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	2018 HK$M	2017 HK$M
Profit attributable to the Company's shareholders		23,629	26,070
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(20,722)	(26,714)
Deferred tax on investment properties	(b)	935	573
Valuation gains realised on sale of interests in investment properties	(c)	1,351	50
Depreciation of investment properties occupied by the Group	(d)	28	28
Non-controlling interests' share of adjustments		3,302	4,735
Underlying profit attributable to the Company's shareholders		8,523	4,742

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.

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

	2018 HK$M	2017 HK$M
Underlying profit attributable to the Company's shareholders	8,523	4,742
Significant non-recurring items:		
Profit on sale of interests in investment properties	(2,155)	(12)
Profit on acquisition/sale of businesses in HAECO group	(35)	–
(Profit)/loss on sale of businesses in Trading & Industrial Division	(2,792)	94
Profit on sale of property, plant and equipment and other investments	(105)	(294)
Gain by Swire Beverages from territory and business changes in Mainland China and the USA	(132)	(1,511)
Impairment of property, plant and equipment and intangible assets and write-off of deferred tax assets	4,185	1,743
Recurring underlying profit*	7,489	4,762

* A more detailed definition is provided in the Glossary on page 234.

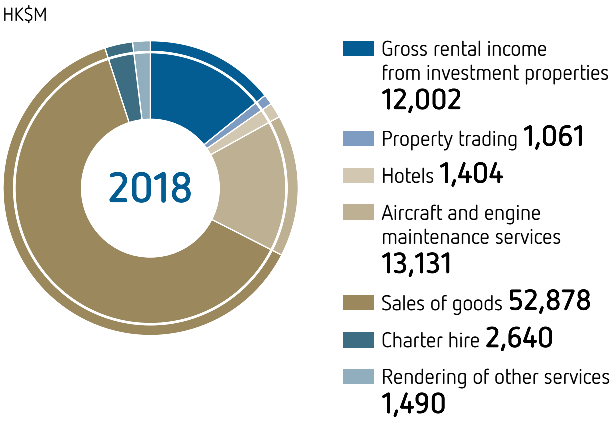
Commentary on and Analysis of Major Balances and Year on Year Variances in the Financial Statements

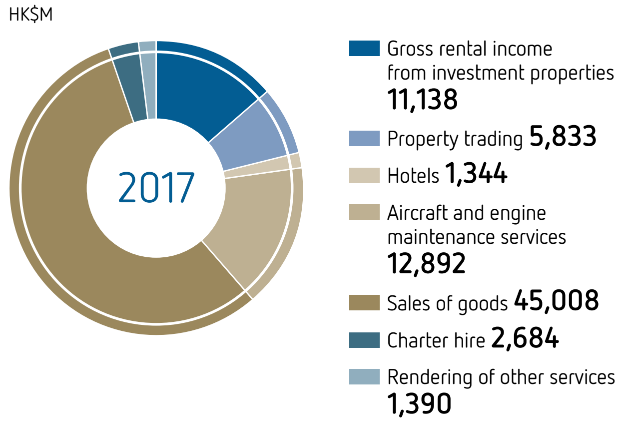
Consolidated Statement of Profit or Loss

	Notes to the Financial Statements	2018 HK$M	2017 HK$M	Increase/(Decrease) HK$M	Increase/(Decrease) %
Revenue	4	84,606	80,289	4,317	5%
Cost of sales	6	(53,739)	(51,991)	1,748	3%
Expenses	6	(20,815)	(18,010)	2,805	16%
Other net gains	5	1,458	245	1,213	495%
Change in fair value of investment properties		19,378	25,331	(5,953)	-24%
Operating profit		30,888	35,864	(4,976)	-14%
Net finance charges	9	(2,324)	(2,239)	85	4%
Share of profits less losses of joint venture companies	19(a)	2,458	2,209	249	11%
Share of profits less losses of associated companies	19(b)	1,324	(328)	1,652	N/A
Taxation	10	(2,926)	(3,124)	(198)	-6%
Profit for the year		29,420	32,382	(2,962)	-9%
Profit attributable to the Company's shareholders	34	23,629	26,070	(2,441)	-9%
Underlying profit attributable to the Company's shareholders	11	8,523	4,742	3,781	80%

