SWIRE PACIFIC

SWIRE PACIFIC LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Codes: 00019 and 00087)

2016 Final Results

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	Note	2016 HK$M	2015 HK$M	Change %
Revenue		**62,389**	60,885	+2%
Operating profit		**15,384**	16,461	-7%
Profit attributable to the Company's shareholders		**9,644**	13,429	-28%
Cash generated from operations		**14,864**	14,362	+3%
Net cash inflow before financing		**2,831**	6,824	-59%
Total equity (including non-controlling interests)		**272,168**	263,986	+3%
Net debt		**64,046**	59,584	+7%
		HK$	HK$	
Earnings per share	(a)			
'A' share		**6.41**	8.93	-28%
'B' share		**1.28**	1.79	
Dividends per share				
'A' share		**2.10**	3.90	-46%
'B' share		**0.42**	0.78	
Equity attributable to the Company's shareholders per share	(a)			
'A' share		**149.50**	145.22	+3%
'B' share		**29.90**	29.04	

Underlying Profit		**HK$M**	HK$M	Change %
Underlying profit attributable to the Company's shareholders	(b)	**3,063**	9,892	-69%
		HK$	HK$	
Underlying earnings per share	(a)			
'A' share		**2.04**	6.58	-69%
'B' share		**0.41**	1.32	

Notes:

(a) Refer to note 7 in the financial statements for the weighted average number of shares.
(b) A reconciliation between the reported and underlying profit attributable to the Company's shareholders is provided on page 46.

Chairman's Statement

Year in review

The results of the Group in 2016 were affected by difficult economic conditions. Oil prices recovered somewhat but this did not lead to a recovery in exploration and production spending by oil majors. Retail sales in Hong Kong slowed. Intense competition and overcapacity reduced demand for our airlines' passenger and cargo services. Economic growth in the USA was robust, but a stronger US dollar and depreciation of the Renminbi adversely affected our results.

Results summary

Our consolidated profit attributable to shareholders for 2016 was HK$9,644 million, a 28% decrease compared to 2015. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, fell 69% to HK$3,063 million. The decrease primarily reflected weak results from our Aviation and Marine Services divisions (which included impairment charges at Swire Pacific Offshore ("SPO") and HAECO) and the absence of profits from sales of units in OPUS HONG KONG recorded in 2015.

The Property Division was the largest contributor to the Group's underlying profits in 2016. The profits of Swire Properties were little changed from those in 2015. Gross rental income from investment properties fell in Hong Kong but increased in Mainland China and the USA. The reduction in Hong Kong largely reflected lower retail rental income consequent on lower retail sales. Office rental income in Hong Kong increased despite the loss of rental income resulting from the Taikoo Place redevelopment. In Mainland China, gross rental income increased despite depreciation of the Renminbi. Profits from property trading increased in the USA. Fewer residential properties were sold in Hong Kong. The performance of the hotels in Mainland China improved, while at the same time the results of the hotels in Hong Kong were adversely affected by a reduction in the number of visitors to Hong Kong.

The profits at the Aviation Division were significantly lower. This principally reflected a loss at Cathay Pacific's airline operations, with a number of factors adversely affecting performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for the cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the HK dollar. All these factors put severe competitive pressure on yields.

HAECO's profits were higher. The increase was principally due to a gain on disposal of HAESL's interest in SAESL. Disregarding the gain on disposal and impairment charges at HAECO Americas and HAECO Landing Gear Services, profits were slightly higher. The benefits of more engine repair work at HAESL and TEXL, more line services work at HAECO Hong Kong and better results at HAECO Xiamen were partly offset by a higher loss in HAECO Americas' cabin and seats businesses and the HAECO group's share of SAESL's results for the first half year of 2016 being lower than that for the whole of 2015.

Swire Beverages' profits fell. The business in the USA continued to grow, with existing and new territories (Arizona and New Mexico) doing well. However, sales volumes and profits fell in Mainland China. Sales volumes fell in Hong Kong and Taiwan, but profits were little changed from those in 2015.

The Marine Services Division recorded higher losses. Low oil prices and a reduction in exploration and production spending by oil majors continued to have a material adverse effect on the market. The oversupply of offshore support vessels has resulted in reduced charter hire and utilisation rates. This in turn has led to the widespread stacking of vessels. SPO recorded further impairment charges in respect of its fleet. The business continued to generate positive operating cash flows in 2016.

The Trading & Industrial Division's profits were lower, principally due to weaker retail sales, costs associated with developing the cold storage business and losses from Swire Environmental Services.

Chairman's Statement (continued)

Implementing our strategy
The Group's aim is to generate sustainable long-term growth in shareholder value. We deploy capital where we see opportunities to generate long-term value.

The difficult market conditions faced by some of our businesses have led them to take measures to improve efficiency, to reduce costs where possible and to focus on core operations. This should serve us well in the longer term when market conditions improve.

The largest recipient of capital in the group is Swire Properties. This year, returns will be generated from two large mixed-used developments which were completed in 2016, the Brickell City Centre development in Miami and HKRI Taikoo Hui in Shanghai. Swire Properties is investing HK$15 billion in the redevelopment of Taikoo Place in Hong Kong. The first phase of this redevelopment is expected to be completed in 2018, the second in 2021 or 2022. Swire Properties conditionally agreed to sell its 100% interest in the company which owns an uncompleted investment property development in Kowloon Bay, Hong Kong for a cash consideration of HK$6,528 million, subject to adjustments. Completion is expected in 2018.

The Aviation Division is a significant investment for the Group. In response to weak revenues, Cathay Pacific has undertaken a critical review of its business. In the short term, it is implementing measures designed to improve revenues and reduce costs. The longer term strategy which is being developed in response to the review is designed to improve performance over a three-year period. We remain supportive of the long term investment plans of Cathay Pacific.

At HAECO, the disposal of HAESL's stake in SAESL will allow HAESL to compete more effectively for Rolls Royce engine overhaul business. At HAECO Americas, costs were incurred in 2016 with a view to improving efficiency and work flow. The HAECO Americas line service business was closed having regard to a review of its long term viability.

The Beverages Division continues to expand. In Mainland China, conditional agreements were entered into in 2016 which, if they become unconditional, will result in a realignment of the Coca-Cola bottling system in Mainland China. If the realignment proceeds, it will result in Swire Beverages having controlling interests in companies operating in territories in which 49% of the Mainland China population live (compared to 31% prior to the realignment). Swire Beverages will control larger bottling operations in contiguous territories. This is expected to improve efficiency and save costs. In the USA in 2016, Swire Beverages expanded its bottling territories in Arizona and New Mexico, and agreed to acquire additional territory rights and production facilities in the Pacific Northwest.

SPO is reducing its operating costs by cutting costs and the disposal and stacking of vessels. SPO has also disposed of its non-core logistics subsidiary, Altus Oil & Gas Services.

The Trading & Industrial Division has terminated certain loss-making dealerships at Taikoo Motors in Mainland China and Hong Kong, and a loss-making distributorship at Swire Resources. The division acquired the 35% interest which it did not already own in a bakery business in Southwest China in 2016 and continues to invest in its cold storage business.

Chairman's Statement (continued)

Outlook

In the Property Division, high occupancy is expected to result in office rents being resilient in Hong Kong despite increased supply in Kowloon East and other districts. Demand for space from Hong Kong retailers dependent on tourism is likely to remain weak in 2017. Demand for space from other retailers is likely to be stable. Retail sales are expected to grow modestly in Guangzhou and Beijing and more briskly in Chengdu. Property trading profits are expected to be recognised in 2017 from the handover of pre-sold units at ALASSIO and sales of units at WHITESANDS in Hong Kong, and at the Reach and Rise developments in Miami. Trading conditions for our hotels are expected to be difficult.

In the Aviation Division, the operating environment for the Cathay Pacific group in 2017 is expected to remain challenging. Strong competition from other airlines and the adverse effect of the strength of the HK dollar are expected to continue to put pressure on yield. The cargo market got off to a good start, but overcapacity is expected to persist. The prospects of the HAECO group's different businesses in 2017 are mixed. Demand for airframe services work is expected to improve. Demand for line services in Hong Kong is expected to be firm. The engine overhaul businesses are expected to be stable. The cabin and seats businesses in the USA are expected to be weak.

The Beverages Division expects sales volume in its franchise territories in Mainland China to grow modestly in 2017. In Hong Kong, the market will be difficult. Moderate growth in sales volume is expected. The retail market in Taiwan is expected to be weak. In the USA, the beverages market is expected to grow moderately. The business is expected to start to benefit from the acquisition of additional bottling territories and production facilities in the Pacific Northwest.

In the Marine Services division, industry conditions for SPO are expected to remain difficult and a market recovery is expected to take longer than previously expected. Exploration and production projects have been delayed and the oversupply of vessels will take time to correct.

The overall profits of the Trading & Industrial Division are expected to increase, but to continue to be affected by the cost of new business development.

Dividends

The Directors have declared second interim dividends of HK¢110.0 per 'A' share and HK¢22.0 per 'B' share which, together with the first interim dividends paid in October 2016, amount to full year dividends of HK¢210.0 per 'A' share and HK¢42.0 per 'B' share.

In 2016, the Swire business celebrated its 200th anniversary and the 150th anniversary of the opening of its first office in Mainland China. We believe that seeking sustainable growth in a broad range of businesses will be a successful strategy in the long term. The commitment and hard work of employees of the Group and its joint venture and associated companies are central to our future success. I take this opportunity to thank them.

By Order of the Board
SWIRE PACIFIC LIMITED
John Slosar
Chairman
Hong Kong, 16th March 2017

REVIEW OF OPERATIONS

PROPERTY DIVISION

OVERVIEW OF THE BUSINESS

Swire Properties is a leading developer, owner and operator of mixed-use, principally commercial, properties in Hong Kong and Mainland China, with a record of creating long-term value by transforming urban areas.

Swire Properties' business comprises three main areas:

Property Investment:

Swire Properties' property investment portfolio in Hong Kong comprises office and retail premises, serviced apartments and other luxury residential accommodation in prime locations. The completed portfolio in Hong Kong totals 12.3 million square feet of gross floor area, with an additional 2.3 million square feet under development. In Mainland China, Swire Properties owns and operates major commercial mixed-use developments in Beijing, Shanghai, Guangzhou and Chengdu, in joint venture in certain cases, which will total 8.9 million square feet on completion. Of this, 8.3 million square feet has already been completed. In the USA, Swire Properties is the primary developer of a 1.1 million square feet mixed-use commercial development at Brickell City Centre in Miami, with an adjoining 1.4 million square feet development under planning.

Hotel Investment:

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at Taikoo Shing. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. In Mainland China, Swire Hotels manages three hotels. The Opposite House at Taikoo Li Sanlitun in Beijing is wholly-owned by Swire Properties. 50% interests are owned in EAST at INDIGO in Beijing and in The Temple House at Sino-Ocean Taikoo Li Chengdu. At TaiKoo Hui in Guangzhou, Swire Properties owns a 97% interest in the Mandarin Oriental. In the USA, Swire Properties wholly-owns and manages, through Swire Hotels, EAST, Miami and owns a 75% interest in the Mandarin Oriental in Miami.

Property Trading:

Swire Properties' trading portfolio comprises a luxury residential development fully pre-sold on Hong Kong Island (ALASSIO) and completed developments available for sale in Hong Kong, Mainland China and Miami, USA. The principal completed developments available for sale are the WHITESANDS development in Hong Kong, the remaining portion of the office property at Sino-Ocean Taikoo Li Chengdu (Pinnacle One) in Mainland China and the Reach and Rise residential developments at Brickell City Centre in Miami, USA. There are also land banks in Miami and Fort Lauderdale in Florida in the USA.

Swire Properties is listed on The Stock Exchange of Hong Kong Limited.

Principal Property Investment Portfolio – Gross floor area
('000 Square Feet)

Location	At 31st December 2016 Office	Retail	Hotels	Residential	Under Planning	Total	At 31st December 2015 Total
Completed							
Pacific Place	2,186	711	496	443	-	3,836	3,836
Taikoo Place *	4,557	12	-	63	-	4,632	5,526
Cityplaza	1,398	1,105	200	-	-	2,703	2,938
Others	410	608	47	88	-	1,153	1,106
- Hong Kong	8,551	2,436	743	594	-	12,324	13,406
Taikoo Li Sanlitun	-	1,296	169	-	-	1,465	1,465
TaiKoo Hui	1,732	1,473	584	52	-	3,841	3,841
INDIGO	298	470	179	-	-	947	947
Sino-Ocean Taikoo Li Chengdu	-	624	114	64	-	802	802
HKRI Taikoo Hui	565	551	-	-	-	1,116	-
Others	-	91	-	-	-	91	91
- Mainland China	2,595	4,505	1,046	116	-	8,262	7,146
- USA	260	497	477	109	-	1,343	259
Total completed	11,406	7,438	2,266	819	-	21,929	20,811
Under and pending development							
- Hong Kong ^	2,211	70	25	-	-	2,306	1,862
- Mainland China	349	-	195	74	-	618	1,734
- USA	-	-	-	-	1,444	1,444	2,521
Total	13,966	7,508	2,486	893	1,444	26,297	26,928

Gross floor area represents 100% of space owned by Group companies and the division's attributable share of space owned by joint venture and associated companies.

* Excludes the two techno-centres (Warwick House and Cornwall House), which are being or will be demolished as part of the Taikoo Place redevelopment.
^ Excludes an office building under development in Kowloon Bay (the subsidiary owning which was conditionally agreed to be sold in October 2016) and includes the new buildings which will comprise the Taikoo Place redevelopment (One Taikoo Place and Two Taikoo Place).

STRATEGY:

The strategic objective of Swire Properties (as a listed company in its own right) is sustainable growth in shareholder value over the long-term as a leading developer, owner and operator of principally mixed-use commercial properties in Hong Kong and Mainland China. The strategies employed in order to achieve this objective are these:

- The creation of long-term value through conceiving, designing, developing, owning and managing transformational mixed-use and other projects in urban areas.
- Maximisation of the earnings and value of its completed properties through active asset management, including reinforcing its assets through enhancement, redevelopment and new additions.
- Continuing its luxury residential property activities.
- Remaining focused principally on Hong Kong and Mainland China.
- Conservative management of its capital base.

2016 PERFORMANCE

Property Division – Financial Highlights

	2016 HK$M	2015 HK$M
Revenue		
Gross rental income derived from		
Office	**6,053**	5,972
Retail	**4,304**	4,366
Residential	**416**	378
Other revenue *	**129**	141
Property investment	**10,902**	10,857
Property trading	**4,760**	4,463
Hotels	**1,130**	1,127
Total revenue	**16,792**	16,447
Operating profit/(loss) derived from		
Property investment	**7,743**	8,090
Valuation gains on investment properties	**8,445**	7,067
Property trading	**1,332**	1,328
Hotels	**(182)**	(334)
Total operating profit	**17,338**	16,151
Share of post-tax profits from joint venture and associated companies	**1,419**	1,241
Attributable profit	**15,069**	14,017
Swire Pacific share of attributable profit	**12,357**	11,494

* Other revenue is mainly estate management fees.

Property Division – Underlying Profit/(Loss) by Segment

	2016 HK$M	2015 HK$M
Property Investment	**5,960**	6,258
Property Trading	**1,200**	1,107
Hotels	**(117)**	(303)
Total Underlying Attributable Profit	**7,043**	7,062

Property Division – Reconciliation of Attributable to Underlying Profit

Additional information is provided below to reconcile reported and underlying profit attributable to shareholders. These 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.

