SWIRE PACIFIC

SWIRE PACIFIC LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock Codes: 00019 and 00087)

2017 Final Results

2017 Final Results

	Note	**2017 HK$M**	2016 HK$M	Change %
Revenue		**80,289**	62,389	+29%
Operating profit		**35,864**	15,384	+133%
Profit attributable to the Company's shareholders		**26,070**	9,644	+170%
Cash generated from operations		**19,605**	14,864	+32%
Net cash (outflow)/inflow before financing		**(2,149)**	2,831	-176%
Total equity (including non-controlling interests)		**306,094**	272,168	+12%
Net debt		**72,514**	64,046	+13%
		HK$	HK$	
Earnings per share	(a)			
'A' share		**17.34**	6.41	+171%
'B' share		**3.47**	1.28	
Dividends per share				
'A' share		**2.10**	2.10	-
'B' share		**0.42**	0.42	
Equity attributable to the Company's shareholders per share	(b)			
'A' share		**168.58**	149.50	+13%
'B' share		**33.72**	29.90	

Underlying Profit		**HK$M**	HK$M	Change %
Underlying profit attributable to the Company's shareholders	(c)	**4,742**	3,063	+55%
		HK$	HK$	
Underlying earnings per share	(a)			
'A' share		**3.15**	2.04	+54%
'B' share		**0.63**	0.41	

Notes:

(a) Refer to note 7 in the financial statements for the weighted average number of shares.
(b) Refer to note 10 in the financial statements for the weighted number of shares.
(c) A reconciliation between the reported and underlying profit attributable to the Company's shareholders is provided on page 46.

Chairman's Statement

Year in review

The results of the Group in 2017 were affected by difficult market conditions facing our aviation and marine services divisions. Overcapacity in the passenger market led to intense competition with other airlines and continued pressure on yields on many of our airlines' key routes. The performance of the HAECO business in the USA was also poor. Exploration and production spending by oil majors remained weak despite an increase in oil prices. This adversely affected vessel utilisation and charter hire rates. Our property and beverages businesses performed well, with the latter completing significant territory expansions in Mainland China and the USA.

Results summary

The consolidated profit attributable to shareholders for 2017 was HK$26,070 million, a 170% increase compared to 2016. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by 55% to HK$4,742 million. Disregarding significant non-recurring items in 2017 and 2016, the 2017 adjusted underlying profit was HK$4,762 million, compared with HK$4,997 million in 2016. Better results from the Property, Beverages and Trading & Industrial Divisions were more than offset by weaker results from the Aviation and Marine Services Divisions.

The Property Division is the largest contributor to the Group's underlying profit. The underlying attributable profit from the Property Division was HK$6,403 million, 11% higher than in 2016. Rental income from office properties in Hong Kong increased due to positive rental reversions and firm occupancy. Retail rental income in Hong Kong was little changed. In Mainland China, gross rental income increased due to positive rental reversions and improved occupancy. In the USA, gross rental income increased following the opening of the first phase of the Brickell City Centre development in Miami in 2016. Gross profit from property trading in Hong Kong increased slightly, mainly due to the handover of pre-sold units at the ALASSIO development. There were fewer sales of residential units at the Reach and Rise developments in the USA. Losses from hotels were lower than in 2016, reflecting improved results from EAST, Miami since its opening.

The Aviation Division recorded a loss in 2017 due to higher operating losses at Cathay Pacific and continued losses and asset impairments in the HAECO business in America.

Swire Pacific's attributable share of Cathay Pacific's 2017 losses was HK$567 million, compared with HK$259 million in 2016. The 2017 results of Cathay Pacific were affected by several one-off events. In March, Cathay Pacific was fined approximately HK$498 million for infringing European competition law. In the same month, Cathay Pacific recorded a gain of HK$244 million as a result of the dilution of its shareholding in Air China upon an issue of new A shares by Air China. In April, Cathay Pacific disposed of its interest in TravelSky Technology Limited at a profit of HK$586 million. Swire Pacific's net share of these amounts was a gain of HK$149 million on an attributable basis.

Cathay Pacific's passenger revenue decreased in 2017 by 1%. Competition was intense as other airlines increased capacity, with more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. The cargo business benefited from robust demand, with revenue and tonnage carried increasing by 21% and 11% respectively. Higher fuel prices adversely affected operating costs.

Attributable loss from HAECO was HK$406 million in 2017, compared to an attributable profit of HK$731 million in 2016. HAECO's 2017 losses included an impairment charge of HK$625 million in respect of the goodwill attributable to HAECO USA Holdings, Inc. ("HAECO Americas") and a write off of HAECO Americas' net deferred tax assets of HK$249 million. Disregarding the write off of deferred tax assets in 2017, all impairment charges in both years and the gain on disposal of HAESL's interest in SAESL in 2016, HAECO's profit was HK$340 million in 2017, compared with HK$516 million in 2016. The reduction was principally due to a higher loss at HAECO Americas, which more than offset better results elsewhere in the HAECO group.

