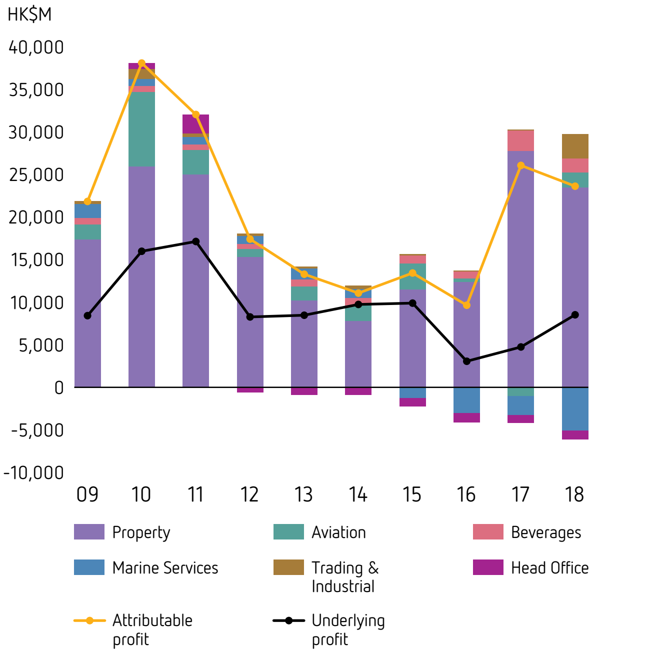
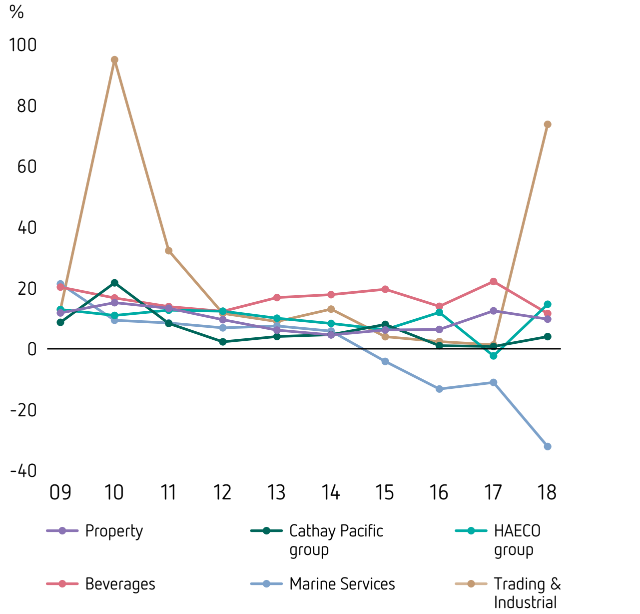
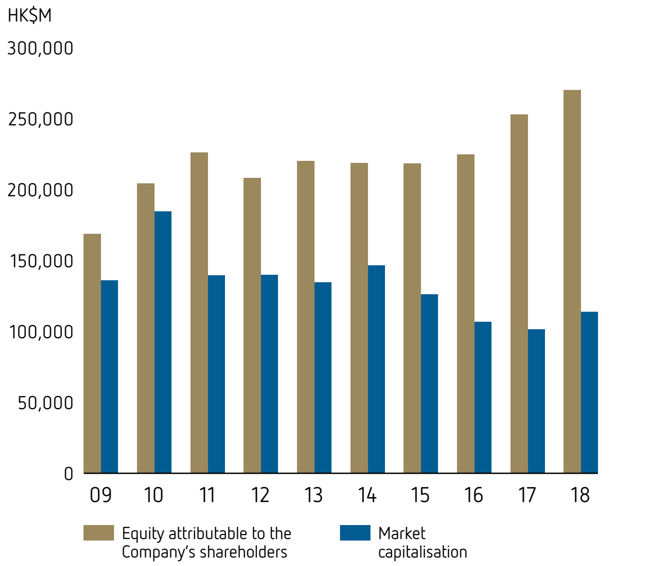
Profit Attributable to the Company's Shareholders



