MARINE SERVICES DIVISION

Pacific Dolphin, one of Swire Pacific Offshore's D-class vessels

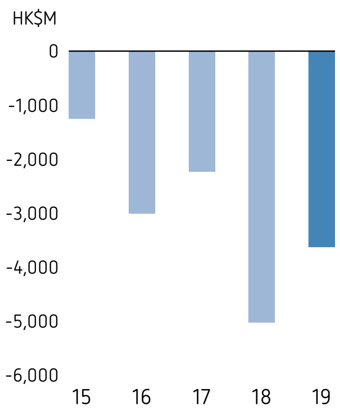
PROVIDING EXCELLENT OFFSHORE SUPPORT

We aim to provide outstanding specialised offshore support to the global oil and gas industry.

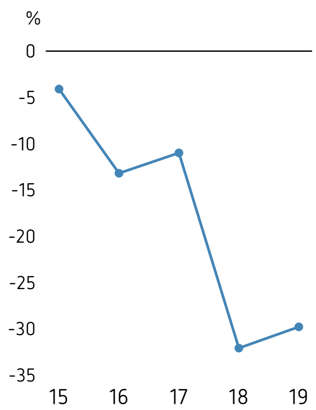
MARINE SERVICES DIVISION

The Marine Services Division, through Swire Pacific Offshore, owns and operates offshore support vessels servicing the energy industry in every major offshore production and exploration region outside the USA. SPO also has a windfarm installation business.

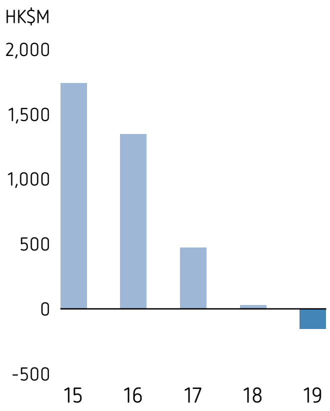
Loss Attributable to the Company's Shareholders



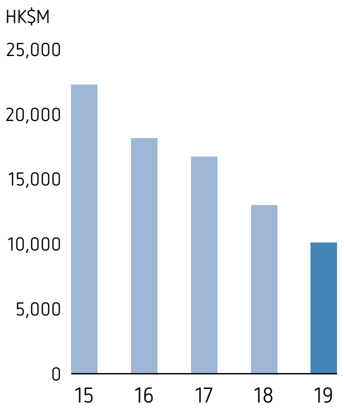
Return on Capital Employed



Net Cash Generated from/(Used in) Operating Activities



Capital Employed



SPO supports offshore drilling, production, exploration, platform construction, subsea inspection, maintenance and repair (IMR) and light construction work. SPO also carries out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing and oil rig decommissioning.

SPO's Norway based Swire Seabed companies were closed in February 2020. Their IMR and light construction vessels are now operated and marketed as part of SPO's core fleet from the Singapore head office.

HUD, a joint venture between CK Hutchison and Swire Pacific, provides engineering, harbour towage and salvage services from its facilities on Tsing Yi Island in Hong Kong. It is the largest towage operator in Hong Kong, operating 13 tugs and six container vessels, providing a 24-hour service.

SPO

SPO's Fleet

At 31st December 2019, SPO operated a fleet of 73 vessels. The fleet consists of anchor handling tug supply vessels (AHTSs), platform supply vessels (PSVs) and construction and specialist vessels (CSVs). The CSVs consist of IMR vessels, a seismic survey vessel, wind farm installation vessels (WIVs), accommodation barges, a light construction subsea vessel and a high speed catamaran crew boat.

Except for those committed to long-term charters, SPO's vessels can be relocated from one operating region to another to take advantage of the most favourable employment opportunities.

SPO's Geographical Distribution

SPO is headquartered in Singapore, with regional support for its vessels provided by offices in Angola, Australia, Brazil, Brunei, Denmark, Equatorial Guinea, Ghana, India, Indonesia, Malaysia, New Zealand, Qatar, the Philippines, Scotland and the United Arab Emirates. SPO also has a representative office in the USA.