Chairman's Statement (continued)

Swire Beverages' profit of HK$2,441 million in 2017 included gains of HK$1,222 million arising out of the realignment of the Coca-Cola bottling system in Mainland China. These gains arose from the disposal of the Shaanxi franchise business and the remeasurement of the fair value of interests in three joint venture franchise businesses when they became subsidiary companies. There were non-recurring gains in the USA of HK$289 million. These gains arose out of the terms on which new franchise territories and production and distribution assets were acquired. Disregarding these gains, Swire Beverages made an attributable profit of HK$930 million in 2017, a 14% increase from 2016. Overall sales volume increased by 37% to 1,512 million unit cases. Sales revenue increased by 85% to HK$34,067 million. Volume and revenue grew in Mainland China and the USA, principally reflecting the inclusion of sales from additional territories. Volume and revenue increased in Hong Kong. In Taiwan, volume was in line with 2016 and revenue increased.

The Marine Services Division recorded a loss of HK$2,232 million in 2017. The loss included an impairment charge of HK$1,015 million. Disregarding impairment charges and profits and losses on disposal of vessels in both years and the loss on disposal of Altus Oil & Gas Services in 2016, the Division's loss was HK$1,201 million in 2017, compared with a loss of HK$729 million in 2016. The level of exploration and production spending by oil majors remained weak in 2017. The oversupply of offshore support vessels resulted in reduced charter hire and utilisation rates.

Attributable profit from the Trading & Industrial Division in 2017 was HK$69 million. This included a loss of HK$94 million on disposal of Swire Brands' interest in Rebecca Minkoff. Disregarding this loss, the Division's attributable profit in 2017 was HK$163 million, compared with HK$114 million in 2016. The increase principally reflected better results from Taikoo Motors and Akzo Nobel Swire Paints and a reduction in losses at Swire Environmental Services. The losses of Swire Pacific Cold Storage increased, and profits from Swire Retail and Swire Foods decreased.

Implementing our strategy

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

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

Swire Properties is investing HK$15 billion in the redevelopment of Taikoo Place in Hong Kong. The first phase of this redevelopment is expected to be completed in the last quarter of 2018, the second in 2021 or 2022. In February 2018, Swire Properties entered into a conditional equity transfer agreement related to a joint venture (in which Swire Properties will have a 50% interest) to develop a retail project with an aggregate gross floor area of approximately 1.25 million square feet in Qiantan, Pudong New District in Shanghai. If the agreement becomes unconditional, the development is expected to be completed in 2020. In 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns an uncompleted investment property development in Kowloon Bay, Hong Kong for a cash consideration of HK$6,528 million, subject to adjustments. Completion is expected later this year.

In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges which it is facing in the current airline industry environment. The programme has the goal of making the company more consumer focused and responsive and in doing so increasing revenue and containing costs. We remain 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.

Chairman's Statement (continued)

The 2017 realignment of the Coca-Cola bottling system in Mainland China resulted in Swire Beverages having controlling interests in bottling companies in territories in which 49% of the Mainland China population live (compared to 31% prior to the realignment). In the USA, Swire Beverages expanded its business in Colorado, Arizona and New Mexico and in the Pacific Northwest.

In the Marine Services Division, SPO is reducing its operating costs by stringent cost controls and the disposal and removal from active service of underutilised and loss-making vessels.

The Trading & Industrial Division has disposed of its equity interest in Rebecca Minkoff and is investing in its motor and bakery businesses.

Outlook

In the Property Division, high occupancy is expected to result in office rents in our Pacific Place and Taikoo Place developments in Hong Kong being resilient despite increased supply in Kowloon East and other districts. Demand for retail space in Hong Kong is expected to be stable in 2018. In the absence of significant new supply in Guangzhou, office rents are expected to increase in 2018. In Beijing, office rents are expected to come under pressure in 2018. In Shanghai, office rents are expected to be stable in 2018. Retail sales are expected to grow satisfactorily in Guangzhou and Beijing, and to be robust in Chengdu. In Shanghai, retail sales are expected to grow steadily. Retail rents in Chengdu and Shanghai are expected to grow moderately despite increased supply of space and competition. In the USA, demand for office space is expected to be stable, but weak retail sales in Miami have made some retailers cautious about expansion. Trading conditions for our existing hotels are expected to be stable in 2018. Two new hotels are expected to open in Shanghai later in the first half of 2018. Trading profits are expected to be recognised in 2018 from sales of houses at the WHITESANDS development in Hong Kong and of units at the Reach and Rise developments in Miami.

The priorities for Cathay Pacific in 2018 are its transformation programme and changing the way that it works so as to better contain costs, which will strengthen its passenger business further. Cathay Pacific is confident of a successful outcome from these efforts. It also looks to benefit from a slowing of the decline in passenger yields as global economic conditions improve. The outlook for its cargo business is positive and it will take best advantage of opportunities in the growing global cargo market. Increased fuel costs are increasing operating costs and adversely affecting results. Fuel hedging losses are declining.

The prospects for the HAECO group's different businesses in 2018 are satisfactory. Demand for engine services should be robust but airframe services business results will depend on the outcome of efforts to improve efficiency and work flow at HAECO Americas.

The Beverages Division expects sales volume in its franchise territories in Mainland China to grow in 2018, with revenue expected to grow faster than volume. In Hong Kong, modest growth in sales volume is expected, but raw material costs are expected to increase. The retail market in Taiwan is expected to be weak. In the USA, the beverages market is expected to grow moderately.

In the Marine Services Division, industry conditions for SPO remain difficult, but there are signs that the offshore support market may be bottoming out. Exploration and production spending is expected to increase modestly in 2018. Utilisation of mobile offshore drilling units and of offshore supply vessels is gradually recovering. However, charter hire rates remain depressed. SPO will remain vigilant in controlling costs.