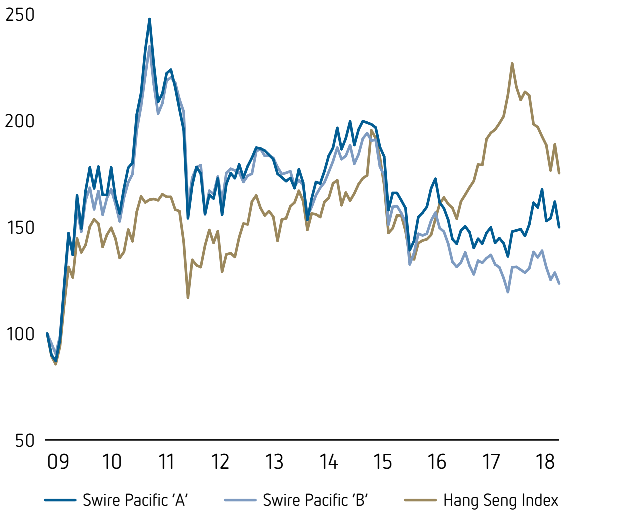
Return on Capital Employed



Equity Attributable to the Company's Shareholders and Market Capitalisation at Year-end



Swire Pacific Share Price Relative to Hang Seng Index



FINANCE DIRECTOR'S STATEMENT

Results Summary

The consolidated profit attributable to shareholders for 2018 was HK$23,629 million, a 9% decrease compared to 2017. Underlying profit attributable to shareholders, which principally adjusts for changes in the value of investment properties, increased by 80% to HK$8,523 million. Disregarding significant non-recurring items in both years, the 2018 recurring underlying profit was HK$7,489 million, compared with HK$4,762 million in 2017. The principal contributor to the increase was the Aviation Division.

The Property Division is the largest contributor to the Group's profit. The recurring underlying profit from the Property Division in 2018 (which excludes gains from the disposal of investment properties aggregating HK$2,155 million) was HK$6,177 million, compared with HK$6,386 million in 2017. Demand for office properties in Hong Kong was generally strong. Retail sales grew strongly in Hong Kong for much of 2018. In Mainland China in 2018, office rents increased in Guangzhou and in Beijing. Retail sales grew satisfactorily in Beijing, Chengdu, and Guangzhou and modestly in Shanghai. In Miami in the USA, demand for office space was firm and retail sales increased steadily. Demand for residential properties in Hong Kong weakened in the second half of 2018. Demand for residential properties was subdued throughout the year in Miami. 2018 losses from hotels were slightly lower than in 2017.

The Aviation Division recorded a profit in 2018, compared to a loss in 2017. This reflected improved operating results at Cathay Pacific and HAECO. Swire Pacific's attributable share of Cathay Pacific's 2018 profit was HK$1,056 million, compared with a loss of HK$567 million in 2017. The operating environment for Cathay Pacific was little changed in 2018. Overcapacity in passenger markets resulted in intense competition with other airlines. Fuel prices increased. The strength of the US dollar adversely affected net income. But the passenger business improved. Capacity increased. Load factors were sustained. Yield improved despite competitive pressures. The cargo business was strong. Capacity, yield and load factors increased.

Following its privatisation, HAECO became a wholly-owned subsidiary from December 2018. The recurring profit of the HAECO group in 2018 was HK$728 million, compared with HK$255 million in 2017. The higher profit primarily reflected reduced losses at HAECO Americas and more workload at HAECO Xiamen and HAESL.

The recurring profit of Swire Beverages was HK$1,354 million in 2018, compared with HK$962 million in 2017. Revenue increased by 21% to HK$41,190 million. Volume increased by 16% to 1,755 million unit cases. Revenue and volume grew in Mainland China and the USA, mainly due to the inclusion of sales in the franchise territories acquired in 2017. Revenue and volume also grew in Hong Kong and Taiwan.

The recurring loss of the Marine Services Division was HK$1,122 million in 2018, compared to HK$1,217 million in 2017. These figures exclude impairment charges and related write-off of HK$3,911 million in 2018 and HK$1,015 million in 2017 at Swire Pacific Offshore. Offshore industry conditions remained difficult. There was some improvement in vessel utilisation rates. However, the oversupply of offshore support vessels continued to put pressure on charter hire rates.

The recurring profit of the Trading & Industrial Division in 2018 (which excludes non-recurring items of HK$2,740 million) was HK$164 million in 2018, compared with HK$163 million in 2017. The result principally reflected a reduced contribution from Akzo Nobel Swire Paints and losses from Swire Foods, largely offset by better results from Swire Retail, Taikoo Motors and the absence of a loss from the cold storage business (following its disposal) in the second half of 2018.

Dividends

The Directors have declared second interim dividends of HK$1.80 per A share and HK$0.36 per B share which, together with the first interim dividends paid in October 2018 amount to full year dividends of HK$3.00 per A share and HK$0.60 per B share.