SPO – Fleet Size

Vessel class	Year-end 2018	Disposals	Year-end 2019
Anchor Handling Tug Supply Vessels	44	(3)	41
Platform Supply Vessels	22	–	22
Construction and Specialist Vessels (Note)	11	(1)	10
	77	(4)	73

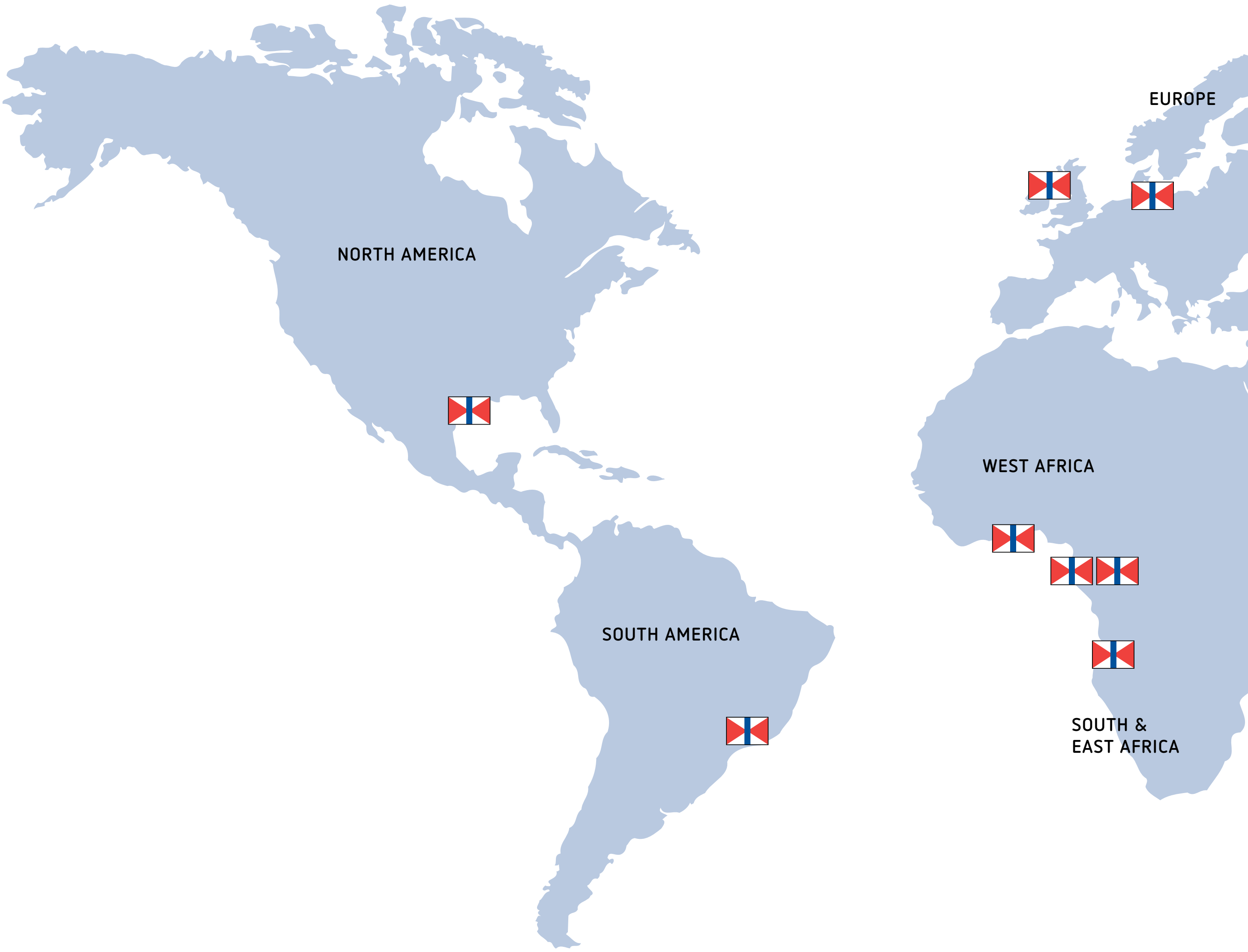
Note: One vessel is subject to an operating lease.