The overall profits of the Trading & Industrial Division are expected to increase in 2018.

Chairman's Statement (continued)

Dividends

The Directors have declared second interim dividends of HK$1.10 per 'A' share and HK$0.22 per 'B' share which, together with the first interim dividends paid in October 2017, amount to full year dividends of HK$2.10 per 'A' share and HK$0.42 per 'B' share.

We believe that seeking sustainable growth in a broad range of businesses will be a successful strategy in the long term. The commitment and hard work of employees of the Group and its joint venture and associated companies are central to our future success. On behalf of the Directors, I would like to take this opportunity to thank them for their great efforts.

By Order of the Board
SWIRE PACIFIC LIMITED
John Slosar
Chairman
Hong Kong, 15th March 2018

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 12.3 million square feet of gross floor area, with an additional 2.3 million square feet under development. In Mainland China, Swire Properties owns and operates major commercial mixed-use developments in Beijing, Shanghai, Guangzhou and Chengdu, in joint venture in certain cases, which will total 8.9 million square feet on completion. Of this, 8.6 million square feet has already been completed. In the USA, Swire Properties is the primary developer of a 1.1 million square feet mixed-use commercial development at Brickell City Centre in Miami, with an adjoining 1.4 million square feet development under planning.

Hotel Investment:

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at Taikoo Shing. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. In Mainland China, Swire Hotels manages three hotels. The Opposite House at Taikoo Li Sanlitun in Beijing is wholly-owned by Swire Properties. 50% interests are owned in EAST at INDIGO in Beijing and in The Temple House at Sino-Ocean Taikoo Li Chengdu. At TaiKoo Hui in Guangzhou, Swire Properties owns a 97% interest in the Mandarin Oriental. In the USA, Swire Properties wholly-owns and manages, through Swire Hotels, EAST, Miami and owns a 75% interest in the Mandarin Oriental in Miami. Interior decoration works are in progress at the two hotels at HKRI Taikoo Hui in Shanghai, one managed, the other non-managed. They are expected to open later in the first half of 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 Hong Kong, Mainland China and Miami, USA. The principal completed developments available for sale are the WHITESANDS development in Hong Kong, the remaining portion of the office property, Pinnacle One at Sino-Ocean Taikoo Li Chengdu in Mainland China and the Reach and Rise residential developments at Brickell City Centre in Miami, USA. There are also land banks in Miami and Fort Lauderdale in Florida in the USA.

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

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

Location	Office	Retail	Hotels	Residential	Under Planning	Total	At 31st December 2016 Total
	At 31st December 2017						
Completed							
Pacific Place	2,186	711	496	443	-	3,836	3,836
Taikoo Place	4,558	12	-	63	-	4,633	4,632
Cityplaza	1,398	1,105	200	-	-	2,703	2,703
Others	409	596	47	88	-	1,140	1,153
- Hong Kong	8,551	2,424	743	594	-	12,312	12,324
Taikoo Li Sanlitun	-	1,296	169	-	-	1,465	1,465
TaiKoo Hui	1,732	1,473	584	52	-	3,841	3,841
INDIGO	298	470	179	-	-	947	947
Sino-Ocean Taikoo Li Chengdu	-	617	114	64	-	795	802
HKRI Taikoo Hui	914	551	-	-	-	1,465	1,116
Others	-	91	-	-	-	91	91
- Mainland China	2,944	4,498	1,046	116	-	8,604	8,262
- USA	263	497	477	109	-	1,346	1,343
Total completed	11,758	7,419	2,266	819	-	22,262	21,929
Under and pending development							
- Hong Kong ^	2,211	73	26	-	-	2,310	2,306
- Mainland China	-	-	195	74	-	269	618
- USA	-	-	-	-	1,444	1,444	1,444
Total	13,969	7,492	2,487	893	1,444	26,285	26,297

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

^ Excludes an office building under development in Kowloon Bay (the subsidiary owning which was conditionally agreed to be sold in 2016) and includes the new buildings which will comprise the Taikoo Place redevelopment (One Taikoo Place and Two Taikoo Place).

STRATEGY:

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

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

2017 PERFORMANCE

Property Division – Financial Highlights

	2017 HK$M	2016 HK$M
Revenue		
Gross rental income derived from		
Office	**6,124**	6,053
Retail	**4,616**	4,304
Residential	**512**	416
Other revenue *	**128**	129
Property investment	**11,380**	10,902
Property trading	**5,833**	4,760
Hotels	**1,345**	1,130
Total revenue	**18,558**	16,792
Operating profit/(loss) derived from		
Property investment	**8,163**	7,743
Valuation gains on investment properties	**25,331**	8,445
Property trading	**1,397**	1,332
Hotels	**(102)**	(182)
Total operating profit	**34,789**	17,338
Share of post-tax profits from joint venture and associated companies	**1,792**	1,419
Attributable profit	**33,818**	15,069
Swire Pacific share of attributable profit	**27,731**	12,357

* Other revenue is mainly estate management fees.

