higher net revaluation gains on investment properties principally reflected an increase in the valuation of investment properties in Hong Kong due to higher rents at the offices in Pacific Place and Taikoo Place, and a reduction of 25 basis points in the capitalisation rate applicable to office properties in Hong Kong, partially offset by a revaluation loss on the retail properties at Brickell City Centre in Miami, USA due to slightly lower retail rents. Investment properties in Mainland China recorded a higher valuation gain due to higher rents at TaiKoo Hui and Taikoo Li Sanlitun. Excluding net revaluation gains, operating profit increased by HK$3,594 million. This reflected increases (significant in the case of the Beverages Division) in operating profit in the Beverages and Property Divisions and lower vessel impairments in the Marine Services Division.

The Property Division's operating profit (excluding net valuation gains) increased by HK$565 million. Profit from property investment increased by HK$420 million, mainly due to better performances from the retail portfolio in Mainland China and the office portfolio in Hong Kong and the effect of a full year of operations at Brickell City Centre in the USA. Profit from property trading increased by HK$65 million, principally reflecting the recognition of profit on sales at ALASSIO and WHITESANDS in Hong Kong, partially offset by lower profits on sales at Reach and Rise in the USA. The loss from hotels decreased by HK$80 million, principally due to the inclusion of a full year of operations at EAST, Miami in the USA and a better performance at the Mandarin Oriental, Guangzhou.

In the Aviation Division, the decrease in operating profit from the HAECO group was principally due to increased losses at HAECO Americas. These reflected a higher impairment charge in 2017 than in 2016 in respect of goodwill relating to the acquisition of HAECO Americas. Disregarding the impairment charges in both years, the Division recorded improved profits at HAECO Hong Kong, HAECO Xiamen and TEXL, which were more than offset by an increased operating loss at HAECO Americas.

In the Beverages Division, the significant increase in operating profit included the following pre-tax non-recurring items in 2017: (a) a HK$382 million gain arising from the disposal of the Shaanxi business, (b) a HK$975 million remeasurement gain on the fair value of the interests in three joint venture bottling companies in Guangdong, Zhejiang and Jiangsu when they became subsidiary companies, (c) a HK$289 million gain arising from the terms on which new franchise territories and new production and distribution assets were acquired in the USA and (d) a HK$39 million loss (including related restructuring costs) on closure of the Kaohsiung plant in Taiwan. Disregarding the above non-recurring items, operating profits in Mainland China and the USA were higher, principally due to additional sales volume from the expanded franchise territories in Mainland China and the USA and a better product and packaging mix in Mainland China.

In the Marine Services Division, the decreased operating loss at SPO principally reflected a lower impairment charge (HK$1,015 million compared with HK$2,313 million in 2016) in respect of vessels. Disregarding impairment charges and the impact of asset disposals in both years, operating losses of SPO increased from HK$312 million in 2016 to HK$760 million in 2017. This principally reflected lower charter hire rates and a slight reduction in fleet utilisation.

In the Trading & Industrial Division, the operating loss increased by HK$33 million compared with 2016 due to the inclusion of a non-recurring loss of HK$94 million on disposal of Swire Retail's interest in Rebecca Minkoff. Disregarding this loss in 2017, the Division reported an operating profit of HK$14 million in 2017 compared to an operating loss of HK$47 million in 2016. The favourable results were principally due to higher operating profits at Taikoo Motors and Swire Foods, partially offset by weaker results at Swire Retail and the costs associated with the cold storage business in Mainland China.

Net Finance Charges

The decrease in net finance charges mainly reflected a decrease in the cost of borrowings in Hong Kong and Mainland China and a lower increase in the fair value of a put option in respect of a non-controlling interest in a subsidiary company, partially offset by the progressive cessation of interest capitalisation in respect of Brickell City Centre upon completion of the development in late 2016.

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$219 million compared to 2016, reflecting higher valuations in Mainland China. There was an increase in profit from investment properties owned by joint venture companies in Hong Kong and Mainland China, particularly at HKRI Taikoo Hui following its phased opening starting in 2016. Sino-Ocean Taikoo Li Chengdu also achieved good results due to higher occupancy.