Revenue

Revenue by Category





The increase in revenue of HK$4,317 million compared to 2017 reflected higher revenue from the Beverages Division (HK$7,123 million), the Trading & Industrial Division (HK$733 million) and the Aviation Division (HK$346 million). These improvements were partially offset by decreases in revenue from the Property Division (HK$3,839 million) and the Marine Services Division (HK$48 million).

In the Property Division, revenue from property trading decreased by HK$4,772 million compared to 2017. The property trading revenue in 2018 represented the proceeds of sales of 12 WHITESANDS houses and a number of carparks at AZURA in Hong Kong and from two Reach units and 35 Rise units at Brickell City Centre development in the USA. The property trading revenue in 2017 represented the proceeds of sales of 197 ALASSIO units and 14 WHITESANDS houses in Hong Kong and from 40 Reach and Rise units in the USA. Gross rental income from property investment increased by HK$864 million in 2018. In Hong Kong, gross rental income increased slightly, principally reflecting positive rental reversions in the office portfolio, the opening of One Taikoo Place in the last quarter of 2018 and higher retail rents. In Mainland China, there was higher rental income, reflecting higher retail rents. In the USA, there was higher rental income because more shops were open at the shopping centre at Brickell City Centre. Revenue from hotels increased by HK$60 million in 2018, largely due to improved occupancy at the Mandarin Oriental, Guangzhou and better performances at EAST, Miami and at the hotels in Hong Kong.

In the Aviation Division, the increase in revenue from the HAECO group was principally due to increases in line services revenue at HAECO Hong Kong, airframe services revenue at HAECO Xiamen and landing gear and composite revenue, partially offset by the effect of changes in work scope and material usage at TEXL.

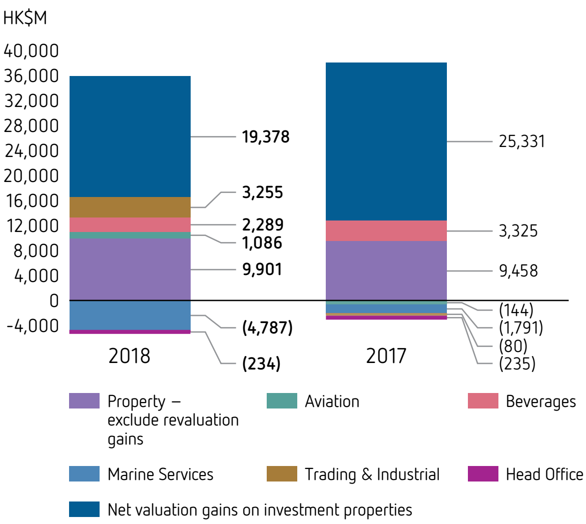
In the Beverages Division, the increase in revenue was principally due to increased sales volumes in all areas, but particularly in Mainland China and the USA. The increase reflected the inclusion of a full year's revenue from franchise territories acquired in 2017 in Mainland China and the USA and increased revenue in existing territories in Mainland China. Revenue was slightly higher in Hong Kong and much higher in Taiwan, reflecting in each case higher sales volume, improved product mix and price increases.

In the Marine Services Division, the decrease in revenue at SPO was principally due to lower charter hire rates for the core fleet and lower utilisation of the construction and specialist vessels.

In the Trading & Industrial Division, there were increases in revenue at Taikoo Motors and Swire Retail, partly offset by a decrease in revenue at Swire Pacific Cold Storage following its sale in July 2018.