Property Division – Underlying Profit/(Loss) by Segment

	2017 HK$M	2016 HK$M
Property Investment	**6,698**	5,960
Property Trading	**1,154**	1,200
Hotels	**(43)**	(117)
Total underlying attributable profit	**7,809**	7,043

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	**2017 HK$M**	2016 HK$M
Reported attributable profit		**33,818**	15,069
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	**(26,714)**	(9,637)
Deferred tax on investment properties	(b)	**573**	1,459
Realised profit on sale of investment properties	(c)	**50**	3
Depreciation of investment properties occupied by the Group	(d)	**28**	28
Non-controlling interests' share of revaluation movements less deferred tax		**54**	121
Underlying attributable profit		**7,809**	7,043
Swire Pacific share of underlying attributable profit		**6,403**	5,776

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.

2017 PROPERTY INDUSTRY REVIEW

Office and Retail:

Hong Kong:

Office
Demand for office space was strong in 2017 and occupancy levels were high.

Retail
Retail sales in Hong Kong improved moderately in 2017.

Mainland China:

Retail
Retail sales grew satisfactorily in Beijing, Chengdu and Guangzhou and steadily in Shanghai in 2017. Demand for retail space from retailers of luxury goods was robust in Guangzhou and Chengdu and moderate in Beijing. 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 were stable in 2017. In Shanghai, domestic demand for office space was strong and foreign demand was stable.

USA:

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

Retail
Retail sales in Miami continued to be weak.

Property Sales Markets:

In Hong Kong, notwithstanding the expectation of a gradual increase in interest rates and increased private housing supply, demand for residential property remained resilient.

In Miami, the strength of the US dollar against major South American currencies continued to affect demand for condominiums by non-US buyers adversely. Condominium development has slowed in Miami.

2017 RESULTS SUMMARY

Attributable profit from the Property Division for the year was HK$27,731 million compared to HK$12,357 million in 2016. These figures include net property valuation gains, before deferred tax and non-controlling interests, of HK$26,714 million and HK$9,637 million in 2017 and 2016 respectively. Attributable underlying profit increased to HK$6,403 million in 2017 from HK$5,776 million in 2016, mainly because of a higher profit from property investment. The underlying profit from property investment increased by 12%. The underlying profit from property trading decreased slightly. Hotel losses decreased.

In Hong Kong, office rental income increased due to positive rental reversions and firm occupancy. This was despite the loss of rental income resulting from the Taikoo Place redevelopment. Retail rental income in Hong Kong was little changed in 2017. In Mainland China, gross rental income increased by 12%, mainly due to positive rental reversions and improved occupancy. In the USA, gross rental income increased following the opening of the first phase of the Brickell City Centre development in 2016.

Underlying profit from property trading in 2017 arose mainly from the handover of pre-sold units at the ALASSIO development in Hong Kong. Property sales slowed in the USA.

Hotels reported reduced losses in 2017, reflecting improved results from EAST, Miami since its opening. Occupancy was stable at our managed hotels in Hong Kong and Mainland China.

KEY CHANGES TO THE PROPERTY PORTFOLIO

In April 2017, pre-sold units at ALASSIO, the Company's fourth residential development in Mid-Levels West on Hong Kong Island, started to be handed over to the purchasers. All units in the development were handed over by the end of June.

In November 2017, Swire Properties and HKR International celebrated the grand opening of their joint venture development in Shanghai, HKRI Taikoo Hui. With an aggregate gross floor area of approximately 3,469,000 square feet, the development comprises a shopping mall, two Grade-A office towers, two luxury hotels and one serviced apartment building. The two hotels and serviced apartment building are expected to open later in the first half of 2018.

In December 2017, Swire Properties entered into a long-term agreement for the lease of the Beijing Sanlitun Yashow Building. This retail building has an aggregate gross floor area of approximately 296,000 square feet and will be redeveloped as an extension to Taikoo Li Sanlitun.

In January 2018, One Taikoo Place, the first of two premium Grade-A office buildings in the Taikoo Place redevelopment, was topped out. One Taikoo Place has an aggregate gross floor area of approximately 1,020,000 square feet, and is expected to be completed later in 2018.

In February 2018, Swire Properties entered into an equity transfer agreement for 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"), subject to satisfaction of conditions precedent. If the acquisition is completed, Swire Properties and LJZ will each hold a 50% interest in Shanghai Qianxiu, and the joint venture will develop a retail project with an aggregate gross floor area of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai.

INVESTMENT PROPERTIES

Hong Kong

Office

Gross rental income from the Hong Kong office portfolio in 2017 was HK$5,660 million, a slight increase from 2016 despite loss of gross rental income at Warwick House and Cornwall House as a result of the Taikoo Place redevelopment. There were positive rental reversions and occupancy was firm. At 31st December 2017, the office portfolio was 99% let. 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 2017. Occupancy and rental rates were robust, mainly because existing tenants wanted more space. Demand from Mainland China entities was strong. The occupancy rate was almost 100% at 31st December 2017.

Cityplaza

The occupancy rate at the three office towers (Cityplaza One, Three and Four) was 97% at 31st December 2017. The Hong Kong government occupied all of the 10 floors at Cityplaza Three which it owns.

Taikoo Place

The occupancy rate at Taikoo Place was 99% at 31st December 2017. Construction of One Taikoo Place is in progress, with completion expected later in 2018. Tenants have committed to lease 75% of the space in the building.

Retail

The Hong Kong retail portfolio's gross rental income was HK$2,609 million, little changed from that in 2016. The Group's malls were almost fully let throughout the year.