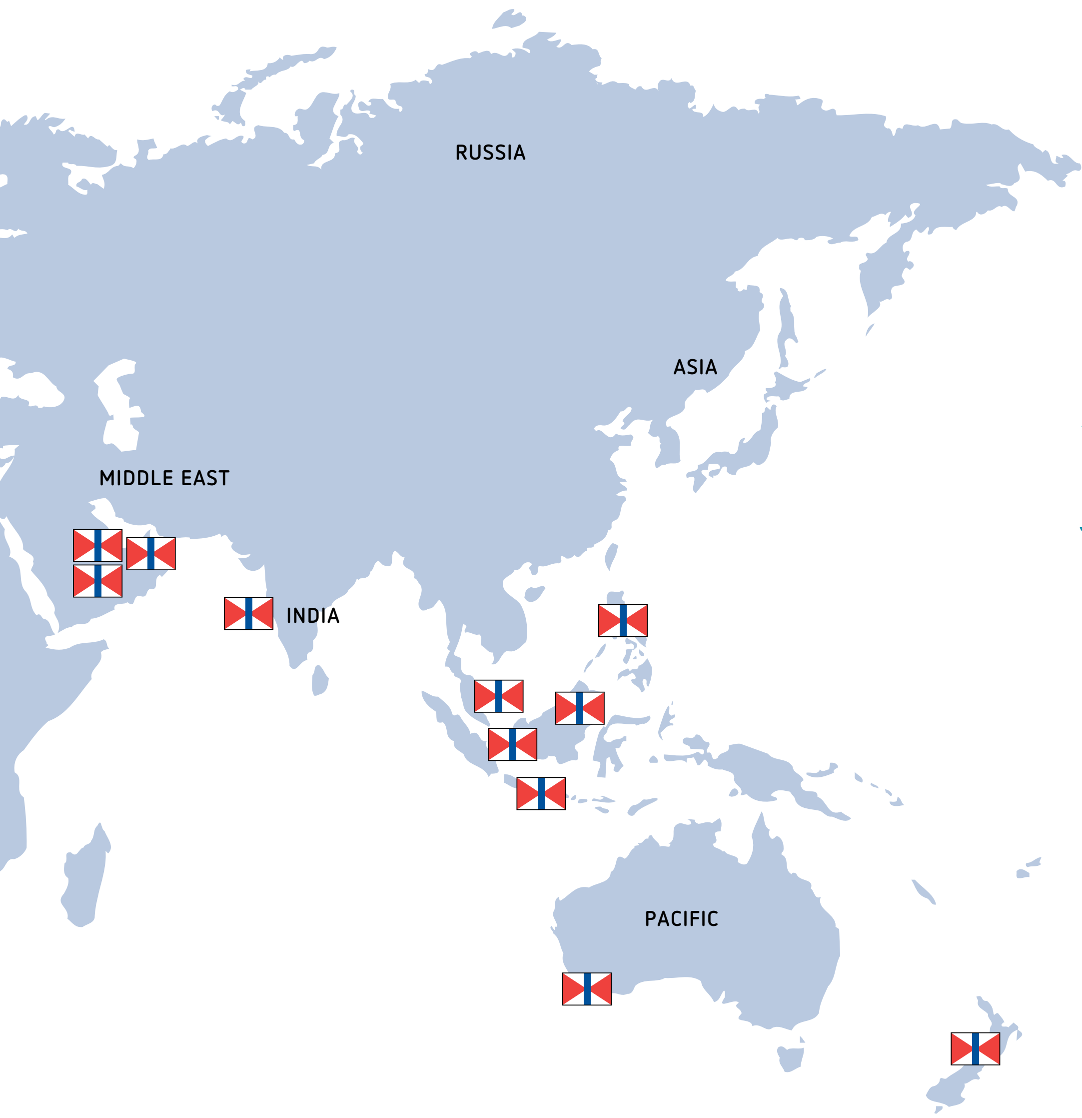
STRATEGY

The principal strategic objective of the Marine Services Division is to maintain and strengthen SPO's position as a leading supplier of marine services, focusing primarily on the offshore energy industry. The strategies employed in order to achieve this objective are:

- **Ensuring safety always comes first in every aspect of the business.**
- **Delivering a consistently high level of reliability and quality.**
- **Efficient and productive fleet operations.**
- **Managing the business sustainably.**
- **Developing an industry leading team recognised for quality and professionalism.**
- **Operating to the highest standards of corporate governance.**

SPO – Global Footprint





SPO Group Office

Number of Vessels at 31st December 2019

Anchor Handling Tug Supply Vessels	41
Platform Supply Vessels	22
Inspection, Maintenance and Repair Vessels	4
Accommodation Barges	2
Windfarm Installation Vessels	2
Seismic Survey Vessels	1
Fast Catamaran	1

2019 PERFORMANCE

Financial Highlights

	2019 HK$M	2018 HK$M
Swire Pacific Offshore group		
Revenue	2,452	3,019
Operating loss derived from		
Operating activities	(1,134)	(915)
Loss on disposal of vessels	(41)	–
Impairment charges	(2,121)	(3,872)
Restructuring provision	(125)	–
Total operating loss	(3,421)	(4,787)
Attributable loss	(3,672)	(5,070)
HUD group		
Share of post-tax profits from joint venture companies	38	37
Attributable loss	(3,634)	(5,033)
Non-recurring items		
Loss on disposal of vessels	(41)	–
Impairment charges on vessels and goodwill	(2,121)	(3,872)
Restructuring provision	(125)	–
Associated write-off of deferred tax asset	–	(39)
	(2,287)	(3,911)
Recurring loss	(1,347)	(1,122)

Fleet Size

	2019	2018
Number of vessels operated:		
Swire Pacific Offshore group	73	77
HUD group	19	19
Total	92	96

SPO has a modern, highly specified and fuel-efficient fleet which is capable of meeting the needs of its customers.