In the Aviation Division, profits from joint venture companies in the HAECO group decreased by HK$758 million, principally reflecting the absence of the HK$805 million gain in 2016 on disposal of HAESL's interest in SAESL. Disregarding this gain in 2016, the share of profits from HAESL increased, reflecting more engines having been overhauled.

In the Beverages Division, the profits from joint venture companies in 2017 were HK$19 million, compared with HK$141 million in 2016. This reduction was mainly due to three existing joint venture companies in Mainland China becoming subsidiary companies upon acquisition of further interests in them in April 2017. In July 2017, the Division acquired a 54% interest in a new joint venture company in Shanghai.

In the Trading & Industrial Division, the contribution from Akzo Nobel Swire Paints was higher than in 2016. This reflected higher sales volume and lower operating costs in Mainland China, partially offset by the adverse effect on gross margins of higher average material costs and an unfavourable product mix. The overall HK$11 million decrease in the Division's contribution in 2017 was principally due to some start-up operating losses at the cold storage business in Xiamen (65% owned) from March 2017.

Share of Losses Less Profits of Associated Companies

In the Aviation Division, the Cathay Pacific group contributed a loss of HK$567 million in 2017 compared to a loss of HK$259 million in 2016. This principally reflected lower passenger revenue and higher fuel and other costs, partially offset by better results from the air cargo business. The passenger business was affected by intense competition, with more direct flights between Mainland China and international destinations and increased competition from low cost carriers. The share of profits from other subsidiaries and associates of Cathay Pacific increased. This mainly reflected a strong performance from the Air China Cargo joint venture company, which benefited from strong cargo demand.

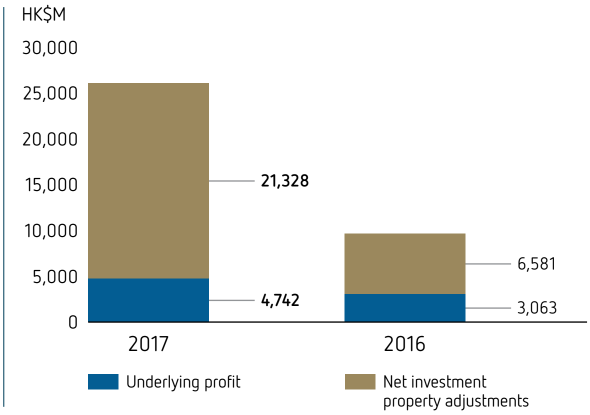
In the Property Division, profits from the three associate hotels at Pacific Place in Hong Kong increased marginally.

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 higher sales volume and savings in manufacturing overheads and interest expenses.

Taxation

The increase in taxation reflected the higher pre-tax profit of the Group (excluding revaluation gains on investment properties in Hong Kong and other capital items not subject to tax). The write-off of net deferred tax assets at HAECO Americas in 2017 increased the current year tax charge by HK$249 million.

Profit and Underlying Profit Attributable to the Company's Shareholders



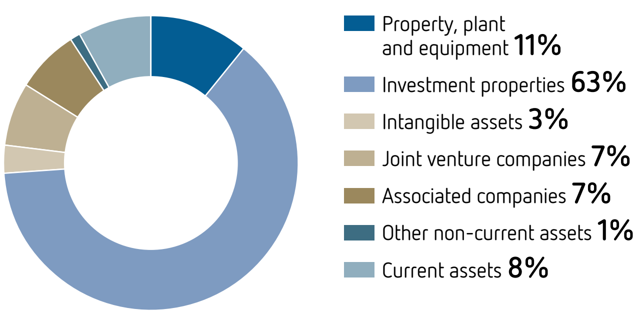
The increase in profit attributable to the Company's shareholders is after net revaluation gains on investment properties of HK$21,328 million and HK$6,581 million in 2017 and 2016 respectively. Excluding net investment property adjustments, underlying profit increased by HK$1,679 million. The increase principally reflected better results from the Property and Beverages Divisions and lower impairment charges at SPO. This was partially offset by increased losses from the Cathay Pacific group and a higher operating loss and higher impairment charges at HAECO Americas.

