SWIRE PACIFIC

SWIRE PACIFIC LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Codes: 00019 and 00087)

2018 Final Results

2018 Final Results

	Note	2018	2017	Change
Return on equity		**9.0%**	10.9%	-1.9% pts
Dividend per 'A' share (HK$)		**3.00**	2.10	+43%

	Note	2018	2017	Change
		HK$M	HK$M	
Revenue		**84,606**	80,289	+5%
Operating profit		**30,888**	35,864	-14%
Profit attributable to the Company's shareholders		**23,629**	26,070	-9%
Cash generated from operations		**18,328**	19,605	-7%
Net cash inflow/(outflow) before financing		**17,919**	(2,149)	N/A
Total equity (including non-controlling interests)		**325,115**	306,094	+6%
Net debt		**62,667**	72,514	-14%
Gearing ratio		**19.3%**	23.7%	-4.4% pts
		HK$	HK$	
Earnings per share	(a)			
'A' share		**15.74**	17.34	-9%
'B' share		**3.15**	3.47	
		HK$	HK$	
Dividends per share				
'A' share		**3.00**	2.10	+43%
'B' share		**0.60**	0.42	
		HK$	HK$	
Equity attributable to the Company's shareholders per share	(b)			
'A' share		**180.09**	168.58	+7%
'B' share		**36.02**	33.72	

Underlying Profit

	Note	2018	2017	Change
		HK$M	HK$M	Change
Underlying profit attributable to the Company's shareholders	(c)	**8,523**	4,742	+80%
		HK$	HK$	
Underlying earnings per share	(a)			
'A' share		**5.68**	3.15	+80%
'B' share		**1.14**	0.63	

2018 Sustainable Development Performance

	Note	2018	2017	Change
2018 Sustainable Development Performance	(d)	**2018**	2017	Change
GHG emissions (Million tonnes of CO_2e)		**19.3**	19.1	+1%
Energy consumed (GJ Million)		**264.2**	255.8	+3%
Water consumed (cbm Million)		**17.1**	11.0	+55%
LTIR (Number of injuries per 100 full-time equivalent employees)		**1.79**	1.73	+3%
Employee fatalities (Number of fatalities)		**2**	4	-50%

Notes:
(a) Refer to note 7 in the financial statements for the daily weighted average number of shares in issue throughout the year.
(b) Refer to note 10 in the financial statements for the number of shares at the year end.
(c) A reconciliation between the reported and underlying profit attributable to the Company's shareholders is provided on page 48.
(d) Including Cathay Pacific group.

Corporate Statement

Sustainable Growth

Swire Pacific is a Hong Kong based international conglomerate with a diversified portfolio of market leading businesses. The Company has a long history in Greater China, where the name Swire or 太古 has been established for over 150 years.

Our aims are to deliver sustainable growth in shareholder value, achieved through sound returns on equity over the long term, and to return value to shareholders through sustainable growth in ordinary dividends.

Our Values

Integrity, endeavour, excellence, humility, teamwork, continuity.

Our Core Principles

• We focus on Asia, principally Greater China, because of its strong growth potential and because it is where the Group has long experience, deep knowledge and strong relationships.
• We mobilise capital, talent and ideas across the Group. Our scale and diversity increase our access to investment opportunities.
• We are prudent financial managers. This enables us to execute long-term investment plans irrespective of short-term financial market volatility.
• We recruit the best people and invest heavily in their training and development. The welfare of our people is critical to our long-term success.
• We build strong and lasting relationships, based on mutual benefit, with those with whom we do business.
• We invest in sustainable development, because it is the right thing to do and because it supports long-term growth through innovation and improved efficiency.
• We are committed to the highest standards of corporate governance and to the preservation and development of the Swire brand and reputation.

Our Investment Principles

• We aim to build a portfolio of businesses that collectively deliver a steady dividend stream over time.
• We are long term investors. We prefer to have controlling interests in our businesses and to manage them for long term growth.
• We concentrate on businesses where we can contribute expertise, and where our expertise can add value.
• We invest in businesses that provide high-quality products and services and that are leaders in their markets.
• We divest from businesses which have reached their full potential under our ownership, and recycle the capital released into existing or new businesses.

Our Businesses

Operating within five divisions (Property, Aviation, Beverages, Marine Services and Trading & Industrial), Swire Pacific undertakes a wide range of commercial activities.

Swire Properties' shopping malls are home to more than 1,700 retail outlets. Its offices house a working population estimated to exceed 78,000. In Hong Kong, Swire Properties is one of the largest commercial landlords and operators of retail space, principally through the ownership and management of its core centres at Pacific Place and Taikoo Place. In Mainland China, it has developed five retail led mixed-use projects, in Beijing, Shanghai, Guangzhou and Chengdu. In the USA, it has a mixed-use development in Miami.

Cathay Pacific, with its subsidiaries Cathay Dragon and Air Hong Kong, operated 212 aircraft at the end of 2018, connecting Hong Kong to 109 destinations worldwide, including 26 in Mainland China. The Cathay Pacific group is the world's 9th largest carrier of international passengers, and the 2nd largest carrier of international air cargo. Cathay Pacific has an interest of 18.13% in Air China.

Corporate Statement (continued)

HAECO is a leading provider of international aircraft maintenance and repair services. In 2018, the HAECO group, operating from bases in Hong Kong, Mainland China and the USA, performed work for more than 300 airline and other customers.

Our Beverages Division sold the products of The Coca-Cola Company to a franchise population of 728 million people in Greater China and the USA at the end of 2018. These products comprised 16 carbonated and 45 non-carbonated brands.

At the end of 2018, the Swire Pacific Offshore group operated a fleet of 77 specialist vessels supporting the offshore energy industry in every major offshore production and exploration region outside the USA.

Swire Resources operated 201 footwear and apparel retail outlets in Hong Kong, Macau and Mainland China at the end of 2018. Taikoo Motors sells passenger cars, commercial vehicles, motorcycles and scooters, principally in Taiwan. Taikoo Sugar operates a branded sugar distribution business in Hong Kong and Mainland China. Our bakery business in south west China operated 651 stores at the end of 2018.

Swire Pacific is one of Hong Kong's largest and oldest employers, where we have over 41,000 employees. In Mainland China, we have approximately 33,000 employees. Globally, we employ approximately 93,000 staff.

Chairman's Statement

Year in Review
2018 was a year of consolidation and recovery for Swire Pacific.

There were improved operating results, particularly in our Aviation and Beverages divisions, and we saw solid increases in the value of our property portfolio, helped by positive rental reversions in Hong Kong and Mainland China. Return on equity was 9.0%, as compared to 10.9% in 2017 and the average over the last five years of 7.1%.

At the half way point in its three year transformation programme, Cathay Pacific returned to profitability as planned. Swire Pacific Offshore, however, sustained losses beyond those expected in its plan and we took a further significant impairment charge.

We privatised HAECO by acquiring the 25% of its shares that we did not already own, having concluded that its listing no longer served a useful purpose. We believe this was a fair outcome for HAECO's public shareholders, while providing Swire Pacific with the opportunity to create further value over the long term.

During the year, we completed or agreed terms for the disposal of a number of non-core assets and businesses at attractive valuations. The total proceeds in 2018 and 2019 are expected to be around HK$30 billion, contributing to a significant strengthening of our balance sheet.

Dividends
The Directors have declared dividends for the full year totalling HK$3.0 per A share and HK$0.6 per B share. This represents a 43% increase on the dividends for 2017, as compared to growth in underlying profit of 80%. The payout ratio is 53% as compared to 67% for 2017.

Our aim is to deliver sustainable growth in ordinary dividends. Poor results in our Aviation and Marine Services divisions have meant that we have not achieved this aim over the last five years. Our intention is to do so in the coming years.

Our People
The talent and dedication of our 93,000 employees are central to our success. I would like to thank them for their hard work, determination and commitment to our values.

In 2018, we appointed a Head of Diversity and Inclusion Development, to co-ordinate and strengthen the important work in this area already being done around the Group. This underlines our commitment to creating an inclusive and supportive working environment where all our people feel able to realise their full potential.

We are particularly conscious of the need to ensure a healthy and safe working environment for all our people. We make and will continue to make every effort to reduce workplace accidents.

Sustainability
SwireTHRIVE focuses on six priorities for our businesses: to minimise our carbon footprint, to reduce waste, to use water more responsibly, to increase the use of sustainable materials, to protect biodiversity and to build climate resilience. We will report progress in these areas later in the year in our annual sustainability report.

Board
During the year, John Slosar retired from the board after four years as chairman, 12 years as a director and 38 years as a Swire group employee. He has made an enormous contribution to the Swire group, particularly as chairman of Swire Pacific during a challenging period. I am delighted that he continues as chairman of Cathay Pacific.

Chairman's Statement (continued)

Martin Cubbon, the former corporate development and finance director of Swire Pacific, has rejoined the board as a non-executive Director after a 12-month sabbatical. His experience and insights will be most valuable.

I would like to thank all of my fellow Directors for their wise counsel.

Outlook

We are well positioned financially to execute the strategic investment plans for our core businesses, and are cautiously optimistic that the positive momentum in the performance of many of our businesses will continue in 2019. The current environment of heightened macro-economic and geopolitical uncertainty may create near term challenges to be navigated. We believe, however, that the success of Swire Pacific will be underpinned over the long term by growth in consumer spending in Mainland China, and by the continued strength of Hong Kong as a vibrant business and financial centre servicing Mainland China and the wider region.

Merlin Swire
Chairman
Hong Kong, 14th March 2019

Finance Director's Statement

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

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

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

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

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

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

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

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

Finance Director's Statement (continued)

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

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

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

The HAECO group continues to invest in order to increase the scale of its operations and technical capabilities and to improve and widen the range of services it can offer to customers.

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

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

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

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

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

Finance Director's Statement (continued)

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

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

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

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

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

Michelle Low
Finance Director
Hong Kong, 14th March 2019

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. Including hotels, the completed portfolio in Hong Kong totals 12.7 million square feet of gross floor area, with an additional 1.3 million square feet under development. In Mainland China, Swire Properties owns and operates major mixed-use commercial developments in Beijing, Shanghai, Guangzhou and Chengdu, in joint venture in certain cases, which will total 9.5 million square feet on completion. Of this, 8.9 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 four 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, in The Temple House at Sino-Ocean Taikoo Li Chengdu, and in The Middle House at HKRI Taikoo Hui in Shanghai. 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. The Sukhothai Shanghai at HKRI Taikoo Hui in Shanghai, in which Swire Properties owns a 50% interest, opened in May 2018. A non-managed hotel which is part of the 20% owned Tung Chung Town Lot No. 11 development is under development.

Property Trading:

Swire Properties' trading portfolio comprises completed developments available for sale in Mainland China and Miami, USA. The principal completed developments available for sale are the remaining portion of the Pinnacle One office property at Sino-Ocean Taikoo Li Chengdu in Mainland China, and the Reach and Rise developments at Brickell City Centre in Miami, USA. A residential development is being planned in Hong Kong. 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	Office	Retail	Hotels	Residential	Under Planning	Total	At 31st December 2017 Total
	At 31st December 2018						
Completed							
Pacific Place	2,186	711	496	443	-	3,836	3,836
Taikoo Place	5,571	12	-	63	-	5,646	4,633
Cityplaza *	629	1,105	200	-	-	1,934	2,703
Others	601	596	47	78	-	1,322	1,140
- Hong Kong	8,987	2,424	743	584	-	12,738	12,312
Taikoo Li Sanlitun	-	1,296	169	-	-	1,465	1,465
Taikoo Hui	1,732	1,473	584	52	-	3,841	3,841
INDIGO	294	470	179	-	-	943	947
Sino-Ocean Taikoo Li Chengdu	-	657	98	55	-	810	795
HKRI Taikoo Hui	914	553	194	73	-	1,734	1,465
Others	-	91	-	-	-	91	91
- Mainland China	2,940	4,540	1,224	180	-	8,884	8,604
- USA	263	497	477	109	-	1,346	1,346
Total completed	12,190	7,461	2,444	873	-	22,968	22,262
Under and pending development							
- Hong Kong ^	1,218	72	26	-	-	1,316	2,310
- Mainland China	-	623	-	-	-	623	269
- USA	-	-	-	-	1,444	1,444	1,444
Total	13,408	8,156	2,470	873	1,444	26,351	26,285

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.

*The office portfolio includes only Cityplaza One. The remainder of Cityplaza Three and the whole of Cityplaza Four (the immediate holding company of a wholly-owned property holding subsidiary owning such remainder and such whole having been conditionally agreed to be sold in June 2018) are excluded.

^The office portfolio principally comprises 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, and by 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.

2018 PERFORMANCE

Property Division – Financial Highlights

	2018 HK$M	2017 HK$M
Revenue		
Gross rental income derived from		
Office	**6,375**	6,124
Retail	**5,205**	4,616
Residential	**537**	512
Other revenue *	**137**	128
Property investment	**12,254**	11,380
Property trading	**1,061**	5,833
Hotels	**1,404**	1,345
Total revenue	**14,719**	18,558
Operating profit/(loss) derived from		
Property investment		
From operations	**8,585**	8,154
Sale of interests in investment properties	**1,276**	9
Valuation gains on investment properties	**19,378**	25,331
Property trading	**65**	1,397
Hotels	**(25)**	(102)
Total operating profit	**29,279**	34,789
Share of post-tax profits from joint venture and associated companies	**1,978**	1,792
Attributable profit	**28,583**	33,818
Swire Pacific share of attributable profit	**23,437**	27,731

* Other revenue is mainly estate management fees.

Property Division – Underlying Profit/(Loss) by Segment

	2018 HK$M	2017 HK$M
Property Investment	**10,102**	6,698
Property Trading	**99**	1,154
Hotels	**(41)**	(43)
Total underlying attributable profit	**10,160**	7,809

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	2018 HK$M	2017 HK$M
Reported attributable profit		**28,583**	33,818
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	**(20,722)**	(26,714)
Deferred tax on investment properties	(b)	**935**	573
Valuation gains realised on sale of interests in investment properties	(c)	**1,351**	50
Depreciation of investment properties occupied by the Group	(d)	**28**	28
Non-controlling interests' share of revaluation movements less deferred tax		**(15)**	54
Underlying attributable profit		**10,160**	7,809
Profit on sale of interests in investment properties		**(2,627)**	(21)
Recurring underlying attributable profit		**7,533**	7,788
Swire Pacific share of underlying attributable profit		**8,331**	6,403
Swire Pacific share of recurring underlying attributable profit		**6,177**	6,386

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.

2018 PROPERTY INDUSTRY REVIEW

Office and Retail:

Hong Kong:

Office

Demand for office space was generally strong in 2018 and occupancy levels were high. Some weakness in demand for properties in the central district emerged towards the end of the year.

Retail

Retail sales grew strongly for much of 2018. Growth has since slowed, reflecting global trade uncertainties and the adverse effect of the weakening Renminbi on spending by Mainland Chinese visitors.

Mainland China:

Retail

Retail sales grew satisfactorily in Beijing, Chengdu and Guangzhou and modestly in Shanghai in 2018. Demand for retail space from retailers of luxury goods was solid in Beijing and robust in Guangzhou and Chengdu. Demand for retail space from retailers of international and lifestyle brands and food and beverage operators was solid.