	Note	2016 HK$M	2015 HK$M
Reported attributable profit		**15,069**	14,017
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	**(9,637)**	(8,137)
Deferred tax on investment properties	(b)	**1,459**	1,090
Realised profit on sale of investment properties	(c)	**3**	28
Depreciation of investment properties occupied by the Group	(d)	**28**	23
Non-controlling interests' share of revaluation movements less deferred tax		**121**	41
Underlying attributable profit		**7,043**	7,062
Swire Pacific share of underlying attributable profit		**5,776**	5,791

Notes:

(a) This represents the Group's net revaluation movements and 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 statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the statement of profit or loss.

(d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

PROPERTY INDUSTRY BACKGROUND

Office and Retail:

Hong Kong:

Office

Demand for office space was strong in 2016 and occupancy levels were high.

Retail

Demand for retail space from retailers dependent on tourism was weak in 2016. Demand for space from other retailers was stable.

Mainland China:

Retail

Demand for retail space from retailers of luxury goods was weak. Demand for retail space from retailers of non-luxury goods was firm.

Office

In Guangzhou, office rents were stable in 2016, despite a substantial supply of new office space. Office rents in Beijing were weak, with reduced demand and increased supply. In Shanghai, domestic demand for office space was strong. Foreign demand was weak.

USA

Office

In Miami, there was limited new supply of Grade-A office space.

Retail

Retail sales have declined since 2015. This made some retailers more cautious about expansion.

Property Sales Markets:

In Hong Kong, notwithstanding the expectation of a gradual increase in interest rates and the increase in property stamp duty in November 2016 demand overall remained resilient.

In Miami, the strength of the US dollar against other major currencies adversely affected demand and the availability of financing for condominiums by non-US buyers. Condominium development has slowed down in Miami.

2016 RESULTS SUMMARY

Attributable profit from the Property Division for the year was HK$12,357 million compared to HK$11,494 million in 2015. These figures include net property valuation gains, before deferred tax and non-controlling interests, of HK$9,637 million and HK$8,137 million in 2016 and 2015 respectively. Attributable underlying profit in 2016 (HK$5,776 million), which principally adjusts for changes in the valuation of investment properties, was little changed from that in 2015 (HK$5,791 million). The 2015 profit included an attributable loss of HK$188 million on disposal of four hotels in the UK. In 2016, there was a small decrease in underlying profit from property investment and a small increase in underlying profit from property trading. Disregarding the loss on disposal in 2015, the underlying loss from hotels was little changed in 2016.

Gross rental income fell in Hong Kong and increased in Mainland China and the USA. The reduction in Hong Kong largely reflected lower retail rental income consequent on lower retail sales. Office rental income in Hong Kong increased despite the loss of rental income resulting from the Taikoo Place redevelopment. In Mainland China, gross rental income increased by 2% despite a 6% depreciation of the Renminbi against the Hong Kong dollar.

Profit from property trading in 2016 included that recognised on the sales of residential units in the USA. Fewer residential properties were sold in Hong Kong. No sales of office property took place in Mainland China.

The performance of the hotels in Mainland China improved, while at the same time hotels in Hong Kong were adversely affected by a reduction in the number of visitors to Hong Kong. EAST, Miami opened in June 2016.

KEY CHANGES TO THE PROPERTY PORTFOLIO

In March 2016, Swire Properties opened the first of two office towers (Three Brickell City Centre) in the Brickell City Centre development in Miami, USA.

In April 2016, Swire Properties started to pre-sell units in ALASSIO, a residential development in Mid-Levels West, Hong Kong. The development consists of a 50-storey tower of 197 residential units. All units have been pre-sold.

In June 2016, EAST, Miami opened at the Brickell City Centre development in Miami, USA. It has 352 rooms, including 89 serviced apartments.

In July 2016, Swire Properties announced the HK$15 billion redevelopment of Taikoo Place. Two new Grade-A office buildings, each with an aggregate gross floor area of around one million square feet, are expected to be completed, the first (One Taikoo Place) in 2018 and the second (Two Taikoo Place) in 2021 or 2022.

In August 2016, the shopping mall and one of the two premium Grade-A office towers (HKRI Centre One) at the HKRI Taikoo Hui development in Puxi, Shanghai were completed. Handover to tenants is in progress.

In October 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns an uncompleted investment property development in Kowloon Bay, Hong Kong for a cash consideration of HK$6,528 million, subject to adjustments. Completion of the sale is conditional upon the relevant occupation permit and certificate of compliance being obtained on or before 31st December 2018. Completion is expected in 2018.

In November 2016, Swire Properties opened its 60.9% owned 500,000 square feet shopping centre in the Brickell City Centre development in Miami, USA.

INVESTMENT PROPERTIES

Hong Kong

Office

Gross rental income from the Hong Kong office portfolio in 2016 was HK$5,629 million, a slight increase from 2015. This reflected positive rental reversions and improved occupancy. At 31st December 2016, the office portfolio was 99% let. Demand for the Group's office space in Hong Kong was strong in all districts. However, gross rental income decreased at Warwick House and Cornwall House, as space was vacated ahead of the Taikoo Place redevelopment, and at Cityplaza, as 10 floors in Cityplaza Three were handed over to the Hong Kong Government.

Pacific Place

The offices at One, Two and Three Pacific Place performed well in 2016. Demand from Mainland China entities was strong. The occupancy rate was almost 100% at 31st December 2016.

Cityplaza

The three office towers (Cityplaza One, Three and Four) were almost fully let at 31st December 2016.

Taikoo Place

The occupancy rate of Taikoo Place was 98% at 31st December 2016.

Retail

The Hong Kong retail portfolio's gross rental income decreased from HK$2,725 million in 2015 to HK$2,609 million in 2016. This reflected weak retail sales in Hong Kong. The Group's malls were almost fully let throughout the year.

Retail sales decreased by 13% at The Mall, Pacific Place, by 4% at Cityplaza and by 8% at Citygate. This reflected reduced spending by tourists and more space being allocated to food and beverage outlets.

Residential

The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments at Taikoo Place, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island. Occupancy in the residential portfolio (excluding STAR STUDIOS) was approximately 85% at 31st December 2016.

Leasing of the refurbished STAR STUDIOS development began in October 2016. 50% of the 120 units in the development had been leased at 31st December 2016.

Investment Properties under Development

The commercial site (Tung Chung Town Lot No. 11) next to Citygate Outlets is being developed into a commercial building with an aggregate retail and hotel gross floor area of approximately 475,000 square feet. Excavation, substructure and superstructure works are in progress. The development is expected to be completed in 2018. Swire Properties has a 20% interest in the development.

The first phase of the Taikoo Place redevelopment (the redevelopment of Somerset House) is the construction of a 48-storey office building with an aggregate gross floor area of approximately 1,020,000 square feet, to be called One Taikoo Place. Substructure and superstructure works are in progress. The redevelopment is expected to be completed in 2018.

The second phase of the Taikoo Place redevelopment (the redevelopment of Cornwall House and Warwick House) is the construction of an office building with an aggregate gross floor area of approximately 1,000,000 square feet, to be called Two Taikoo Place. The acquisition of the Hong Kong Government's interest in Cornwall House was completed at the end of 2016. Demolition of Warwick House has started. Demolition of Cornwall House will start in the second quarter of 2017. Completion of the redevelopment is expected in 2021 or 2022.

The commercial site at 8-10 Wong Chuk Hang Road is being developed into an office building with an aggregate gross floor area of approximately 382,500 square feet. Substructure and superstructure works are in progress. The development is expected to be completed in 2018. Swire Properties has a 50% interest in the development.

The commercial site (New Kowloon Inland Lot No. 6312) at the junction of Wang Chiu Road and Lam Lee Street in Kowloon Bay is being developed into an office building with an aggregate gross floor area of approximately 555,000 square feet. In October 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns this uncompleted investment property development. The property was transferred to other non-current assets at fair value in the financial statements at the same time. Completion of the sale is conditional upon the relevant occupation permit and certificate of compliance being obtained on or before 31st December 2018.

Mainland China

Retail

The Mainland China retail portfolio's gross rental income for 2016 increased by 3% compared with 2015, to HK$1,688 million.

Gross rental income at Taikoo Li Sanlitun recorded satisfactory growth in 2016, reflecting positive growth in reversionary rents. Retail sales grew by 6% in 2016. The occupancy rate was 94% at 31st December 2016. Demand for retail space in Taikoo Li Sanlitun remains solid as it reinforces its position as a fashionable retail destination in Beijing. This is expected to continue to have a positive impact on occupancy and rents.

Gross rental income at TaiKoo Hui grew satisfactorily in 2016, reflecting in part improvements to the tenant mix. The occupancy rate at TaiKoo Hui was 99% at 31st December 2016. Retail sales at the mall increased by 10% in 2016.

The occupancy rate at the mall at INDIGO was 98% at 31st December 2016 and 97% of the shops were open. Retail sales increased by 20% in 2016.

Retail sales at Sino-Ocean Taikoo Li Chengdu increased by 78% in 2016. At 31st December 2016, tenants had committed (including by way of letters of intent) to take 92% of the retail space and 87% of the space was open for business.

Office

The Mainland China office portfolio's gross rental income for 2016 increased by 0.3% compared with 2015, to HK$361 million.

At 31st December 2016, the occupancy rates at the office towers at TaiKoo Hui and at ONE INDIGO were 99% and 90% respectively.

Investment Properties under Development

The HKRI Taikoo Hui development in Shanghai comprises a retail mall, two office towers, two hotels and a serviced apartment tower. Construction of the shopping mall and one of the office towers was completed in August 2016. Fit-out of some of the space to be occupied by retail and office tenants is in progress. Interior decoration and mechanical and electrical installation works for the other office tower, two hotels and a serviced apartment tower are in progress. These works are expected to be completed in phases in 2017.

USA

Brickell City Centre consists of a shopping centre, two office buildings (Two Brickell City Centre and Three Brickell City Centre), a hotel and serviced apartments (EAST, Miami) managed by Swire Hotels and two residential towers (Reach and Rise). The residential towers have been developed for sale.

The development was completed in 2016. Three Brickell City Centre opened in March, followed by EAST, Miami and serviced apartments in June and the shopping centre in November. Construction of Two Brickell City Centre was completed in September. It opened in February 2017. At 31st December 2016, occupancy rates at Two Brickell City Centre, Three Brickell City Centre and the shopping centre were 61%, 100% and 91% (in each case taking into account space which is the subject of letters of intent) respectively.

At 31st December 2016, Swire Properties owned 100% of the office, hotel and residential portions and 60.9% of the shopping centre at Brickell City Centre. The remaining interest in the shopping centre was held by Simon Property Group (25%) and Bal Harbour Shops (14.1%). Bal Harbour Shops has an option, exercisable from the second anniversary of the grand opening of the shopping centre, to sell its interest to Swire Properties.

One Brickell City Centre is planned to be a mixed-use development comprising retail, office, hotel and residential space in an 80-storey tower. It will incorporate the site at 700 Brickell Avenue acquired by Swire Properties in 2013. Development of this site will connect the Brickell City Centre development with Brickell Avenue. Swire Properties owns 100% of One Brickell City Centre.

VALUATION OF INVESTMENT PROPERTIES

The portfolio of investment properties was valued at 31st December 2016 on the basis of open market value (93% by value having been valued by DTZ Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK$233,451 million, compared to HK$227,109 million at 31st December 2015 and HK$229,966 million at 30th June 2016.

The increase in the valuation of the investment property portfolio is mainly due to an increase in the valuation of the office properties in Hong Kong, partially offset by a decrease in the valuation of the retail properties in Hong Kong.

Under HKAS 40, hotel properties are not accounted for as investment properties but are included within property, plant and equipment at cost less accumulated depreciation and any provision for impairment.

Hong Kong Lease Expiry Profile - at 31st December 2016

% of the total rental income attributable to the Group for the month ended 31st December 2016	2017	2018	2019 and beyond
Office	15.1	16.2	68.7
Retail	22.1	31.7	46.2

HOTELS

Excluding the loss on disposal of four hotels in the UK in 2015, the underlying loss from hotels was little changed in 2016.

In 2016, trading conditions for the managed and non-managed hotels in Hong Kong were difficult because of a reduction in the number of visitors to Hong Kong. The performance of the managed and non-managed hotels in Mainland China improved. EAST, Miami opened in June 2016 and is building up its occupancy levels. The performance of the Mandarin Oriental, Miami in the USA improved in 2016.

Two hotels (one managed, the other non-managed) and a serviced apartment tower at the HKRI Taikoo Hui development in Shanghai are expected to open in the second half of 2017.

Profile of Capital Commitments for Investment Properties and Hotels

(HK$M)	Expenditure	Forecast year of expenditure				Total Commitments	Commitments relating to joint venture companies *
	2016	2017	2018	2019	2020 and later	At 31st Dec 2016	At 31st Dec 2016
Hong Kong	**5,549**	5,673	2,747	1,750	5,541	**15,711**	**1,214**
Mainland China	**1,070**	1,087	567	181	47	**1,882**	**1,279**
USA and others	**950**	360	255	67	53	**735**	**-**
Total	**7,569**	7,120	3,569	1,998	5,641	**18,328**	**2,493**

Note: The capital commitments represent 100% of the capital commitments of subsidiaries and the Group's share of the capital commitments of joint venture companies.

* The Group is committed to funding HK$588 million and HK$226 million of the capital commitments of joint venture companies in Hong Kong and Mainland China, respectively.

PROPERTY TRADING

Hong Kong

All 92 units at the MOUNT PARKER RESIDENCES development in Quarry Bay had been sold at 31st December 2016. The profit from the sales of one unit and 64 carparking spaces was recognised in 2016.

All 127 units at the AREZZO development at 33 Seymour Road had been sold at 31st December 2016. The profit from the sales of 15 units was recognised in 2016.

All 197 units at the ALASSIO development at 100 Caine Road had been pre-sold at 31st December 2016. The profit from the sales of pre-sold units is expected to be recognised in 2017.

The WHITESANDS development consists of 28 detached houses with an aggregate gross floor area of 64,410 square feet. Two houses had been sold at 14th March 2017. The profit from the sale of one house was recognised in 2016.

Mainland China

At Sino-Ocean Taikoo Li Chengdu, 89% of the office's total gross floor area (approximately 1.15 million square feet) and 350 carparking spaces were pre-sold in 2013. The profit from the sales of approximately 52% of the pre-sold gross floor area was recognised in 2015. Application has been made to the court to cancel the sale of the remaining pre-sold gross floor area and 350 carparking spaces, as part of the consideration was not received on time.

USA

The residential portion of the Brickell City Centre development was developed for trading purposes. There are 780 units in two towers (Reach and Rise).

The Reach and Rise developments were completed and started to be handed over to purchasers in April and September 2016 respectively. 355 units (out of 390 units) at Reach and 187 units (out of 390 units) at Rise had been sold at 14th March 2017. The profits from the sales of 347 units at Reach and 171 units at Rise were recognised in 2016.

OUTLOOK

Office and Retail:

Hong Kong:

Office

In the central district of Hong Kong, high occupancy and limited supply will continue to underpin office rents in 2017. High occupancy is expected to result in office rents in our Taikoo Place and Cityplaza developments being resilient despite increased supply in Kowloon East and other districts.

Retail

Demand for space from Hong Kong retailers dependent on tourism is likely to remain weak in 2017. Demand for space from other retailers is likely to be stable.

Mainland China:

Retail

Retail sales are expected to grow modestly in Guangzhou and Beijing and more briskly in Chengdu. In Shanghai, demand for retail space is expected to remain firm except for space for luxury goods.

Office

In Guangzhou, office rents are expected to be stable in 2017 despite a substantial supply of new office space. In Beijing, office rents are expected to be weak in 2017, with reduced demand and increased supply. In Shanghai, there will be limited new supply of office space in the Puxi business district.

USA:

Retail

Retail sales have declined since 2015. This has made some retailers more cautious about expansion.

Office

There is limited new supply of Grade-A office space in Miami.

Hotels:

Trading conditions for our hotels are expected to remain difficult in 2017.