Consolidated Statement of Financial Position

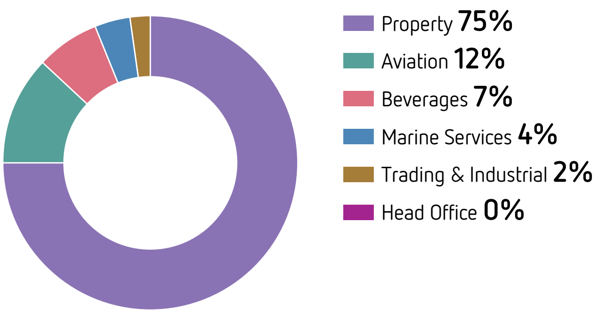
	Notes to the Financial Statements	2017 HK$M	2016 HK$M	Increase / (Decrease) HK$M	%
Property, plant and equipment	14	45,619	40,922	4,697	11%
Investment properties	15	265,944	233,718	32,226	14%
Intangible assets	17	13,486	9,195	4,291	47%
Joint venture companies	19(a)	29,449	25,908	3,541	14%
Associated companies	19(b)	30,404	27,546	2,858	10%
Other non-current assets	32	–	5,479	(5,479)	-100%
Properties under development and for sale	23	2,300	5,669	(3,369)	-59%
Stocks and work in progress	24	6,229	4,790	1,439	30%
Trade and other receivables	25	10,979	9,597	1,382	14%
Bank balances and short-term deposits	26	6,072	6,477	(405)	-6%
Other current assets	32	6,262	–	6,262	100%
Other assets		4,355	4,197	158	4%
Total assets		421,099	373,498	47,601	13%
Trade and other payables	27	24,782	20,875	3,907	19%
Loans, bonds and perpetual capital securities	28, 29	78,586	70,570	8,016	11%
Deferred tax liabilities	30	9,881	8,291	1,590	19%
Other liabilities		1,756	1,594	162	10%
Total liabilities		115,005	101,330	13,675	13%
Net assets		306,094	272,168	33,926	12%
Equity attributable to the Company's shareholders	33, 34	253,163	224,879	28,284	13%
Non-controlling interests	35	52,931	47,289	5,642	12%
Total equity		306,094	272,168	33,926	12%

Total Assets

Total Assets by Category



Total Assets by Division



Property, Plant and Equipment

The increase in property, plant and equipment principally reflected capital expenditure (net of depreciation) plus the inclusion of property, plant and equipment at the new beverages franchise territories in Mainland China and the USA, partially offset by an impairment charge at SPO and the transfer of certain owner-occupied properties to investment 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. The movement during the year also included foreign exchange translation gains on investment properties in Mainland China and the reclassification of certain owner-occupied properties from property, plant and equipment to investment properties, partially offset by the transfer of certain investment properties to properties under development and for sale.

Intangible Assets

The increase in intangible assets in 2017 includes intangible assets (principally franchise rights and goodwill) of HK$4,696 million recognised as a result of the acquisition of the new beverages franchise territories in Mainland China and the USA. This was partially offset by an impairment charge of HK$625 million 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 a 54% interest in a joint venture company in Shanghai 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), and at HAESL and Akzo Nobel Swire Paints. There were foreign exchange translation gains from joint venture companies in Mainland China. These increases were partially offset by dividends paid and the reclassification of three joint venture companies in the Beverages Division as subsidiary companies as part of the realignment of the Coca-Cola bottling system 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 Current Assets and Non-Current Assets

The increase represented development costs incurred in respect of the Kowloon Bay development in 2017.

Properties Under Development and for Sale

The decrease in properties under development and for sale principally reflected sales of residential properties at the ALASSIO and WHITESANDS developments in Hong Kong and at the Reach and Rise developments at Brickell City Centre, Miami, partially offset by the transfer of the Wing Fung Street property from investment properties to properties under development.

Stocks and Work in Progress

The increase in stocks and work in progress was principally due to the inclusion of stocks and work in progress at the new beverages businesses in Mainland China and the USA.

Trade and Other Receivables

The increase in trade and other receivables principally reflected the inclusion of trade and other receivables at the new beverages businesses in Mainland China and the USA.