SWIRE PACIFIC OFFSHORE GROUP

2019 OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY REVIEW

Industry conditions remain difficult, although the market appears to have bottomed out. Offshore oil and gas spending increased modestly in 2019, which was reflected in higher vessel utilisation. However, the oversupply of offshore support vessels continued to put pressure on charter hire rates.

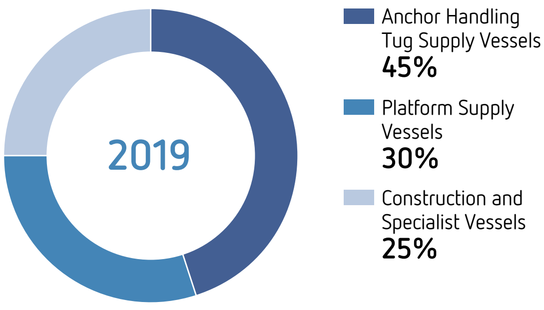
2019 RESULTS SUMMARY

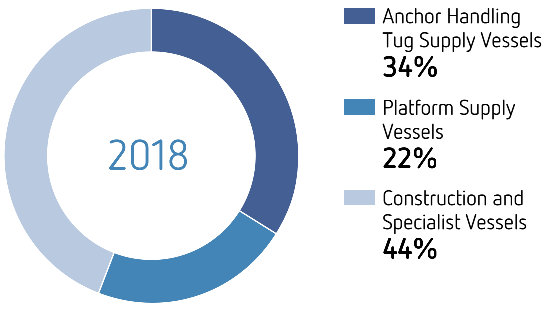
SPO reported an attributable loss of HK$3,672 million in 2019, compared to a loss of HK$5,070 million in 2018. The loss for 2019 included impairment charges in respect of the carrying value of vessels and a restructuring provision aggregating HK$2,246 million.

Significant impairment charges were made by SPO in previous years. These impairment charges reflected reviews of the carrying value of SPO's fleet, as required by applicable accounting standards. A significant influence on the value of the fleet is the outlook for the offshore industry in which SPO operates. The reviews performed in previous years reflected the outlook at the times when they were made. They took into account an expectation that a recovery in the oil price would result in increased offshore exploration and therefore increased utilisation of SPO's fleet and an increase in the charter hire rates which SPO could secure.

A further review of the carrying value of SPO's fleet was undertaken in 2019. This review resulted in the impairment charges and restructuring provision aggregating HK$2,246 million referred to above. There was higher utilisation of SPO's fleet in 2019. However, despite a recovery in the oil price (from a low in 2016 of US$28 per barrel to US$66 per barrel at the end of 2019), there was no corresponding increase in overall average charter hire rates. Too many vessels, including some being brought out of cold stack, are competing for the available work. Accordingly, the 2019 review of the carrying value of SPO's fleet took into account a downward revision of expected future charter hire rates, as compared to those expected in previous reviews.

SPO – Charter Hire Revenue by Vessel Class





Excluding impairment charges (and the associated restructuring provision, loss on disposal of vessels and write-offs) in both years, SPO reported an attributable loss of HK$1,385 million in 2019 (compared to a loss of HK$1,159 million in 2018). These losses reflect the difficult market conditions in the offshore energy industry.

SPO's net cash outflow from operating activities was HK$187 million in 2019, compared to an inflow of HK$52 million in 2018.

Charter Hire

Charter hire revenue decreased by 14% to HK$2,263 million in 2019. The decrease principally reflected reduced charter hire rates for specialist vessels.

SPO had a fleet utilisation rate of 76.9% in 2019, an increase of 7.0 percentage points from 2018. Average charter hire rates declined by 21% to US$13,600 per day.

Core Fleet (AHTSs and PSVs)

The utilisation rate for SPO's core fleet increased by 8.2 percentage points from 2018, to 82.3% in 2019. Charter hire rates for the core fleet increased by 5%, to US$11,100 per day.

One AHTS was in warm stack and no vessel was in cold stack at 31st December 2019.

Specialist Fleet

The utilisation rate of SPO's CSVs was 44.7% in 2019, similar to that in 2018. Charter hire rates for the CSVs decreased by 51%, to US$41,100 per day.