Property Trading:

In Hong Kong, notwithstanding the expectation of a gradual increase in interest rates, demand overall remains resilient. Trading profits are expected to be recognised in 2017 from the handover of pre-sold units at ALASSIO and sales of units at WHITESANDS. Profits are also expected to be recognised on the sales of units at the Reach and Rise developments in Miami.

Guy Bradley

REVIEW OF OPERATIONS

AVIATION DIVISION

OVERVIEW OF THE BUSINESS

The Aviation Division comprises significant investments in the Cathay Pacific group and the HAECO group.

The Cathay Pacific group:
The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiary Hong Kong Dragon Airlines Limited ("Cathay Dragon"), its 60%-owned subsidiary AHK Air Hong Kong Limited ("Air Hong Kong"), an associate interest in Air China and an interest in Air China Cargo Co. Ltd. ("Air China Cargo"). Cathay Pacific also has interests in companies providing flight catering and ramp and cargo handling services, and owns and operates a cargo terminal at Hong Kong International Airport. It is listed on The Stock Exchange of Hong Kong Limited.

Cathay Pacific offers scheduled passenger and cargo services to 181 destinations in 43 countries and territories. At 31st December 2016, it operated 146 aircraft and had 59 new aircraft due for delivery up to 2024.

Cathay Dragon is a regional airline registered and based in Hong Kong. It operates 43 aircraft on scheduled services to 53 destinations in Mainland China and elsewhere in Asia.

Cathay Pacific owns 18.13% of Air China, the national flag carrier and a leading provider of passenger, cargo and other airline-related services in Mainland China. At 31st December 2016, Air China operated 262 domestic and 116 international, including regional, routes. Cathay Pacific has a cargo joint venture with Air China, Air China Cargo, which operated 15 freighters at 31st December 2016 and also carries cargo in the bellies of Air China's passenger aircraft.

Air Hong Kong, a 60%-owned subsidiary of Cathay Pacific, operates express cargo services for DHL Express, the remaining 40% shareholder, to 12 Asian cities. At 31st December 2016, Air Hong Kong operated 13 freighters.

Cathay Pacific and its subsidiaries employ more than 33,800 people worldwide (around 26,200 of them in Hong Kong).

The HAECO group:
The HAECO group provides aviation maintenance and repair services. Its primary activities are aircraft maintenance and modification work in Hong Kong (by HAECO Hong Kong), in Xiamen (by HAECO Xiamen) and in the USA (by HAECO Americas).

Engine overhaul work is performed by HAECO's 50% joint venture company Hong Kong Aero Engine Services Limited ("HAESL"), by HAECO's subsidiary Taikoo Engine Services (Xiamen) Company Limited ("TEXL") and by HAECO Americas. The HAECO group has other subsidiaries and joint venture companies in Mainland China, which offer a range of aircraft engineering services and has a 70% interest in HAECO ITM Limited ("HAECO ITM"), an inventory technical management joint venture with Cathay Pacific in Hong Kong. HAESL's interest in its joint venture company Singapore Aero Engine Services Pte. Limited ("SAESL") was disposed of in June 2016.

HAECO is listed on The Stock Exchange of Hong Kong Limited.

STRATEGY:

The strategic objective of Cathay Pacific and HAECO (as listed companies in their own right) is sustainable growth in shareholder value over the long-term. The strategies employed in order to achieve this objective are these:

- The development and strengthening of Hong Kong as a centre for aviation services, including passenger, cargo and aircraft engineering services.
- The development and strengthening of the airline (Cathay Pacific and Cathay Dragon) and aircraft engineering (HAECO) brands.
- Developing the fleets of Cathay Pacific and Cathay Dragon (by investing in modern fuel efficient aircraft) with a view to their becoming two of the youngest, most fuel efficient fleets in the world.
- Maintaining and enhancing high standards of service to passenger, cargo and aircraft engineering customers.
- Strengthening the airlines' passenger and cargo networks and improving what they do on the ground and in the air.
- Continuing to build the strategic relationship with Air China.
- Increasing the range and depth of aircraft engineering services offered by HAECO.
- Endeavouring to minimise the impact of the airlines and of HAECO on the environment.

Aviation Division – Financial Highlights

	2016 HK$M	2015 HK$M
HAECO group		
Revenue	**13,760**	12,095
Operating profit	**127**	415
Attributable profit	**731**	349
Cathay Pacific group		
Share of post-tax profits from associated companies	**(259)**	2,700
Attributable profit	**441**	3,017

Accounting for the Aviation Division

The Group accounts for its associate interest in the Cathay Pacific group using the equity method of accounting. The Group recognises its share of net profit or loss as a single line-item in the consolidated statement of profit or loss.

Cathay Pacific and Cathay Dragon – 2016 Performance

		2016	2015	Change
Available tonne kilometres ("ATK")	Million	**30,462**	30,048	+1.4%
Available seat kilometres ("ASK")	Million	**146,086**	142,680	+2.4%
Passenger revenue	HK$M	**66,926**	73,047	-8.4%
Revenue passenger kilometres ("RPK")	Million	**123,478**	122,330	+0.9%
Revenue passengers carried	'000	**34,323**	34,065	+0.8%
Passenger load factor	%	**84.5**	85.7	-1.2%pt
Passenger yield	HK¢	**54.1**	59.6	-9.2%
Cargo revenue – group	HK$M	**20,063**	23,122	-13.2%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK$M	**17,024**	20,079	-15.2%
Cargo and mail carried	Tonnes '000	**1,854**	1,798	+3.1%
Cargo and mail load factor	%	**64.4**	64.2	+0.2%pt
Cargo and mail yield	HK$	**1.59**	1.90	-16.3%
Cost per ATK (with fuel)	HK$	**3.02**	3.14	-3.8%
Cost per ATK (without fuel)	HK$	**2.12**	2.06	+2.9%
Aircraft utilisation	Hours per day	**12.2**	12.2	-
On-time performance	%	**72.1**	64.7	+7.4%pt
Average age of fleet	Years	**9.0**	9.1	-1.1%
Fuel consumption – group	Barrels (million)	**43.9**	43.5	+0.9%

Cathay Pacific group

AIRLINE INDUSTRY BACKGROUND

The operating environment for a Hong Kong based airline was difficult in 2016, with a number of factors adversely affecting performance. Intense and increasing competition with other airlines was the most important. Other airlines significantly increased capacity. There were more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Overcapacity in the market was a particular competitive problem for cargo business. Three economic factors were also important, the reduced rate of economic growth in Mainland China, a reduction in the number of visitors to Hong Kong and the strength of the HK dollar. HK dollar strength made Hong Kong an expensive destination and caused revenues earned in other currencies to be reduced on conversion into HK dollars. All these factors put severe competitive pressure on yields. Airlines benefited from low fuel prices, but in our case the benefit was reduced by fuel hedging losses, largely incurred on hedges put in place when the fuel price was much higher than today.

2016 RESULTS SUMMARY

The Cathay Pacific group's attributable loss on a 100% basis was HK$575 million in 2016, compared with a profit of HK$6,000 million in 2015. The airlines' loss after tax was HK$3,363 million (2015: profit of HK$3,572 million), and the share of profits from subsidiaries and associates was HK$2,788 million (2015: HK$2,428 million).

Passenger Services

Passenger revenue in 2016 was HK$66,926 million, a decrease of 8% compared with 2015. 34 million passengers were carried, an increase of 1% compared to the previous year.

Capacity increased by 2%, reflecting the introduction of new routes (to Madrid in June and to London Gatwick in September) and increased frequencies on some other routes. The passenger load factor decreased by 1.2 percentage points.

Yield decreased by 9% to HK54.1 cents. Competition with other airlines was intense, as indicated under "Airline Industry Background" above. Economy class demand was stable, but not as strong as in 2015. Premium class demand weakened considerably, especially on long-haul routes.

Cargo Services

Cathay Pacific and Cathay Dragon

Cathay Pacific and Cathay Dragon's cargo revenue in 2016 was HK$17,024 million, a decrease of 15% compared to 2015. The tonnage carried in 2016 increased by 3% to 1.9 million tonnes compared to 2015. The market was very weak in the first quarter. Tonnage recovered from the second quarter, becoming seasonally strong in the fourth quarter.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 1%. Freighter services to Portland and Brisbane West Wellcamp were introduced. The freighter capacity was managed in line with demand, and a higher proportion of cargo was carried in the bellies of passenger aircraft.

The cargo load factor increased by 0.2 of a percentage point to 64.4%.

Cargo yield fell 16% to HK$1.59, reflecting strong competition, overcapacity, and the suspension of fuel surcharges.

Demand on European routes was weak. Demand on transpacific routes grew slightly in the second half of the year.

Air Hong Kong

Air Hong Kong achieved a marginal increase in profit for 2016 compared with 2015. Capacity (in terms of available tonne kilometres) increased by 0.1% to 777 million. The load factor decreased by 1.2 percentage points to 65.3%.

Operating Costs

Total fuel costs for the Cathay Pacific group (before the effect of fuel hedging) decreased by HK$4,997 million (or 20%) compared with 2015. A 21% decrease in average fuel prices was partially offset by a 1% increase in consumption. Fuel is still the Cathay Pacific group's most significant cost, accounting for 30% of total operating costs in 2016 (compared to 34% in 2015). Fuel hedging losses of HK$8,456 million reduced the benefit of low fuel costs. After taking fuel hedging losses into account, net fuel costs decreased by HK$5,015 million (or 15%) compared to 2015.

There was a 3% increase in non-fuel costs per available tonne kilometre.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on Cathay Pacific. The airlines are doing more to improve the reliability of their operations, and this was reflected in a 7.4 percentage points improvement in on-time performance.

In response to weak revenues, Cathay Pacific has undertaken a critical review of its business. In the short term, it is implementing measures designed to improve revenues and reduce costs. The longer term strategy which is being developed in response to the review is designed to improve performance over a three-year period.

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on relevant facts and circumstances.

Cathay Dragon Rebranding

During the year, the Dragonair brand name was replaced by Cathay Dragon, bringing the brands of the two Cathay Pacific airlines into closer alignment. The first aircraft with the Cathay Dragon livery went into service in April 2016.

Fleet Profile

At 31st December 2016, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 189, an increase of one since 31st December 2015.

In 2016, Cathay Pacific took delivery of 10 Airbus A350-900 aircraft. These fuel efficient, technologically advanced long-haul aircraft are being used on the Auckland, Düsseldorf, London Gatwick, Paris and Rome routes. 22 aircraft of this type are expected to be in service by the end of 2017. The Cathay Pacific group also took delivery of its final Boeing 747-8F freighter in August.

Cathay Pacific will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expects to have 26 aircraft of this type in service by the end of 2020.

At 31st December 2016, the Cathay Pacific group had 59 new aircraft on order for delivery up to 2024.

The remaining three Boeing 747-400 passenger aircraft were retired during the year. Three Airbus A340-300 aircraft were retired in 2016 and the remaining four will be retired in 2017.

Fleet profile*

Aircraft type	Number at 31st December 2016				Firm orders				Expiry of operating leases						Options
		Leased													
	Owned	Finance	Operating	Total	'17	'18	'19 and beyond	Total	'17	'18	'19	'20	'21	'22 and beyond	
Aircraft operated by Cathay Pacific:															
A330-300	23	12	6	41						3	1	2			
A340-300	4			4[(a)]											
A350-900	5	3	2	10	12[(b)]			12						2	
A350-1000						8	18	26							
747-400BCF			1	1						1					
747-400ERF		6		6											
747-8F	3	11		14											
777-200	5			5											
777-200F															3[(c)]
777-300	12			12		2	3	5[(d)]							
777-300ER	19	11	23	53						1	2		5	15	
777-9X							21	21							
Total	71	43	32	146	12	10	42	64		5	3	2	5	17	3
Aircraft operated by Cathay Dragon:															
A320-200	5		10	15						2	1	1	3	3	
A321-200	2		6	8								1	2	3	
A330-300	10		10[(e)]	20					6		2		2		
Total	17		26	43					6	2	3	2	7	6	
Aircraft operated by Air Hong Kong:															
A300-600F	4	4	2	10							2				
747-400BCF			3[(e)]	3						3					
Total	4	4	5	13						3	2				
Grand total	**92**	**47**	**63**[(e)]	**202**	**12**	**10**	**42**	**64**[(d)]	**6**	**10**	**8**	**4**	**12**	**23**	**3**

* Includes parked aircraft. The table does not reflect aircraft movements after 31st December 2016.

(a) Cathay Pacific is accelerating the retirement of its Airbus A340-300 aircraft. Three of these aircraft were retired in 2016. One Airbus A340-300 was retired in January 2017. The remaining three such aircraft will be retired before the end of 2017.

(b) Two of these Airbus A350-900 aircraft were delivered after 31st December 2016, one in February 2017, the other in March 2017.

(c) Purchase options for aircraft to be delivered before the end of 2019.

(d) Five Boeing 777-300 used aircraft will be delivered from 2018.

(e) 57 of the 63 aircraft which are subject to operating leases are leased from third parties. The remaining six of such aircraft (three Boeing 747-400BCFs and three Airbus A330-300s) are leased within the Cathay Pacific group.

Other Operations

Air China

The Cathay Pacific group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, the 2016 results include Air China's results for the 12 months ended 30th September 2016, adjusted for any significant events or transactions for the period from 1st October 2016 to 31st December 2016.

In the year ended 30th September 2016, Air China's results improved, principally as a result of low fuel prices and strong passenger demand, partly offset by the adverse effect of the devaluation of the Renminbi.

In July 2015, Air China proposed an issue of A shares. On 10th March 2017, the procedures for Air China's registration of the new A shares were completed. As a consequence, Cathay Pacific's shareholding in Air China was diluted from 20.13% to 18.13%.

Air China Cargo

Air China Cargo's 2016 financial results were better than those of 2015. Savings from lower fuel prices were partially offset by unrealised exchange losses on loans denominated in United States dollars and lower yield in the highly competitive air cargo market.

Outlook

The operating environment in 2017 is expected to remain challenging. Strong competition from other airlines and the adverse effect of the strength of the Hong Kong dollar are expected to continue to put pressure on yield. The cargo market got off to a good start, but overcapacity is expected to persist. Cathay Pacific expects to continue to benefit in 2017 from the fact that fuel prices are much lower than their previous high levels, but to a lesser extent (because of some increase in oil prices in recent months) than in 2016. Cathay Pacific also expects to incur further fuel hedging losses in 2017, but these should be less than in 2016. The subsidiaries and associates are expected to continue to perform satisfactorily.

The objective of the Cathay Pacific group is to provide sustainable growth in shareholder value over the long term. Cathay Pacific is confident of longer-term success. The group celebrated its 70th anniversary in 2016 and the commitment to Hong Kong and its people remains unwavering.

Ivan Chu

Hong Kong Aircraft Engineering Company ("HAECO") group

HAECO group – Financial Highlights

	2016 HK$M	2015 HK$M
Revenue		
HAECO Hong Kong	**3,879**	3,628
HAECO Americas	**2,836**	2,554
HAECO Xiamen	**1,640**	1,712
TEXL	**4,808**	3,719
Others	**597**	482
Net operating profit	**38**	339
Attributable profit		
HAECO Hong Kong	**194**	167
HAECO Americas	**(238)**	(158)
HAECO Xiamen	**94**	69
TEXL	**196**	149
Share of profit/(loss) of:		
HAESL and SAESL	**218**	194
Other subsidiary and joint venture companies	**52**	56
Attributable profit (excluding gain on disposal of HAESL's interest in SAESL and impairment charges)	**516**	477
Gain on disposal of HAESL's interest in SAESL, net of associated expenses	**783**	-
Impairment charges attributable to:		
HAECO Americas	**(285)**	-
HAECO Landing Gear Services	**(39)**	(13)
Attributable profit	**975**	464
Swire Pacific share of attributable profit	**731**	349

HAECO group – Operating Highlights

		2016	2015
Airframe services manhours sold			
HAECO Hong Kong	*Million*	**2.67**	2.80
HAECO Americas	*Million*	**3.24**	3.02
HAECO Xiamen	*Million*	**3.21**	3.46
Line services movements handled			
HAECO Hong Kong	*Average per day*	**307**	303
Engines overhauled			
TEXL		**90**	89
HAESL		**114**	115

AVIATION MAINTENANCE AND REPAIR INDUSTRY BACKGROUND

Orders for new aircraft are firm. Aircraft manufacturers have record order books and are increasing production. More aircraft means in principle more demand for their maintenance and repair. But new aircraft need less maintenance and repair than older aircraft and original equipment manufacturers are doing more maintenance and repair than they used to. On balance, maintenance and repair demand is still expected to grow in the medium and longer term.