Retail sales increased by 7% at The Mall, Pacific Place and by 0.2% at Citygate, but decreased by 3% at Cityplaza. The decrease was largely due to temporary closure of shops and reconfiguration works.

Residential

The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments at Taikoo Place, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island. Gross rental income increased compared with that of 2016, due to improved occupancy at the serviced apartments and rental income from STAR STUDIOS since its opening in 2016. Occupancy at the residential portfolio was approximately 85% at 31st December 2017.

Investment Properties under Development

The commercial site (Tung Chung Town Lot No. 11) next to Citygate Outlets is being developed into a commercial building with an aggregate retail and hotel gross floor area of approximately 474,000 square feet. Superstructure works are in progress. The development is expected to be completed later this year. Swire Properties has a 20% interest in the development.

The first phase of the Taikoo Place redevelopment (the redevelopment of Somerset House) is the construction of a 48-storey (above 2-storey basement) Grade-A office building with an aggregate gross floor area of approximately 1,020,000 square feet, to be called One Taikoo Place. The building was topped out in January 2018. The facade and finishing works are in progress. The redevelopment is expected to be completed later in 2018.

The second phase of the Taikoo Place redevelopment (the redevelopment of Cornwall House and Warwick House) is the construction of an office building with an aggregate gross floor area of approximately 1,000,000 square feet, to be called Two Taikoo Place. Demolition of Warwick House has been completed, and demolition of Cornwall House and foundation works for Two Taikoo Place are in progress. Completion of the redevelopment is expected in 2021 or 2022.

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

In December 2017, Swire Properties successfully bid in the compulsory sale of a site (Po Wah Building, 1-11 Landale Street and 2-12 Anton Street) at the junction of Queen's Road East, Landale Street and Anton Street in Hong Kong. Redevelopment of this site is being planned. The site area is approximately 14,400 square feet. There are six tenement blocks and a 13-storey composite building on the site.

Other

The development of an office building at the commercial site at the junction of Wang Chiu Road and Lam Lee Street in Kowloon Bay with an aggregate gross floor area of approximately 555,000 square feet was completed and the occupation permit was issued in December 2017. In October 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns this investment property development. The property was transferred to other non-current assets at fair value in the financial statements at the same time and was reclassified to other current assets in the 2017 financial statements. Completion of the sale is conditional upon the relevant certificate of compliance being obtained on or before 31st December 2018.

Mainland China

Retail

The Mainland China retail portfolio's gross rental income for 2017 increased by 14% compared with 2016, to HK$1,922 million.

Gross rental income at Taikoo Li Sanlitun recorded satisfactory growth in 2017, reflecting positive growth in reversionary rents. Retail sales grew by 4% in 2017. The occupancy rate was 99% at 31st December 2017. Demand for retail space in Taikoo Li Sanlitun is solid as it reinforces its position as a fashionable retail destination in Beijing. This is expected to have a positive impact on occupancy and rents.

Gross rental income at TaiKoo Hui in Guangzhou grew satisfactorily in 2017, reflecting in part improvements to the tenant mix and a customer loyalty programme. The occupancy rate at TaiKoo Hui was 99% at 31st December 2017. Retail sales at the mall increased by 27% in 2017.

Occupancy at the shopping mall at INDIGO, Beijing was 99% at 31st December 2017. 93% of the lettable retail space was open. Retail sales increased by 60% in 2017.

Retail sales at Sino-Ocean Taikoo Li Chengdu increased by 49% in 2017. The development is gaining popularity as a shopping destination. At 31st December 2017, occupancy at the mall was 95%. 92% of the lettable retail space was open.

The shopping mall at HKRI Taikoo Hui, Shanghai officially opened in November 2017. At 31st December 2017, tenants had committed (including by way of letters of intent) to take 96% of the retail space. 86% of the lettable retail space was open.

Office

The Mainland China office portfolio's gross rental income for 2017 increased by 2% compared with 2016, to HK$369 million.

At 31st December 2017, the occupancy rates at the office towers at TaiKoo Hui, Guangzhou and at ONE INDIGO, Beijing were 99% and 98% respectively.

The two office towers at HKRI Taikoo Hui in Shanghai have been completed and are now occupied. At 31st December 2017, tenants had committed (including by way of letters of intent) to take 82% of the office space.

Other

In January 2014, Swire Properties China Holdings Limited (a wholly-owned subsidiary of Swire Properties) entered into a framework agreement with CITIC Real Estate Co., Ltd. (a subsidiary of CITIC Limited) and Dalian Port Real Estate Co., Ltd. signifying the parties' intention to develop a mixed-use development comprising a retail complex and apartments in Dalian through a joint venture. The proposed joint venture and development were subject to certain conditions precedent, which were not satisfied. Accordingly, the proposed joint venture and development will not proceed.

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, and its components opened between March 2016 and February 2017. At 31st December 2017, Two and Three Brickell City Centre were fully leased and the shopping centre was 88% leased. 70% of the space at the shopping centre was open.

At 31st December 2017, Swire Properties owned 100% of the office, hotel and remaining unsold residential portions and 60.25% of the shopping centre at the Brickell City Centre development. The remaining interest in the shopping centre was held by Simon Property Group (25%) and Bal Harbour Shops (14.75%). Bal Harbour Shops has an option, exercisable from the second anniversary of the grand opening of the shopping centre, to sell its interest to Swire Properties.