Office

In Guangzhou and Beijing, office rents rose in the absence of significant new supply and stable demand in 2018. In Shanghai in 2018, the main sources of demand were from those engaged in financial and professional services and retailing.

USA:

Office

In Miami, supply of new Grade-A office space in the central business district and in the Brickell area was low and demand was firm.

Retail

In Miami, retail sales increased steadily. Demand for retail space in the metropolitan area was correspondingly steady.

Property Sales Markets:

In Hong Kong, demand for residential accommodation weakened somewhat in the latter part of 2018, but is likely to remain resilient in the long term.

In Miami, most demand for condominiums is from South American buyers. Demand was subdued in 2018. Few new projects were started or became available for sale.

2018 RESULTS SUMMARY

Attributable profit from the Property Division for the year was HK$23,437 million compared to HK$27,731 million in 2017. These figures include net property valuation gains, before deferred tax and non-controlling interests, of HK$20,722 million and HK$26,714 million in 2018 and 2017 respectively. Attributable underlying profit increased to HK$8,331 million in 2018 from HK$6,403 million in 2017. The increase principally reflected the profit arising from the sale of a subsidiary which owned an office building in Kowloon Bay and of our interests in other investment properties in Hong Kong. This was partly offset by a decrease in profit from property trading. Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK$6,177 million in 2018, compared with HK$6,386 million in 2017. The decrease principally reflected a decrease in profit from property trading. Recurring underlying profit from property investment increased by 12%. Hotel losses decreased.

In Hong Kong, office rental income increased due to positive rental reversions, firm occupancy and the opening of One Taikoo Place in the last quarter of 2018. Retail rental income in Hong Kong improved in 2018. In Mainland China, gross rental income increased by 12%, mainly due to positive rental reversions and improved occupancy. In the USA, gross rental income almost doubled, mainly because more shops were open at the shopping centre at Brickell City Centre.

Underlying profit from property trading in 2018 arose mainly from the sale of houses at the WHITESANDS development and carparks at the AZURA development in Hong Kong, and from the share of profit from the sale of offices and carparks at Sino-Ocean Taikoo Li Chengdu in Mainland China.

The performance of the hotels continued to improve in 2018, with those in Hong Kong and in the USA doing better. This was offset in part by pre-opening costs at hotels in Shanghai in Mainland China.

KEY DEVELOPMENTS

In March 2018, Swire Properties completed the acquisition of a 50% interest in Shanghai Qianxiu Company Limited (Shanghai Qianxiu) from a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (LJZ). Swire Properties and LJZ each hold a 50% interest in Shanghai Qianxiu. Shanghai Qianxiu is developing a retail project with an aggregate gross floor area of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. The development (now called Taikoo Li Qiantan) is expected to be completed in 2020.

In May 2018, The Middle House, Swire Hotels' fourth hotel in The House Collective (which is managed by Swire Properties), and a non-managed hotel, The Sukhothai Shanghai, officially opened in Shanghai.

In May 2018, the extension to Citygate Outlets, with an aggregate gross floor area of approximately 474,000 square feet, was topped out. The extension is expected to open in the summer of 2019. Swire Properties has a 20% interest in the development.

In June 2018, the agreement for the sale of the subsidiary of Swire Properties which developed an office building in Kowloon Bay, Hong Kong became unconditional and the sale was completed.

In June 2018, Swire Properties conditionally agreed to sell its 100% interest in a subsidiary which owns the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong. The consideration for the sale is HK$15,000 million, subject to adjustments. Completion of the sale is expected to take place in or before April 2019. Swire Properties intends to reinvest the proceeds of the sale in new developments and does not intend to pay a special dividend.

In August 2018, South Island Place, our first Grade-A office building in Wong Chuk Hang, Hong Kong, was completed. The 28-storey building, which was jointly developed with China Motor Bus Company, Limited, has a gross floor area of approximately 382,500 square feet.

In November 2018, One Taikoo Place, the first of two premium Grade-A office buildings in the Taikoo Place redevelopment, became fully let. One Taikoo Place has an aggregate gross floor area of approximately 1,013,400 square feet. The building was topped out in January 2018 and received its occupation permit in September 2018.

INVESTMENT PROPERTIES

Hong Kong

Office

Gross rental income from the Hong Kong office portfolio in 2018 was HK$5,876 million, a 4% increase from 2017. There were positive rental reversions and occupancy was firm. The increase also reflected in part rental income from One Taikoo Place as it opened in the last quarter of 2018. At 31st December 2018, the office portfolio was 99% let (including by way of letters of intent). Demand for the Group's office space in Hong Kong was strong in all districts.

Pacific Place

The offices at One, Two and Three Pacific Place performed well in 2018. Occupancy and rental rates were robust, as vacant space was quickly relet. Demand from Mainland China entities was strong. The occupancy rate was almost 100% at 31st December 2018.

Cityplaza

The occupancy rate at Cityplaza One was 99% at 31st December 2018.

Taikoo Place

The occupancy rate at Taikoo Place was 99% at 31st December 2018. One Taikoo Place was completed in September 2018 and is 100% leased.

South Island Place

The development of an office building at 8-10 Wong Chuk Hang Road, Hong Kong was completed in August 2018. Commitments (including by way of letters of intent) to lease more than 73% of the space in the building have been obtained.

Retail

The Hong Kong retail portfolio's gross rental income was HK$2,755 million in 2018, a 6% increase from 2017. The Group's malls were almost fully let throughout the year.

Retail sales in 2018 increased by 12% at The Mall, Pacific Place, by 6% at Cityplaza and by 4% at Citygate, the growth reflecting improved market conditions and previous changes to the trade mix.

Residential

The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments in Quarry Bay, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island. The occupancy rate at the residential portfolio was approximately 85% at 31st December 2018.

Investment Properties under Development

The development of the first phase of the Taikoo Place redevelopment (One Taikoo Place) was completed in September 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. Demolition of Warwick House and Cornwall House has been completed and foundation works are in progress. Completion of the redevelopment is expected in 2021 or 2022.

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 474,000 square feet. Superstructure works have been completed and fitting out works are in progress. The development is expected to be completed in the summer of 2019. Swire Properties has a 20% interest in the development.

Planning permission to develop the site at Po Wah Building, 1-11 Landale Street and 2-12 Anton Street for office use was obtained in November 2018. The site area is approximately 14,400 square feet. The proposed development has an aggregate gross floor area of approximately 218,000 square feet. Completion is expected in 2023.

Others

In February 2018, Swire Properties submitted compulsory sale applications in respect of two sites (Wah Ha Factory Building, No. 8 Shipyard Lane and Zung Fu Industrial Building, No. 1067 King's Road) in Hong Kong. Subject to Swire Properties having successfully bid in the compulsory sale of the sites, the sites are intended to be redeveloped for office and other commercial uses with an aggregate gross floor area of approximately 779,000 square feet.

In October 2018, a joint venture company in which Swire Properties holds a 50% interest submitted a compulsory sale application in respect of a site at 983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay, Hong Kong. Subject to the joint venture company having successfully bid in the compulsory sale and in accordance with applicable town planning controls, it is expected that the site can be redeveloped for residential and retail uses with a gross floor area of approximately 400,000 square feet.

In August and October 2018, a joint venture company held as to 80% by Swire Properties and as to 20% by China Motor Bus Company, Limited received general building approvals for a residential development in Chai Wan, Hong Kong. The joint venture company was formed in 2015 to acquire, subject to conditions (including the agreement of a land premium with the Hong Kong government), the relevant land. The joint venture company is negotiating land exchange terms with the Hong Kong government. Subject to agreement with the Hong Kong government, the proposed development is expected to have an aggregate gross floor area of approximately 694,000 square feet.

Mainland China

Retail

The Mainland China retail portfolio's gross rental income for 2018 increased by 13% compared with 2017, to HK$2,163 million.

Gross rental income at Taikoo Li Sanlitun recorded satisfactory growth in 2018, reflecting positive growth in reversionary rents. Retail sales grew by 11%. The occupancy rate was 100% at 31st December 2018. Demand for retail space at Taikoo Li Sanlitun is solid as it reinforces its position as a fashionable retail destination in Beijing. Improvement works are being carried out and are expected to have a positive impact on occupancy and rents.

The refurbishment of Taikoo Li Sanlitun West (formerly known as the Beijing Sanlitun Yashow Building) as an extension to Taikoo Li Sanlitun (with an aggregate gross floor area of approximately 296,000 square feet) is expected to be completed later in 2019.

Gross rental income at Taikoo Hui in Guangzhou grew satisfactorily in 2018. Retail sales increased by 11%, reflecting in part improvements to the tenant mix. The occupancy rate at Taikoo Hui was 100% at 31st December 2018.

Occupancy at the shopping mall at INDIGO, Beijing was 99% at 31st December 2018. Retail sales increased by 0.3% in 2018.

Retail sales at Sino-Ocean Taikoo Li Chengdu increased by 22% in 2018. The development is gaining popularity as a shopping destination in Chengdu. At 31st December 2018, the occupancy rate at the retail complex was 99%.

At 31st December 2018, tenants at HKRI Taikoo Hui had committed (including by way of letters of intent) to take 97% of the retail space. 92% of the retail space was open.

Office

The Mainland China office portfolio's gross rental income for 2018 increased by 6% compared with 2017, to HK$391 million.

At 31st December 2018, the occupancy rates at the office towers at Taikoo Hui, Guangzhou and at ONE INDIGO, Beijing were 99% and 97% respectively.

The occupancy rate at the two office towers at HKRI Taikoo Hui in Shanghai was 98% at 31st December 2018.

Investment Properties Under Development

In March 2018, a 50:50 joint venture was formed with a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. for the development of Taikoo Li Qiantan, a low-rise retail development with an aggregate gross floor area of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. Construction is in progress. The development is expected to be completed in 2020.

USA

The first phase of the Brickell City Centre development 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 first phase of the Brickell City Centre development was completed in 2016. Its components opened in 2016 and 2017. Gross rental income increased in 2018, mainly because more shops were open at the shopping centre. At 31st December 2018, Two and Three Brickell City Centre were fully leased and the shopping centre was 89% let (including by way of letters of intent).

At 31st December 2018, Swire Properties owned 100% of the office, hotel and unsold residential portions and 62.93% of the shopping centre at the Brickell City Centre development. The remaining interest in the shopping centre was owned by Simon Property Group (25%) and Bal Harbour Shops (12.07%). Bal Harbour Shops has an option, exercisable from 2020, 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 2018 on the basis of market value (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK$271,256 million, compared to HK$265,705 million at 31st December 2017 and HK$268,802 million at 30th June 2018.

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 following rental increases and a reduction of 12.5 basis points in the capitalisation rate applicable to office properties in Hong Kong. This was partially offset by the removal from the valuation of our interests in the Cityplaza Three and Cityplaza Four properties as a result of their transfer to "assets classified as held for sale" in the financial statements at 31st December 2018.

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 2018

% of the total rental income attributable to the Group for the month ended 31st December 2018	2019	2020	2021 and beyond
Office	10.3%	18.6%	71.1%
Retail	17.5%	23.8%	58.7%

HOTELS

The operating profit before depreciation for managed hotels increased by 15% to HK$200 million in 2018, mainly due to improved results in Hong Kong and in the USA. The performance of the non-managed hotels in Hong Kong was stable. Occupancy at the Mandarin Oriental, Guangzhou improved in 2018 and its performance was good. The operating results of the Mandarin Oriental, Miami in 2018 were better than last year.

A managed hotel (The Middle House) and a non-managed hotel (The Sukhothai Shanghai) at HKRI Taikoo Hui in Shanghai opened in May 2018. Occupancy at both hotels was being built up in 2018. The performance of the food and beverage outlets was satisfactory.

Profile of Capital Commitments for Investment Properties and Hotels

(HK$M)	Expenditure	Forecast expenditure				Total Commitments	Commitments relating to joint venture companies *
	2018	2019	2020	2021	2022 and later	At 31st December 2018	At 31st December 2018
Hong Kong	**5,479**	1,734	3,924	2,908	6,647	**15,213**	**251**
Mainland China	**2,463**	1,440	406	90	145	**2,081**	**1,500**
USA and others	**168**	266	18	44	-	**328**	**-**
Total	**8,110**	3,440	4,348	3,042	6,792	**17,622**	**1,751**

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$64 million and HK$400 million of the capital commitments of joint venture companies in Hong Kong and Mainland China, respectively.

PROPERTY TRADING

Hong Kong

All 28 houses at the WHITESANDS development at 160 South Lantau Road had been sold at 31st December 2018. The profit from the sale of 12 houses was recognised in 2018.

In 2017, Swire Properties completed the acquisition of a 100% interest in a property at 21-31 Wing Fung Street, Wan Chai, Hong Kong. The property has the potential to be redeveloped into a 34,000 square feet residential block with a retail podium. Vacant possession of the site was obtained in May 2018. The development is expected to be completed in 2022.

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 and the profit from the sales of approximately 52% of the pre-sold gross floor area was recognised in 2015. Application was 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. The application succeeded (after an unsuccessful appeal by the buyer). The profit from the sale of approximately 122,136 square feet of the gross floor area and 44 carparking spaces was recognised in 2018.

USA

The residential portion of the first phase 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 handover to purchasers commenced, in 2016. 363 units (out of 390 units) at Reach and 258 units (out of 390 units) at Rise had been sold at 12th March 2019. The profits from the sales of two units at Reach and 35 units at Rise were recognised in 2018.

OUTLOOK

Office and Retail:

Hong Kong:

Office

In the central district of Hong Kong, reduced demand is expected to exert downward pressure on office rents. However, high occupancy and limited supply are expected to underpin office rents at Pacific Place. High occupancy and strong demand are expected to result in office rents at our Taikoo Place developments being resilient despite increased supply in Kowloon East and other districts.

Retail

In Hong Kong, we expect retail sales to be stable in 2019. The opening of the Hong Kong-Zhuhai-Macao Bridge is increasing tourist arrivals. But both Mainland China tourists and Hong Kong residents are becoming cautious about spending, because of global trade uncertainties and the adverse effect of the weakening Renminbi (in the case of the former).

Mainland China:

Office

With the absence of significant new supply in the central business district of Guangzhou and stable demand, office vacancy rates are expected to decrease (and rents to increase slightly) in 2019. Office rents in Beijing are expected to come under pressure in 2019, with increased supply in the central business district and higher vacancy rates. With limited new supply in the central business district of Jing'an and robust demand from domestic and international companies, office rentals are likely to be resilient in 2019 in Shanghai.

Retail

Retail sales are expected to grow steadily in Beijing, Guangzhou, and Shanghai and moderately in Chengdu in 2019. Retail rents are expected to grow moderately in Shanghai and Chengdu despite an increase in the availability of competing space. In Beijing, demand for luxury, fashion and lifestyle brands and for food and beverages is expected to be solid. Demand for retail space from international retailers and food and beverage operators is strong in Guangzhou. In Chengdu, demand for retail space in prime locations is expected to be strong in 2019.