2016 RESULTS SUMMARY

The HAECO group's profit attributable to shareholders in 2016 on a 100% basis was HK$975 million. This included a gain (before associated expenses) of HK$805 million on disposal of HAESL's interest in SAESL and was after an impairment charge of HK$285 million in respect of the goodwill recorded on the acquisition of the HAECO Americas business.

Disregarding the gain on disposal in 2016 and impairment charges in both years, the HAECO group's 2016 attributable profit was HK$516 million, 8% higher than in 2015. The benefits of more engine repair work at HAESL and TEXL, more line services work at HAECO Hong Kong and better results at HAECO Xiamen were partly offset by a higher loss in HAECO Americas' cabin and seat businesses and the HAECO group's share of SAESL's results for the first half year of 2016, being lower than that for the whole of 2015.

A total of 9.12 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2016, 2% fewer than in 2015. Manhours sold increased at HAECO Americas but decreased at HAECO Hong Kong and HAECO Xiamen.

HAECO Hong Kong

Excluding expenses arising in connection with the disposal of SAESL, HAECO Hong Kong recorded a 16% increase in profit in 2016 to HK$194 million. This mainly reflected more line services activity.

Manhours sold for airframe services decreased by 5% to 2.67 million in 2016. The reduction reflected deferral of work by some customers. 77% of the work was for airlines based outside Hong Kong.

The average number of aircraft movements handled increased in 2016 by 1% to 307 per day. Line services manhours sold increased because of this increase in volume and the fact that more work was done per movement.

Manhours sold in 2016 for component and avionics work (together with those sold by HAECO Component Overhaul (Xiamen)) were 0.21 million, an increase of 4% compared to 2015. The increase reflected additional component maintenance capabilities.

HAECO Americas

HAECO Americas recorded a loss of HK$523 million (including an impairment charge in respect of goodwill of HK$285 million) in 2016. Excluding the impairment charge, HAECO Americas' 2016 loss was HK$238 million, compared to a loss of HK$158 million in 2015.

The bigger loss principally reflected losses on some seat contracts, and a reduction in the number of seats sold and in cabin integration work. Airframe services results improved, with more manhours having been sold. However, this was offset in part by costs incurred with a view to improving efficiency and work flow.

Manhours sold for airframe services increased by 7% to 3.24 million in 2016, largely as a result of more airframes being overhauled. Profits also benefited from more higher-margin checks being done, but were adversely affected by the payment of consultancy fees. The line services business was closed having regard to a review of its long term viability.

In 2016, the cabin and seats business lost more money than in 2015. 30 cabin integrations were done compared with 40 in 2015. Rescheduling caused some of the reduction. Approximately 3,400 premium economy and economy class seats were shipped in 2016, compared with approximately 4,200 in 2015. Demand for our old seats fell. The new ones were not available until the second quarter of 2016. Money was lost on some seat contracts. More Panasonic communication equipment installation kits were done.

An impairment charge of HK$285 million was made in respect of the goodwill which recorded the acquisition of the HAECO Americas business. The charge relates to the cabin and seats business. It reflects a reduction in the expected profitability of the seats business and a weak cabin integration order book.

HAECO Xiamen

HAECO Xiamen recorded a 36% increase in attributable profit compared with 2015, to HK$94 million. Fewer airframe services manhours were sold but hourly rates were higher. More line services work was done and more aircraft parts were manufactured. More technical training was done. Operating costs were lower.

Manhours sold for airframe services decreased by 7% to 3.21 million in 2016. Less work was performed for a major North American customer. A typhoon disrupted work in the fourth quarter. Profitability benefited from the fact that services are priced in US dollars (which increased in value against Renminbi) and a high proportion of costs are incurred in Renminbi.

An average of 50 aircraft movements were handled per day in 2016, 9% more than in 2015. The profit from line services increased accordingly.

Revenue from private jet work declined slightly in 2016. Less work was done.

TEXL

Profits increased by 32% at TEXL to HK$196 million.

In 2016, TEXL completed 48 engine performance restorations and 42 quick turn repairs on GE90 aircraft engines, compared to 30 engine performance restorations and 59 quick turn repairs in 2015. With more engine work and more component repair work, TEXL recorded a higher profit in 2016 than that in 2015.

HAESL and SAESL

The agreements entered into in November 2015 for the restructuring of shareholdings in HAESL and SAESL were completed in June 2016. The gain to HAESL arising from selling its 20% shareholding in SAESL under the restructuring was US$229 million. 45% of the gain to HAESL, equivalent to approximately HK$805 million, has been included in the profit of the HAECO group in 2016. Under the restructuring, HAECO increased its shareholding in HAESL from 45% to 50%. HAESL is now 50% owned by HAECO and 50% by Rolls-Royce. HAESL no longer has any shareholding in SAESL.

Excluding the non-recurring profit described above, HAESL recorded a 43% increase in attributable profit in 2016, primarily because more work was done per engine. Engine output was 114 in 2016 compared with 115 in 2015.

The HAECO group's share of SAESL's results for the first half of 2016 was HK$12 million, compared with the share of its results for the whole of 2015 of HK$50 million.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 275 aircraft in 2016, compared with 259 in 2015. However, profits decreased in 2016. This reflected lower demand for the loan of aircraft parts and higher finance charges.

Taikoo (Xiamen) Landing Gear Services Company Limited ("HAECO Landing Gear Services") did more work in 2016 than in 2015, but its losses increased. This principally reflected an impairment charge of HK$57 million made in respect of plant, machinery and tools. The impairment charge reflected the fact that less work is expected because of strong competition.

Outlook

The prospects for the HAECO group's different businesses in 2017 are mixed.

HAECO Hong Kong expects its results to be affected again by deferral of airframe services work by some customers. Demand for line services in Hong Kong is expected to be firm. The component and avionics overhaul business is expected to improve gradually with the development of new capabilities. Demand for HAECO Americas airframe services is expected to increase in 2017. However, its airframe services results will depend on the outcome of efforts to improve efficiency and work flow. The number of seats sold is expected to grow, but sales of the new Vector seats are expected to remain modest. Forward bookings for cabin integration work are weak. Fewer Panasonic communication equipment installation kits are expected. Demand for HAECO Xiamen's airframe services is expected to improve. Demand for TEXL's overhaul services is expected to be stable in 2017. HAESL is expected to have a similar level of workload in 2017 to that in 2016. But its results will be adversely affected by higher depreciation and training costs associated with developing the capability to overhaul Trent XWB engines from 2018. HAECO Landing Gear Services is expected to do more work in 2017, but to continue to make losses.

The municipal government of Xiamen announced that the proposed new airport at Xiang'an would commence operations in 2020. This remains subject to the National Development and Reform Commission's approval. Management maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO group in Xiamen.

Augustus Tang

REVIEW OF OPERATIONS

BEVERAGES DIVISION

OVERVIEW OF THE BUSINESS

Swire Beverages has the exclusive right to manufacture, market and distribute products of The Coca-Cola Company ("TCCC") in Hong Kong, Taiwan, seven provinces in Mainland China and an extensive area of the mid-western USA.

Swire Beverages has two wholly-owned franchise businesses, in Taiwan and the USA, and five majority-owned franchise businesses, in Hong Kong and in Fujian, Henan, Anhui and Shaanxi provinces in Mainland China. It has joint venture interests in three other franchises in Mainland China and an associate interest in a manufacturing company, Coca-Cola Bottlers Manufacturing Holdings Limited ("CCBMH"), which supplies still beverages to all Coca-Cola franchises in Mainland China.

At the end of 2016, Swire Beverages manufactured 59 beverage brands and distributed them to a franchise population of over 470 million people.

FRANCHISE TERRITORIES

	Franchise population (millions) (end 2016)	**GDP per capita (US$)**	**Sales volume (million unit cases) 2016**	Sales volume (million unit cases) 2006	**Per capita consumption (8 oz servings) 2016**	Per capita consumption (8 oz servings) 2006
Mainland China						
Guangdong	80.4	12,532	191	127	57	51
Zhejiang	50.9	11,895	144	107	68	55
Anhui	62.0	5,522	89	21	34	8
Jiangsu	55.5	12,102	106	61	46	27
Fujian	38.7	10,806	96	42	59	27
Shaanxi	38.1	7,459	59	23	37	15
Henan	94.8	5,836	135	34	34	8
Hong Kong	7.3	43,110	64	50	212	171
Taiwan	23.5	22,450	53	42	54	44
USA	19.0	45,644	168	84	277	335
	470.2		1,105	591		

Note 1: A unit case comprises 24 8 oz servings.
Note 2: USA per capita consumption in 2016 includes annualised consumption figures for the new territories assumed during the year.

STRATEGY:

The strategic objective of Swire Beverages is to build a world-class bottling system which is recognised as a first class employer, a first class entity with which to do business and a first class corporate citizen in all territories where it does business. The strategies employed in order to achieve this objective are:

- An uncompromising commitment to safety and quality.
- A commitment to work with TCCC to improve our understanding of our customers' businesses, and to use that understanding to create value for our customers and consumers.
- A focus on market execution in sales outlets, recognising that our business depends critically on selling to millions of consumers through such outlets in our franchise territories.
- Effective revenue management, through volume growth and optimisation of pricing and product mix, and product innovation.
- Effective management of costs, through improvements in productivity and efficiency in our supply chain and in sales and distribution.
- A commitment to sustainability, by seeking to reduce the environmental impact of our operations, with a particular focus on water conservation, and by engaging with the communities in which we operate.

2016 PERFORMANCE

Beverages Division – Financial Highlights

	2016 HK$M	2015 HK$M
Revenue	**18,421**	17,174
Operating profit	**1,003**	1,164
Share of post-tax profits from joint venture and associated companies	**218**	262
Attributable profit	**813**	976

Beverages Division – Segment Financial Highlights

	Revenue		Attributable Profit	
	2016	2015	**2016**	2015
	HK$M	HK$M	**HK$M**	HK$M
Mainland China	**6,873**	7,617	**288**	391
Hong Kong	**2,212**	2,200	**205**	204
Taiwan	**1,323**	1,392	**33**	34
USA	**8,013**	5,965	**306**	273
Central costs	**-**	-	**(19)**	74
	18,421	17,174	**813**	976

Accounting for the Beverages Division

The seven wholly-owned and majority-owned franchise businesses (in Hong Kong, Taiwan and the USA and in Fujian, Henan, Anhui and Shaanxi provinces in Mainland China) are accounted for as subsidiaries in the financial statements of Swire Pacific. Revenue and operating profit shown above, therefore, are attributable to these franchise businesses only. The division's joint venture interests in three other franchises in Mainland China and its associate interest in CCBMH are accounted for using the equity method of accounting. Swire Pacific recognises its share of net profit or loss from each of these interests as a single line-item in the consolidated statement of profit or loss.

For reference, the total revenue and operating profit from the joint venture interests in three franchises in Mainland China was HK$7,480 million and HK$309 million, respectively, in 2016 (2015: HK$8,930 million and HK$469 million, respectively). The revenue of CCBMH, excluding sales to the seven Mainland China franchises, was HK$3,792 million in 2016 (2015: HK$4,324 million).

The sales volume for Mainland China represents sales in the seven franchises, including products supplied by CCBMH.

Central costs are arrived at after crediting gains on disposal of available-for-sale investments of HK$11 million (2015: HK$103 million).

Beverages Division – Segment Performance

		Percentage Change				
		Mainland China**	Hong Kong	Taiwan	USA	Swire Beverages
Quality	Production Quality Index	-0.8%	0.1%	-1.3%	0.7%	N/A
Customers	Active Outlets	1.9%	-1.4%	-11.1%	63.2%	3.9%
Revenue Management	Sales Volume	-2.0%	-0.9%	-4.7%	33.4%	2.1%
	Revenue *	-6.3%	1.5%	0.6%	-0.3%	-3.6%
Cost Management	Gross Margin *	-1.4%	3.3%	0.1%	-4.1%	-1.3%
	Operating Profit	-16.5%	0.3%	-2.6%	5.9%	-11.2%
Sustainability	Water Use Ratio	6.0%	3.0%	2.0%	-1.0%	4.0%
	Energy Use Ratio	14.0%	2.0%	6.0%	-4.0%	13.0%
Safety	LTIR	-11.0%	-6.0%	45.0%	-31.0%	-10.0%

* Per unit case.
** Segment performance for Mainland China represents performance in the seven franchises.

2016 BEVERAGE INDUSTRY REVIEW

In Mainland China, the total volume of non-alcoholic ready-to-drink beverages sold grew by 2% in 2016. The volume of water sold grew by 5%. The volume of sparkling beverages and juice sold declined by 1% and 5% respectively.

In Hong Kong, the total volume of non-alcoholic ready-to-drink beverages sold in the modern trade grew by 1% in 2016. Sparkling beverages volume grew by 2%. Still beverages volume grew by 1%. Tea grew by 2%. Water volume grew by 1%.

In Taiwan, the total volume of non-alcoholic ready-to-drink beverages sold grew by 2% in 2016. The volume of tea and juice sold grew by 2% and 1% respectively. Sparkling beverages volume declined by 2%.

In the USA, the total volume of sparkling beverages sold grew by 2% in 2016. Still beverages volume grew by 6%. The volume of energy drinks and water sold grew by 4% and 12% respectively.

2016 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK$813 million in 2016, a 17% decrease from 2015. Excluding non-recurring gains on disposal of available-for-sale investments in 2015 and 2016 (accounted for as a credit to central costs), attributable profit decreased by 8% to HK$802 million in 2016.

The decrease in attributable profit principally reflected lower profits in Mainland China.

Overall sales volume increased by 2% to 1,105 million unit cases, compared with an increase of 4% in 2015. Volume grew in the USA, reflecting the inclusion of sales in Arizona and New Mexico with effect from August 2016. Volume declined in Mainland China, Hong Kong and Taiwan.

Mainland China

Attributable profit from Mainland China was HK$288 million, a 26% decrease from 2015.

Total sales volume decreased by 2% in 2016. This reflected the slowdown in the growth of the Mainland China economy and stronger competition from new types of beverages. Sparkling sales volume declined by 6%. Juice sales volume declined by 15%. Water sales volume grew by 19%.

Adverse changes in the sales mix and promotional pricing resulted in a 6% decline in revenue per unit case.

Gross margins per unit case decreased by 1%. Lower raw material costs (mainly sweetener, aluminium and resin) partly offset the decrease in revenue per unit case.