Operating Profit

Operating Profit/(Loss) by Division



The operating profits in 2018 and 2017 included net valuation gains on investment properties of HK$19,378 million and HK$25,331 million, respectively. The net revaluation gains on investment properties in 2018 principally reflected an increase in the valuation of the office properties in Hong Kong following rental increases and a reduction of 12.5 basis points in the capitalisation rate applicable to office properties in Hong Kong. Investment properties in Mainland China recorded a valuation gain due to higher rents at Taikoo Hui and Taikoo Li Sanlitun and a reduction of 25 basis points in the capitalisation rate applicable to Taikoo Li Sanlitun North and Taikoo Hui offices. Investment properties in the USA recorded a revaluation loss in respect of the retail properties at Brickell City Centre in Miami, USA due to an increase in the discount rate applicable to the retail portfolio. Excluding net revaluation gains, operating profit increased by HK$977 million. This reflected a movement from operating loss to operating profit in the Aviation Division and increases in operating profit in the Property and Trading & Industrial Divisions, partially offset by lower operating profit in the Beverages Division and higher vessel impairments in the Marine Services Division.

The Property Division's operating profit (excluding net valuation gains) increased by HK$443 million. Profit from property investment increased by HK$1,698 million. This reflected a profit on the sale of investment properties of HK$1,277 million and higher rental income in Hong Kong and from the retail properties in Mainland China and the USA. Profit from property trading decreased by HK$1,332 million, principally reflecting the absence in 2018 of profit on sales at the ALASSIO development in Hong Kong. The operating loss from hotels decreased by HK$77 million, principally due to better performances at EAST, Miami in the USA and at the hotels in Hong Kong.

In the Aviation Division, the HAECO group's 2017 operating loss included non-recurring impairment charges aggregating HK$632 million. Disregarding these non-recurring items, the HAECO group recorded an improved operating profit in 2018. This reflected a higher profit at HAECO Hong Kong and HAECO Xiamen and a reduced loss at HAECO Americas.

In the Beverages Division, the 2018 operating profit included the following non-recurring items (pre-tax basis): (a) a HK$148 million gain arising from the disposal of Kaohsiung plant in Taiwan and (b) a HK$107 million gain arising from production and distribution assets acquired in the USA in 2017. Disregarding these non-recurring gains (which aggregated HK$255 million) and non-recurring gains aggregating HK$1,607 million in 2017 (mainly arising from the acquisition of franchise territories in Mainland China and the USA and from changes in franchise terms in the USA), the 2018 operating profits of the Beverages Division increased. Profits were higher in Mainland China and the USA. This reflected the inclusion of a full year of sales from franchise territories acquired in 2017 and a better product and packaging mix in Mainland China, partially offset by higher raw material and operating costs.

In the Marine Services Division, the increased operating loss at SPO principally reflected a higher impairment charge (HK$3,872 million compared with HK$1,015 million in 2017) in respect of vessels and associated goodwill. Disregarding impairment charges and the impact of vessel disposals in both years, operating losses of SPO increased from HK$760 million in 2017 to HK$912 million in 2018. This principally reflected lower charter hire rates for the core fleet and a reduction in utilisation of construction and specialist vessels.

In the Trading & Industrial Division, the 2018 operating profit included the non-recurring gains on disposals of Akzo Nobel Swire Paints and Swire Pacific Cold Storage. Disregarding these non-recurring gains (which aggregated HK$3,173 million) and the non-recurring loss in 2017 of HK$94 million on disposal of Swire Retail's interest in Rebecca Minkoff, the Division reported an operating gain of HK$82 million in 2018 compared to an operating gain of HK$14 million in 2017. There were higher operating profits at Taikoo Motors and Swire Retail. There was no operating loss at Swire Pacific Cold Storage for the remainder of the year following its disposal in July 2018. Swire Foods moved from profits to losses.

Net Finance Charges

The increase in net finance charges mainly reflected the cessation of interest capitalisation in respect of an office building in Kowloon Bay which was completed at the end of 2017. This was partially offset by a decrease in the amount of borrowings in Hong Kong and Mainland China and fair value gains (instead of 2017's fair value losses) on put options in respect of non-controlling interests in subsidiary companies.