Trade and Other Payables

The increase in trade and other payables principally reflected the inclusion of trade and other payables at the new beverages businesses in Mainland China and the USA, the recognition of contingent consideration payable in respect of a new beverages business in the USA, and further deposits received on the sale of a subsidiary owning an uncompleted property in Kowloon Bay, Hong Kong. These were partially offset by the settlement and adjustment of the contingent consideration payables in respect of previously acquired businesses in the USA and lower trade and other payables in the Property Division.

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 acquisition of new businesses by the Beverages Division and the purchase of new vessels and other fixed assets and investments.

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. The reduction in US tax rates from 2018 onwards resulted in adjustments to the deferred tax assets and liabilities of the Property and Beverages Divisions at the end of 2017.

Equity Attributable to the Company's Shareholders

In each year, the movement in equity attributable to the Company's shareholders mainly represents the total comprehensive income for the year attributable to the Company's shareholders (HK$32,218 million in 2017) less dividends paid to shareholders (HK$3,158 million in 2017). In 2017, the movement in equity attributable to the Company's shareholders also reflected the effect of acquiring non-controlling interests in two subsidiaries in the Beverages Division, one in Hong Kong, the other in Mainland China (totalling HK$611 million).

Non-controlling Interests

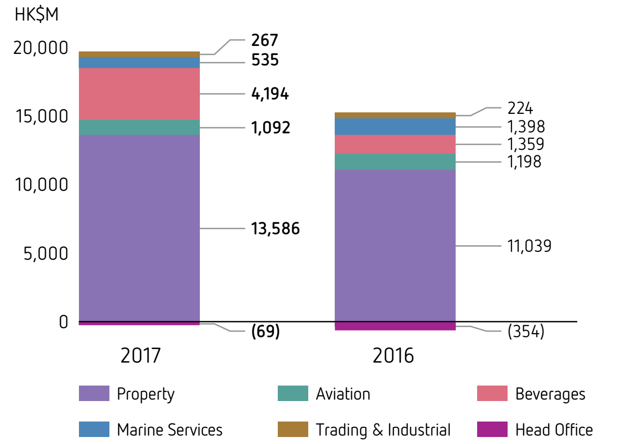
The non-controlling interests principally reflect the 18% non-controlling interest in Swire Properties and the 25% non-controlling interest in HAECO.

Consolidated Statement of Cash Flows

	Notes to the Financial Statements	2017 HK$M	2016 HK$M	Increase/ (Decrease) HK$M
Cash generated from operations	42(a)	19,605	14,864	4,741
Net interest paid		(2,390)	(2,354)	36
Tax paid		(2,172)	(1,993)	179
Dividends received		557	2,673	(2,116)
Investing activities				
Purchase of property, plant and equipment	42(b)	(3,777)	(3,551)	226
Additions of investment properties		(5,179)	(5,883)	(704)
Additions of other current assets/other non-current assets		(623)	(254)	369
Proceeds from disposals of property, plant and equipment		263	1,364	(1,101)
Proceeds from disposals of investment properties		40	735	(695)
Proceeds from disposals of subsidiary companies, net of cash disposed of	42(d)	614	(16)	630
Proceeds from disposals of available-for-sale assets		71	35	36
Purchase of shares in new subsidiary companies	37(e)	(4,163)	–	4,163
Purchase of shares in joint venture companies		(1,046)	(543)	503
Purchase of shares in associated companies		–	(23)	(23)
Purchase of new businesses	37(a) to (d)	(2,347)	(1,455)	892
Purchase of available-for-sale assets		(11)	(41)	(30)
Net loans to joint venture companies		(1,407)	(474)	933
Others		(184)	(253)	(69)
Net cash generated from businesses and investments		(2,149)	2,831	(4,980)
Dividends paid	34, 42(c)	(4,335)	(6,716)	(2,381)
Loans drawn and refinancing		20,312	15,321	4,991
Repayment of loans and bonds		(13,049)	(13,195)	(146)
Capital contributions from non-controlling interests		–	90	(90)
Repurchase of the Company's shares	33	(153)	–	153
Purchase of shares in existing subsidiary companies		(1,384)	(640)	744
Cash paid to shareholders and net funding by external debt		1,391	(5,140)	(6,531)
Decrease in cash and cash equivalents		(758)	(2,309)	(1,551)

Cash Generated from Operations

Cash Generated from/(Used in) Operations by Division



Dividends Received

Dividends received in 2017 principally reflected dividends from HAESL (with the dividend received from HAESL in 2016 having included a special dividend received following the disposal of its interest in SAESL) and from the Property Division's associated hotel companies and joint venture investment property companies in Hong Kong.