In November and December 2016, Swire Beverages Holdings Limited ("SBHL") entered into conditional agreements with TCCC and a subsidiary of China Foods Limited ("China Foods") for the realignment of the Coca- Cola bottling system in Mainland China. SBHL also agreed (conditionally on the realignment proceeding) to acquire from a subsidiary of TCCC the 12.5% interest in Swire Beverages Limited ("SBL") which is not already owned by SBHL. SBL is the holding company for the majority of Swire Pacific's interests in companies engaged in the non-alcoholic ready to drink business in Mainland China and Hong Kong. If the realignment proceeds, it will result in SBHL having controlling interests in companies operating in territories in which 49% of the Mainland China population live, and in which 51% of Coca-Cola beverages were consumed in Mainland China in 2015. The corresponding percentages before the realignment are 31% and 34% respectively. At present, SBHL has interests in franchise territories in Mainland China in Fujian, Anhui, Henan, Shaanxi, Guangdong, Zhejiang and Jiangsu. If the realignment proceeds, SBHL will take on franchise territories in Hubei, Guangxi, Yunnan, Jiangxi, Hainan and Shanghai and the cities of Zhanjiang and Maoming in Guangdong, and will increase its interests in franchise territories in Jiangsu, Zhejiang, Anhui, Fujian, Henan and Guangdong. The Shaanxi territory will be transferred to a subsidiary of China Foods. The net amount expected to be payable by SBHL in respect of the realignment and the acquisition of 12.5% of SBL is RMB5,869 million, subject to completion adjustments. They remain subject to satisfaction of regulatory and other conditions. Assuming satisfaction of these conditions, the completion of the transactions is expected to occur later in the first half of 2017.

Hong Kong

Attributable profit from Hong Kong in 2016 was HK$205 million, a 1% increase from 2015.

Total sales volume decreased by 1% in 2016 due to the decline in sales outside the modern trade channel. Sparkling sales volume declined by 4%. Still sales volume grew by 2%. Tea and water sales volume both increased by 2%.

Revenue per unit case increased by 2%. Raw material costs per unit case decreased by 1%. Together, these factors contributed to a 3% increase in gross margin per unit case. The increase in gross margins was offset by an increase in operating costs.

Taiwan

Attributable profit from Taiwan was HK$33 million, a 3% decrease from 2015.

Sales volume in 2016 decreased by 5%. Sparkling sales volume decreased by 2%. Still sales volume decreased by 8%. Tea and juice sales volumes decreased by 8% and 9% respectively.

Revenue per unit case increased by 1%. Raw material costs per unit case increased by 1%. Gross margins per unit case were unchanged.

USA

Attributable profit from the USA was HK$306 million, a 12% increase from 2015.

Sales volume in the USA increased by 33% in 2016, principally as a result of the acquisition of new franchise territories in Arizona and New Mexico from August 2016. Sales volume increased by 3% excluding these new franchise territories. Attributable profit from the new franchise territories for 2016 was HK$21 million.

Sparkling sales volume increased by 33%. Still sales volume increased by 34%, principally due to increases in sales of energy and water drinks of 25% and 43% respectively.

Revenue per unit case decreased marginally, by 0.3%. Cost of goods per unit case increased by 3%. Gross margins increased as a result of higher sales volume, but the beneficial effect of this was partially offset by higher operating costs in the newly acquired territories.

In October 2016, Swire Beverages conditionally agreed to acquire from TCCC additional territory rights in the states of Washington, Oregon and Idaho in the Pacific Northwest and production facilities near Seattle and Portland. The acquisition of additional territory rights in Washington was completed in February 2017. The remainder of the acquisition is expected to be completed later in the first half of 2017.

OUTLOOK

Sales volume in the Swire Beverages franchise territories in Mainland China is expected to grow modestly in 2017. Revenue is also expected to grow modestly, reflecting a better sales mix, the introduction of new products and packaging, strong marketing support for products and improved market execution. Increases in costs, in particular raw materials, staff and compliance costs, will put pressure on margins.

In Hong Kong, the market will be difficult. Moderate growth in sales volume is expected, reflecting the introduction of new products and effective marketing. Raw material costs are expected to increase (especially sugar costs). Production capacity constraints will result in inefficiencies in production and logistics.

The retail market in Taiwan is expected to be weak. However, sales of sparkling beverages, tea and juice are expected to improve due to the launch of new products and improvements in the execution of sales and marketing plans.

In the USA, the beverages market is expected to grow moderately in 2017. Sales of energy drinks and water are expected to continue to grow, assisted by introduction of additional flavours. The business is expected to start to benefit from the acquisition of additional bottling territories and production facilities in the Pacific Northwest.

Patrick Healy

REVIEW OF OPERATIONS

MARINE SERVICES DIVISION

OVERVIEW OF THE BUSINESS

The Marine Services Division, through Swire Pacific Offshore (SPO), operates offshore support vessels servicing the energy industry in every major offshore production and exploration region outside the USA. SPO has a windfarm installation business and a subsea inspection, maintenance and repair ("IMR") business.

SPO can support drilling, production, exploration, pipe-laying, subsea construction and floating production, storage, offloading operations and high speed crew changes. SPO and its subsidiaries can carry out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing, oil rig decommissioning and subsea remotely operated vehicle support.

The division has joint venture interests in engineering and harbour towage services in Hong Kong through the Hongkong United Dockyards ("HUD") group.

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 these:

- Ensuring safety always comes first in every aspect of our business.
- Being strongly committed to delivering operational excellence in marine services.
- Developing an Industry leading team recognised for quality and professionalism.
- Operating a modern and reliable fleet efficiently.
- Managing our business sustainably with high standards of corporate governance.
- Developing complementary marine services that add value.
- Delivering long term value and attractive returns.

SPO:

SPO's Fleet:
At 31st December 2016, SPO operated a fleet of 81 offshore support 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 inspection, maintenance and repair vessels, seismic survey vessels, 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 – Fleet Size

Vessel class	2015	Additions 2016	Disposals 2016	Year-end 2016	Vessels expected to be received in: 2017	2018
Anchor Handling Tug Supply Vessels	40	-	6	34	-	-
Large Anchor Handling Tug Supply Vessels	23	-	4	19	-	-
Platform Supply Vessels	12	-	3	9	3	3
Large Platform Supply Vessels	8	-	-	8	-	-
Construction and Specialist Vessels	9	2	-	11	-	-
	92	**2**	**13**	**81**	**3**	**3**

Note: SPO's fleet as at 31st December 2015 included one PSV and one CSV chartered from external parties. The PSV was redelivered to its owner during the year and is included as a disposal above. SPO's fleet as at 31st December 2016 included one CSV chartered from an external party.

SPO's Geographical Distribution:

SPO is headquartered in Singapore, with shore support for its vessels provided by outport offices in Angola, Australia, Azerbaijan, Brazil, Brunei, Cameroon, Canada, Denmark, Equatorial Guinea, Ghana, India, Indonesia, Kenya, Malaysia, New Zealand, Norway, Qatar, the Philippines, Scotland, Trinidad & Tobago and the United Arab Emirates. SPO also has a representative office in the USA.

HUD:

HUD, a joint venture between Hutchison Whampoa 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 providing a 24-hour service.

2016 PERFORMANCE
Marine Services Division – Financial Highlights

	2016 HK$M	2015 HK$M
Swire Pacific Offshore group		
Revenue	**4,238**	5,990
Operating (loss)/profit derived from:		
Operating activities	**(165)**	432
Impairment charges	**(2,313)**	(1,278)
Loss on disposal of a subsidiary	**(118)**	-
Total operating loss	**(2,596)**	(846)
Attributable loss	**(3,033)**	(1,285)
HUD group		
Share of post-tax profits from joint venture companies	**20**	30
Attributable loss	**(3,013)**	(1,255)

Marine Services Division – Fleet Size

	2016	2015
Fleet size (number of vessels)		
Swire Pacific Offshore group	**81**	92
HUD group	**19**	19
Total	**100**	111

Swire Pacific Offshore group

OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY BACKGROUND

Low oil prices and a reduction in exploration and production spending by oil majors continued to have a material adverse effect on the offshore exploration market in 2016. The oversupply of offshore support vessels has resulted in reduced charter hire and utilisation rates. This in turn has led to the widespread stacking of vessels.

2016 RESULTS SUMMARY

SPO reported an attributable loss of HK$3,033 million in 2016, compared to a loss of HK$1,285 million in 2015.

In the second half of 2016, a review of the carrying value of SPO's assets was completed. Vessel market values and the outlook for the offshore industry had a significant impact on the assessment. SPO's outlook for the industry indicates a longer period for the downturn and a slower rate of recovery than previously expected. The results for the year include vessel impairment charges of HK$2,313 million arising from the review.

The results for the year also include a loss of HK$118 million arising from the disposal of SPO's logistics subsidiary, Altus Oil & Gas Services in November 2016. The disposal reflects SPO's strategy of refocusing on its core marine operations.

SPO disposed of twelve vessels in 2016 for an aggregate profit of HK$147 million.

Excluding the impairment charges, the loss on disposal on Altus Oil & Gas Services, and the profit on disposal of vessels, SPO reported an attributable loss of HK$749 million in 2016 (compared to a loss of HK$29 million in 2015). These results reflect the difficult market conditions in the offshore energy industry.

SPO generated net cash from operating activities amounting to HK$1,303 million in 2016.

Charter Hire

Charter hire revenue decreased by 31% to HK$3,574 million in 2016, reflecting reduced charter hire and utilisation rates.

SPO had a fleet utilisation rate of 63.4% in 2016, a decline of 11.5 percentage points from 2015. Average charter hire rates declined by 15% to USD23,100 per day.

Core Fleet (AHTSs and PSVs)

The utilisation rate of SPO's AHTSs and PSVs decreased by 12 percentage points to 63.2% in 2016. Charter hire rates for the core fleet decreased by 17% to USD16,600 per day.

Four AHTSs were in cold stack at 31st December 2016.

Specialist Fleet

The utilisation rate of SPO's CSVs decreased by 7.1 percentage points to 64.9% in 2016. Charter hire rates for the CSVs decreased by 19% to USD76,200 per day.

The wind farm installation vessels were on charter installing wind farm foundations and turbines for the majority of the year. One accommodation barge and two seismic survey vessels were in cold stack at 31st December 2016.

Non-charter Hire

Non-charter hire income was HK$664 million in 2016, a decline of 20% compared to 2015, mainly due to lower revenue from Altus Oil & Gas Services.

Operating Costs

Total operating costs in 2016 decreased by HK$819 million (or 15%) to HK$4,594 million. The reduction principally reflected cost cutting and the disposal and stacking of vessels. SPO had seven vessels in cold stack at 31st December 2016. The vessels will be returned to service (when opportunities arise and deferred maintenance is completed) or sold.

SPO recorded a foreign exchange gain of HK$63 million in 2016, mainly due to SPO's exposure to the Brazilian Real in connection with contracts with a Brazilian shipyard for the construction of four large PSVs. In 2014, SPO cancelled these contracts due to the shipyard's failure to deliver the vessels in accordance with the contractually agreed schedule. The matter is the subject of arbitration proceedings in Brazil.

FLEET

The fleet size at 31st December 2016 was 81 compared to 92 at 31st December 2015.

SPO disposed of ten older AHTSs, four of which were large AHTSs, and two PSVs in 2016. One PSV chartered from an external party was redelivered to its owner during the year.

A high speed catamaran crew boat was delivered in November 2016 and a light construction subsea vessel was purchased in December 2016. SPO deferred delivery of three PSVs to 2017 and a further three PSVs to 2018 (from 2016 and 2017, respectively).

Total capital expenditure on new vessels and other fixed assets in 2016 was HK$946 million, compared to HK$1,490 million in 2015.

At 31st December 2016, SPO had total capital expenditure commitments of HK$2,278 million (31st December 2015: HK$2,670 million).

OUTLOOK

Industry conditions are expected to remain difficult and the market recovery is expected to take longer than previously expected. Exploration and production projects have been delayed and the oversupply of vessels will take time to correct.

SPO remains committed to providing high-quality services to clients and is well placed to take advantage of any improvement in the market when it comes.

SPO - Profile of Capital Commitments (HK$M)

	Expenditure	Forecast year of expenditure			Commitments
	2016	2017	2018	2019	**at 31st Dec 2016**
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	**247**	988	692	232	**1,912**
Construction and Specialist Vessels	**597**	107	49	86	**242**
Other fixed assets	**102**	72	7	45	**124**
Total	**946**	1,167	748	363	**2,278**

SPO – Charter Hire Revenue by Vessel Class

Vessel Class	**2016 HK$M**	**2016 %**	2015 HK$M	2015 %
Anchor Handling Tug Supply Vessels	**801**	**22%**	1,242	24%
Large Anchor Handling Tug Supply Vessels	**783**	**22%**	1,103	21%
Platform Supply Vessels	**550**	**15%**	668	13%
Large Platform Supply Vessels	**164**	**5%**	421	8%
Construction and Specialist Vessels	**1,276**	**36%**	1,727	34%
Total	**3,574**	**100%**	5,161	100%

Hongkong United Dockyards group

INDUSTRY BACKGROUND

The shipping industry remained weak in 2016. Shipping lines continued to cut costs as freight rates remained under pressure. Container terminal throughput in Hong Kong was depressed.

Demand for engineering services for infrastructure projects and for logistics support was firm in Hong Kong. This was supported by the Hong Kong government's large-scale infrastructure projects.

2016 RESULTS SUMMARY

The attributable profit of the HUD group for 2016 was HK$20 million compared to HK$30 million in 2015.

The salvage and towage division's profit (before tax and interest and on a 100% basis) was HK$118 million in 2016, compared with HK$138 million in 2015. Fewer container, bulker and tanker ship movements meant fewer tug moves. Tug rates also remained under pressure. This was offset in part by lower fuel costs.

The engineering division recorded a loss (before tax and interest and on a 100% basis) for 2016 of HK$62 million, compared to a HK$58 million loss in 2015. Fewer marine engineering contracts were obtained due to the competitive market, and the profitability of non-marine contracts was adversely affected by delays in starting work and higher labour costs.

Hong Kong Salvage & Towage ("HKST") has 19 vessels in its fleet, including six container vessels.

OUTLOOK

HKST will aim to maintain its position as a leading tug operator in Hong Kong, both in the harbour and on the ocean. New safety regulations in Mirs Bay may be implemented by the Hong Kong Marine Department. These should increase demand for tug moves.

Demand for marine engineering work is expected to be weak in 2017. The outlook for land based work is better. HUD started to do rebar work in 2016. More such work will be done in 2017 and it is expected to be profitable.

Ron Mathison – SPO
Derrick Chan – HUD

REVIEW OF OPERATIONS

TRADING & INDUSTRIAL DIVISION

OVERVIEW OF THE BUSINESS

The Trading & Industrial Division has interests in the following companies:

Swire Retail group:

(i) Swire Resources group:

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2016, it operated 187 retail outlets in Hong Kong and Macau and 18 retail outlets in Mainland China.

(ii) Swire Brands group:

Swire Brands holds investments in brand-owning companies. It has an interest in an associated company with Columbia, which distributes and retails Columbia products in Mainland China, and a 9.4% minority interest in Rebecca Minkoff, which sells apparel, handbags and accessories.

Taikoo Motors group:

Taikoo Motors sells passenger cars, commercial vehicles, motorcycles and scooters. Taikoo Motors' largest business is in Taiwan, where it sells Volkswagen, Mercedes Benz, Audi and Mazda cars, Volkswagen light commercial vehicles, Volvo trucks and buses, Harley-Davidson motorcycles and Vespa scooters. Taikoo Motors also distributes cars, motorcycles and commercial vehicles in Hong Kong, Macau, Mainland China and Malaysia.

Swire Foods group:

(i) Chongqing New Qinyuan Bakery Co. Ltd ("Qinyuan Bakery"):

Qinyuan Bakery is a leading bakery chain in southwest China, with over 550 stores in Chongqing, Guiyang and Chengdu.

(ii) Swire Foods (including Taikoo Sugar):

Swire Foods distributes food products in Mainland China and Hong Kong. Taikoo Sugar packages and sells sugar in Hong Kong and Mainland China under the Taikoo Sugar brand.

Swire Pacific Cold Storage group:

Swire Pacific Cold Storage wholly owns cold storage facilities in Shanghai, Hebei, Nanjing and Ningbo and owns a 60% equity interest in a cold storage facility in Guangzhou. It owns land in Chengdu and (with a 35% joint venture partner) Xiamen, on which cold storage facilities are being built and are due to open later in 2017.