USA:

Retail

In Miami, retail sales are increasing steadily. Demand for retail space in the metropolitan area is correspondingly steady.

Office

In Miami, the supply of new Grade-A office space in the central business district and the Brickell area is low and demand is firm.

Hotels:

Trading conditions for our existing hotels are expected to be stable in 2019. Our new hotels in Shanghai are expected to continue to build up their occupancy. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open later this year.

Property Trading:

In Hong Kong, demand for residential accommodation has weakened, but is likely to remain resilient in the long term. In Miami, the majority of the demand for condominiums is from South American buyers. The demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. Trading profits are expected to be recognised in 2019 from sales of units at the Reach and Rise developments.

Residential Leasing:

In Hong Kong, rental demand for our residential investment properties is expected to be stable in 2019.

Guy Bradley

REVIEW OF OPERATIONS

AVIATION DIVISION

OVERVIEW OF THE BUSINESS

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

The Cathay Pacific group:

The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiaries Cathay Dragon and Air Hong Kong and an associate interest in Air China and Air China Cargo. Cathay Pacific also has interests in companies providing flight catering and passenger and ramp 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 76 destinations in 33 countries and territories (225 and 53 respectively including code share agreements). At 31st December 2018, it operated 154 aircraft and had 39 new aircraft due for delivery up to 2024.

Cathay Dragon is a regional airline registered and based in Hong Kong and offers scheduled services to 49 destinations in Mainland China and elsewhere in Asia (57 including code share agreements). At 31st December 2018, it operated 48 aircraft and had 32 new aircraft due for delivery up to 2024.

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. Cathay Pacific has a cargo joint venture in Mainland China, Air China Cargo, which operated 15 freighters at 31st December 2018 and also carries cargo in the bellies of Air China's passenger aircraft.

Air Hong Kong operates express cargo services for DHL Express to 12 Asian cities. At 31st December 2018, Air Hong Kong operated 10 freighters.

Cathay Pacific and its subsidiaries employ more than 32,400 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 and by HAECO's subsidiary Taikoo Engine Services (Xiamen) Company Limited. 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, an inventory technical management joint venture with Cathay Pacific in Hong Kong.

HAECO is a wholly-owned subsidiary of Swire Pacific.

STRATEGY:

The strategic objective of Cathay Pacific (as a listed company in its own right) is sustainable growth in shareholder value over the long-term. The strategies employed by Cathay Pacific in order to achieve this objective (and the strategic objectives of HAECO) 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

	2018 HK$M	2017 HK$M
HAECO group		
Revenue	**14,892**	14,546
Operating profit/(loss)	**1,140**	(90)
Swire Pacific share of attributable profit/(loss)	**760**	(406)
Cathay Pacific group		
Share of post-tax profits/(losses) from associated companies	**1,056**	(567)
Swire Pacific share of attributable profit/(loss)	**1,781**	(1,002)

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 – 2018 Performance

		2018	2017	Change
Available tonne kilometres (ATK)	Million	**32,387**	31,439	+3.0%
Available seat kilometres (ASK)	Million	**155,362**	150,138	+3.5%
Available cargo and mail tonne kilometres (AFTK)	Million	**17,616**	17,163	+2.6%
Passenger revenue	HK$M	**73,119**	66,408	+10.1%
Passenger revenue per ASK	HK cents	**47.1**	44.2	+6.6%
Revenue passenger kilometres (RPK)	Million	**130,630**	126,663	+3.1%
Revenue passengers carried	‘000	**35,468**	34,820	+1.9%
Passenger load factor	%	**84.1**	84.4	-0.3% pt
Passenger yield	HK¢	**55.8**	52.3	+6.7%
Cargo revenue – group	HK$M	**28,316**	23,903	+18.5%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK$M	**24,663**	20,553	+20.0%
Cargo and mail revenue per AFTK	HK$	**1.40**	1.20	+16.7%
Cargo and mail carried	Tonnes '000	**2,152**	2,056	+4.7%
Cargo and mail load factor	%	**68.8**	67.8	+1.0% pt
Cargo and mail yield	HK$	**2.03**	1.77	+14.7%
Cost per ATK (with fuel)	HK$	**3.27**	3.12	+4.8%
Cost per ATK (without fuel)	HK$	**2.25**	2.14	+5.1%
Aircraft utilisation	Hours per day	**12.3**	12.3	-
On-time performance	%	**72.7**	71.2	+1.5% pts
Average age of fleet	Years	**9.9**	9.3	+6.5%
Fuel consumption – group	Barrels (million)	**45.8**	45.1	+1.6%
Fuel consumption per million RTK	Barrels	**1,830**	1,866	-1.9%
Fuel consumption per million ATK	Barrels	**1,387**	1,405	-1.3%

Cathay Pacific group

2018 AIRLINE INDUSTRY REVIEW

Despite broadly benign economic conditions, the environment in which Cathay Pacific's airlines operate was as ever difficult in 2018. Competition was intense, fuel prices increased and the US dollar strengthened.

2018 RESULTS SUMMARY

The Cathay Pacific group's attributable profit on a 100% basis was HK$2,345 million in 2018, compared with a loss of HK$1,259 million in 2017. The airlines' profit after tax was HK$241 million (2017: loss of HK$4,303 million), and the share of profits from subsidiaries and associates was HK$2,104 million (2017: HK$3,044 million).

Overcapacity in passenger markets resulted in intense competition with other airlines, particularly those from Mainland China. This put pressure on market yields on key routes, particularly in the second half of the year. But the passenger business benefited from capacity growth, a focus on customer service and improved revenue management. Load factors were sustained and yield improved despite competitive pressures. The cargo business was strong. Capacity, yield and load factors increased.

Fuel prices increased for 10 months, before falling somewhat in the last two months of the year. The strength of the US dollar adversely affected net income in the latter half of the year.

In 2017, Cathay Pacific built the foundations for its transformation programme. In 2018, it restructured its operations outside Hong Kong, benefited from a series of productivity improvements, increased its digital capabilities and concentrated on global business services. It improved inflight dining, passenger comfort, the way in which it contacts passengers and its loyalty programmes. It extended its network and improved its service delivery training.

But for the adverse effect of a weaker Renminbi, the contribution from subsidiary and associated companies was satisfactory.

At the end of 2018, Cathay Pacific acquired from DHL International the 40% shareholding in Air Hong Kong that it did not already own, with the result that Air Hong Kong became a wholly owned subsidiary. At the same time, a new 15-year block space agreement between Air Hong Kong and DHL International commenced.

Passenger Services

Passenger revenue in 2018 was HK$73,119 million, an increase of 10% compared to 2017. 35.5 million passengers were carried, an increase of 2% compared to the previous year.

Capacity increased by 4%, reflecting the introduction of 10 new routes (including to Brussels, Dublin, Davao City and Washington D.C.) and increased frequencies on other routes. The load factor decreased marginally, to 84.1%. Yield increased by 7%, to HK55.8 cents.

Increased competition with other airlines, increased fuel costs and a progressive strengthening of the US dollar adversely affected passenger performance. Premium class demand was robust. Economy class demand was adversely affected by intense competition. But yields increased, reflecting in part fuel surcharges. Overall, the passenger business benefited from capacity growth, a focus on customer service and sound revenue management. Load factors were sustained.

Cargo Services

Cathay Pacific and Cathay Dragon

The cargo revenue of Cathay Pacific and Cathay Dragon in 2018 was HK$24,663 million, an increase of 20% compared to 2017. The tonnage carried in 2018 increased by 5% (to 2.2 million tonnes) compared to 2017. The market was robust throughout the year.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 3% in 2018. The cargo load factor increased by 1.0 percentage point to 68.8%. Cargo yield increased by 15% to HK$2.03, reflecting an increase in high-value specialist cargo shipments and higher fuel surcharges.

Air Hong Kong

Air Hong Kong experienced a marginal increase in profit for 2018 compared with 2017. Capacity (in terms of available tonne kilometres) decreased by 4% to 730 million. The load factor decreased by 0.8 percentage point to 66.1%.

Operating Costs

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK$7,545 million (or 31%) compared with 2017. Prices rose and the airlines flew more. Fuel hedging losses were reduced. After taking hedging losses into account, the Cathay Pacific group's fuel costs increased by HK$2,757 million (or 9%) compared to 2017. The net cost of fuel is the Cathay Pacific group's most significant cost, accounting for 30.9% of operating costs in 2018 (compared to 30.7% in 2017). Underlying costs per ATK (without fuel) only increased slightly. This reflected a focus on productivity and efficiency.

Congestion at Hong Kong International Airport and air traffic constraints in Greater China imposed costs on the Cathay Pacific group. Cathay Pacific is doing more to improve the reliability of its operations.

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.

Data Incident

In October 2018, Cathay Pacific announced that it had discovered unauthorised access to some of its passenger data and that of Cathay Dragon. Upon discovery, immediate action was taken to contain the event and to commence a thorough investigation. To date no evidence has been found that any personal information has been misused. The information systems affected were separate from flight operations systems. There was no impact on flight safety. Affected passengers were contacted and Hong Kong police and relevant authorities were notified.

Fleet Profile

At 31st December 2018, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 202, an increase of six since 31st December 2017.

In 2018, Cathay Pacific took delivery of eight Airbus A350-1000 aircraft and expects to have 20 aircraft of this type in service by the end of 2021.

At 31st December 2018, the Cathay Pacific group had 71 new aircraft on order for delivery up to 2024. This includes an order for 32 Airbus A321-200neo aircraft. These aircraft are intended to replace and increase Cathay Dragon's existing narrow-body fleet.

Three Airbus A330-300 aircraft, one Boeing 747-400BCF and one Boeing 777-300ER aircraft were returned to their lessors in 2018. One Boeing 777-200 aircraft was donated to the Pima Air and Space Museum in Arizona, USA.

Fleet profile*

Aircraft type	Number at 31st December 2018	Leased		Total	Firm orders			Total	Expiry of operating leases						
	Owned	Finance	Operating		'19	'20	'21 and beyond		'19	'20	'21	'22	'23	'24	'25 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	10	3	33					1	2					
A350-900	16	4	2	22	2	4		6							2
A350-1000	6	2		8	4[a]	3	5	12							
747-400BCF	1			1											
747-400ERF		6		6											
747-8F	3	11		14											
777-200	4			4											
777-300	14			14	3			3[b]							
777-300ER	20	10	22	52					1		6	4	2	3	6
777-9X							21	21							
Total	84	43	27	154	9	7	26	42	2	2	6	4	2	3	8
Aircraft operated by Cathay Dragon:															
A320-200	5		10	15						4	3	3			
A321-200	2		6	8						1	2	2	1		
A321-200neo						9	23	32							
A330-300	18[c]		7	25					3	1	2				1
Total	25		23	48		9	23	32	3	6	7	5	1		1
Aircraft operated by Air Hong Kong:															
A300-600F			10	10					1	1		5	3		
Total			10	10					1	1		5	3		
Grand total	**109**	**43**	**60**	**212**	**9**	**16**	**49**	**74**	**6**	**9**	**13**	**14**	**6**	**3**	**9**

* The table includes one parked Boeing 777-200 aircraft and does not reflect aircraft movements after 31st December 2018. The parked Boeing 777-200 aircraft was subsequently deregistered in March 2019.

(a) One aircraft has been delivered in February 2019 and a second aircraft delivered in March 2019.
(b) Three used Boeing 777-300 aircraft will be delivered in 2019.
(c) Eight of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.

Air China and Air China Cargo

The Cathay Pacific group's share of Air China's results is based on its financial statements drawn up three months in arrears. Consequently, the 2018 results include Air China's results for the 12 months ended 30th September 2018, adjusted for any significant events or transactions for the period from 1st October 2018 to 31st December 2018.

For the 12 months ended 30th September 2018, Air China's financial results declined compared to the 12 months ended 30th September 2017.

Air China Cargo's 2018 financial results also declined from last year.

Outlook

The business environment is expected to remain challenging in 2019, with the forecast strength of the US dollar and uncertainty due to geopolitical discord and global trade tensions dampening passenger and cargo demand. Competition will remain intense, especially in economy class on long haul routes. Operational constraints will impose additional costs. These factors will affect both the passenger and the cargo business.

Cathay Pacific remains confident in the ability of its transformation programme to enable it to deliver sustainable long-term performance. In 2019, Cathay Pacific will continue to reorganise its business processes, to benefit from associated underlying structural initiatives and to build a culture of continuous improvement. The airlines will compete hard by extending their route network to destinations not currently served from Hong Kong, by increasing frequencies on their most popular routes and by operating more fuel-efficient aircraft. They will focus upon, and continue to invest in, customer service and productivity.

Rupert Hogg

Hong Kong Aircraft Engineering Company (HAECO) group

HAECO group – Financial Highlights

	2018 HK$M	2017 HK$M
Revenue		
HAECO Hong Kong	**4,253**	4,041
HAECO Americas	**2,644**	2,625
HAECO Xiamen	**2,165**	2,041
TEXL	**4,893**	5,162
Others	**937**	677
	14,892	14,546
Net operating profit/(loss)	**1,048**	(210)
Attributable profit/(loss)		
HAECO Hong Kong	**261**	257
HAECO Americas	**(290)**	(602)
HAECO Xiamen	**233**	135
TEXL	**182**	209
Share of profits of:		
HAESL	**374**	244
Other subsidiary and joint venture companies	**191**	97
Attributable profit (excluding non-recurring items)	**951**	340
Impairment charges in respect of:		
Goodwill	**-**	(625) *
Plant, machinery and tools	**-**	(7) *
Write-off of net deferred tax assets	**-**	(249) *
Gain on acquisition of additional interests in a joint venture company which becomes a subsidiary	**42**	-
Attributable profit/(loss)	**993**	(541)
Swire Pacific share of attributable profit/(loss)	**760**	(406)

* representing impairment charges and write-off relating to HAECO Americas

HAECO group – Operating Highlights

		2018	2017
Airframe services manhours sold			
HAECO Hong Kong	*Million*	**2.70**	2.70
HAECO Americas	*Million*	**2.85**	2.80
HAECO Xiamen	*Million*	**4.11**	3.76
Line services movements handled			
HAECO Hong Kong	*Average per day*	**321**	320
Engines overhauled			
TEXL		**90**	85
HAESL		**212**	140

2018 AVIATION MAINTENANCE AND REPAIR INDUSTRY REVIEW

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.

2018 RESULTS SUMMARY

In 2018, most HAECO businesses did well and the results of HAECO Americas, although its business still made a loss, improved significantly. The HAECO group overall reported an attributable profit of HK$993 million in 2018 on a 100% basis, including a gain of HK$42 million associated with the acquisition of additional interests in a joint venture company. This compares with a loss of HK$541 million in 2017, which included an impairment charge of HK$625 million in respect of the goodwill attributable to HAECO Americas and a write off of HK$249 million in respect of HAECO Americas' net deferred tax assets.

Disregarding the gain associated with the acquisition of additional interests in a joint venture company in 2018 and the impairment charges and the net deferred tax assets write off in 2017, the HAECO group's 2018 attributable profit was HK$951 million, compared with HK$340 million in 2017. The higher profit primarily reflected reduced losses at HAECO Americas and more workload at HAECO Xiamen and HAESL.

