

TRADING & INDUSTRIAL DIVISION



Taikoo Motors is a Volkswagen dealer in Taiwan.

DEVELOPING CORE BUSINESSES

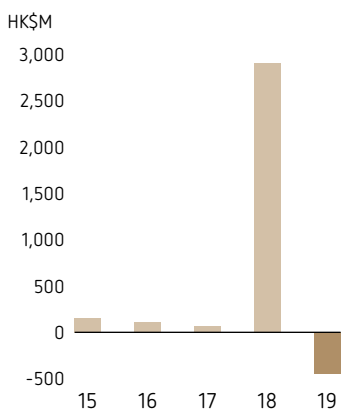
We aim to strengthen the capabilities of our retail, motors and food businesses.



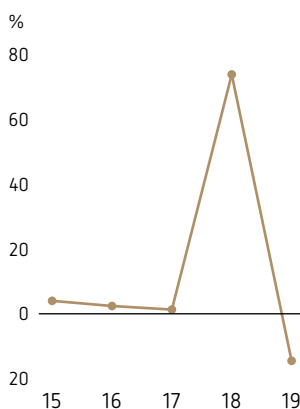
TRADING & INDUSTRIAL DIVISION

The Trading & Industrial Division has interests in the following companies: Swire Resources, Taikoo Motors, Swire Foods and Swire Environmental Services.

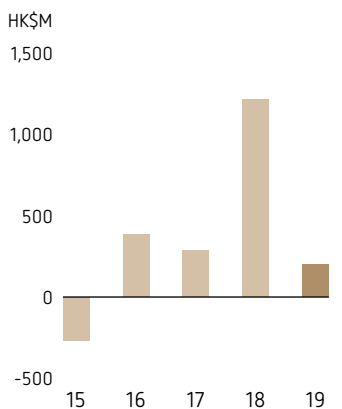
Profit/(Loss) Attributable to the Company's Shareholders



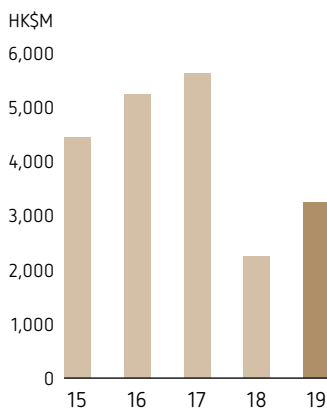
Return on Capital Employed



Net Cash Generated from/ (Used in) Operating Activities



Capital Employed



SWIRE RESOURCES

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2019, it operated 191 retail outlets in Hong Kong and Macau and 13 retail outlets in Mainland China.



TAIKOO MOTORS

Taikoo Motors sells passenger cars, commercial vehicles, motorcycles and scooters. Almost all of Taikoo Motors' business is in Taiwan, where it sells Volkswagen, Mercedes-Benz and Mazda cars, Volkswagen light commercial vehicles, Volvo trucks and buses, Harley-Davidson motorcycles and Vespa scooters.



SWIRE FOODS

Chongqing New Qinyuan Bakery

Qinyuan Bakery is a leading bakery chain in southwest China, with 571 stores in Chongqing, Guiyang and Chengdu at the end of 2019.

Taikoo Sugar

Taikoo Sugar packages and sells sugar in Hong Kong and Mainland China under the Taikoo Sugar brand.



SWIRE ENVIRONMENTAL SERVICES

Swire Waste Management is a 50:50 joint venture with a subsidiary of Waste Management Inc. The joint venture seeks waste management contracts in Hong Kong. It has contracts to provide waste management services to seven outlying islands and to the north west New Territories.

STRATEGY

The strategic objective of the Trading & Industrial Division is (after a period of divestment) to develop its retail, motors and food businesses. The strategies employed in order to achieve this objective are these:

- Strengthening the capability of Swire Resources in branded footwear, apparel and related accessories by expanding the range and quality of those branded goods.
- Opening new stores for key brands sold by Swire Resources in Hong Kong and Macau.
- Strengthening the capability of Taikoo Motors in the import and distribution of motor vehicles, including by selective additions to brands represented.
- Using Taikoo Motors' existing capability in order to expand into other motor-related businesses.
- Expanding the distribution network of Taikoo Sugar in Mainland China.
- Strengthening Qinyuan Bakery by increasing the range of its products and the number of its stores.
- Increasing the number of waste management contracts awarded to Swire Waste Management.