Akzo Nobel Swire Paints:

Akzo Nobel Swire Paints is a joint venture with Akzo Nobel which manufactures and distributes decorative paints, primarily under the Dulux brand, in Mainland China, Hong Kong and Macau. The joint venture has manufacturing plants in Guangzhou, Shanghai, Hebei and Chengdu.

Swire Environmental Services group:

(i) Swire Waste Management:

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.

(ii) Swire sustainability fund:

The Swire sustainability fund has an associate interest in Green Biologics and minority equity interests in NanoSpun Technologies and Avantium. Green Biologics is a biotechnology company which is developing renewable chemical and biofuel technology. NanoSpun Technologies is a company which is developing a water treatment process using nanotechnology. Avantium is a biotechnology company that develops and commercialises bioplastics and chemicals.

STRATEGY:

The strategic objective of the Trading & Industrial Division is to expand the businesses which it operates and to seek new business opportunities in related fields where advantage can be taken of existing skills, assets or relationships. 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 and by increasing the number of retail outlets and sales channels (including online channels) through which products are sold.
- 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.
- Broadening the range of products sold by Swire Foods.
- Strengthening the capability of Qinyuan Bakery by increasing the range of products and the number of stores.
- Expanding the network of the cold storage business in Mainland China in order to improve operating efficiency and customer service and thereby to acquire new customers.
- Expanding and strengthening the distribution network and sales channels of Akzo Nobel Swire Paints in Mainland China.
- Increasing the number of waste management contracts awarded to Swire Waste Management.

2016 PERFORMANCE

Trading & Industrial Division - Financial Highlights

	2016 HK$M	2015 HK$M
Revenue		
Swire Retail group	**3,216**	3,208
Taikoo Motors group	**4,514**	4,498
Swire Foods group	**1,540**	1,589
Swire Pacific Cold Storage group	**80**	34
	9,350	9,329
Operating profits/(losses)		
Swire Retail group	**27**	53
Taikoo Motors group	**18**	38
Swire Foods group	**61**	105
Swire Pacific Cold Storage group	**(102)**	(94)
Swire Environmental Services group	**(7)**	(1)
Other subsidiary companies and central costs	**(44)**	(33)
	(47)	68
Attributable profits/(losses)		
Swire Retail group	**83**	93
Taikoo Motors group	**15**	3
Swire Foods group	**59**	41
Swire Pacific Cold Storage group	**(126)**	(102)
Swire Environmental Services group	**(79)**	(44)
Akzo Nobel Swire Paints	**198**	197
Other subsidiary companies and central costs	**(36)**	(33)
Attributable profit	**114**	155

INDUSTRY BACKGROUND

Retailing in Hong Kong and Mainland China – Hong Kong retail sales declined by 8% in 2016 as the number of visitors from Mainland China decreased by 7%. The growth in retail sales of 10% in Mainland China in 2016 was similar to that in 2015.

Car sales in Taiwan – Car registrations in Taiwan increased by 5% to 434,727 units in 2016.

Sugar sales in Mainland China – The total amount of sugar sold in Mainland China increased by 1% to 33,069 million pounds in 2016.

Cold storage demand in Mainland China – Demand for frozen food and food safety concerns are increasing. This is in turn increasing demand for high quality cold storage facilities.

Paint sales in Mainland China – Total sales of decorative paints in Mainland China increased by 4% to 3,031 million litres in 2016.

2016 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2016 decreased by 26% to HK$114 million. The decrease principally reflected weaker results from Swire Retail, costs associated with developing the cold storage business and losses from Swire Environmental Services. The attributable profits of Swire Foods and Taikoo Motors increased. Results from Akzo Nobel Swire Paints were similar compared to last year.

Swire Retail group

Attributable profit decreased by 11% in 2016 to HK$83 million. There was a non-recurring expense of HK$13 million on termination of a distribution agreement. The multibrand business in Hong Kong recorded lower profits. The results of the Columbia associated company improved. Losses in Mainland China decreased.

Revenue in Hong Kong and Macau was similar to that in 2015. Gross margins declined due to more discounting in response to competitive activities. Operating costs, in particular advertising costs, decreased, although occupancy and employment costs were higher. The group managed 187 retail outlets in Hong Kong and Macau at the end of 2016, one less than at the end of 2015.

The number of retail outlets operated in Mainland China decreased by seven (to 18) at the end of 2016. The decrease principally reflects the closure of loss-making outlets.

The attributable profit of the Columbia associated company in 2016 was HK$56 million, 33% higher than in 2015. Cold weather early in the year helped to increase sales.

Taikoo Motors group

Attributable profit in 2016 was HK$15 million, compared with an attributable profit of HK$3 million in 2015. The results in 2015 included non-recurring income relating to the termination of Volkswagen and Škoda importerships in Taiwan and were after restructuring costs of HK$62 million relating to loss-making businesses in Mainland China and Hong Kong.

In total, 16,985 cars, commercial vehicles and motorcycles were sold in 2016, 3% less than in 2015. 91% of these units were sold by businesses in Taiwan.

Gross margins declined due to an unfavourable sales mix. This was offset in part by lower operating costs, in particular employment costs and promotional expenditure.

Swire Foods group

During the year, Swire Foods acquired the 35% interest in Qinyuan Bakery which it did not already own for HK$640 million. Qinyuan Bakery was accounted for as a 100% owned subsidiary from 1st January 2016.

Swire Foods reported an attributable profit of HK$59 million in 2016, compared with an attributable profit of HK$41 million in 2015.

The attributable profit of Qinyuan Bakery in 2016 was HK$55 million, compared with an attributable profit of HK$27 million in 2015. The increase in attributable profits reflected the fact that the business was treated as 100% owned during 2016 (as opposed to 65% owned in 2015) and the release of tax provisions.

Revenue of Qinyuan Bakery decreased by 5% compared with 2015. This principally reflected the depreciation of the Renminbi against the Hong Kong dollar. In Renminbi terms, revenue was little changed. A decline of 3% in same store sales was offset by an increase in store numbers. The gross margin rate was higher than in 2015 due to a favourable sales mix, partially offset by higher material costs. Higher operating costs (consequent upon the integration of the business into the Swire Foods group) reduced operating profits. A new factory in Chongqing started operations in May 2016. Qinyuan Bakery operated 550 stores in southwest China at the end of 2016, a net increase of 49 stores since 31st December 2015.

Volumes of sugar sold decreased by 13% in Hong Kong and increased by 5% in Mainland China.

A 34% owned sugar refinery in Guangdong will start operating in April 2017.

<u>Swire Pacific Cold Storage group</u>

Swire Pacific Cold Storage recorded an attributable loss of HK$126 million in 2016 compared with a loss of HK$102 million in 2015. The loss principally reflected operating losses at the cold stores in Ningbo and Nanjing, and the cost of developing new cold stores in Chengdu and Xiamen. The Guangdong cold store recorded a small profit.

The businesses in Shanghai, Hebei, Ningbo and Nanjing are growing. Average occupancy rates at these facilities in 2016 were 55%, 61%, 23% and 13% respectively. The Ningbo and Nanjing facilities were opened in July 2015 and January 2016 respectively.

The Xiamen and Chengdu facilities are expected to be completed in 2017.

The capital commitments of the Swire Pacific Cold Storage group at 31st December 2016 were HK$685 million.

<u>Swire Environmental Services group</u>

Swire Environmental Services reported an attributable loss of HK$79 million in 2016, compared with an attributable loss of HK$44 million in 2015. The higher loss principally reflected start-up costs at Green Biologics' renewable fuel plant. The Swire sustainability fund's other investments are accounted for at cost.

In September 2016, Swire Waste Management started a 10-year contract to operate the north west New Territories refuse transfer station in Hong Kong.

<u>Akzo Nobel Swire Paints</u>

The attributable profit for 2016 was HK$198 million, compared with an attributable profit of HK$197 million in 2015.

Sales volume in Mainland China increased by 20% from 2015. Revenue increased by 5% in Renminbi terms. The sales mix was unfavourable and average selling prices were lower. Gross margins increased as a result of lower average material costs. Attributable profit was adversely affected by higher operating costs. Akzo Nobel Swire Paints distributed paint in approximately 541 cities in Mainland China at the end of 2016.

A fourth plant (in Chengdu) started operating in April 2016.

OUTLOOK

The retail market in Hong Kong is expected to remain weak and highly competitive. More discounting and higher employment costs are expected to put pressure on profit margins at Swire Resources.

Taikoo Motors will open more dealerships and enter into additional motor-related businesses in Taiwan. Some loss-making businesses elsewhere will be closed.

Qinyuan Bakery plans to increase the number of its stores, to upgrade existing stores, to broaden the range of its products and to improve its supply chain.

Taikoo Sugar will increase retail prices to offset the effect of increase in the cost of sugar. The new sugar refinery in Mainland China is expected to start commercial production in the second quarter of 2017.

Occupancy rates at Swire Pacific Cold Storage are expected to increase progressively but the market remains highly competitive with pricing under pressure.

Akzo Nobel Swire Paints expects to continue to expand and strengthen its distribution network in Mainland China.

The overall profits of the Trading & Industrial Division are expected to increase but to continue to be affected by the cost of new business development.

Derrick Chan / Clement Lam /
Richard Sell

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.

	Note	2016 HK$M	2015 HK$M
Underlying profit			
Profit attributable to the Company's shareholders per financial statements		**9,644**	13,429
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	**(9,637)**	(8,123)
Deferred tax on investment properties	(b)	**1,459**	1,090
Realised profit on sale of investment properties	(c)	**3**	2,180
Depreciation of investment properties occupied by the Group	(d)	**28**	23
Non-controlling interests' share of adjustments		**1,566**	1,293
Underlying profit attributable to the Company's shareholders		**3,063**	9,892

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.

	2016 HK$M	2015 HK$M
Adjusted underlying profit		
Underlying profit attributable to the Company's shareholders	**3,063**	9,892
Other significant items:		
Profit on disposal of HAESL's interest in SAESL, net of associated expenses	**(587)**	-
Profit on sale of investment properties	**(65)**	(2,023)
Loss/(profit) on sale of property, plant and equipment and other investments	**18**	(74)
Net impairment of property, plant and equipment and intangible assets	**2,568**	1,348
Adjusted underlying profit	**4,997**	9,143

Consolidated Statement of Profit or Loss
For the year ended 31st December 2016

	Note	**2016 HK$M**	2015 HK$M
Revenue	2	**62,389**	60,885
Cost of sales		**(40,392)**	(38,000)
Gross profit		**21,997**	22,885
Distribution costs		**(7,082)**	(6,848)
Administrative expenses		**(5,402)**	(4,718)
Other operating expenses		**(293)**	(339)
Other net losses		**(2,281)**	(1,572)
Change in fair value of investment properties		**8,445**	7,053
Operating profit	3	**15,384**	16,461
Finance charges		**(2,458)**	(2,373)
Finance income		**161**	227
Net finance charges	4	**(2,297)**	(2,146)
Share of profits less losses of joint venture companies		**2,731**	1,795
Share of profits less losses of associated companies		**(70)**	2,887
Profit before taxation		**15,748**	18,997
Taxation	5	**(2,816)**	(2,574)
Profit for the year		**12,932**	16,423
Profit for the year attributable to:			
The Company's shareholders		**9,644**	13,429
Non-controlling interests		**3,288**	2,994
		12,932	16,423
Underlying profit attributable to the Company's shareholders		**3,063**	9,892
		HK$	HK$
Earnings per share from profit attributable to the Company's shareholders (basic and diluted)	7		
'A' share		**6.41**	8.93
'B' share		**1.28**	1.79

Consolidated Statement of Other Comprehensive Income
For the year ended 31st December 2016

	2016 HK$M	2015 HK$M
Profit for the year	**12,932**	16,423
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Revaluation of property previously occupied by the Group		
gains recognised during the year	**120**	30
deferred tax	**(3)**	(3)
Defined benefit plans		
remeasurement gains/(losses) recognised during the year	**68**	(411)
deferred tax	**14**	69
Share of other comprehensive income of joint venture and associated companies	**271**	(130)
	470	(445)
Items that can be reclassified subsequently to profit or loss		
Cash flow hedges		
gains/(losses) recognised during the year	**568**	(430)
transferred to net finance charges	**(92)**	(93)
transferred to operating profit	**(33)**	52
deferred tax	**(66)**	60
Net fair value changes on available-for-sale assets		
losses recognised during the year	**(51)**	(74)
transferred to profit or loss on disposal	**(10)**	(99)
Share of other comprehensive income of joint venture and associated companies	**3,128**	(3,978)
Net translation differences on foreign operations		
losses recognised during the year	**(1,913)**	(1,589)
reclassified to profit or loss on disposal	**-**	142
	1,531	(6,009)
Other comprehensive income for the year, net of tax	**2,001**	(6,454)
Total comprehensive income for the year	**14,933**	9,969
Total comprehensive income attributable to:		
The Company's shareholders	**12,068**	7,445
Non-controlling interests	**2,865**	2,524
	14,933	9,969

Consolidated Statement of Financial Position
At 31st December 2016

	Note	**2016 HK$M**	2015 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**40,922**	42,935
Investment properties		**233,718**	227,300
Leasehold land and land use rights		**1,087**	1,146
Intangible assets		**9,195**	7,377
Properties held for development		**1,279**	942
Joint venture companies		**25,908**	24,988
Associated companies		**27,546**	24,321
Available-for-sale assets		**457**	508
Other receivables	8	**49**	466
Derivative financial instruments		**528**	230
Deferred tax assets		**697**	847
Retirement benefit assets		**80**	76
Other non-current assets		**5,479**	-
		346,945	331,136
Current assets			
Properties under development and for sale		**5,669**	7,615
Stocks and work in progress		**4,790**	4,599
Trade and other receivables	8	**9,597**	9,962
Derivative financial instruments		**20**	68
Bank balances and short-term deposits		**6,477**	8,985
		26,553	31,229
Current liabilities			
Trade and other payables	9	**17,448**	18,810
Taxation payable		**388**	662
Derivative financial instruments		**32**	23
Short-term loans		**595**	669
Perpetual capital securities		**2,327**	-
Long-term loans and bonds due within one year		**5,357**	6,841
		26,147	27,005
Net current assets		**406**	4,224
Total assets less current liabilities		**347,351**	335,360
Non-current liabilities			
Perpetual capital securities		**-**	2,325
Long-term loans and bonds		**62,291**	58,782
Derivative financial instruments		**34**	201
Other payables	9	**3,427**	1,276
Deferred tax liabilities		**8,291**	7,605
Retirement benefit liabilities		**1,140**	1,185
		75,183	71,374
NET ASSETS		**272,168**	263,986
EQUITY			
Share capital	10	**1,294**	1,294
Reserves	11	**223,585**	217,155
Equity attributable to the Company's shareholders		**224,879**	218,449
Non-controlling interests		**47,289**	45,537
TOTAL EQUITY		**272,168**	263,986