A total of 9.66 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2018, 0.40 million more than in 2017. More airframe services work was performed at HAECO Americas and HAECO Xiamen in 2018. Similar levels of work were performed at HAECO Hong Kong.

HAECO Hong Kong

HAECO Hong Kong recorded a 2% increase in profit in 2018 to HK$261 million. This mainly reflects a better performance in airframe and line services, partly offset by increased operating costs in component repair. Manhours sold for airframe services remained at 2.70 million in 2018, with higher selling rates.

In line services, the average number of aircraft movements handled per day in 2018 was similar to that in 2017. Line services manhours sold increased, reflecting an increase in work per aircraft.

Component repair manhours sold in 2018, including those sold by HAECO Component Overhaul (Xiamen), were 0.22 million, an increase of 2% compared to 2017. The growth reflected increased demand and new capabilities.

HAECO Americas

HAECO Americas recorded a loss of HK$290 million in 2018, HK$312 million lower than the loss of HK$602 million in 2017 (the latter figure excluding impairment charges and the write-off of net deferred tax assets). The improved result reflected an increased proportion of higher margin airframe services work and gains in efficiency, in addition to more seat and spares sales.

Demand for HAECO Americas' airframe services was stable. 2.85 million manhours were sold in 2018 compared with 2.80 million in 2017. The significant work from a major customer lost in August 2017 was replaced with additional work following the opening of a fifth hangar at Greensboro in 2018 and higher margin work. The results in 2017 were also adversely affected by non-recurring expenses.

Less interior reconfiguration work was done and fewer Panasonic communication equipment installation kits were delivered in 2018. Despite this, the results of the cabin solutions business improved. This was because more seats (8,900 compared with 7,300 in 2017) and seating spares were sold, and at higher margins.

HAECO Xiamen

HAECO Xiamen recorded a 73% increase in attributable profit compared with 2017, to HK$233 million. This reflected an increase in airframe services work and a significant favourable foreign exchange rate movement.

Manhours sold for airframe services reached a record high in 2018 at 4.11 million. The 9% growth in volume reflected higher demand and generated an 8% increase in revenue.

In line services, an average of 58 aircraft movements were handled per day in 2018, 7% more than in 2017.

TEXL

TEXL recorded a 13% decrease in attributable profit to HK$182 million in 2018 compared to 2017. In 2018, TEXL performed 52 performance restoration workscopes and 38 quick turn workscopes on GE90 aircraft engines (compared with 52 performance restoration workscopes and 33 quick turn workscopes in 2017). The reduction in profit in 2018 principally reflected a change in the terms on which TEXL contracts with its key customer.

HAESL

HAESL recorded a 53% increase in attributable profit in 2018 compared to 2017. The increase in profit reflected an increase in engine volume and a heavier work mix. 212 engines were overhauled in 2018, compared with 140 in 2017. HAESL has invested heavily in new facilities and tooling (and continues to recruit additional manpower) in order to accommodate further growth.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 299 aircraft in 2018, 10% more than in 2017. However, its profit in 2018 was lower than in 2017. Staff costs and repair charges were higher.

HAECO Landing Gear Services made a profit in 2018, compared to a loss in 2017. It did more work.

Outlook

The prospects for the HAECO group's different businesses in 2019 are mixed. Demand for airframe services in America is expected to rise and to be stable in Hong Kong and Xiamen. Demand for line services is expected to be firm. Demand for engines services is expected to increase. The component overhaul business is expected to improve gradually, with the development of new capabilities. The cabin solutions business in America expects fewer seats to be sold in 2019 than in 2018. Forward bookings for cabin integration work are low. More Panasonic communication equipment work is expected.

The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government 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 11 provinces and the Shanghai Municipality in Mainland China and in Hong Kong, Taiwan and an extensive area of the western USA.

Swire Beverages has nine wholly-owned franchise businesses (in Hong Kong, Taiwan and the USA, and in Fujian, Anhui, Guangxi, Jiangxi and Hainan provinces and the cities of Zhanjiang and Maoming in Guangdong province in Mainland China) and six majority-owned franchise businesses (in Zhejiang, Jiangsu, Guangdong (excluding the cities of Zhanjiang and Maoming), Henan, Yunnan and Hubei provinces in Mainland China). It has a joint venture interest in a franchise in the Shanghai Municipality in Mainland China and an associate interest in Coca-Cola Bottlers Manufacturing Holdings Limited (CCBMH), which supplies still beverages to all Coca-Cola franchises in Mainland China.

At the end of 2018, Swire Beverages manufactured 61 beverage brands and distributed them to a franchise population of 728 million people.

FRANCHISE TERRITORIES

	Franchise population (millions) (end 2018)	**GDP per capita (US$)**	**Sales volume (million unit cases) 2018**	Sales volume (million unit cases) 2008	**Per capita consumption (8 oz servings) 2018**	Per capita consumption (8 oz servings) 2008
Mainland China	668.2	10,547	1,334	600	48	35
Hong Kong	7.4	47,426	66	57	213	197
Taiwan	23.6	25,048	56	58	57	60
USA	28.8	46,763	299	86	249	338
	728.0		1,755	801		

Note 1: A unit case comprises 24 8-ounce servings.

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 route to market and 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 growth management, through optimisation of pricing, product and channel mix, product premiumisation and 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 waste reduction and by engaging with the communities in which we operate.

2018 PERFORMANCE

Beverages Division – Financial Highlights

	2018 HK$M	2017 HK$M
Revenue	**41,190**	34,067
EBITDA	**3,915**	4,689
Operating profit derived from:		
Operating activities	**2,034**	1,719
Non-recurring items	**255**	1,606
Total operating profit	**2,289**	3,325
Share of post-tax profits from joint venture and associated companies	**151**	112
Attributable profit (excluding non-recurring items)	**1,354**	962
Non-recurring items:		
Gain on remeasurement of previously held interests in joint venture companies in Mainland China	**-**	975
Gain on disposal of a subsidiary company in Mainland China	**-**	247
Gain from the acquisition of new franchise territories and assets in the USA	**132**	289
Gain/(loss) on disposal of Kaohsiung plant in Taiwan	**144**	(32)
Attributable profit	**1,630**	2,441

Beverages Division – Segment Financial Highlights

	Revenue		EBITDA		Attributable Profit	
	2018 HK$M	2017 HK$M	**2018 HK$M**	2017 HK$M	**2018 HK$M**	2017 HK$M
Mainland China						
- operating activities	**21,358**	16,256	**1,974**	1,454	**634**	243
- non-recurring items	**-**	-	**-**	1,356	**-**	1,222
	21,358	16,256	**1,974**	2,810	**634**	1,465
Hong Kong	**2,343**	2,255	**323**	310	**230**	220
Taiwan						
- operating activities	**1,551**	1,343	**129**	115	**67**	43
- non-recurring items	**-**	-	**148**	(39)	**144**	(32)
	1,551	1,343	**277**	76	**211**	11
USA						
- operating activities	**15,938**	14,213	**1,300**	1,239	**491**	494
- non-recurring items	**-**	-	**107**	289	**132**	289
	15,938	14,213	**1,407**	1,528	**623**	783
Central costs		-	**(66)**	(35)	**(68)**	(38)
Beverages Division	**41,190**	34,067	**3,915**	4,689	**1,630**	2,441

Accounting for the Beverages Division

The non-recurring gains included under attributable profit are after the deduction of tax and non-controlling interests.

Before 1st April 2017:
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) were accounted for as subsidiaries in the financial statements of Swire Pacific. Revenue and operating profit from these franchise businesses are included in the revenue and operating profit shown above. The division's joint venture interests in three other franchises in Mainland China (Guangdong, Zhejiang and Jiangsu) and its associate interest in CCBMH were accounted for using the equity method of accounting. Swire Pacific recognised 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.

On and after 1st April 2017:

After completion of the majority of the realignment of the Coca-Cola Bottling system in Mainland China on 1st April 2017, the division's joint venture interests in three franchise businesses in Mainland China (Guangdong, Zhejiang and Jiangsu) became subsidiary companies. These three franchise businesses were accordingly accounted for as subsidiaries in the financial statements of Swire Pacific from 1st April 2017. Revenue and operating profit from these three franchise businesses were included in the revenue and operating profit from 1st April 2017. The division's associate interest in CCBMH continued to be accounted for using the equity method of accounting.

On and after 1st July 2017:

The transfer of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. was completed by 1st July 2017. The division's joint venture interest in this company is accounted for using the equity method of accounting.

2017 central costs are arrived at after crediting gains on disposal of available-for-sale investments of HK$1 million.

Beverages Division – Segment Performance

	Note	Percentage Change in 2018				
		Mainland China	Hong Kong	Taiwan	USA	Swire Beverages
Active Outlets		0.9%	0.4%	1.0%	-1.2%	0.7%
Revenue	1	23.4%	3.6%	7.9%	11.4%	19.9%
Sales Volume	2	19.9%	1.1%	5.1%	6.2%	16.0%
Gross Profit *		3.2%	1.0%	1.8%	6.4%	3.6%
Water Use Ratio		-2.0%	0.0%	-7.0%	-3.0%	-2.0%
Energy Use Ratio		-7.0%	0.0%	-21.0%	21.0%	-9.0%
LTIR		+38%	+84%	+112%	-4%	+6%

		Mainland China	Hong Kong	Taiwan	USA	Swire Beverages
EBITDA Margin	3					
2018		8.5%	14.0%	8.6%	9.1%	9.0%
2017		8.2%	14.5%	8.2%	9.8%	9.2%
EBIT Margin	3					
2018		5.0%	11.2%	5.2%	5.1%	5.4%
2017		4.5%	11.4%	4.4%	6.0%	5.5%

* Per unit case.

Note 1: Revenue for the Beverages Division including that of joint venture companies and excluding sales to other bottlers was HK$42,659 million (2017: HK$35,582 million).

Note 2: The sales volume for Mainland China shown in the table above represents sales in seven franchise territories from 1st January 2017 to 31st March 2017, sales in 12 franchises territories from 1st April 2017 to 30th June 2017 and sales in 13 franchises territories starting from 1st July 2017, in each case including products supplied by CCBMH.

Note 3: (i) EBITDA and EBIT for the Beverages Division including that of joint venture companies and excluding non-recurring gains and central costs were HK$3,840 million (2017: HK$3,261 million) and HK$2,299 million (2017: HK$1,942 million) respectively.
(ii) EBITDA margin and EBIT margin represent EBITDA and EBIT expressed as percentages of revenue.

2018 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK$1,630 million in 2018. This included a non-recurring gain of HK$144 million arising from the disposal of the Kaohsiung plant in Taiwan and a non-recurring gain in relation to the acquisition of production assets in the USA of HK$132 million. This compares with an attributable profit of HK$2,441 million in 2017. The 2017 figure included non-recurring gains of HK$1,222 million arising from the realignment of the Coca-Cola bottling system in Mainland China, non-recurring gains in the USA aggregating HK$289 million arising from changes to the division's franchise terms and production and distribution assets acquired, and a loss on disposal of the Kaohsiung plant in Taiwan of HK$32 million.

Disregarding the non-recurring gains in both years, Swire Beverages made an attributable profit of HK$1,354 million in 2018, a 41% increase compared with an attributable profit of HK$962 million in 2017.

Total revenue (including that of joint venture companies and excluding sales to other bottlers) increased by 20% to HK$42,659 million. Overall sales volume increased by 16% to 1,755 million unit cases. Revenue and volume grew in Mainland China and the USA, mainly due to the inclusion of sales in the territories acquired in 2017. Revenue and volume also grew in Hong Kong and Taiwan.

EBITDA (including that of joint venture companies and excluding non-recurring gains and central costs) increased by 18% to HK$3,840 million. Revenue growth was reflected in improved EBITDA margins in Mainland China and Taiwan. In the USA and Hong Kong, the positive effect of revenue growth on EBITDA margins was more than offset by increases in raw material and operating costs.

Swire Beverages will continue to make significant investments in production assets, logistics infrastructure, merchandising equipment and digital capabilities. Capital commitments at 31st December 2018 were HK$931 million.

Mainland China

Attributable profit from Mainland China was HK$634 million in 2018. Disregarding non-recurring gains in 2017, the attributable profit in 2018 increased by 161% from 2017.

Revenue (including that of joint venture companies and excluding sales to other bottlers) grew by 23% in local currency terms. This principally reflected the acquisition of new franchise territories in 2017 and a 8% increase in revenue in existing territories. Revenue grew faster than volume. This reflected improvements in product and package mixes and price increases.

Sparkling revenue increased by 27%. Still revenue increased by 15%. Juice and water revenue increased by 13% and 24% respectively.

Total sales volume increased by 20%. Sales volume in existing territories increased by 7%.

The increase in revenue was partly offset by higher raw material and operating costs.

EBITDA and EBIT (including those of joint venture companies and excluding non-recurring gains and central costs) increased by 28% and 39% in local currency terms respectively. The EBITDA margin increased from 8.2% in 2017 to 8.5% in 2018. The EBIT margin increased from 4.5% to 5.0%.

Hong Kong

Attributable profit from Hong Kong in 2018 was HK$230 million, a 5% increase from 2017. The increase included the additional share of profits in Hong Kong resulting from the acquisition in 2017 of the 12.5% of Swire Beverages Limited previously owned by TCCC. The operating profit increased by 2%.

Revenue (excluding sales to other bottlers) increased by 4%, representing a higher growth rate than that of volume. This reflected the introduction of new products, an improved product mix and price increases.

Sparkling revenue increased by 5%. Still revenue increased by 2%. Tea and juice revenue increased by 6% and 4% respectively. Water revenue decreased by 6%.

Total sales volume increased by 1%.

The increase in revenue was partly offset by higher raw material and operating costs.

EBITDA and EBIT (excluding the impact of the acquisition of additional shares in Swire Beverages Limited in 2017) increased by 0.3% and 2% respectively. The EBITDA margin decreased from 14.5% in 2017 to 14% in 2018. The EBIT margin decreased from 11.4% to 11.2%.

Swire Beverages is setting up a joint venture to establish Hong Kong's first dedicated PET and HDPE recycling facility.

Taiwan

Attributable profit from Taiwan in 2018 was HK$211 million. Disregarding the non-recurring gain/(loss) on disposal of the Kaohsiung plant, the attributable profit was HK$67 million, a 56% increase from 2017.

Revenue in local currency terms increased by 8%, representing a higher growth rate than that of volume. This reflected price increases and an improved product mix.

Sparkling revenue increased by 4%, reflecting improved market execution and sales promotion. Still revenue increased by 12%. Tea revenue increased by 6%, reflecting the introduction of new products. Water revenue increased by 54%.

Total sales volume increased by 5%.

Profits were adversely affected by higher raw material costs but benefited from a slower increase in operating expenses (4%) and favourable exchange rate movements.

EBITDA and EBIT (excluding non-recurring gains and central costs) increased by 13% and 27% in local currency terms respectively. The EBITDA margin increased from 8.2% in 2017 to 8.6% in 2018. The EBIT margin increased from 4.4% to 5.2%.

USA

Attributable profit from the USA was HK$623 million in 2018. Disregarding non-recurring gains, the attributable profit was HK$491 million in 2018, a 0.6% decrease from the corresponding figure in 2017.