One Brickell City Centre is planned to be a mixed-use development comprising retail, office, hotel and residential space in an 80-storey tower. It will incorporate the site at 700 Brickell Avenue acquired by Swire Properties in 2013. Development of this site will connect the first phase of 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 2017 on the basis of market value (94% by value having been valued by Cushman & Wakefield Limited and 3% by value having been valued by another independent valuer). The amount of this valuation was HK$265,705 million, compared to HK$233,451 million at 31st December 2016 and HK$246,832 million at 30th June 2017.

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 25 basis points in the capitalisation rate applicable to office properties in Hong Kong.

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

Hong Kong Lease Expiry Profile - at 31st December 2017

% of the total rental income attributable to the Group for the month ended 31st December 2017	2018	2019	2020 and beyond
Office	9.8%	21.9%	68.3%
Retail	33.0%	24.4%	42.6%

HOTELS

In 2017, trading conditions for the managed hotels in Hong Kong were stable. The performance of the managed hotels in Mainland China and in the USA improved.

The performance of the non-managed hotels in Hong Kong was stable, as was that of the Mandarin Oriental, Miami in the USA. Occupancy at the Mandarin Oriental, Guangzhou improved in 2017 and its performance was good.

Profile of Capital Commitments for Investment Properties and Hotels

(HK$M)	Expenditure	Forecast year of expenditure				Total Commitments	Commitments relating to joint venture companies *
	2017	2018	2019	2020	2021 and later	At 31st December 2017	At 31st December 2017
Hong Kong	**5,017**	4,047	1,361	2,768	3,994	**12,170**	**775**
Mainland China	**917**	789	646	118	-	**1,553**	**652**
USA and others	**926**	151	281	26	19	**477**	**-**
Total	**6,860**	4,987	2,288	2,912	4,013	**14,200**	**1,427**

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$305 million and HK$36 million of the capital commitments of joint venture companies in Hong Kong and Mainland China, respectively.

PROPERTY TRADING

Hong Kong

All 197 units at the ALASSIO development at 100 Caine Road had been sold at 31st December 2017, with profit from the sales of all the units recognised in the year.

The WHITESANDS development at 160 South Lantau Road consists of 28 detached houses with an aggregate gross floor area of 64,410 square feet. 21 houses had been sold at 13th March 2018. The profit from the sale of two houses was recognised before 2017 and the profit from the sale of 14 houses was recognised in 2017.

In August 2017, Swire Properties become the owner of a 100% interest in a property at 21-31 Wing Fung Street, Hong Kong. The property has the potential to be redeveloped into a 34,000 square feet residential block with a retail podium.

Mainland China

At Sino-Ocean Taikoo Li Chengdu, 89% of the office's total gross floor area (approximately 1.15 million square feet) and 350 carparking spaces were pre-sold in 2013. The profit from the sales of approximately 52% of the pre-sold gross floor area was recognised in 2015. Application 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. The buyer has appealed.

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 214 units (out of 390 units) at Rise had been sold at 13th March 2018. The profits from the sales of 12 units at Reach and 28 units at Rise were recognised in 2017.

OUTLOOK

Office and Retail:

Hong Kong:

Office

In the central district of Hong Kong, high occupancy and limited supply will continue to underpin office rents in 2018. High occupancy is expected to result in office rents in our Pacific Place and Taikoo Place developments being resilient despite increased supply in Kowloon East and other districts.

Retail

Demand for retail space in Hong Kong is forecast to be stable in 2018.

Mainland China:

Office

In Guangzhou, with the absence of significant new supply together with strong demand from Mainland Chinese companies, office vacancy rates are expected to decrease and rents to increase in 2018. In Beijing, with increased supply, office rents are expected to come under pressure in 2018. In Shanghai, with limited new supply in the Jingan district and stable demand, office rents are expected to be stable in 2018.

Retail

In 2018, retail sales are expected to grow satisfactorily in Beijing and Guangzhou, and to be robust in Chengdu. In Shanghai, after the opening of HKRI Taikoo Hui, retail sales should continue to grow steadily. Retail rents in Chengdu and Shanghai are expected to grow moderately despite increased supply of space and competition.

USA:

Retail

Weak retail sales in Miami have made some retailers cautious about expansion.

Office

In Miami, new supply of Grade-A office space is limited and demand is stable. Office rents are expected to increase.

Hotels:

Trading conditions for our existing hotels are expected to be stable in 2018. A managed hotel (The Middle House) and a non-managed hotel (The Sukhothai Shanghai) are expected to open in Shanghai later in the first half of 2018. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open early in 2019.

Property Trading:

In Hong Kong, notwithstanding the expectation of a gradual increase in interest rates and increased private housing supply, demand for residential property is expected to remain resilient. In Miami, the exchange rate of the US dollar against major South American currencies is strong compared with what it was earlier in the decade. The strength will continue to suppress demand for condominiums by non-US buyers. Trading profits are expected to be recognised in 2018 from sales of houses at the WHITESANDS development in Hong Kong and units at the Reach and Rise developments in Miami.

Residential Leasing:

In Hong Kong, demand for furnished accommodation at Pacific Place Apartments and Taikoo Place Apartments is expected to be stable in 2018. A serviced apartment tower is expected to open in Shanghai later in the first half of 2018.