Share of Profits Less Losses of Joint Venture Companies

In the Property Division, the increase of HK$179 million principally reflected a higher operating profit from HKRI Taikoo Hui (which enjoyed its first full year of rental income in 2018) and Sino-Ocean Taikoo Li (where retail sales were higher and a profit was made on the sale of offices at Pinnacle One) in Mainland China, partially offset by lower net revaluation gains of HK$138 million. The increased hotel losses in 2018 reflected pre-opening expenses at the two new hotels at HKRI Taikoo Hui.

In the Aviation Division, profits from joint venture companies in the HAECO group increased by HK$137 million, principally reflecting an increase in engine volume and a heavier work mix at HAESL.

In the Beverages Division, the increase in profits from joint venture companies in 2018 arose from a full year's contribution from a joint venture company in Shanghai which was acquired in July 2017.

In the Trading & Industrial Division, the contribution from Akzo Nobel Swire Paints decreased by HK$73 million. This reflected lower sales volume and higher material costs in Mainland China and an unfavourable product mix. The increased share of loss at Swire Foods mainly reflected a HK$38 million impairment provision in respect of the termination of sugar refinery operations.

Share of Profits Less Losses of Associated Companies

The Cathay Pacific group contributed a profit of HK$1,056 million in 2018 compared to 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.

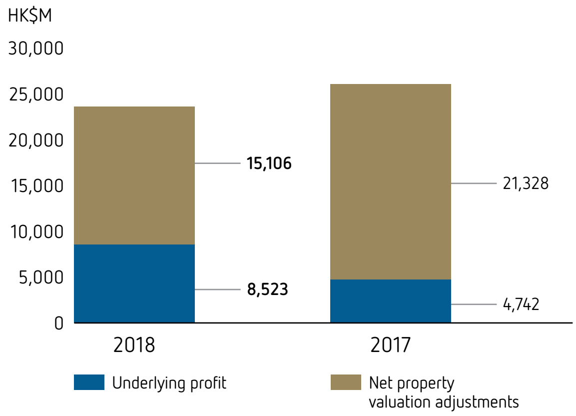
In the Property Division, profits from the three associate hotels at Pacific Place in Hong Kong increased marginally.

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 decrease in taxation mainly reflected the absence of 2017's HK$249 million write-off of net deferred tax assets at HAECO Americas.

Profit and Underlying Profit Attributable to the Company's Shareholders



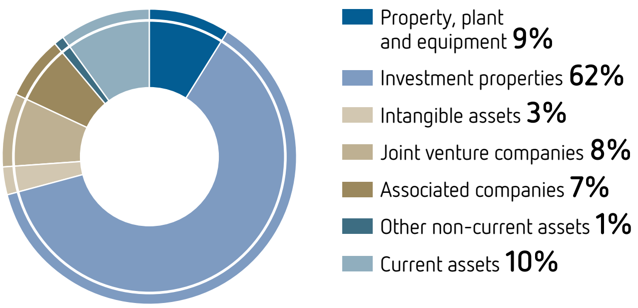
The decrease in profit attributable to the Company's shareholders reflects a reduction in net revaluation gains on investment properties from HK$21,328 million in 2017 to HK$15,106 million in 2018. Excluding net investment property adjustments, underlying profit increased by HK$3,781 million. The increase principally reflected better results from the Property, Aviation and Trading & Industrial Divisions. This was partially offset by lower profit from the Beverages Division and a higher impairment charge at SPO.