Revenue in local currency terms (excluding sales to other bottlers) grew by 11%. This principally reflected the inclusion of sales in the states of Washington and Idaho from March 2017 and Oregon from May 2017. Revenue grew faster than volume. This reflected price increases.

Sparkling revenue increased by 11%. Still revenue increased by 13%. The latter increase principally reflected a 22% increase in revenue from energy drinks.

Total sales volume increased by 6%. The revenue from existing territories increased by 1%.

Gross profits increased, principally as a result of higher selling prices and sales volume, but the beneficial effect of this was more than offset by higher finance charges and higher raw material and operating costs.

EBITDA (excluding non-recurring gains and central costs) increased by 3% in local currency terms. EBIT decreased by 6%. The EBITDA margin decreased from 9.8% in 2017 to 9.1% in 2018. The EBIT margin decreased from 6% to 5.1%.

OUTLOOK

Revenue in Mainland China is expected to continue to grow in 2019. Revenue is expected to grow faster than volume, reflecting better product and package mix, and improved market execution. However, increased operating costs particularly staff costs will put pressure on profits.

Continued growth in revenue is expected in Hong Kong in 2019, with revenue growing faster than volume. Operating costs are expected to increase. Increased capital expenditure will put pressure on profits in the short term.

Revenue is expected to continue to grow in Taiwan, reflecting improvements in product and package mix and in the management of sales channels.

In the USA, the beverages market is expected to grow moderately in 2019. Sales of energy drinks are expected to continue to grow. However, increased costs will put pressure on profits.

Patrick Healy

REVIEW OF OPERATIONS

MARINE SERVICES DIVISION

OVERVIEW OF THE BUSINESS

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

SPO supports offshore drilling, production, exploration, platform construction, subsea IMR and light construction work and high speed crew changes. SPO also carries 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.

STRATEGY:

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

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

SPO:

SPO's Fleet:
At 31st December 2018, SPO operated a fleet of 77 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 (IMR), 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	2017	Additions 2018	Disposals 2018	Year-end 2018	Vessels expected to be received/(disposed of) in: 2019	2020
Anchor Handling Tug Supply Vessels	49	-	5	44	(2)	(1)
Platform Supply Vessels	18	4	-	22	-	-
Construction and Specialist Vessels	10	1	-	11	(3)	1
	77	**5**	**5**	**77**	**(5)**	**-**

Note: One CSV was chartered from an external party in 2018 and is included as an addition above. The CSV received in 2018 is, and the CSV expected to be received in 2020 will be, on operating leases.

SPO's Geographical Distribution:

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

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

2018 PERFORMANCE

Marine Services Division – Financial Highlights

	2018 HK$M	2017 HK$M
Swire Pacific Offshore group		
Revenue	**3,019**	3,067
Operating (loss)/gain derived from:		
Operating activities	**(915)**	(779)
Impairment charges	**(3,872)**	(1,015)
Gain on disposal of a subsidiary	**-**	3
Total operating loss	**(4,787)**	(1,791)
Attributable loss	**(5,070)**	(2,255)
HUD group		
Share of post-tax profits from joint venture companies	**37**	23
Attributable loss	**(5,033)**	(2,232)
Non-recurring items:		
Impairment charges on vessels and goodwill	**(3,872)**	(1,015)
Associated write-off of deferred tax asset	**(39)**	-
	(3,911)	(1,015)
Recurring loss	**(1,122)**	(1,217)

Marine Services Division – Fleet Size

	2018	2017
Number of vessels operated:		
Swire Pacific Offshore group	**77**	77
HUD group	**19**	19
Total	**96**	96

Swire Pacific Offshore group

2018 OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY REVIEW

Industry conditions remain difficult although the market does appear to have bottomed out. Offshore oil and gas spending increased modestly in 2018, which was reflected in higher utilisation. However, the oversupply of offshore support vessels continued to put pressure on charter hire rates.

2018 RESULTS SUMMARY

SPO reported an attributable loss of HK$5,070 million in 2018, compared to a loss of HK$2,255 million in 2017. The loss for 2018 included impairment charges in respect of the carrying value of vessels and goodwill, and an associated write-off of deferred tax asset, aggregating HK$3,911 million.

Significant impairment charges were made by SPO in 2016 and 2017. These impairment charges reflected reviews of the carrying value of SPO's fleet, as required by applicable accounting standards. A significant influence on the value of the fleet is the outlook for the offshore industry in which SPO operates. The 2016 and 2017 reviews reflected that outlook at the times when they were made.

A further review of the carrying value of SPO's fleet was undertaken in 2018. The previous reviews took into account an expectation that a recovery in the oil price would result in increased offshore exploration and therefore increased utilisation of SPO's fleet and an increase in the charter hire rates which SPO could secure. The oil price has recovered, from a low in 2016 of US$28 per barrel, to its price at the end of February 2019 of US$57 per barrel. There has been a modest increase in offshore exploration and some increase in utilisation of SPO's core fleet but charter hire rates have not increased. Too many vessels, including some being brought out of cold stack, are competing for the available work.

Against this background, the 2018 review of the carrying value of SPO's fleet took into account significantly less optimistic assumptions about future charter hire rates than the previous reviews. The expected useful life of the relevant SPO vessels was also reduced, from 25 to 20 years.

Excluding impairment charges (and associated write-offs) in both years, SPO reported an attributable loss of HK$1,159 million in 2018 (compared to a loss of HK$1,240 million in 2017). These results reflect the difficult market conditions in the offshore energy industry.

SPO's net cash inflow from operating activities was HK$52 million in 2018, compared to HK$389 million in 2017.

Charter Hire

Charter hire revenue decreased by 2% to HK$2,640 million in 2018, principally reflecting reduced charter hire rates.

SPO had a fleet utilisation rate of 69.9% in 2018, an increase (of 7.4 percentage points) from 2017. Average charter hire rates declined by 9% to US$17,200 per day.

Core Fleet (AHTSs and PSVs)

The utilisation rate of SPO's AHTSs and PSVs increased by 9.8 percentage points to 74.1% in 2018. Charter hire rates for the core fleet decreased by 15%, to US$10,600 per day.

Two AHTSs were in warm stack and one AHTS was in cold stack at 31st December 2018.

Specialist Fleet

The utilisation rate of SPO's CSVs decreased by 6.5 percentage points, to 44.7% in 2018. Charter hire rates for the CSVs increased by 17%, to US$83,400 per day.

In August 2018, a wind farm installation vessel was involved in an accident in which the box section of the crane boom collapsed onto the bridge. This accident resulted in the vessel being off-hire for the rest of 2018, contributing to the lower utilisation rate of the specialist fleet.

One accommodation barge and one seismic survey vessel were in cold stack at 31st December 2018.

One accommodation barge and one catamaran crew boat were in warm stack at 31st December 2018.

Non-charter Hire

Non-charter hire income was HK$379 million in 2018, a decrease of 1% compared to 2017. Non-charter hire income is mainly derived from consultancy and engineering services provided by subsea vessels.

Operating Costs

Total operating costs in 2018 increased by HK$73 million (or 2%) to HK$3,906 million. This increase principally reflected the cost of chartering a light construction vessel and a provision for claims related to the accident on a wind farm installation vessel referred to above. The increase was offset in part by savings in manning and other costs.

<u>FLEET</u>

The fleet size at 31st December 2018 was 77, the same as at 31st December 2017.

SPO disposed of five older AHTSs in 2018. SPO expects to dispose of more older vessels in 2019.

Four PSVs were delivered to SPO during the year. A two year bareboat charter was entered into for a survey and light construction vessel, with an option to take the vessel for a third year. SPO is expecting to take two more survey and light construction vessels on bareboat charters in 2020 and 2021.

Total capital expenditure on new vessels and other fixed assets in 2018 was HK$1,103 million, compared to HK$818 million in 2017.

At 31st December 2018, SPO had total capital expenditure commitments of HK$473 million (31st December 2017: HK$1,647 million).

<u>OUTLOOK</u>

The number of mobile offshore drilling units is little changed, but higher exploration expenditure and more rig activity are generally expected in 2019. This should increase utilisation of offshore supply vessels in 2019. More vessels were scrapped in 2018, but not nearly enough. Vessels are being brought out of cold stack, increasing the number of vessels chasing the growing but still limited amount of work. Full recovery is unlikely for at least two years.

SPO's new build programme was completed with the delivery of Pacific Gull in June 2018. SPO disposed of five vessels in 2018. It evaluates its fleet with a view to being well positioned to take advantage of market opportunities. It remains vigilant in its control of costs.

SPO - Profile of Capital Commitments (HK$M)

	Expenditure 2018	Commitments at 31st December 2018
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	**933**	**268**
Construction and Specialist Vessels	**160**	**142**
Other fixed assets	**10**	**63**
Total	**1,103**	**473**

SPO – Charter Hire Revenue by Vessel Class

Vessel Class	**2018 HK$M**	**2018 %**	2017 HK$M	2017 %
Anchor Handling Tug Supply Vessels	**915**	**34%**	1,139	42%
Platform Supply Vessels	**568**	**22%**	397	15%
Construction and Specialist Vessels	**1,157**	**44%**	1,148	43%
Total	**2,640**	**100%**	2,684	100%

Hongkong United Dockyards group

2018 INDUSTRY REVIEW

The shipping industry has benefited from a number of alliances and mergers since 2017. But the result is fewer and larger ships visiting Hong Kong. This is putting pressure on towage tariffs.

There were fewer relevant engineering contracts awarded in 2018, but the margins were better.

2018 RESULTS SUMMARY

The attributable profit of the HUD group for 2018 was HK$37 million compared to HK$23 million in 2017.

The salvage and towage division's profit (before tax and interest and on a 100% basis) was HK$135 million (2017: HK$127 million).

The engineering division recorded a loss (before tax and interest and on a 100% basis) of HK$53 million compared to a loss of HK$69 million in 2017. Fewer non-marine engineering projects were obtained, but margins were better.

The salvage and towage division has 19 vessels, including six container vessels. Two new tugs will replace two old tugs in the first half of 2019.

OUTLOOK

The results of the salvage and towage division are expected to be affected by pressure on towage tariffs.

The engineering division is winning fewer tenders because of increased competition.

Peter Langslow
Derrick Chan

REVIEW OF OPERATIONS

TRADING & INDUSTRIAL DIVISION

OVERVIEW OF THE BUSINESS

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

Swire Retail group:

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2018, it operated 193 retail outlets in Hong Kong and Macau and eight retail outlets in Mainland China.

Taikoo Motors group:

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

Swire Foods group:

(i) Chongqing New Qinyuan Bakery:

Qinyuan Bakery is a leading bakery chain in southwest China, with over 650 stores in Chongqing, Guiyang and Chengdu.

(ii) Taikoo Sugar:

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

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 (after a period of divestment) to develop its core businesses. The strategies employed in order to achieve this objective are these:

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

2018 PERFORMANCE

Trading & Industrial Division - Financial Highlights

	2018 HK$M	2017 HK$M
Revenue		
Swire Retail group	**3,338**	3,074
Taikoo Motors group (TMG)	**5,810**	5,306
Swire Foods group (SFG)	**1,748**	1,761
Swire Pacific Cold Storage group	**82**	105
	10,978	10,246
Operating profits/(losses)		
Swire Retail group	**69**	(69)
Taikoo Motors group	**155**	91
Swire Foods group	**(30)**	65
Swire Pacific Cold Storage group	**24**	(136)
Swire Environmental Services group	**(24)**	(9)
Others, including central costs	**3,061**	(22)
	3,255	(80)
Attributable profits/(losses)		
Swire Retail group	**102**	(14)
Taikoo Motors group	**123**	77
Swire Foods group	**(91)**	42
Swire Pacific Cold Storage group	**(45)**	(171)
Swire Environmental Services group	**(54)**	(50)
Akzo Nobel Swire Paints	**2,894**	215
Others, including central costs	**(25)**	(30)
Attributable profit	**2,904**	69
Non-recurring items:		
Gain/(loss) on disposal of businesses	**2,792**	(94)
Termination cost of Malaysia business of TMG	**(14)**	-
Impairment provision in respect of sugar refinery business of SFG	**(38)**	-
	2,740	(94)
Recurring profit	**164**	163

2018 INDUSTRY REVIEW

Footwear and apparel business in Hong Kong and Mainland China – Footwear and apparel sales in Hong Kong and Mainland China grew by 10%.

Car sales in Taiwan – Car registrations in Taiwan decreased by 2% to 435,114 units in 2018.

Sugar sales in Mainland China – The volume of sugar sold in Mainland China was little changed at 33,590 million pounds in 2018.

Bakery sales in Mainland China – Retail sales of bakery products sold in Mainland China increased by 9% compared to 2017.

2018 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2018 was HK$2,904 million compared to HK$69 million in 2017. The 2018 results included non-recurring gains of HK$2,792 million on the disposal of the Akzo Nobel paints business and the cold storage business. The 2017 results included a loss of HK$94 million on the disposal of the interest in Rebecca Minkoff. Disregarding these items and other non-recurring items, the Division's attributable profit in 2018 was HK$164 million, similar to that in 2017. The result reflected a reduced contribution from Akzo Nobel Swire Paints and losses from Swire Foods, largely offset by better results from Swire Retail and Taikoo Motors and the absence of a loss from the cold storage business in the second half of 2018.

Swire Retail group

The attributable profit of the Swire Retail group in 2018 was HK$102 million, compared to loss of HK$14 million in 2017, an increase of HK$116 million. Disregarding the loss on disposal of Rebecca Minkoff of HK$94 million in 2017, profit increased by HK$22 million. This principally reflected higher profits in Hong Kong and reduced losses in Mainland China. The share of profit of the Columbia associated company decreased.

The revenue of Swire Resources in Hong Kong and Macau was 10% higher than in 2017. Existing and new brands contributed to the increase. Gross margins improved. This reflected less discounting and higher margins on new footwear brands. Occupancy and staff costs increased.

193 retail outlets were operated in Hong Kong and Macau at the end of 2018, 13 more than at the end of 2017. Eight retail outlets were operated in Mainland China at the end of 2018, one more than at the end of 2017.

The 40% interest in the Columbia associated company was disposed of at the beginning of 2019.

Taikoo Motors group

The attributable profit of the Taikoo Motors group increased to HK$123 million in 2018 from HK$77 million in 2017. The 2018 results included HK$14 million termination costs from the closure of loss making businesses in Malaysia.

19,250 cars, commercial vehicles and motorcycles were sold in 2018, 4% more than in 2017. 96% of these units were sold in Taiwan. The gross profit margin was in line with that in 2017. Operating costs as a percentage of revenue were lower than in 2017.

Swire Foods group

Swire Foods reported an attributable loss of HK$91 million in 2018, compared with an attributable profit of HK$42 million in 2017.

Qinyuan Bakery recorded an attributable loss of HK$66 million in 2018, compared with an attributable profit of HK$33 million in 2017. The 2018 results included store and other business rationalisation costs of HK$69 million.

The revenue and gross profit of Qinyuan Bakery increased by 8% and 9% respectively in 2018 compared with 2017. This reflected growth in sales per store. Operating costs increased, reflecting higher staff and rental costs. Qinyuan Bakery operated 651 stores at the end of 2018, similar to the number at the end of 2017.