2019 PERFORMANCE

Financial Highlights

	2019 HK\$M	2018 HK\$M
Revenue		
Swire Resources	3,113	3,338
Taikoo Motors	5,190	5,810
Swire Foods	1,605	1,748
Swire Pacific Cold Storage	–	82
	9,908	10,978
Operating (losses)/profits		
Swire Resources	(3)	69
Taikoo Motors	173	155
Swire Foods	(348)	(30)
Swire Pacific Cold Storage*	104	24
Swire Environmental Services	(285)	(24)
Others, including central costs	(20)	3,061
	(379)	3,255
Attributable (losses)/profits		
Swire Resources	(24)	102
Taikoo Motors	132	123
Swire Foods	(365)	(91)
Swire Pacific Cold Storage*	140	(45)
Swire Environmental Services	(315)	(54)
Akzo Nobel Swire Paints*	–	2,894
Central costs	(20)	(25)
Attributable (loss)/profit	(452)	2,904
Non-recurring items		
Gain on disposal of businesses	140	2,792
Provision for termination of businesses	–	(52)
Provision for business rationalisation in Qinyuan Bakery	(152)	–
Write-off of:		
– Goodwill in respect of Qinyuan Bakery	(200)	–
– An associated company	(281)	–
	(493)	2,740
Recurring profit	41	164

* Including gains on disposal of interests in the relevant companies

2019 INDUSTRY REVIEW

Footwear and apparel business in Hong Kong and Mainland China

Footwear and apparel sales in Hong Kong and Mainland China decreased by 7% in 2019.

Car sales in Taiwan

Car registrations in Taiwan increased by 1% to 439,813 units in 2019.

Sugar sales in Mainland China

The volume of sugar sold in Mainland China was little changed at 33,510 million pounds in 2019.

Bakery sales in Mainland China

Retail sales of bakery products sold in Mainland China increased by 11% in 2019.

2019 RESULTS SUMMARY

The attributable loss of the Trading & Industrial Division in 2019 was HK\$452 million compared to an attributable profit of HK\$2,904 million in 2018. The 2019 results included a write-off of the investment in an associated company of HK\$281 million, an impairment charge of HK\$200 million in respect of goodwill and other provisions of HK\$152 million at the Qinyuan Bakery, and the write-back of provisions (of HK\$140 million) relating to the disposal of the cold storage business. The 2018 results included non-recurring gains of HK\$2,792 million on the disposals of the Akzo Nobel paints business and the cold storage business. Disregarding these items and other non-recurring items, the Division's attributable profit in 2019 was HK\$41 million, compared with an attributable profit of HK\$164 million in 2018. The deterioration mainly reflects worse results from Swire Resources in the second half of the year and the disposal of the paints business (which was profit making), partly offset by the absence of losses from the cold storage business (which was loss making before its disposal).

Swire Resources

The attributable loss of Swire Resources in 2019 was HK\$24 million, compared to a profit of HK\$102 million in 2018. In the second half of 2019, sales at the retail outlets of Swire Resources were significantly affected by social unrest in Hong Kong.

The revenue of Swire Resources in Hong Kong and Macau in 2019 was 7% lower than in 2018. Gross margins were also lower. During the period of social unrest, there were fewer tourists in Hong Kong (especially from Mainland China), local consumers spent less and margins were affected by discounting and sales promotions.

191 retail outlets were operated in Hong Kong and Macau at the end of 2019, two fewer than at the end of 2018. 13 retail outlets were operated in Mainland China at the end of 2019, five more than at the end of 2018.

Taikoo Motors

The attributable profit of Taikoo Motors increased to HK\$132 million in 2019 from HK\$123 million in 2018. The 2019 and 2018 results included termination costs arising from the closure of the Malaysia business of HK\$2 million and HK\$14 million respectively.

17,522 cars, commercial vehicles and motorcycles were sold in 2019, 9% fewer than in 2018. 98% of these units were sold in Taiwan. The gross profit margin was higher than in 2018, due to a favourable product mix. Operating costs as a percentage of revenue were similar to that in 2018.

Swire Foods group

Swire Foods reported an attributable loss of HK\$365 million in 2019, compared with an attributable loss of HK\$91 million in 2018.

Qinyuan Bakery recorded an attributable loss of HK\$389 million in 2019. The 2019 results included an impairment charge in respect of goodwill of HK\$200 million and other business rationalisation costs of HK\$152 million. Excluding these non-recurring items, the loss of Qinyuan Bakery reduced to HK\$37 million from a loss of HK\$66 million in 2018.

The 2019 revenue and gross profit of Qinyuan Bakery decreased by 11% and 9% respectively. This primarily reflected lower store numbers. Qinyuan Bakery operated 571 stores at the end of 2019, compared to 651 stores at the end of 2018.

The 2019 volumes of sugar sold by Taikoo Sugar decreased by 3% and 5% in Hong Kong and Mainland China respectively. Margins benefited from lower sugar costs. Operating costs increased because more sales staff were recruited in Mainland China.

The 34% owned sugar refinery business in Guangdong, Mainland China was disposed of in November 2019.

Swire Environmental Services

Swire Environmental Services made an attributable loss of HK\$315 million in 2019, which included a write-off of the investment in an associated company of HK\$281 million.

OUTLOOK

The results of Swire Resources are being very badly affected by COVID-19.

Taikoo Motors is upgrading its outlets and developing motor related businesses. Its results are expected to be stable in 2020.

Qinyuan Bakery is upgrading its existing stores. The range and quality of its products are improving. Its supply chain is becoming more agile and efficient. However, its results are being adversely affected by COVID-19.

Taikoo Sugar is expanding its distribution network in Mainland China and is improving its supply chain. However, its results in Hong Kong and Mainland China are being adversely affected by COVID-19.

David Cogman / Ivan Chu