Consolidated Statement of Financial Position

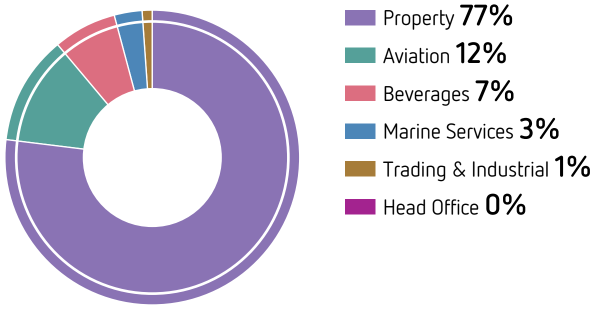
	Notes to the Financial Statements	2018 HK$M	2017 HK$M	Increase/(Decrease) HK$M	%
Property, plant and equipment	14	39,644	45,619	(5,975)	-13%
Investment properties	15	271,515	265,944	5,571	2%
Intangible assets	17	12,918	13,486	(568)	-4%
Joint venture companies	19(a)	34,340	29,449	4,891	17%
Associated companies	19(b)	31,700	30,404	1,296	4%
Properties under development and for sale	23	1,469	2,300	(831)	-36%
Stocks and work in progress	24	5,242	6,229	(987)	-16%
Trade and other receivables	25	10,012	11,029	(1,017)	-9%
Bank balances and short-term deposits	26	9,112	6,072	3,040	50%
Assets classified as held for sale	27	15,526	–	15,526	100%
Other current assets	32	–	6,262	(6,262)	-100%
Other assets		4,927	4,305	622	14%
Total Assets		436,405	421,099	15,306	4%
Trade and other payables	28	26,781	24,782	1,999	8%
Loans and bonds	29	71,779	78,586	(6,807)	-9%
Deferred tax liabilities	30	10,034	9,881	153	2%
Liabilities classified as held for sale	27	207	–	207	100%
Other liabilities		2,489	1,756	733	42%
Total Liabilities		111,290	115,005	(3,715)	-3%
Net Assets		325,115	306,094	19,021	6%
Equity attributable to the Company's shareholders	33, 34	270,424	253,163	17,261	7%
Non-controlling interests	35	54,691	52,931	1,760	3%
Total Equity		325,115	306,094	19,021	6%

Total Assets

Total Assets by Category



Total Assets by Division



Property, Plant and Equipment

The decrease in property, plant and equipment principally reflected an impairment charge at SPO and the disposal of subsidiary companies (which included Swire Pacific Cold Storage), partly offset by capital expenditure (net of depreciation).

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 increase also reflected transfers from properties under development and for sale and the reclassification of some previously owner-occupied properties from property, plant and equipment to investment properties. The increases were partly offset by foreign exchange translation losses on investment properties in Mainland China, the transfer out of investment properties on disposal of property holding subsidiary companies and the transfer of the Cityplaza Three and Four office buildings to assets classified as held for sale.

Intangible Assets

The decrease in intangible assets in 2018 includes an impairment charge in respect of goodwill at SPO (HK$86 million) and net negative adjustments in respect of the recognition of beverages goodwill and franchise rights in the USA during 2017 (HK$265 million).

Joint Venture Companies and Loans Due from Joint Venture Companies

The increase principally reflected (a) equity funding of joint venture projects in Mainland China and (b) debt funding of joint venture property projects in Hong Kong and 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. Major additions during 2018 were the acquisition of a 50% equity interest in Taikoo Li Qiantan in Shanghai, Mainland China (HK$1,670 million) and further loans advanced (including reclassification adjustments) to a 50% owned company which is undertaking a property development project in Hong Kong (HK$2,792 million). These increases were partly offset by dividends paid, foreign exchange translation losses from joint venture companies in Mainland China, disposal of the interest in Akzo Nobel Swire Paints and the consolidation of what was previously a joint venture company in the HAECO group as a subsidiary company following the acquisition of an additional 31.5% interest in the company.

Associated Companies and Loans Due from Associated Companies

The increase 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 principally reflects retained profit during the year and a reduction in unrealised losses from fuel hedging contracts in the cash flow hedge reserve.

Properties Under Development and for Sale

The decrease in properties under development and for sale principally reflected sales of houses at the WHITESANDS development and carparks at the AZURA development in Hong Kong and of units at the Reach and Rise developments at Brickell City Centre in the USA.