Volumes of sugar sold rose by 4% and 13% in Hong Kong and Mainland China respectively. Margins improved because of more sales and lower sugar costs.

The share of the loss at the 34% owned sugar refinery business in Guangdong was HK$52 million in 2018. This included an impairment provision of HK$38 million arising from the suspension of refinery operations to prevent further operating losses.

Swire Environmental Services group

Swire Environmental Services reported an attributable loss of HK$54 million in 2018, compared with an attributable loss of HK$50 million in 2017.

OUTLOOK

The retail market for footwear and apparel in Hong Kong is expected to be highly competitive in 2019. Slower economic growth in Mainland China and global trade uncertainties make the 2019 outlook for Swire Resources uncertain. Higher staff and occupancy costs are expected to put pressure on profit margins.

Taikoo Motors will spend more on developing motor related businesses.

Qinyuan Bakery is opening new stores in Chongqing, Chengdu and Guiyang and is upgrading its existing stores. The range and quality of its products are improving. Its supply chain is becoming more agile and efficient.

Taikoo Sugar is expanding its distribution network in Mainland China and is improving its supply chain capability.

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

David Cogman / Ivan Chu

FINANCIAL REVIEW

Additional information is provided below to reconcile reported and underlying profit attributable to the Company's shareholders. The reconciling items principally adjust for net revaluation movements on investment properties and the associated deferred tax in Mainland China and the USA, and for other deferred tax provisions in relation to investment properties.

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

Notes:

(a) This represents the net revaluation movements as shown in the consolidated statement of profit or loss plus the Group's share of net revaluation movements of joint venture companies.

(b) This represents deferred tax movements on the Group's investment properties and the Group's share of deferred tax movements on investment properties held by joint venture companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and the USA, and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.

(c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the consolidated statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the consolidated statement of profit or loss.

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

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

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

Consolidated Statement of Profit or Loss
For the year ended 31st December 2018

	Note	**2018 HK$M**	2017 HK$M
Revenue	2	**84,606**	80,289
Cost of sales		**(53,739)**	(51,991)
Gross profit		**30,867**	28,298
Distribution costs		**(14,086)**	(11,684)
Administrative expenses		**(6,331)**	(6,027)
Other operating expenses		**(398)**	(299)
Other net gains		**1,458**	245
Change in fair value of investment properties		**19,378**	25,331
Operating profit	3	**30,888**	35,864
Finance charges		**(2,525)**	(2,399)
Finance income		**201**	160
Net finance charges	4	**(2,324)**	(2,239)
Share of profits less losses of joint venture companies		**2,458**	2,209
Share of profits less losses of associated companies		**1,324**	(328)
Profit before taxation		**32,346**	35,506
Taxation	5	**(2,926)**	(3,124)
Profit for the year		**29,420**	32,382
Profit for the year attributable to:			
The Company's shareholders		**23,629**	26,070
Non-controlling interests		**5,791**	6,312
		29,420	32,382
Underlying profit attributable to the Company's shareholders		**8,523**	4,742
		HK$	HK$
Earnings per share from profit attributable to the Company's shareholders (basic and diluted)	7		
'A' share		**15.74**	17.34
'B' share		**3.15**	3.47

Consolidated Statement of Other Comprehensive Income
For the year ended 31st December 2018

	2018 HK$M	2017 HK$M
Profit for the year	**29,420**	32,382
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	**19**	125
deferred tax	**(1)**	(3)
Defined benefit plans		
remeasurement losses recognised during the year	**(204)**	(17)
deferred tax	**38**	(29)
Changes in the fair value of equity investments at fair value through other comprehensive income	**(135)**	-
Share of other comprehensive income of joint venture and associated companies	**(120)**	353
	(403)	429
Items that can be reclassified subsequently to profit or loss		
Cash flow hedges		
losses recognised during the year	**(139)**	(349)
transferred to net finance charges	**(77)**	(74)
transferred to operating profit	**(14)**	(88)
deferred tax	**36**	88
Net fair value changes on available-for-sale assets		
gains recognised during the year	**-**	69
transferred to profit or loss on disposal	**-**	(1)
Share of other comprehensive income of joint venture and associated companies	**(540)**	3,666
Net translation differences on foreign operations		
(losses)/gains recognised during the year	**(2,081)**	3,051
reclassified to profit or loss on disposal	**35**	6
	(2,780)	6,368
Other comprehensive income for the year, net of tax	**(3,183)**	6,797
Total comprehensive income for the year	**26,237**	39,179
Total comprehensive income attributable to:		
The Company's shareholders	**20,973**	32,218
Non-controlling interests	**5,264**	6,961
	26,237	39,179

Consolidated Statement of Financial Position
At 31st December 2018

	Note	2018 HK$M	2017 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**39,644**	45,619
Investment properties		**271,515**	265,944
Leasehold land and land use rights		**1,415**	1,663
Intangible assets		**12,918**	13,486
Properties held for development		**1,360**	1,342
Joint venture companies		**18,870**	14,858
Loans due from joint venture companies		**15,470**	14,591
Associated companies		**31,533**	30,243
Loans due from associated companies		**167**	161
Equity investments at fair value through other comprehensive income		**244**	-
Available-for-sale assets		**-**	375
Other receivables	8	**67**	50
Derivative financial instruments		**80**	174
Deferred tax assets		**454**	603
Retirement benefit assets		**89**	93
		393,826	389,202
Current assets			
Properties under development and for sale		**1,469**	2,300
Stocks and work in progress		**5,242**	6,229
Contract assets		**1,176**	-
Trade and other receivables	8	**9,945**	10,979
Derivative financial instruments		**109**	55
Bank balances and short-term deposits		**9,112**	6,072
Other current assets		**-**	6,262
		27,053	31,897
Assets classified as held for sale		**15,526**	-
		42,579	31,897
Current liabilities			
Trade and other payables	9	**25,102**	22,439
Contract liabilities		**438**	-
Taxation payable		**636**	624
Derivative financial instruments		**28**	11
Short-term loans		**3,227**	671
Long-term loans and bonds due within one year		**8,301**	8,741
		37,732	32,486
Liabilities directly associated with assets classified as held for sale		**207**	-
		37,939	32,486
Net current assets/(liabilities)		**4,640**	(589)
Total assets less current liabilities		**398,466**	388,613
Non-current liabilities			
Long-term loans and bonds		**60,251**	69,174
Derivative financial instruments		**170**	89
Other payables	9	**1,679**	2,343
Deferred tax liabilities		**10,034**	9,881
Retirement benefit liabilities		**1,217**	1,032
		73,351	82,519
NET ASSETS		**325,115**	306,094
EQUITY			
Share capital	10	**1,294**	1,294
Reserves	11	**269,130**	251,869
Equity attributable to the Company's shareholders		**270,424**	253,163
Non-controlling interests		**54,691**	52,931
TOTAL EQUITY		**325,115**	306,094

Consolidated Statement of Cash Flows
For the year ended 31st December 2018

	2018 HK$M	2017 HK$M
Operating activities		
Cash generated from operations	**18,328**	19,605
Interest paid	**(2,629)**	(2,553)
Interest received	**201**	163
Tax paid	**(2,180)**	(2,172)
	13,720	15,043
Dividends received from joint venture and associated companies (2017: including available-for-sale assets)	**1,716**	557
Net cash generated from operating activities	**15,436**	15,600
Investing activities		
Purchase of property, plant and equipment	**(4,103)**	(3,777)
Additions of investment properties	**(3,917)**	(5,179)
Additions of other current assets	**(88)**	(623)
Additions of assets classified as held for sale	**(364)**	-
Purchase of intangible assets	**(126)**	(103)
Proceeds from disposals of property, plant and equipment	**450**	263
Proceeds from disposals of investment properties	**350**	40
Proceeds from disposals of subsidiary companies, net of cash disposed of	**9,584**	614
Proceeds from disposals of joint venture companies	**3,594**	-
Proceeds from disposals of available-for-sale assets	**-**	71
Purchase of shares in new subsidiary companies	**(14)**	(4,163)
Purchase of shares in joint venture companies	**(1,670)**	(1,046)
Purchase of new businesses	**-**	(2,347)
Adjustment for previous year's purchase of new businesses	**187**	-
Purchase of equity investments at fair value through other comprehensive income	**(4)**	-
Purchase of available-for-sale assets	**-**	(11)
Loans to joint venture companies	**(1,635)**	(1,535)
Loans to associated companies	**(176)**	(87)
Repayment of loans by joint venture companies	**363**	128
Repayment of loan by associated companies	**2**	115
Decrease/(increase) in deposits maturing after more than three months	**110**	(85)
Initial leasing costs incurred	**(60)**	(24)
Net cash generated from/(used in) investing activities	**2,483**	(17,749)
Net cash inflow/(outflow) before financing activities	**17,919**	(2,149)
Financing activities		
Loans drawn and refinancing	**10,624**	20,312
Repayment of loans and bonds	**(17,571)**	(13,049)
	(6,947)	7,263
Repurchase of the Company's shares	**(21)**	(153)
Purchase of shares in existing subsidiary companies	**(3,018)**	(1,384)
Dividends paid to the Company's shareholders	**(3,454)**	(3,158)
Dividends paid to non-controlling interests	**(1,128)**	(1,177)
Net cash (used in)/generated from financing activities	**(14,568)**	1,391
Increase/(decrease) in cash and cash equivalents	**3,351**	(758)
Cash and cash equivalents at 1st January	**5,951**	6,450
Currency adjustment	**(200)**	259
Cash and cash equivalents at 31st December	**9,102**	5,951
Represented by:		
Bank balances and short-term deposits maturing within three months	**9,102**	5,951

1. Segment Information

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

Year ended 31st December 2018

	External revenue HK$M	Inter-segment revenue HK$M	Operating profit/(loss) HK$M	Finance charges HK$M	Finance income HK$M	Share of profits less losses of joint venture companies HK$M	Share of profits less losses of associated companies HK$M	Tax (charge)/ credit HK$M	Profit/(loss) for the year HK$M	Profit/(loss) attributable to the Company's shareholders HK$M	Underlying profit / (loss) attributable to the Company's shareholders HK$M	Depreciation and amortisation charged to operating profit HK$M
Property												
Property investment	12,139	115	9,861	(913)	112	772	-	(1,049)	8,783	7,152	8,284	(172)
Change in fair value of investment properties	-	-	19,378	-	-	1,063	-	(654)	19,787	16,238	-	-
Property trading	1,061	-	65	(40)	1	107	-	(24)	109	81	81	-
Hotels	1,404	-	(25)	(42)	-	(117)	153	(10)	(41)	(34)	(34)	(234)
	14,604	**115**	**29,279**	**(995)**	**113**	**1,825**	**153**	**(1,737)**	**28,638**	**23,437**	**8,331**	**(406)**
Aviation												
Cathay Pacific group	-	-	-	-	-	-	1,056	-	1,056	1,056	1,056	-
HAECO group	14,892	-	1,140	(115)	23	451	-	(233)	1,266	760	760	(654)
Others	-	-	(54)	-	-	3	(11)	-	(62)	(35)	(35)	(54)
	14,892	**-**	**1,086**	**(115)**	**23**	**454**	**1,045**	**(233)**	**2,260**	**1,781**	**1,781**	**(708)**
Beverages												
Mainland China	21,358	-	1,059	(137)	35	48	103	(357)	751	634	634	(764)
Hong Kong	2,342	1	255	-	-	-	-	(25)	230	230	230	(68)
Taiwan	1,551	-	224	(2)	-	-	-	(11)	211	211	211	(53)
USA	15,938	-	819	(121)	2	-	-	(77)	623	623	623	(588)
Central costs	-	-	(68)	-	-	-	-	-	(68)	(68)	(68)	(2)
	41,189	**1**	**2,289**	**(260)**	**37**	**48**	**103**	**(470)**	**1,747**	**1,630**	**1,630**	**(1,475)**
Marine Services												
Swire Pacific Offshore group*	3,018	1	(4,787)	(264)	4	-	2	(31)	(5,076)	(5,070)	(5,070)	(1,047)
HUD group	-	-	-	-	-	37	-	-	37	37	37	-
	3,018	**1**	**(4,787)**	**(264)**	**4**	**37**	**2**	**(31)**	**(5,039)**	**(5,033)**	**(5,033)**	**(1,047)**
Trading & Industrial												
Swire Retail group	3,338	-	69	(1)	8	1	57	(32)	102	102	102	(22)
Taikoo Motors group	5,810	-	155	(1)	1	-	-	(32)	123	123	123	(73)
Swire Foods group	1,666	82	(30)	-	3	(52)	-	(12)	(91)	(91)	(91)	(92)
Swire Pacific Cold Storage group#	82	-	24	(14)	-	(4)	-	(51)	(45)	(45)	(45)	(27)
Akzo Nobel Swire Paints#	-	-	3,086	-	-	143	-	(335)	2,894	2,894	2,894	-
Swire Environmental Services group	-	-	(24)	-	-	6	(36)	-	(54)	(54)	(54)	-
Central costs	-	-	(25)	-	-	-	-	-	(25)	(25)	(25)	-
	10,896	**82**	**3,255**	**(16)**	**12**	**94**	**21**	**(462)**	**2,904**	**2,904**	**2,904**	**(214)**
Head Office												
Net income/(expenses)	**7**	**32**	**(234)**	**(1,409)**	**546**	**-**	**-**	**7**	**(1,090)**	**(1,090)**	**(1,090)**	**(1)**
Inter-segment elimination	-	(231)	-	534	(534)	-	-	-	-	-	-	-
Total	**84,606**	**-**	**30,888**	**(2,525)**	**201**	**2,458**	**1,324**	**(2,926)**	**29,420**	**23,629**	**8,523**	**(3,851)**

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

* Impairment charge made by the Swire Pacific Offshore group included under operating profit/loss was HK$3,872 million.

Profits on disposals of Swire Pacific Cold Storage group and Akzo Nobel Swire Paints of the Trading & Industrial Division are included under operating profit/loss of the respective companies.