One accommodation barge was in cold stack at 31st December 2019.

One accommodation barge, one high speed crew catamaran and one windfarm installation vessel were in warm stack at 31st December 2019.

Non-charter Hire

Non-charter hire income was HK$189 million in 2019, a decrease of 50% compared to 2018. Non-charter hire income was mainly derived from consultancy and engineering services provided by subsea vessels.

Operating Costs

Total operating costs in 2019 decreased by HK$358 million (or 9%) to HK$3,548 million. This decrease principally reflected savings in manning costs and a different fleet mix.

FLEET

SPO had 73 vessels at the end of 2019, compared with 77 at the end of 2018.

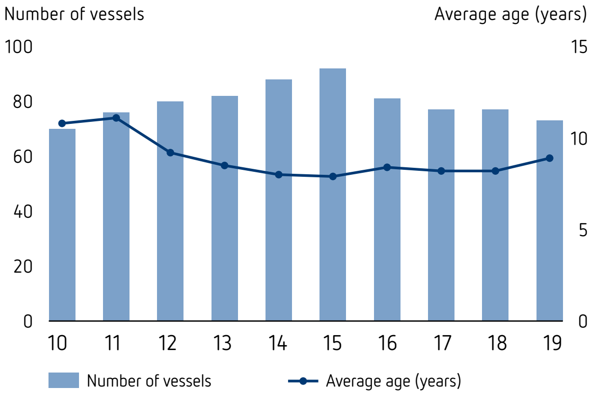
SPO disposed of three older AHTSs in 2019 and one seismic survey vessel. Total capital expenditure on vessels and other fixed assets in 2019 was HK$402 million, compared to HK$1,103 million in 2018.

At 31st December 2019, SPO had total capital expenditure commitments of HK$392 million (31st December 2018: HK$473 million).

SPO – Profile of Capital Commitments

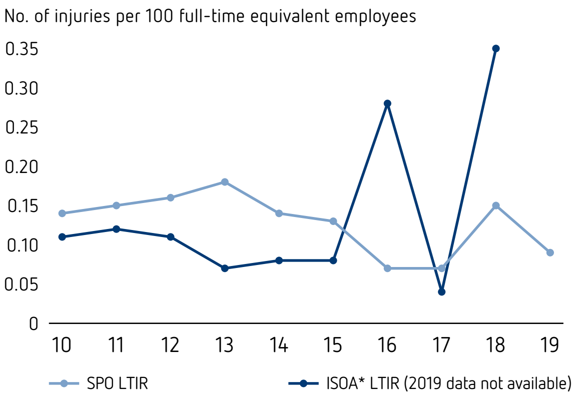
	Expenditure 2019 HK$M	Commitments at 31st December 2019 HK$M
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	239	226
Construction and Specialist Vessels	89	158
Other fixed assets	74	8
Total	402	392

SPO – Fleet Size and Average Age of Vessels*



* Including vessels chartered from external parties.

SPO – LTIR



* ISOA – International Support Vessel Owners' Association

OUTLOOK

SPO's 2019 vessel utilisation was the highest since 2014, but charter hire rates are depressed by the oversupply of vessels. Trade tensions and COVID-19 are adversely affecting the recovery of the offshore support industry. In any event, a significant overall increase in rates will be required to restore SPO's business to profitability. SPO continues to evaluate the composition of its fleet with a view to being in the best position to take advantage of market opportunities as they materialise. SPO remains vigilant on costs.

HONGKONG UNITED DOCKYARDS GROUP

2019 INDUSTRY REVIEW

The shipping industry is suffering from over-capacity and competition for harbour towage business in Hong Kong is fierce.

There were fewer relevant engineering contracts awarded in 2019 than expected, but margins were better than in 2018.

2019 RESULTS SUMMARY

The attributable profit of the HUD group for 2019 was HK$38 million compared to HK$37 million in 2018.

The salvage and towage division's 2019 profit (before tax and interest and on a 100% basis) was HK$146 million (2018: HK$135 million). The increase reflected gains on the disposal of two tug boats and unscheduled emergency oil spill response services, partly offset by a reduction in towage activity.

The engineering division recorded a loss (before tax and interest and on a 100% basis) of HK$57 million compared to a loss of HK$53 million in 2018.

The salvage and towage division has 19 vessels, including six container vessels. Two new tugs were acquired and two old tugs were sold in 2019.

OUTLOOK

Container liner activity and land-based engineering projects are being adversely affected by COVID-19, the former because of the effect of the virus on trade with Mainland China.

Peter Langslow
Derrick Chan