Guy Bradley

REVIEW OF OPERATIONS

AVIATION DIVISION

OVERVIEW OF THE BUSINESS

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

The Cathay Pacific group:

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

Cathay Pacific offers scheduled passenger and cargo services to 203 destinations in 52 countries and territories. At 31st December 2017, it operated 149 aircraft and had 47 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 51 destinations in Mainland China and elsewhere in Asia. At 31st December 2017, it operated 47 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. At 31st December 2017, Air China operated 303 domestic and 117 international, including regional, routes. Cathay Pacific has a cargo joint venture with Air China, Air China Cargo, which operated 15 freighters at 31st December 2017 and also carries cargo in the bellies of Air China's passenger aircraft.

Air Hong Kong, a 60%-owned subsidiary of Cathay Pacific, operates express cargo services for DHL Express, the remaining 40% shareholder, to 12 Asian cities. At 31st December 2017, Air Hong Kong operated 12 freighters.

Cathay Pacific and its subsidiaries employ more than 32,700 people worldwide (around 25,600 of them in Hong Kong).

The HAECO group:

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

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

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

STRATEGY:

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

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

Aviation Division – Financial Highlights

	2017 HK$M	2016 HK$M
HAECO group		
Revenue	**14,546**	13,760
Operating (loss)/profit	**(90)**	127
Attributable (loss)/profit	**(406)**	731
Cathay Pacific group		
Share of post-tax losses from associated companies	**(567)**	(259)
Attributable (loss)/profit	**(1,002)**	441

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 – 2017 Performance

		2017	2016	Change
Available tonne kilometres ("ATK")	Million	**31,439**	30,462	+3.2%
Available seat kilometres ("ASK")	Million	**150,138**	146,086	+2.8%
Passenger revenue	HK$M	**66,408**	66,926	-0.8%
Revenue passenger kilometres ("RPK")	Million	**126,663**	123,478	+2.6%
Revenue passengers carried	'000	**34,820**	34,323	+1.4%
Passenger load factor	%	**84.4**	84.5	-0.1%pt
Passenger yield	HK¢	**52.3**	54.1	-3.3%
Cargo revenue – group	HK$M	**23,903**	20,063	+19.1%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK$M	**20,553**	17,024	+20.7%
Cargo and mail carried	Tonnes '000	**2,056**	1,854	+10.9%
Cargo and mail load factor	%	**67.8**	64.4	+3.4%pt
Cargo and mail yield	HK$	**1.77**	1.59	+11.3%
Cost per ATK (with fuel)	HK$	**3.12**	3.02	+3.3%
Cost per ATK (without fuel)	HK$	**2.14**	2.12	+0.9%
Aircraft utilisation	Hours per day	**12.3**	12.2	+0.8%
On-time performance	%	**71.2**	72.1	-0.9%pt
Average age of fleet	Years	**9.3**	9.1	+2.2%
Fuel consumption – group	Barrels (million)	**45.1**	43.9	+2.7%

Cathay Pacific group

2017 AIRLINE INDUSTRY REVIEW

Fundamental structural changes within the airline industry continued to affect the operating environment for the airline business and created difficult operating conditions in 2017. The factors which affected Cathay Pacific's performance were largely the same as in 2016. Overcapacity in passenger markets led to intense competition with other airlines and continued pressure on yields on many key routes. Fuel prices were higher, but fuel hedging losses reduced. As the year progressed, positive results began to be seen from Cathay Pacific's transformation programme and the group benefited from a strong cargo business, a weaker US dollar and improved premium class passenger demand.

2017 RESULTS SUMMARY

The Cathay Pacific group's attributable loss on a 100% basis was HK$1,259 million in 2017, compared with a loss of HK$575 million in 2016. The airlines' loss after tax was HK$4,303 million (2016: loss of HK$3,363 million), and the share of profits from subsidiaries and associates was HK$3,044 million (2016: HK$2,788 million).

Several special factors affected the results in 2017. In March, the European Commission issued a decision finding that a number of international air cargo carriers, including Cathay Pacific, had agreed to cargo surcharge levels prior to 2007 and that such agreements infringed European competition law and imposed a fine of Euros 57.12 million (equivalent to approximately HK$498 million) on Cathay Pacific. An application has been made to annul the decision. In the same month, Air China completed an issue of A shares and, as a result, Cathay Pacific's shareholding was diluted. A gain of HK$244 million was recognised on the deemed partial disposal. In April, Cathay Pacific disposed of its interest in TravelSky Technology Limited at a profit of HK$586 million.

In the first half of 2017, Cathay Pacific commenced a three-year corporate transformation programme, which is intended to address the fundamental competitive challenges which it is facing in the current airline industry environment. The programme has the goal of making the airlines more consumer focused and responsive and in doing so increasing revenue and containing costs. In 2017, Cathay Pacific reorganised its head office and focused on containing costs and improving efficiencies. It appointed new management and leadership teams. The associated redundancy costs (of HK$224 million) were recognised in 2017 staff expenses. Evidence of progress became apparent in the second half of the year. Airline losses in the second half of 2017 were lower than those in each of the two preceding half years.

In November 2017, Air Hong Kong agreed to enter into sale and leaseback transactions with DHL International in respect of eight Airbus A300-600F freighters and associated equipment. Five of these transactions were completed in 2017. The other three will be completed in 2018. At the end of 2018, Cathay Pacific will acquire from DHL International the 40% shareholding in Air Hong Kong that it does not already own, with the result that Air Hong Kong will become a wholly owned subsidiary of Cathay Pacific. At the same time, a new 15-year block space agreement with DHL International will commence.