Implementing Our Aims

Our aims are to deliver sustainable growth in shareholder value, achieved through sound returns on equity over the long term, and to return value to shareholders through sustainable growth in ordinary dividends. Capital allocation, achieved by way both of investment and divestment, is central to the achievement of our aims.

Swire Properties is investing HK$15 billion in the redevelopment of Taikoo Place in Hong Kong. The first phase of this redevelopment was completed in 2018. The second phase will be completed in 2021 or 2022. Swire Properties also has a 50% interest in a 1.25 million square feet retail development in Shanghai, which is expected to be completed in 2020. In 2018, Swire Properties completed the sale of its interest in an office building in Kowloon Bay, Hong Kong and conditionally agreed to sell its interests in the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong.

Cathay Pacific's three-year transformation programme is on track. In 2017, Cathay Pacific built the foundations for the programme. In 2018, it restructured its operations outside Hong Kong, benefited from productivity improvements, increased its digital capabilities and concentrated on global business services. Swire Pacific remains 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.

In 2018, Swire Beverages completed the integration of the Coca-Cola franchise territories which it acquired in Mainland China and the USA in 2017. It is expanding its product and package portfolio and is investing in production assets, logistics infrastructure, merchandising equipment and digital capabilities.

In the Marine Services Division, SPO completed its new build programme in 2018 and disposed of five older vessels.

In 2018, the Trading & Industrial Division disposed of its interests in cold storage and paints businesses. It continued to invest in its motor and foods businesses.

To summarise our capital allocation in 2018, we generated HK$18.3 billion from operations (compared with HK$19.6 billion in 2017) and HK$14.0 billion from disposals (compared with HK$1.0 billion in 2017) and we made total capital investments of HK$14.6 billion (compared with HK$20.0 billion in 2017). Our net debt at the end of 2018 was HK$62.7 billion, a reduction of 14% from its amount (HK$72.5 billion) at the end of 2017. Our gearing ratio at the end of 2018 was 19.3%, reduced from 23.7% at the end of 2017.

Outlook By Division

In the Property Division, high occupancy is expected to result in office rents in our Pacific Place and Taikoo Place developments in Hong Kong in 2019 being resilient. We expect retail sales to be stable in Hong Kong. In Mainland China, office rents are expected to increase slightly in Guangzhou, to come under pressure in Beijing and to be resilient in Shanghai. Retail sales are expected to grow steadily in Guangzhou, Beijing and Shanghai, and moderately in Chengdu. In Miami in the USA, demand for office space is firm at the Brickell City Centre and retail sales are increasing steadily. Trading profits are expected to be recognised in 2019 from sales of units at the Reach and Rise developments in Miami. Trading conditions for our existing hotels are expected to be stable in 2019.

The business environment is expected to remain challenging for Cathay Pacific in 2019, with the forecast strength of the US dollar and uncertainty due to geopolitical discord and global trade tensions dampening passenger and cargo demand. Competition will remain intense, especially in economy class on long haul routes. Operational constraints will impose additional costs. These factors will affect both the passenger and the cargo business. Cathay Pacific remains confident in the ability of its transformation programme to enable it to deliver sustainable long-term performance. In 2019, Cathay Pacific will continue to reorganise its business processes, to benefit from associated underlying structural initiatives and to build a culture of continuous improvement. The airlines will compete hard by extending their route network to destinations not currently served from Hong Kong, by increasing frequencies on their most popular routes and by operating more fuel-efficient aircraft. They will focus upon, and continue to invest in, customer service and productivity.

The prospects for the HAECO group's different businesses in 2019 are mixed. Demand for airframe services in America is expected to rise and to be stable in Hong Kong and Xiamen. Demand for line services is expected to be firm. Demand for engine services is expected to increase. Fewer seats are expected to be sold in 2019 than in 2018.

In the Beverages Division, revenue in Mainland China, Hong Kong and Taiwan is expected to continue to grow in 2019, with revenue growing faster than volume. The beverages market in the USA is expected to grow modestly in 2019. In all regions, increased costs are expected to put pressure on profits.

In the Marine Services Division, industry conditions remain difficult. Too many vessels are chasing the growing but still limited amount of work. Charter hire rates remain depressed. SPO remains vigilant in controlling costs.

The overall recurring profits of the Trading & Industrial Division are expected to increase in 2019.

Michelle Low
Finance Director
Hong Kong, 14th March 2019


SWIRE