Stocks and Work in Progress

The decrease in stocks and work in progress was principally due to the reallocation of work in progress at HAECO group to contract assets as defined in HKFRS 15 "Revenue from Contracts with Customers", which was effective from 1st January 2018.

Trade and Other Receivables

The decrease in trade and other receivables is mainly due to settlement of trade debtors related to the WHITESANDS development.

Assets Classified as Held for Sale

Assets classified as held for sale mainly comprised interests in properties which were conditionally agreed to be sold to a third party in June 2018.

Other Current Assets

The decrease reflected completion of the sale of the subsidiary owning the Kowloon Bay development in June 2018.

Trade and Other Payables

The increase in trade and other payables principally reflected a HK$421 million increase in accrued capital expenditure and a HK$1,932 million increase in the deposits received in respect of the sale of subsidiary companies.

Bank Balances and Short-Term Deposits/ Loans and Bonds

The decrease in net borrowings reflected the proceeds received from sale of the Group's interests in Akzo Nobel Swire Paints, Swire Pacific Cold Storage, a development in Kowloon Bay and other properties in Hong Kong. These proceeds exceeded the funds used to finance the Group's property developments 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.

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$20,973 million in 2018) less dividends paid to shareholders (HK$3,454 million in 2018). In 2018, the movement in equity attributable to the Company's shareholders also reflected a charge of HK$580 million relating to the privatisation of HAECO.

Non-controlling Interests

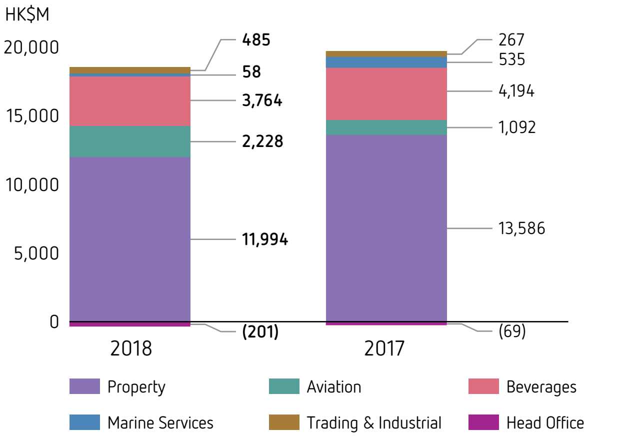
The non-controlling interests principally reflect the 18% non-controlling interest in Swire Properties. The 25% non-controlling interest in HAECO was acquired by the Company on HAECO's privatisation.

Consolidated Statement of Cash Flows

	Notes to the Financial Statements	2018 HK$M	2017 HK$M	Increase/ (Decrease) HK$M
Cash generated from operations	42(a)	18,328	19,605	(1,277)
Net interest paid		(2,428)	(2,390)	38
Tax paid		(2,180)	(2,172)	8
Dividends received		1,716	557	1,159
Investing activities				
Purchase of property, plant and equipment	42(b)	(4,103)	(3,777)	326
Additions of investment properties		(3,917)	(5,179)	(1,262)
Additions of other current assets		(88)	(623)	(535)
Additions of assets classified as held for sale		(364)	–	364
Proceeds from disposals of property, plant and equipment		450	263	187
Proceeds from disposals of investment properties		350	40	310
Proceeds from disposals of subsidiary companies, net of cash disposed of	42(d)	9,584	614	8,970
Proceeds from disposals of joint venture companies		3,594	–	3,594
Proceeds from disposals of available-for-sale assets		–	71	(71)
Purchase of shares in new subsidiary companies		(14)	(4,163)	(4,149)
Purchase of shares in joint venture companies		(1,670)	(1,046)	624
Purchase of new businesses		–	(2,347)	(2,347)
Adjustment for previous year's purchase of new businesses		187	–	(187)
Purchase of equity investments at fair value through other comprehensive income		(4)	–	4
Purchase of available-for-sale assets		–	(11)	(11)
Net loans to joint venture companies		(1,272)	(1,407)	(135)
Others		(250)	(184)	66
Net cash generated from/(used in) businesses and investments		17,919	(2,149)	20,068
Dividends paid	34, 42(c)	(4,582)	(4,335)	247
Loans drawn and refinancing		10,624	20,312	(9,688)
Repayment of loans and bonds		(17,571)	(13,049)	4,522
Repurchase of the Company's shares	33	(21)	(153)	(132)
Purchase of shares in existing subsidiary companies		(3,018)	(1,384)	1,634
Cash paid to shareholders and net funding by external debt		(14,568)	1,391	15,959
Increase/(decrease) in cash and cash equivalents		3,351	(758)	(4,109)