Purchase of Property, Plant and Equipment

Purchase of property, plant and equipment in 2017 principally reflected the purchase of new production and marketing equipment in the Beverages Division, the construction of a new hangar at HAECO Americas, the acquisition of new vessels by SPO and the cost of construction of cold storage facilities in Mainland China.

Additions of Investment Properties

The additions of investment properties in 2017 principally reflected capital expenditure on the Taikoo Place office redevelopment and other projects in Hong Kong and on the Brickell City Centre development in the USA.

Additions of Other Current Assets/ Other Non-Current Assets

The additions of other current assets/other non-current assets represented continuing development costs incurred on the uncompleted property in Kowloon Bay, Hong Kong following its transfer from investment properties in October 2016.

Proceeds from Disposals of Property, Plant and Equipment

The proceeds from disposals of property, plant and equipment included proceeds from the disposal of five vessels by SPO and of other fixed assets elsewhere in the Group.

Proceeds from Disposals of Subsidiary Companies

Proceeds from disposals of subsidiary companies principally comprised proceeds received from the disposal of the company which carried on the Shaanxi business in the Beverages Division.

Purchase of Shares in Joint Venture Companies

In 2017, the Beverages Division purchased a 54% interest in a joint venture company in Shanghai in Mainland China as part of the realignment of the Coca-Cola bottling system in Mainland China.

Purchase of Shares in New Subsidiary Companies/ New Businesses

In 2017, the Beverages Division acquired new businesses (including production and distribution assets) in Mainland China and the USA.

Net Loans to Joint Venture Companies

Loans to joint venture companies in 2017 principally reflected funding made available to joint venture property projects in Hong Kong and Mainland China.

Loans Drawn and Refinancing

In 2017, 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 2017, the Beverages Division purchased the 12.5% interest in Swire Beverages Limited which it did not already own for a consideration of HK$1,405 million and a further 16.8% interest in a Coca-Cola bottling company in Hubei for a consideration of HK$95 million.

Investment Appraisal and Performance Review

	Net assets employed		Capital commitments*	
	2017 HK$M	2016 HK$M	2017 HK$M	2016 HK$M
Property investment	282,662	248,252	13,940	17,628
Property trading	3,942	6,616	–	–
Hotels	7,738	7,520	260	700
Property – overall	294,342	262,388	14,200	18,328
Aviation	44,798	42,606	954	1,593
Beverages	17,274	7,845	767	9,231
Marine Services	16,755	18,170	1,731	2,365
Trading & Industrial	5,631	5,246	141	875
Head Office	(192)	(41)	–	–
Total net assets employed	378,608	336,214	17,793	32,392
Less: net debt	(72,514)	(64,046)		
Less: non-controlling interests	(52,931)	(47,289)		
Equity attributable to the Company's shareholders	253,163	224,879		

	Equity attributable to the Company's shareholders		Return on average equity attributable to the Company's shareholders	
	2017 HK$M	2016 HK$M	2017	2016
Property investment	203,630	177,455	14.1%	6.6%
Property trading	1,519	1,689	56.8%	48.2%
Hotels	5,531	5,401	-0.6%	-1.7%
Property – overall	210,680	184,545	14.0%	6.8%
Aviation	38,187	36,089	-2.7%	1.3%
Beverages	11,337	4,544	30.7%	18.5%
Marine Services	8,350	10,197	-24.1%	-26.1%
Trading & Industrial	5,738	5,388	1.2%	2.2%
Head Office	(21,129)	(15,884)		
Total	253,163	224,879	10.9%	4.4%

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