Consolidated Statement of Cash Flows
For the year ended 31st December 2016

	2016 HK$M	2015 HK$M
Operating activities		
Cash generated from operations	**14,864**	14,362
Interest paid	**(2,514)**	(2,526)
Interest received	**160**	229
Tax paid	**(1,993)**	(1,909)
	10,517	10,156
Dividends received from joint venture and associated companies and available-for-sale assets	**2,673**	1,807
Net cash generated from operating activities	**13,190**	11,963
Investing activities		
Purchase of property, plant and equipment	**(3,551)**	(4,245)
Additions of investment properties	**(5,883)**	(3,624)
Additions of other non-current assets	**(254)**	-
Purchase of intangible assets	**(65)**	(54)
Proceeds from disposals of property, plant and equipment	**1,364**	275
Proceeds from disposals of investment properties	**735**	2,543
Proceeds from disposals of subsidiary companies, net of cash disposed of	**(16)**	373
Proceeds from disposals of available-for-sale assets	**35**	209
Purchase of shares in new subsidiary companies	**-**	(116)
Purchase of shares in joint venture companies	**(543)**	(114)
Purchase of shares in associated companies	**(23)**	(39)
Purchase of new businesses	**(1,455)**	-
Purchase of available-for-sale assets	**(41)**	(4)
Loans to joint venture companies	**(648)**	(909)
Repayment of loans by joint venture companies	**174**	471
Net loans (to)/from associated companies	**(73)**	113
Decrease in deposits maturing after more than three months	**19**	52
Initial leasing costs incurred	**(134)**	(70)
Net cash used in investing activities	**(10,359)**	(5,139)
Net cash inflow before financing	**2,831**	6,824
Financing activities		
Loans drawn and refinancing	**15,321**	12,993
Repayment of loans and bonds	**(13,195)**	(12,979)
	2,126	14
Capital contributions from non-controlling interests	**90**	767
Repurchase of the Company's shares	**-**	(35)
Purchase of shares in existing subsidiary companies	**(640)**	(1,541)
Dividends paid to the Company's shareholders	**(5,686)**	(5,898)
Dividends paid to non-controlling interests	**(1,030)**	(1,026)
Net cash used in financing activities	**(5,140)**	(7,719)
Decrease in cash and cash equivalents	**(2,309)**	(895)
Cash and cash equivalents at 1st January	**8,936**	10,013
Currency adjustment	**(177)**	(182)
Cash and cash equivalents at 31st December	**6,450**	8,936
Represented by:		
Bank balances and short-term deposits maturing within three months	**6,450**	8,936

1. **Segment Information**

(a) Information about reportable segments – Analysis of Consolidated Statement of Profit or Loss

Year ended 31st December 2016

	External revenue	Inter-segment revenue	Operating profit/(loss)	Finance charges	Finance income	Share of profits less losses of joint venture companies	Share of profits less losses of associated companies	Tax (charge)/ credit	Profit/(loss) for the year	Profit/(loss) attributable to the Company's shareholders	Underlying profit / (loss) attributable to the Company's shareholders	Depreciation and amortisation charged to operating profit
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Property												
Property investment	10,802	100	7,743	(1,158)	94	339	-	(1,086)	5,932	4,864	4,889	(167)
Change in fair value of investment properties	-	-	8,445	-	-	982	-	(1,249)	8,178	6,606	-	-
Property trading	4,760	-	1,332	(22)	3	(6)	-	(70)	1,237	983	983	-
Hotels	1,129	1	(182)	(36)	-	(35)	139	(5)	(119)	(96)	(96)	(216)
	16,691	**101**	**17,338**	**(1,216)**	**97**	**1,280**	**139**	**(2,410)**	**15,228**	**12,357**	**5,776**	**(383)**
Aviation												
Cathay Pacific group	-	-	-	-	-	-	(259)	-	(259)	(259)	(259)	-
HAECO group	13,760	-	127	(98)	9	267	-	(17)	288	127	127	(624)
Sale of HAESL's interest in SAESL	-	-	-	-	-	805	-	-	805	604	604	-
Others	-	-	(54)	-	-	5	(10)	-	(59)	(31)	(31)	(54)
	13,760	**-**	**73**	**(98)**	**9**	**1,077**	**(269)**	**(17)**	**775**	**441**	**441**	**(678)**
Beverages												
Mainland China	6,873	-	291	(78)	16	141	77	(117)	330	288	288	(292)
Hong Kong	2,211	1	247	-	-	-	-	(20)	227	205	205	(70)
Taiwan	1,323	-	47	(6)	-	-	-	(8)	33	33	33	(49)
USA	8,013	-	434	(9)	-	-		(119)	306	306	306	(300)
Central costs	-	-	(16)	-	-	-	-	(3)	(19)	(19)	(19)	(3)
	18,420	**1**	**1,003**	**(93)**	**16**	**141**	**77**	**(267)**	**877**	**813**	**813**	**(714)**
Marine Services												
Swire Pacific Offshore group	4,237	1	(2,596)	(326)	3	-	1	(95)	(3,013)	(3,033)	(3,033)	(1,236)
HUD group	-	-	-	-	-	20	-	-	20	20	20	-
	4,237	**1**	**(2,596)**	**(326)**	**3**	**20**	**1**	**(95)**	**(2,993)**	**(3,013)**	**(3,013)**	**(1,236)**
Trading & Industrial												
Swire Retail group	3,216	-	27	(2)	17	3	56	(18)	83	83	83	(25)
Taikoo Motors group	4,514	-	18	(2)	2	-	-	(3)	15	15	15	(70)
Swire Foods group	1,466	74	61	(1)	3	(7)	-	2	58	59	59	(58)
Swire Pacific Cold Storage group	80	-	(102)	(20)	-	(1)	-	(3)	(126)	(126)	(126)	(46)
Akzo Nobel Swire Paints	-	-	(8)	-	-	216	-	(10)	198	198	198	-
Swire Environmental Services group	-	-	(7)	-	-	2	(74)	-	(79)	(79)	(79)	-
Other activities	-	-	(36)	-	-	-	-	-	(36)	(36)	(36)	-
	9,276	**74**	**(47)**	**(25)**	**22**	**213**	**(18)**	**(32)**	**113**	**114**	**114**	**(199)**
Head Office												
Net income/(expenses)	5	31	(387)	(1,635)	949	-	-	5	(1,068)	(1,068)	(1,068)	(2)
	5	**31**	**(387)**	**(1,635)**	**949**	**-**	**-**	**5**	**(1,068)**	**(1,068)**	**(1,068)**	**(2)**
Inter-segment elimination	-	**(208)**	-	**935**	**(935)**	-	-	-	-	-	-	-
Total	**62,389**	**-**	**15,384**	**(2,458)**	**161**	**2,731**	**(70)**	**(2,816)**	**12,932**	**9,644**	**3,063**	**(3,212)**

Notes: Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services. Interest charged by Head Office to the business segments is based on market interest rates and the Group's cost of debt.

1. Segment Information (continued)

(a) Information about reportable segments – Analysis of Consolidated Statement of Profit or Loss (continued)

Year ended 31st December 2015

	External revenue	Inter-segment revenue	Operating profit/(loss)	Finance charges	Finance income	Share of profits less losses of joint venture companies	Share of profits less losses of associated companies	Tax (charge)/ credit	Profit/(loss) for the year	Profit/(loss) attributable to the Company's shareholders	Underlying profit / (loss) attributable to the Company's shareholders	Depreciation and amortisation charged to operating profit
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Property												
Property investment	10,761	96	8,090	(1,242)	92	274	-	(965)	6,249	5,104	5,131	(160)
Change in fair value of investment properties	-	-	7,067	-	-	828	-	(848)	7,047	5,745	-	-
Property trading	4,463	-	1,328	(6)	3	57	-	(231)	1,151	893	908	-
Hotels	1,127	-	(334)	(43)	1	(59)	141	(12)	(306)	(248)	(248)	(192)
	16,351	**96**	**16,151**	**(1,291)**	**96**	**1,100**	**141**	**(2,056)**	**14,141**	**11,494**	**5,791**	**(352)**
Aviation												
Cathay Pacific group	-	-	-	-	-	-	2,700	-	2,700	2,700	2,700	-
HAECO group	12,095	-	415	(96)	20	246	-	(33)	552	349	349	(601)
Others	-	-	(52)	-	-	4	(11)	-	(59)	(32)	(32)	(52)
	12,095	**-**	**363**	**(96)**	**20**	**250**	**2,689**	**(33)**	**3,193**	**3,017**	**3,017**	**(653)**
Beverages												
Mainland China	7,617	-	405	(65)	28	203	59	(116)	514	391	391	(287)
Hong Kong	2,198	2	246	-	-	-	-	(20)	226	204	204	(73)
Taiwan	1,392	-	48	(6)	-	-	-	(8)	34	34	34	(49)
USA	5,965	-	392	(1)	-	-	-	(118)	273	273	273	(228)
Central costs	-	-	73	-	-	-	-	-	73	74	74	(3)
	17,172	**2**	**1,164**	**(72)**	**28**	**203**	**59**	**(262)**	**1,120**	**976**	**976**	**(640)**
Marine Services												
Swire Pacific Offshore group	5,988	2	(846)	(335)	34	-	(1)	(131)	(1,279)	(1,285)	(1,285)	(1,262)
HUD group	-	-	-	-	-	30	-	-	30	30	30	-
	5,988	**2**	**(846)**	**(335)**	**34**	**30**	**(1)**	**(131)**	**(1,249)**	**(1,255)**	**(1,255)**	**(1,262)**
Trading & Industrial												
Swire Retail group	3,208	-	53	(1)	20	5	42	(26)	93	93	93	(27)
Taikoo Motors group	4,498	-	38	(4)	1	-	-	(32)	3	3	3	(71)
Swire Foods group	1,505	84	105	-	4	(3)	-	(44)	62	41	41	(118)
Swire Pacific Cold Storage group	34	-	(94)	(11)	-	6	-	(3)	(102)	(102)	(102)	(30)
Akzo Nobel Swire Paints	-	-	-	-	-	204	-	(7)	197	197	197	-
Swire Environmental Services group	-	-	(1)	-	-	-	(43)	-	(44)	(44)	(44)	-
Other activities	-	-	(33)	-	-	-	-	-	(33)	(33)	(33)	-
	9,245	**84**	**68**	**(16)**	**25**	**212**	**(1)**	**(112)**	**176**	**155**	**155**	**(246)**
Head Office												
Net income/(expenses)	34	26	(425)	(1,684)	1,145	-	-	20	(944)	(944)	1,208	(6)
Change in fair value of investment properties	-	-	(14)	-	-	-	-	-	(14)	(14)	-	-
	34	**26**	**(439)**	**(1,684)**	**1,145**	**-**	**-**	**20**	**(958)**	**(958)**	**1,208**	**(6)**
Inter-segment elimination	-	(210)	-	1,121	(1,121)	-	-	-	-	-	-	-
Total	60,885	-	16,461	(2,373)	227	1,795	2,887	(2,574)	16,423	13,429	9,892	(3,159)

Notes: Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services. Interest charged by Head Office to the business segments is based on market interest rates and the Group's cost of debt.

1. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group

At 31st December 2016	**Segment assets**	**Joint venture companies**	**Associated companies**	**Bank deposits and securities**	**Total assets**	**Additions to non-current assets (note)**
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
Property						
Property investment	245,337	18,476	-	1,399	265,212	6,469
Property trading and development	7,656	493	-	161	8,310	34
Hotels	6,355	1,016	361	121	7,853	253
	259,348	**19,985**	**361**	**1,681**	**281,375**	**6,756**
Aviation						
Cathay Pacific group	-	-	25,386	-	25,386	-
HAECO group	11,422	1,607	-	1,321	14,350	710
Others	4,516	2,817	-	-	7,333	-
	15,938	**4,424**	**25,386**	**1,321**	**47,069**	**710**
Beverages						
Swire Beverages	**12,690**	**630**	**1,352**	**858**	**15,530**	**949**
Marine Services						
Swire Pacific Offshore group	18,991	-	57	445	19,493	953
HUD group	-	(49)	-	-	(49)	-
	18,991	**(49)**	**57**	**445**	**19,444**	**953**
Trading & Industrial						
Swire Retail group	882	35	196	162	1,275	27
Taikoo Motors group	1,990	-	-	167	2,157	239
Swire Foods group	1,264	35	-	224	1,523	119
Swire Pacific Cold Storage group	1,617	328	-	106	2,051	293
Akzo Nobel Swire Paints	-	474	-	-	474	-
Swire Environmental Services group	121	46	194	-	361	-
Other activities	228	-	-	-	228	-
	6,102	**918**	**390**	**659**	**8,069**	**678**
Head Office	**451**	**-**	**-**	**1,560**	**2,011**	**3**
	313,520	**25,908**	**27,546**	**6,524**	**373,498**	**10,049**

At 31st December 2015	Segment assets	Joint venture companies	Associated companies	Bank deposits and securities	Total assets	Additions to non-current assets (note)
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Property						
Property investment	232,503	17,307	-	3,901	253,711	4,677
Property trading and development	9,093	815	-	401	10,309	42
Hotels	6,333	1,270	534	84	8,221	490
	247,929	**19,392**	**534**	**4,386**	**272,241**	**5,209**
Aviation						
Cathay Pacific group	-	-	22,048	-	22,048	-
HAECO group	11,958	1,262	-	1,427	14,647	737
Others	4,571	2,816	-	-	7,387	-
	16,529	**4,078**	**22,048**	**1,427**	**44,082**	**737**
Beverages						
Swire Beverages	**9,037**	**725**	**1,366**	**940**	**12,068**	**835**
Marine Services						
Swire Pacific Offshore group	23,503	-	6	497	24,006	1,513
HUD group	-	(78)	-	-	(78)	-
	23,503	**(78)**	**6**	**497**	**23,928**	**1,513**
Trading & Industrial						
Swire Retail group	932	31	140	169	1,272	25
Taikoo Motors group	1,949	-	-	279	2,228	190
Swire Foods group	1,205	48	-	428	1,681	165
Swire Pacific Cold Storage group	1,472	254	-	68	1,794	401
Akzo Nobel Swire Paints	-	519	-	-	519	-
Swire Environmental Services group	121	19	227	-	367	-
Other activities	222	-	-	1	223	-
	5,901	**871**	**367**	**945**	**8,084**	**781**
Head Office	**1,124**	**-**	**-**	**838**	**1,962**	**51**
	304,023	**24,988**	**24,321**	**9,033**	**362,365**	**9,126**

Note:

In this analysis, additions to non-current assets during the year exclude joint venture and associated companies, financial instruments, deferred tax assets and retirement benefit assets and non-current assets acquired in business combinations.

1. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total liabilities and non-controlling interests of the Group

At 31st December 2016	Segment liabilities	Current and deferred tax liabilities	Inter-segment borrowings/ (advances)	External borrowings	Total liabilities	Non-controlling interests
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Property						
Property investment	7,474	8,087	4,809	26,864	47,234	40,523
Property trading and development	1,510	23	2,783	1,669	5,985	636
Hotels	212	-	12	1,021	1,245	1,207
	9,196	**8,110**	**7,604**	**29,554**	**54,464**	**42,366**
Aviation						
HAECO group	**2,806**	**336**	**-**	**3,689**	**6,831**	**4,149**
Beverages						
Swire Beverages	**6,730**	**97**	**2,220**	**1,187**	**10,234**	**752**
Marine Services						
Swire Pacific Offshore group	**802**	**27**	**8,396**	**-**	**9,225**	**22**
Trading & Industrial						
Swire Retail group	843	41	(127)	-	757	-
Taikoo Motors group	662	(21)	6	-	647	-
Swire Foods group	336	8	(43)	-	301	-
Swire Pacific Cold Storage group	242	3	660	-	905	-
Other activities	31	19	21	-	71	-
	2,114	**50**	**517**	**-**	**2,681**	**-**
Head Office	**433**	**59**	**(18,737)**	**36,140**	**17,895**	**-**
	22,081	**8,679**	**-**	**70,570**	**101,330**	**47,289**

At 31st December 2015	Segment liabilities	Current and deferred tax liabilities	Inter-segment borrowings/ (advances)	External borrowings	Total liabilities	Non-controlling interests
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
Property						
Property investment	6,886	7,078	10,546	22,048	46,558	38,432
Property trading and development	2,217	239	1,996	2,659	7,111	810
Hotels	209	-	-	867	1,076	1,303
	9,312	**7,317**	**12,542**	**25,574**	**54,745**	**40,545**
Aviation						
HAECO group	**3,069**	**275**	**-**	**4,117**	**7,461**	**4,064**
Beverages						
Swire Beverages	**4,792**	**503**	**1,776**	**-**	**7,071**	**750**
Marine Services						
Swire Pacific Offshore group	**1,109**	**29**	**9,822**	**77**	**11,037**	**18**
Trading & Industrial						
Swire Retail group	823	45	(272)	-	596	-
Taikoo Motors group	615	(2)	137	-	750	-
Swire Foods group	911	31	-	-	942	160
Swire Pacific Cold Storage group	228	3	535	-	766	-
Other activities	30	10	12	-	52	-
	2,607	**87**	**412**	**-**	**3,106**	**160**
Head Office	**606**	**56**	**(24,552)**	**38,849**	**14,959**	**-**
	21,495	**8,267**	**-**	**68,617**	**98,379**	**45,537**

1. Segment Information (continued)

(a) Information about reportable segments (continued)

The Group is organised on a divisional basis: Property, Aviation, Beverages, Marine Services and Trading & Industrial.