1. Segment Information (continued)

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

Year ended 31st December 2017

	External revenue HK$M	Inter-segment revenue HK$M	Operating profit/(loss) HK$M	Finance charges HK$M	Finance income HK$M	Share of profits less losses of joint venture companies HK$M	Share of profits less losses of associated companies HK$M	Tax (charge)/ credit HK$M	Profit/(loss) for the year HK$M	Profit/(loss) attributable to the Company's shareholders HK$M	Underlying profit / (loss) attributable to the Company's shareholders HK$M	Depreciation and amortisation charged to operating profit HK$M
Property												
Property investment	11,266	114	8,163	(908)	82	500	-	(1,169)	6,668	5,464	5,492	(176)
Change in fair value of investment properties	-	-	25,331	-	-	1,201	-	(391)	26,141	21,391	-	-
Property trading	5,833	-	1,397	(36)	1	(11)	-	(240)	1,111	911	946	-
Hotels	1,344	1	(102)	(39)	-	(44)	146	(5)	(44)	(35)	(35)	(259)
	18,443	**115**	**34,789**	**(983)**	**83**	**1,646**	**146**	**(1,805)**	**33,876**	**27,731**	**6,403**	**(435)**
Aviation												
Cathay Pacific group	-	-	-	-	-	-	(567)	-	(567)	(567)	(567)	-
HAECO group*	14,546	-	(90)	(131)	11	314	-	(450)	(346)	(406)	(406)	(637)
Others	-	-	(54)	-	-	5	(7)	-	(56)	(29)	(29)	(55)
	14,546	**-**	**(144)**	**(131)**	**11**	**319**	**(574)**	**(450)**	**(969)**	**(1,002)**	**(1,002)**	**(692)**
Beverages												
Mainland China#	16,256	-	2,053	(166)	30	19	93	(443)	1,586	1,465	1,465	(645)
Hong Kong	2,254	1	242	-	-	-	-	(15)	227	220	220	(68)
Taiwan	1,343	-	20	(5)	-	-	-	(4)	11	11	11	(56)
USA#	14,213	-	1,048	(70)	1	-	-	(196)	783	783	783	(480)
Central costs	-	-	(38)	-	-	-	-	-	(38)	(38)	(38)	(3)
	34,066	**1**	**3,325**	**(241)**	**31**	**19**	**93**	**(658)**	**2,569**	**2,441**	**2,441**	**(1,252)**
Marine Services												
Swire Pacific Offshore group*	3,066	1	(1,791)	(304)	5	-	1	(160)	(2,249)	(2,255)	(2,255)	(1,064)
HUD group	-	-	-	-	-	23	-	-	23	23	23	-
	3,066	**1**	**(1,791)**	**(304)**	**5**	**23**	**1**	**(160)**	**(2,226)**	**(2,232)**	**(2,232)**	**(1,064)**
Trading & Industrial												
Swire Retail group	3,074	-	(69)	(2)	10	2	56	(11)	(14)	(14)	(14)	(29)
Taikoo Motors group	5,306	-	91	-	2	-	-	(16)	77	77	77	(77)
Swire Foods group	1,678	83	65	-	4	(10)	-	(17)	42	42	42	(60)
Swire Pacific Cold Storage group	105	-	(136)	(22)	-	(9)	-	(4)	(171)	(171)	(171)	(48)
Akzo Nobel Swire Paints	-	-	8	-	-	216	-	(9)	215	215	215	-
Swire Environmental Services group	-	-	(9)	-	6	3	(50)	-	(50)	(50)	(50)	-
Central costs	-	-	(30)	-	-	-	-	-	(30)	(30)	(30)	-
	10,163	**83**	**(80)**	**(24)**	**22**	**202**	**6**	**(57)**	**69**	**69**	**69**	**(214)**
Head Office												
Net income/(expenses)	**5**	**30**	**(235)**	**(1,540)**	**832**	**-**	**-**	**6**	**(937)**	**(937)**	**(937)**	**(1)**
Inter-segment elimination	**-**	**(230)**	**-**	**824**	**(824)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total	**80,289**	**-**	**35,864**	**(2,399)**	**160**	**2,209**	**(328)**	**(3,124)**	**32,382**	**26,070**	**4,742**	**(3,658)**

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

* Impairment charges made by the HAECO group and the Swire Pacific Offshore group included under operating profit/loss were HK$632 million and HK$1,015 million respectively.

Gains on acquisition/disposal of territories and assets made by Swire Beverages included under operating profit/loss in Mainland China and the USA were HK$1,347 million and HK$289 million respectively.

1. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group

At 31st December 2018	Segment assets HK$M	Joint venture companies# HK$M	Associated companies# HK$M	Bank deposits HK$M	Total assets HK$M	Additions to non-current assets (note) HK$M
Property						
Property investment	292,779	26,133	-	1,820	320,732	4,937
Property trading and development	3,034	1,411	-	118	4,563	52
Hotels	5,975	1,247	413	156	7,791	(19) *
	301,788	**28,791**	**413**	**2,094**	**333,086**	**4,970**
Aviation						
Cathay Pacific group	-	-	29,225	-	29,225	-
HAECO group	10,755	1,738	-	2,167	14,660	562
Others	4,407	2,820	-	-	7,227	-
	15,162	**4,558**	**29,225**	**2,167**	**51,112**	**562**
Beverages						
Swire Beverages	**25,609**	**955**	**1,552**	**2,397**	**30,513**	**1,988**
Marine Services						
Swire Pacific Offshore group	13,953	-	56	199	14,208	1,112
HUD group	-	(31)	-	-	(31)	-
	13,953	**(31)**	**56**	**199**	**14,177**	**1,112**
Trading & Industrial						
Swire Retail group	696	34	137	326	1,193	26
Taikoo Motors group	1,658	-	-	275	1,933	173
Swire Foods group	1,454	3	-	247	1,704	140
Swire Environmental Services group	39	30	317	-	386	-
Other activities	522	-	-	59	581	-
	4,369	**67**	**454**	**907**	**5,797**	**339**
Head Office	**372**	**-**	**-**	**1,348**	**1,720**	**1**
	361,253	**34,340**	**31,700**	**9,112**	**436,405**	**8,972**

At 31st December 2017	Segment assets HK$M	Joint venture companies# HK$M	Associated companies# HK$M	Bank deposits HK$M	Total assets HK$M	Additions to non-current assets (note) HK$M
Property						
Property investment	278,389	21,119	-	1,440	300,948	4,946
Property trading and development	3,976	670	-	103	4,749	53
Hotels	6,363	1,237	374	165	8,139	86
	288,728	**23,026**	**374**	**1,708**	**313,836**	**5,085**
Aviation						
Cathay Pacific group	-	-	27,959	-	27,959	-
HAECO group	11,317	1,727	-	991	14,035	983
Others	4,462	2,823	-	-	7,285	-
	15,779	**4,550**	**27,959**	**991**	**49,279**	**983**
Beverages						
Swire Beverages	**26,298**	**981**	**1,552**	**2,252**	**31,083**	**1,623**
Marine Services						
Swire Pacific Offshore group	17,644	-	56	267	17,967	838
HUD group	-	(66)	-	-	(66)	-
	17,644	**(66)**	**56**	**267**	**17,901**	**838**
Trading & Industrial						
Swire Retail group	673	32	243	159	1,107	13
Taikoo Motors group	1,826	-	-	368	2,194	84
Swire Foods group	1,497	28	-	146	1,671	116
Swire Pacific Cold Storage group	1,862	333	-	50	2,245	146
Akzo Nobel Swire Paints	-	515	-	-	515	-
Swire Environmental Services group	101	50	220	-	371	-
Other activities	460	-	-	1	461	-
	6,419	**958**	**463**	**724**	**8,564**	**359**
Head Office	**306**	**-**	**-**	**130**	**436**	**1**
	355,174	**29,449**	**30,404**	**6,072**	**421,099**	**8,889**

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.

\# The assets of joint venture and associated companies included the respective loans due from these companies.

* The negative figure for Hotels in the Property Division was due to the inclusion of a cost write-back of HK$64 million relating to over-statement of previous years' additions.

1. Segment Information (continued)

(a) Information about reportable segments (continued)

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

At 31st December 2018	Segment liabilities HK$M	Current and deferred tax liabilities HK$M	Inter-segment borrowings/ (advances) HK$M	External borrowings HK$M	Total liabilities HK$M	Non-controlling interests HK$M
Property						
Property investment	10,736	9,050	(186)	29,461	49,061	50,457
Property trading and development	257	45	144	1,414	1,860	562
Hotels	241	-	42	1,124	1,407	1,171
	11,234	**9,095**	**-**	**31,999**	**52,328**	**52,190**
Aviation						
HAECO group	**3,099**	**397**	**-**	**3,248**	**6,744**	**2,042**
Beverages						
Swire Beverages	**10,810**	**649**	**4,280**	**2,350**	**18,089**	**448**
Marine Services						
Swire Pacific Offshore group	**920**	**44**	**4,521**	**-**	**5,485**	**11**
Trading & Industrial						
Swire Retail group	855	54	(53)	-	856	-
Taikoo Motors group	615	17	-	-	632	-
Swire Foods group	427	10	(58)	-	379	-
Other activities	279	381	60	-	720	-
	2,176	**462**	**(51)**	**-**	**2,587**	**-**
Head Office	**602**	**23**	**(8,750)**	**34,182**	**26,057**	**-**
	28,841	**10,670**	**-**	**71,779**	**111,290**	**54,691**

At 31st December 2017	Segment liabilities HK$M	Current and deferred tax liabilities HK$M	Inter-segment borrowings/ (advances) HK$M	External borrowings HK$M	Total liabilities HK$M	Non-controlling interests HK$M
Property						
Property investment	8,023	8,823	4,615	29,268	50,729	46,589
Property trading and development	378	326	610	1,500	2,814	416
Hotels	236	-	23	1,110	1,369	1,239
	8,637	9,149	5,248	31,878	54,912	48,244
Aviation						
HAECO group	3,100	390	-	3,360	6,850	4,242
Beverages						
Swire Beverages	10,778	779	5,303	2,459	19,319	427
Marine Services						
Swire Pacific Offshore group	805	74	8,654	-	9,533	18
Trading & Industrial						
Swire Retail group	803	39	(164)	-	678	-
Taikoo Motors group	692	(4)	-	-	688	-
Swire Foods group	328	17	(135)	-	210	-
Swire Pacific Cold Storage group	271	2	898	-	1,171	-
Other activities	32	29	18	-	79	-
	2,126	83	617	-	2,826	-
Head Office	468	30	(19,822)	40,889	21,565	-
	25,914	10,505	-	78,586	115,005	52,931

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 Board.

(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)**	
	2018	2017	**2018**	2017
	HK$M	HK$M	**HK$M**	HK$M
Hong Kong	**21,140**	24,817	**246,424**	242,081
Asia (excluding Hong Kong)	**40,927**	34,712	**49,991**	51,286
USA	**19,493**	17,659	**17,454**	17,887
Others	**42**	46	**-**	-
Ship owning and operating activities	**3,004**	3,055	**12,983**	16,800
	84,606	80,289	**326,852**	328,054

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:

	2018	2017
	HK$M	HK$M
Gross rental income from investment properties	**12,002**	11,138
Property trading	**1,061**	5,833
Hotels	**1,404**	1,344
Aircraft and engine maintenance services	**13,131**	12,892
Sales of goods	**52,878**	45,008
Charter hire*	**2,640**	2,684
Rendering of other services	**1,490**	1,390
Total	**84,606**	80,289

* Charter hire revenue included leasing of vessels amounting to HK$797 million for the year ended 31st December 2018. The remaining revenue of HK$1,843 million was related to ship management services for the provision of crew.

3. Operating Profit

	2018	2017
	HK$M	HK$M
Operating profit has been arrived at after charging:		
Depreciation of property, plant and equipment	**3,559**	3,361
Amortisation of leasehold land and land use rights	**53**	46
Amortisation of intangible assets	**190**	190
Amortisation of initial leasing costs and others	**49**	61
Loss on sale of property, plant and equipment	**-**	70
Loss on sale of available-for-sale assets	**-**	93
Impairment losses recognised on		
- property, plant and equipment	**3,792**	1,032
- intangible assets	**86**	625
- goodwill in respect of an associated company	**98**	-
And after crediting:		
Remeasurement gains on interests in joint venture companies which became subsidiary companies	**14**	975
Profit on disposal of subsidiary companies	**1,309**	387
Profit on disposal of joint venture companies	**3,177**	-
Bargain purchase gain on acquisition of a subsidiary company	**28**	-
Gain from the acquisition of new franchise territories in the USA	**-**	194
Final purchase consideration adjustment on acquisition of assets in the USA	**107**	95
Profit on sale of investment properties	**53**	9
Profit on sale of property, plant and equipment	**57**	-

4. Net Finance Charges

	2018	2017
	HK$M	HK$M
Interest charged		
Bank loans and overdrafts	**639**	520
Other loans, bonds and perpetual capital securities	**1,970**	2,041
Fair value (gain)/loss on derivative instruments		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(77)**	(74)
Interest rate swaps not qualifying as hedges	**2**	(1)
Amortised loan fees - loans at amortised cost	**124**	114
	2,658	2,600
Fair value (gain)/loss on put options over non-controlling interests in subsidiary companies	**(23)**	34
Fair value loss on put options over other partners' interests in a joint venture company	**15**	30
Other financing costs	**145**	124
Capitalised on		
Investment properties	**(265)**	(212)
Properties under development and for sale	**(2)**	-
Hotel and other properties and equipment	**-**	(167)
Vessels	**(3)**	(10)
	2,525	2,399
Less: interest income		
Short-term deposits and bank balances	**115**	70
Other loans	**86**	90
	201	160
Net finance charges	**2,324**	2,239

5. Taxation

	2018	2017
	HK$M	HK$M
Current taxation		
Hong Kong profits tax	**1,042**	1,178
Overseas taxation	**1,272**	1,152
(Over)/under-provisions in prior years	**(16)**	32
	2,298	2,362
Deferred taxation		
Changes in fair value of investment properties	**501**	460
Origination and reversal of temporary differences	**127**	620
Effect of change in tax rate in the USA	**-**	(318)
	628	762
	2,926	3,124

Hong Kong profits tax is calculated at 16.5% (2017: 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

	2018	2017
	HK$M	HK$M
First interim dividend paid on 5th October 2018 of HK$1.20 per ‘A’ share and HK$0.24 per ‘B’ share (2017: HK$1.00 and HK$0.20)	**1,802**	1,503
Second interim dividend declared on 14th March 2019 of HK$1.80 per ‘A’ share and HK$0.36 per ‘B’ share (2017 actual dividend paid: HK$1.10 and HK$0.22)	**2,703**	1,652
	4,505	3,155

The second interim dividend is not accounted for in 2018 because it had not been declared or approved at the year end date. The actual amount payable in respect of 2018 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2019.

The Directors have declared second interim dividends of HK$1.80 per ‘A’ share and HK$0.36 per ‘B’ share which, together with the first interim dividends of HK$1.20 per ‘A’ share and HK$0.24 per ‘B’ share paid in October 2018, amount to full year dividends of HK$3.00 per ‘A’ share and HK$0.60 per ‘B’ share, compared to full year dividends of HK$2.10 per ‘A’ share and HK$0.42 per ‘B’ share in respect of 2017. The second interim dividends will be paid on 10th May 2019 to shareholders registered at the close of business on the record date, being Friday, 12th April 2019. Shares of the Company will be traded ex-dividend from Wednesday, 10th April 2019.

The register of members will be closed on Friday, 12th April 2019, 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 Thursday, 11th April 2019.

6. Dividends (continued)

To facilitate the processing of proxy voting for the annual general meeting to be held on 16th May 2019, the register of members will be closed from 14th May 2019 to 16th May 2019, 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, 10th May 2019.

7. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$23,629 million (2017: HK$26,070 million) by the daily weighted average number of 905,206,000 'A' shares and 2,981,872,466 'B' shares in issue during the year (2017: 905,206,000 'A' shares and 2,990,852,870 'B' shares), in the proportion five to one.