Cash Generated from Operations

Cash Generated from/(used in) Operations by Division



Dividends Received

Dividends received in 2018 principally comprised dividends from HAESL, Akzo Nobel Swire Paints and Columbia Sportswear Commercial (Shanghai) 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 2018 principally reflected the purchase of new production and marketing equipment in the Beverages Division, the construction of a new hangar at HAECO Americas and the acquisition of new vessels by SPO.

Additions of Investment Properties

The additions of investment properties in 2018 principally reflected capital expenditure on the Taikoo Place office redevelopment and other projects in Hong Kong, the USA and Singapore.

Additions of Other Current Assets/ Assets Classified as Held for Sale

The additions represented additional capital expenditure on assets classified as held for sale since reclassification during 2018 and development costs incurred on a property in Kowloon Bay, Hong Kong, the sale of the subsidiary owning which was completed in June 2018.

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

The proceeds from disposals of subsidiary companies principally comprised the proceeds received from the disposal of the subsidiary owning Swire Pacific Cold Storage and of property-owning subsidiary companies in the Property Division.

Proceeds from Disposals of Joint Venture Companies

In 2018, the proceeds of HK$3,594 million (net of transaction costs) represented the sale of interests in joint venture companies in the Trading & Industrial Division.

Purchase of Shares in Joint Venture Companies

In 2018, the Property Division acquired a 50% interest in the company which is undertaking the Taikoo Li Qiantan retail development in Shanghai, Mainland China.

Net Loans to Joint Venture Companies

Loans to joint venture companies in 2018 principally reflected funding made available to joint venture property projects in Hong Kong and Mainland China. HK$1,005 million was lent to a 50% owned joint venture company in order to fund a property development in Hong Kong.

Loans Drawn and Refinancing

In 2018, 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

The 25% non-controlling interest in HAECO was acquired by the Company on HAECO's privatisation.

Investment Appraisal and Performance Review

	Capital employed		Capital commitments*	
	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
Property investment	299,126	282,662	17,407	13,940
Property trading	4,143	3,942	–	–
Hotels	7,394	7,738	215	260
Property – overall	310,663	294,342	17,622	14,200
Aviation	45,449	44,798	622	954
Beverages	16,657	17,274	931	767
Marine Services	13,014	16,755	543	1,731
Trading & Industrial	2,252	5,631	71	141
Head Office	(253)	(192)	–	–
Total capital employed	387,782	378,608	19,789	17,793
Less: net debt	(62,667)	(72,514)		
Less: non-controlling interests	(54,691)	(52,931)		
Equity attributable to the Company's shareholders	270,424	253,163		

	Equity attributable to the Company's shareholders		Return on equity	
	2018 HK$M	2017 HK$M	2018	2017
Property investment	221,214	203,630	11.0%	14.1%
Property trading	2,141	1,519	4.4%	56.8%
Hotels	5,213	5,531	-0.6%	-0.6%
Property – overall	228,568	210,680	10.7%	14.0%
Aviation	42,326	38,187	4.4%	-2.7%
Beverages	11,976	11,337	14.0%	30.7%
Marine Services	8,681	8,350	-59.1%	-24.1%
Trading & Industrial	3,210	5,738	64.9%	1.2%
Head Office	(24,337)	(21,129)		
Total	270,424	253,163	9.0%	10.9%

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