The reportable segments within each of the five divisions are classified according to the nature of the business. The Head Office is also considered to be a reportable segment as discrete financial information is available for the Head Office activities and regularly provided to the executive directors of the Board.

The Beverages Division is considered to be a single reportable segment as the nature of its operations in different geographical locations is similar. The analysis of the consolidated statement of profit or loss presents the results of the Beverages Division by geographical location in order to provide further information to the user of this analysis.

(b) The activities of the Group are principally based in Hong Kong. Ship owning and operating activities are carried out internationally and cannot be attributed to specific geographical areas.

An analysis of revenue and non-current assets of the Group by principal markets is outlined below:

	Revenue		**Non-current assets (Note)**	
	2016 HK$M	2015 HK$M	**2016 HK$M**	2015 HK$M
Hong Kong	**20,415**	23,715	**220,580**	209,501
Asia (excluding Hong Kong)	**23,268**	23,026	**37,507**	37,606
United States of America	**14,610**	8,049	**15,607**	10,944
Others	**150**	531	**-**	1
Ship owning and operating activities	**3,946**	5,564	**17,986**	21,648
	62,389	60,885	**291,680**	279,700

Note:
In this analysis, the total of non-current assets excludes joint venture and associated companies, financial instruments, deferred tax assets and retirement benefit assets.

2. Revenue

Revenue represents sales by the Company and its subsidiary companies to external customers and comprises revenue from:

	2016 HK$M	2015 HK$M
Gross rental income from investment properties	**10,675**	10,654
Property trading	**4,760**	4,463
Hotels	**1,129**	1,127
Aircraft and engine maintenance services	**12,242**	10,815
Sales of goods	**28,385**	27,083
Charter hire	**3,574**	5,161
Rendering of other services	**1,624**	1,582
Total	**62,389**	60,885

3. Operating Profit

	2016	2015
	HK$M	HK$M
Operating profit has been arrived at after charging:		
Depreciation of property, plant and equipment	**2,944**	2,833
Amortisation of leasehold land and land use rights	**37**	34
Amortisation of intangible assets	**171**	138
Amortisation of initial leasing costs	**60**	67
Loss on sale of investment properties	**-**	135
Loss on disposal of a subsidiary	**118**	-
Loss on disposal of four hotels in the UK	**-**	229
Impairment losses recognised on*		
- property, plant and equipment	**2,362**	1,302
- intangible assets	**286**	104
And after crediting:		
Profit on sale of investment properties	**76**	-
Profit on sale of property, plant and equipment	**114**	-
Dividend income on available-for-sale assets	**14**	11
Profit on sale of available-for-sale assets	**9**	105

* Impairment losses recognised on property, plant and equipment and intangible assets have been reclassified in the prior year from administrative expenses to other net losses. This has no impact on the Group's results and financial position.

4. Net Finance Charges

	2016	2015
	HK$M	HK$M
Interest charged:		
Bank loans and overdrafts	**503**	642
Other loans, bonds and perpetual capital securities	**2,109**	1,988
Fair value gains on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(92)**	(93)
Interest rate swaps not qualifying as hedges	**-**	(30)
Amortised loan fees - loans at amortised cost	**117**	106
	2,637	2,613
Fair value loss on put options over non-controlling interests in subsidiary companies	**116**	18
Other financing costs	**137**	136
Capitalised on:		
Investment properties	**(248)**	(199)
Properties under development and for sale	**(140)**	(150)
Hotel and other properties	**(31)**	(16)
Vessels	**(13)**	(29)
	2,458	2,373
Less interest income:		
Short-term deposits and bank balances	**66**	107
Other loans	**95**	120
	161	227
Net finance charges	**2,297**	2,146

5. Taxation

	2016	2015
	HK$M	HK$M
Current taxation:		
Hong Kong profits tax	**911**	1,190
Overseas taxation	**763**	741
Under/(over)-provisions in prior years	**45**	(14)
	1,719	1,917
Deferred taxation:		
Changes in fair value of investment properties	**902**	592
Origination and reversal of temporary differences	**195**	65
	1,097	657
	2,816	2,574

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

6. Dividends

	2016	2015
	HK$M	HK$M
First interim dividend paid on 6th October 2016 of HK¢100.0 per 'A' share and HK¢20.0 per 'B' share (2015: HK¢112.0 and HK¢22.4)	**1,504**	1,685
Second interim dividend declared on 16th March 2017 of HK¢110.0 per 'A' share and HK¢22.0 per 'B' share (2015 actual dividend paid: HK¢278.0 and HK¢55.6)	**1,655**	4,182
	3,159	5,867

The second interim dividend is not accounted for in 2016 because it had not been declared at the year end date. The actual amount payable in respect of 2016 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2017.

The Directors have declared second interim dividends of HK¢110.0 per 'A' share and HK¢22.0 per 'B' share which, together with the first interim dividends of HK¢100.0 per 'A' share and HK¢20.0 per 'B' share paid in October 2016, amount to full year dividends of HK¢210.0 per 'A' share and HK¢42.0 per 'B' share, compared to full year dividends of HK¢390.0 per 'A' share and HK¢78.0 per 'B' share in respect of 2015. The second interim dividends will be paid on 12th May 2017 to shareholders registered at the close of business on the record date, being Thursday, 13th April 2017. Shares of the Company will be traded ex-dividend from Tuesday, 11th April 2017.

The register of members will be closed on Thursday, 13th April 2017, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividends, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 12th April 2017.

To facilitate the processing of proxy voting for the annual general meeting to be held on 18th May 2017, the register of members will be closed from 15th May 2017 to 18th May 2017, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 12th May 2017.

7. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$9,644 million (2015: HK$13,429 million) by the weighted average number of 905,206,000 'A' shares and 2,995,220,000 'B' shares in issue during the year (2015: 905,397,863 'A' shares and 2,995,220,000 'B' shares), in the proportion five to one.

8. Trade and Other Receivables

	2016	2015
	HK$M	HK$M
Trade debtors	**3,862**	3,529
Amounts due from immediate holding company	**4**	2
Amounts due from joint venture companies	**135**	160
Amounts due from associated companies	**465**	610
Interest-bearing advance to an associated company	**113**	117
Prepayments and accrued income	**2,042**	2,578
Other receivables	**3,025**	3,432
	9,646	10,428
Amounts due after one year included under non-current assets	**(49)**	(466)
	9,597	9,962

The analysis of the age of trade debtors at year-end (based on the invoice date) is as follows:

	2016	2015
	HK$M	HK$M
Up to three months	**3,635**	3,318
Between three and six months	**152**	115
Over six months	**75**	96
	3,862	3,529

The various Group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Analyses of the age of debtors are prepared and closely monitored with a view to minimising credit risk associated with receivables.

9. Trade and Other Payables

	2016	2015
	HK$M	HK$M
Trade creditors	**3,150**	3,645
Amounts due to immediate holding company	**171**	168
Amounts due to joint venture companies	**78**	207
Amounts due to associated companies	**120**	101
Interest-bearing advances from joint venture companies	**326**	343
Interest-bearing advances from an associated company	**289**	296
Advances from non-controlling interests	**150**	159
Rental deposits from tenants	**2,494**	2,389
Put option over non-controlling interest in Brickell City Centre	**670**	509
Put option over non-controlling interest in a subsidiary company	**77**	74
Deposit received on the sale of a subsidiary company	**653**	-
Contingent consideration	**1,770**	932
Accrued capital expenditure	**1,484**	1,454
Other accruals	**5,487**	5,229
Other payables	**3,956**	4,580
	20,875	20,086
Amounts due after one year included under non-current liabilities	**(3,427)**	(1,276)
	17,448	18,810

The analysis of the age of trade creditors at the year-end is as follows:

	2016	2015
	HK$M	HK$M
Up to three months	**2,985**	3,470
Between three and six months	**133**	123
Over six months	**32**	52
	3,150	3,645

10. Share Capital

	'A' shares	**'B' shares**	**Total HK$M**
Issued and fully paid:			
At 31st December 2016	905,206,000	2,995,220,000	1,294
At 1st January 2015	905,578,500	2,995,220,000	1,294
Repurchased during the year	(372,500)	-	-
At 31st December 2015	905,206,000	2,995,220,000	1,294

During the year, the Company did not purchase, sell or redeem any of its shares.

In July 2015, the company repurchased 372,500 'A' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK$35 million.

Except for voting rights, which are equal, the entitlements of 'A' and 'B' shareholders are in proportion five to one.

11. Reserves

	Revenue reserve	Property revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Translation reserve	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2016	220,138	1,994	443	(7,298)	1,878	217,155
Profit for the year	9,644	-	-	-	-	9,644
Other comprehensive income						
Defined benefit plans						
- remeasurement gains recognised during the year	36	-	-	-	-	36
- deferred tax	16	-	-	-	-	16
Cash flow hedges						
- gains recognised during the year	-	-	-	517	-	517
- transferred to net finance charges	-	-	-	(91)	-	(91)
- transferred to operating profit	-	-	-	(34)	-	(34)
- deferred tax	-	-	-	(57)	-	(57)
Net fair value changes on available-for-sale assets						
- losses recognised during the year	-	-	(51)	-	-	(51)
- transferred to profit or loss on disposal	-	-	(10)	-	-	(10)
Revaluation of property previously occupied by the Group						
- gains recognised during the year	-	98	-	-	-	98
- deferred tax	-	(2)	-	-	-	(2)
Share of other comprehensive income of joint venture and associated companies	268	-	87	4,459	(1,295)	3,519
Net translation differences on foreign operations	-	-	-	-	(1,517)	(1,517)
Total comprehensive income for the year	9,964	96	26	4,794	(2,812)	12,068
Acquisition of non-controlling interest	147	-	-	-	-	147
Recognition of contingent consideration	(99)	-	-	-	-	(99)
2015 second interim dividend (note 6)	(4,182)	-	-	-	-	(4,182)
2016 first interim dividend (note 6)	(1,504)	-	-	-	-	(1,504)
At 31st December 2016	224,464	2,090	469	(2,504)	(934)	223,585

11. Reserves (continued)

	Revenue reserve	Property revaluation reserve	Investment revaluation reserve	Cash flow hedge reserve	Translation reserve	Total
	HK$M	HK$M	HK$M	HK$M	HK$M	HK$M
At 1st January 2015	214,880	1,972	772	(4,094)	3,951	217,481
Profit for the year	13,429	-	-	-	-	13,429
Other comprehensive income						
Defined benefit plans						
- remeasurement losses recognised during the year	(332)	-	-	-	-	(332)
- deferred tax	57	-	-	-	-	57
Cash flow hedges						
- losses recognised during the year	-	-	-	(410)	-	(410)
- transferred to net finance charges	-	-	-	(94)	-	(94)
- transferred to operating profit	-	-	-	49	-	49
- deferred tax	-	-	-	57	-	57
Net fair value changes on available-for-sale assets						
- losses recognised during the year	-	-	(74)	-	-	(74)
- transferred to profit or loss on disposal	-	-	(99)	-	-	(99)
Revaluation of property previously occupied by the Group						
- gains recognised during the year	-	25	-	-	-	25
- deferred tax	-	(3)	-	-	-	(3)
Share of other comprehensive income of joint venture and associated companies	(125)	-	(156)	(2,806)	(920)	(4,007)
Net translation differences on foreign operations						
- losses recognised during the year	-	-	-	-	(1,269)	(1,269)
- reclassified to profit or loss on disposal	-	-	-	-	116	116
Total comprehensive income for the year	13,029	22	(329)	(3,204)	(2,073)	7,445
Acquisition of additional interest in subsidiary companies	(1,310)	-	-	-	-	(1,310)
Change in composition of the Group	13	-	-	-	-	13
Repurchase of the Company’s shares	(35)	-	-	-	-	(35)
Recognition of contingent consideration	(541)	-	-	-	-	(541)
2014 second interim dividend (note 6)	(4,213)	-	-	-	-	(4,213)
2015 first interim dividend (note 6)	(1,685)	-	-	-	-	(1,685)
At 31st December 2015	220,138	1,994	443	(7,298)	1,878	217,155

12. Changes in Accounting Policies and Disclosures

i. The following amendments to standards were required to be adopted by the Group effective from 1st January 2016:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 1 (Amendment)	Disclosure Initiative
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations

The adoption of these amendments has had no significant impact on the Group's financial statements.

ii. The Group has not early adopted the following relevant new and revised standards that have been issued but are not yet effective:

HKAS 7 (Amendment)	Disclosure Initiative[1]
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

[1] To be applied by the Group from 1st January 2017
[2] To be applied by the Group from 1st January 2018
[3] To be applied by the Group from 1st January 2019
[4] The mandatory effective date has been postponed indefinitely

iii. The financial information relating to the years ended 31st December 2015 and 2016 that is included in this document does not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2015 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. The specified financial statements for the year ended 31st December 2016 have not been but will be delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. Auditor's reports have been prepared on the specified financial statements for the years ended 31st December 2015 and 2016. Those reports were not qualified or otherwise modified, did not refer to any matters to which the auditor drew attention by way of emphasis without qualifying the reports and did not contain statements under section 406(2) or 407(2) or (3) of the Ordinance.

Sources of Finance

At 31st December 2016, committed loan facilities and debt securities amounted to HK$94,059 million, of which HK$23,664 million (25%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK$9,027 million. Sources of funds at 31st December 2016 comprised:

	Available	Drawn	Undrawn expiring within one year	Undrawn expiring beyond one year
	HK$M	HK$M	HK$M	HK$M
Committed facilities				
Loans and bonds				
Fixed/floating rate bonds	**46,147**	**46,147**	**-**	**-**
Bank loans, overdrafts and other loans	**45,585**	**21,921**	**1,831**	**21,833**
Perpetual capital securities	**2,327**	**2,327**	**-**	**-**
Total committed facilities	**94,059**	**70,395**	**1,831**	**21,833**
Uncommitted facilities				
Bank loans, overdrafts and other loans	**9,622**	**595**	**8,804**	**223**
Total	**103,681**	**70,990**	**10,635**	**22,056**

At 31st December 2016, 73% of the Group's gross borrowings were on a fixed rate basis and 27% were on a floating rate basis (2015: 72% and 28%).

Corporate Governance

The Company complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

The Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the annual report, they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions.

The annual results have been reviewed by the Audit Committee of the Company.

Annual Report
The 2016 Annual Report containing all the information required by the Listing Rules will be published on the Stock Exchange website and the Group website www.swirepacific.com. Printed copies will be available to shareholders on 11th April 2017.

List of Directors
At the date of this announcement, the Directors of the Company are:
Executive Directors: J R Slosar (Chairman), G M C Bradley, I K L Chu, M Cubbon, A K W Tang
Non-Executive Directors: M B Swire, S C Swire
Independent Non-Executive Directors: T G Freshwater, C Lee, R W M Lee, G R H Orr, M C C Sze, M M T Yang