8. Trade and Other Receivables

	2018 HK$M	2017 HK$M
Trade debtors	**4,469**	4,680
Amounts due from immediate holding company	**1**	1
Amounts due from joint venture companies	**17**	8
Amounts due from associated companies	**229**	380
Interest-bearing advance to joint venture companies	**-**	77
Mortgage loan receivable - Non-current portion	**37**	-
Prepayments and accrued income	**2,014**	2,047
Other receivables	**3,245**	3,836
	10,012	11,029
Amounts due after one year included under non-current assets	**(67)**	(50)
	9,945	10,979

The amounts due from joint venture and associated companies are unsecured, interest free (except where specified) and on normal trade credit terms.

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

	2018 HK$M	2017 HK$M
Up to three months	**4,112**	4,354
Between three and six months	**255**	202
Over six months	**102**	124
	4,469	4,680

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

	2018 HK$M	2017 HK$M
Trade creditors	**3,969**	4,572
Amounts due to immediate holding company	**245**	164
Amounts due to joint venture companies	**30**	7
Amounts due to associated companies	**309**	164
Interest-bearing advances from joint venture companies	**53**	353
Interest-bearing advances from an associated company	**293**	292
Advances from non-controlling interests	**35**	34
Rental deposits from tenants	**2,751**	2,616
Put options over non-controlling interests	**700**	822
Deposits received on the sale of subsidiary companies	**3,238**	1,306
Contingent consideration	**1,170**	1,443
Accrued capital expenditure	**1,343**	922
Other accruals	**8,169**	6,952
Other payables	**4,476**	5,135
	26,781	24,782
Amounts due after one year included under non-current liabilities	**(1,679)**	(2,343)
	25,102	22,439

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

	2018 HK$M	2017 HK$M
Up to three months	**3,841**	4,382
Between three and six months	**70**	126
Over six months	**58**	64
	3,969	4,572

10. Share Capital

	'A' shares	**'B' shares**	**Total HK$M**
Issued and fully paid			
At 1st January 2018	**905,206,000**	**2,982,570,000**	**1,294**
Repurchased during the year	**-**	**700,000**	**-**
At 31st December 2018	**905,206,000**	**2,981,870,000**	**1,294**
At 1st January 2017	905,206,000	2,995,220,000	1,294
Repurchased during the year	-	12,650,000	-
At 31st December 2017	905,206,000	2,982,570,000	1,294

During the year, the company repurchased 700,000 'B' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK$9 million. The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid for the repurchased 'B' shares was paid wholly out of the distributable profits of the Company included in its revenue reserve.

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

11. Reserves

	Revenue reserve HK$M	Property revaluation reserve HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Translation reserve HK$M	Total HK$M
At 1st January 2018						
as originally stated	**246,881**	**2,190**	**342**	**(762)**	**3,218**	**251,869**
adjustment on adoption of HKFRS 9	**326**	**-**	**(326)**	**-**	**-**	**-**
adjustment on adoption of HKFRS 15	**331**	**-**	**-**	**-**	**-**	**331**
as restated	**247,538**	**2,190**	**16**	**(762)**	**3,218**	**252,200**
At 1st January 2018						
Profit for the year	**23,629**	**-**	**-**	**-**	**-**	**23,629**
Other comprehensive income						
Defined benefit plans						
- remeasurement losses recognised during the year	**(196)**	**-**	**-**	**-**	**-**	**(196)**
- deferred tax	**37**	**-**	**-**	**-**	**-**	**37**
Cash flow hedges						
- losses recognised during the year	**-**	**-**	**-**	**(110)**	**-**	**(110)**
- transferred to net finance charges	**-**	**-**	**-**	**(72)**	**-**	**(72)**
- transferred to operating profit	**-**	**-**	**-**	**(14)**	**-**	**(14)**
- deferred tax	**-**	**-**	**-**	**30**	**-**	**30**
Changes in the fair value of equity investments at fair value through other comprehensive income	**-**	**-**	**(135)**	**-**	**-**	**(135)**
Revaluation of property previously occupied by the Group						
- gains recognised during the year	**-**	**16**	**-**	**-**	**-**	**16**
- deferred tax	**-**	**(1)**	**-**	**-**	**-**	**(1)**
Share of other comprehensive income of joint venture and associated companies	**(123)**	**-**	**3**	**928**	**(1,344)**	**(536)**
Net translation differences on foreign operations						
- losses recognised during the year	**-**	**-**	**-**	**-**	**(1,710)**	**(1,710)**
- reclassified to profit or loss on disposal	**-**	**-**	**-**	**-**	**35**	**35**
Total comprehensive income for the year	**23,347**	**15**	**(132)**	**762**	**(3,019)**	**20,973**
Acquisition of non-controlling interests	**(580)**	**-**	**-**	**-**	**-**	**(580)**
Repurchase of the Company's shares	**(9)**	**-**	**-**	**-**	**-**	**(9)**
2017 second interim dividend (note 6)	**(1,652)**	**-**	**-**	**-**	**-**	**(1,652)**
2018 first interim dividend (note 6)	**(1,802)**	**-**	**-**	**-**	**-**	**(1,802)**
At 31st December 2018	**266,842**	**2,205**	**(116)**	**-**	**199**	**269,130**

11. Reserves (continued)

	Revenue reserve HK$M	Property revaluation reserve HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Translation reserve HK$M	Total HK$M
At 1st January 2017	224,464	2,090	469	(2,504)	(934)	223,585
Profit for the year	26,070	-	-	-	-	26,070
Other comprehensive income						
Defined benefit plans						
- remeasurement losses recognised during the year	(46)	-	-	-	-	(46)
- deferred tax	(24)	-	-	-	-	(24)
Cash flow hedges						
- losses recognised during the year	-	-	-	(302)	-	(302)
- transferred to net finance charges	-	-	-	(75)	-	(75)
- transferred to operating profit	-	-	-	(88)	-	(88)
- deferred tax	-	-	-	80	-	80
Net fair value changes on available-for-sale assets						
- gains recognised during the year	-	-	69	-	-	69
- transferred to profit or loss on disposal	-	-	(1)	-	-	(1)
Revaluation of property previously occupied by the Group						
- gains recognised during the year	-	103	-	-	-	103
- deferred tax	-	(3)	-	-	-	(3)
Share of other comprehensive income of joint venture and associated companies	351	-	(195)	2,127	1,594	3,877
Net translation differences on foreign operations						
- gains recognised during the year	-	-	-	-	2,554	2,554
- reclassified to profit or loss on disposal	-	-	-	-	4	4
Total comprehensive income for the year	26,351	100	(127)	1,742	4,152	32,218
Acquisition of non-controlling interests	(611)	-	-	-	-	(611)
Repurchase of the Company's shares	(165)	-	-	-	-	(165)
2016 second interim dividend	(1,655)	-	-	-	-	(1,655)
2017 first interim dividend (note 6)	(1,503)	-	-	-	-	(1,503)
At 31st December 2017	246,881	2,190	342	(762)	3,218	251,869

12. Changes in Accounting Policies and Disclosures

(a) The following new and revised standards and new interpretation were required to be adopted by the Group effective from 1st January 2018:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarification of HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

None of these new and revised standards and new interpretation had a significant effect on the Group's financial statements or accounting policies, except the following set out below:

HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group has used the practical expedient for completed contracts under the modified retrospective approach by adjusting opening retained earnings when it adopted HKFRS 15 effective 1st January 2018 without restatement of prior periods. The effects of HKFRS 15 on the recognition of the Group's main revenue streams are as follows:

(i) Rental income from lease agreements is specifically excluded from the scope of HKFRS 15;

(ii) The nature of the Group's current trading property sales in its primary markets in Hong Kong and the USA, the terms of the relevant contracts and the associated laws mean that revenue from these sales continues to be recognised at the point in time of transfer of effective ownership. The transfer of control in future property sales may occur over time or at a point in time, and this will be assessed on a case by case and territory by territory basis. No significant changes to the Group's accounting policies are required;

(iii) Revenue on certain engine maintenance contracts is recognised over time rather than at a point in time. A percentage of completion method is used to calculate the revenue to be recognised on these contracts and, as a result, some revenue on engine maintenance contracts which are in progress at period/year ends is recognised earlier under HKFRS 15. Other services are performed over short periods and therefore do not result in any significant change in the timing of revenue recognition;

(iv) Sales of goods in the Group's beverages and retail operations happen at a point in time and do not include any significant separate performance obligations; and

(v) Typical vessel charter hire agreements generally include rental income and performance obligations being the provision of the vessel and crew concurrently for a specified period.

12. Changes in Accounting Policies and Disclosures (continued)

As a result, the effects of adopting HKFRS 15 on the Group's opening retained earnings at 1st January 2018 and on the financial statements for the year ended 31st December 2018 are as follows:

Effect on the Group's opening reserve and non-controlling interests:

	1st January 2018
	HK$M
Increase in joint venture companies	23
Increase in associated companies	285
Decrease in trade and other receivables	(420)
Decrease in stocks and work in progress	(1,383)
Increase in contract assets	1,599
Decrease in trade and other payables	850
Increase in contract liabilities	(588)
Increase in deferred tax liabilities	(3)
	363
Increase in revenue reserve	331
Increase in non-controlling interests	32
	363

Effect on Consolidated Statement of Profit or Loss:

	Year ended 31st December 2018
	HK$M
Decrease in revenue	(342)
Decrease in cost of sales	321
Increase in share of profit of joint venture companies	2
Increase in share of profit of associated companies	4
Decrease in taxation	4
Decrease in non-controlling interests	8
Decrease in profit attributable to the Company's shareholders	(3)
Decrease in earnings per share (basic and diluted)	
'A' share (HK$)	-

Effect on Consolidated Statement of Financial Position:

	31st December 2018
	HK$M
Increase in joint venture companies	25
Increase in associated companies	289
Decrease in trade and other receivables	(437)
Decrease in stocks and work in progress	(840)
Increase in contract assets	1,176
Decrease in trade and other payables	579
Increase in contract liabilities	(438)
Increase in deferred tax liabilities	(2)
	352
Increase in revenue reserve	328
Increase in non-controlling interests	24
	352

12. Changes in Accounting Policies and Disclosures (continued)

HKFRS 9 Financial Instruments

The complete version of HKFRS 9 replaced HKAS 39.

(i) Classification and measurement
The Group has adopted the classification and measurement aspects of HKFRS 9 from 1st January 2018, without restatement of prior periods with any effects of implementation recognised as an adjustment to opening retained earnings. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The Group elected to present in "Other Comprehensive Income" changes in the fair values of all its equity investments previously classified as "Available-for-sale assets", because these equity investments are held as long-term strategic investments. As a result, assets with a fair value of HK$375 million were reclassified from available-for-sale assets to equity investments at fair value through other comprehensive income on 1st January 2018.

Cathay Pacific Airways Limited, an associated company of the Group, elected to irrevocably designate at 1st January 2018 investments that are held for long-term strategic purpose as equity investments at fair value through other comprehensive income. Investments that are held for trading were reclassified to equity investments at fair value through profit or loss at 1st January 2018. As a result, net fair value gains of HK$326 million attributable to the Group relating to investments held for trading were transferred from investment revaluation reserve to revenue reserve on 1st January 2018.

Once designation as equity investments at fair value through other comprehensive income has taken place, all fair value gains or losses previously recognised in other comprehensive income will not be recycled to profit and loss on disposal of these investments.

Non-substantial modifications or exchange of financial liabilities that do not result in derecognition are required to be recognised in profit or loss. No retrospective adjustments were required in relation to this change as none of the borrowings outstanding on 1st January 2018 had been refinanced in prior periods.

(ii) Impairment of financial assets
The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. The Group applies the simplified approach permitted by HKFRS 9 to measure expected credit losses which uses an expected lifetime loss allowance for all trade receivables and contract assets. This has no significant impact on the Group's financial statements.

(iii) Derivatives and hedging activities
Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under HKAS 39. The Group adopted the hedge accounting aspects of HKFRS 9 prospectively from 1st January 2018 and adoption has not had a material impact on the financial position or the financial results of the Group.

12. Changes in Accounting Policies and Disclosures (continued)

HKAS 40 (Amendment) Transfers of Investment Property

The amendment to HKAS 40 clarifies that a property is transferred to, or from, investment property when the property meets, or ceases to meet, the definition of investment property and there is evidence of a change in use. The amendment does not have any impact on the Group's financial statements.

(b) The Group has not early adopted the following relevant new and revised standards and a new interpretation that have been issued but are effective for annual periods beginning on or after 1st January 2019 and such standards and interpretation have not been applied in preparing these consolidated financial statements.

HKFRSs (Amendment)	Annual improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[1]
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

1 To be applied by the Group from 1st January 2019.

2 To be applied by the Group from 1st January 2020.

13. Requirement in Connection with Publication of "Non-statutory Accounts" under Section 436 of the Hong Kong Companies Ordinance Cap. 622

The financial information relating to the years ended 31st December 2017 and 2018 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 2017 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 2018 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 2017 and 2018. 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 2018, committed loan facilities and debt securities amounted to HK$97,520 million, of which HK$25,676 million (26%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK$8,450 million. Sources of funds at 31st December 2018 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	**49,435**	**49,435**	**-**	**-**
Bank loans, overdrafts and other loans	**48,085**	**22,409**	**2,648**	**23,028**
Total committed facilities	**97,520**	**71,844**	**2,648**	**23,028**
Uncommitted facilities				
Bank loans, overdrafts and other loans	**8,707**	**257**	**8,450**	**-**
Total	**106,227**	**72,101**	**11,098**	**23,028**

Note: The figures above are stated before unamortised loan fees of HK$322 million.

At 31st December 2018, 74% of the Group's gross borrowings were on a fixed rate basis and 26% were on a floating rate basis (2017: 71% and 29%).

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 2018 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 2019.

List of Directors
As at the date of this announcement, the Directors of the Company are:
Executive Directors: M.B. Swire (Chairman), I.K.L. Chu, D.P. Cogman, M.M.S. Low;
Non-Executive Directors: M. Cubbon, S.C. Swire; and
Independent Non-Executive Directors: P.K. Etchells, T.G. Freshwater, C. Lee, R.W.M. Lee and G.R.H. Orr.

By Order of the Board
SWIRE PACIFIC LIMITED
Merlin Swire
Chairman
Hong Kong, 14th March 2019

Disclaimer

This document may contain certain forward-looking statements that reflect the Company's beliefs, plans or expectations about the future or future events. These forward-looking statements are based on a number of assumptions, current estimates and projections, and are therefore subject to inherent risks, uncertainties and other factors beyond the Company's control. The actual results or outcomes of events may differ materially and/or adversely due to a number of factors, including changes in the economies and industries in which the Group operates (in particular in Hong Kong and Mainland China), macro-economic and geopolitical uncertainties, changes in the competitive environment, foreign exchange rates, interest rates and commodity prices, and the Group's ability to identify and manage risks to which it is subject. Nothing contained in these forward-looking statements is, or shall be, relied upon as any assurance or representation as to the future or as a representation or warranty otherwise. Neither the Company nor its directors, officers, employees, agents, affiliates, advisers or representatives assume any responsibility to update these forward-looking statements or to adapt them to future events or developments or to provide supplemental information in relation thereto or to correct any inaccuracies.