Passenger Services

Passenger revenue in 2017 was HK$66,408 million, a decrease of 1% compared to 2016. 34.8 million passengers were carried, an increase of 1% compared to the previous year.

Capacity increased by 3%, reflecting the introduction of new routes and increased frequencies on other routes. The load factor decreased marginally, to 84.4%. Yield, which was under pressure for most of the year, decreased by 3%, to HK52.3 cents.

The operating environment for the passenger business continued to be difficult in 2017, with a number of factors adversely affecting its performance. Competition was intense as other airlines increased capacity, with more direct flights between Mainland China and international destinations. Competition from low cost carriers increased. Economy class demand on North American, Southwest Pacific and Korean routes was weak. Premium class demand was strong, which compensated somewhat for the reduction in economy class yield.

Cargo Services

Cathay Pacific and Cathay Dragon

Cathay Pacific and Cathay Dragon's cargo revenue in 2017 was HK$20,553 million, an increase of 21% compared to 2016. The tonnage carried in 2017 increased by 11% (to 2.1 million tonnes) compared to 2016. The market was robust throughout the year. There was strong demand for exports from Mainland China, and shipments on South Asian, Middle Eastern, African and intra-Asian routes grew.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 4% in 2017. The cargo load factor increased by 3.4 percentage points to 67.8%. Cargo yield increased by 11% to HK$1.77, reflecting the resumption (from April) of the collection of fuel surcharges in Hong Kong and strong demand.

Air Hong Kong

Air Hong Kong achieved an increase in profit for 2017 compared with 2016. Capacity (in terms of available tonne kilometres) decreased by 2% to 762 million. The load factor increased by 1.6 percentage points to 66.9%.

Operating Costs

Total fuel costs for the Cathay Pacific group (before the effect of fuel hedging) increased by HK$5,238 million (or 27%) compared with 2016. There was a 23% increase in average fuel prices and a 3% increase in consumption. Fuel is still the Cathay Pacific group's most significant cost, accounting for 31% of total operating costs in 2017 (compared to 30% in 2016). Fuel hedging losses were reduced. After taking hedging losses into account, fuel costs increased by HK$3,159 million (or 11%) compared to 2016.

There was a 1% increase in non-fuel costs per available tonne kilometre. Disregarding exceptional items, non-fuel costs per available tonne kilometre were unchanged.

Congestion at Hong Kong International Airport and air traffic control constraints in the Greater China region continued to impose costs on Cathay Pacific. The airlines are doing more to improve the reliability of their operations.

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.

Fleet Profile

At 31st December 2017, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 196, an increase of seven since 31st December 2016.

In 2017, Cathay Pacific took delivery of 12 Airbus A350-900 aircraft, bringing the total number of aircraft of this type to 22 at the end of the year.

Cathay Pacific will start to take delivery of Airbus A350-1000 aircraft (which have a longer range and more capacity than Airbus A350-900 aircraft) in 2018 and expects to have 20 aircraft of this type in service by the end of 2021.

At 31st December 2017, the Cathay Pacific group had 79 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.

Cathay Pacific's remaining four Airbus A340-300 passenger aircraft were retired in 2017, as were two Boeing 747-400BCF converted freighters. Two Boeing 747-8F freighters were wet-leased from Atlas Air Worldwide to increase cargo capacity.

Fleet profile*

Aircraft type	Number at 31st December 2017				Firm orders				Expiry of operating leases						
		Leased													
	Owned	Finance	Operating	Total	'18	'19	'20 and beyond	Total	'18	'19	'20	'21	'22	'23	'24 and beyond
Aircraft operated by Cathay Pacific:															
A330-300	20	11	6	37					3[a]	1	2				
A350-900	16	4	2	22		2	4	6[b]							2
A350-1000					8	4	8	20[b]							
747-400ERF		6		6											
747-8F	3	11		14											
777-200	5			5											
777-300	12			12	2	3		5[c]							
777-300ER	19	11	23	53					1	2		5	4	2	9
777-9X							21	21							
Total	75	43	31	149	10	9	33	52	4	3	2	5	4	2	11
Aircraft operated by Cathay Dragon:															
A320-200	5		10	15						1	3	3	3		
A321-200	2		6	8							1	2	2	1	
A321-200neo							32	32[b]							
A330-300	10		14[d]	24					2	3	2	2	4		1
Total	17		30	47			32	32	2	4	6	7	9	1	1
Aircraft operated by Air Hong Kong:															
A300-600F	2	1	7	10					7						
747-400BCF			2[d]	2					2						
Total	2	1	9	12					9						
Grand total	**94**	**44**	**70[d]**	**208**	**10**	**9**	**65**	**84**	**15**	**7**	**8**	**12**	**13**	**3**	**12**

* The table does not reflect aircraft movements after 31st December 2017.

(a) The operating lease of one Airbus A330-300 expired in January 2018 and the aircraft left the fleet in February 2018.

(b) In September 2017, Cathay Pacific agreed with Airbus to purchase 32 new Airbus A321-200neo aircraft (for delivery after 2020) and to convert an existing order for six Airbus A350-1000 aircraft into an order for six smaller Airbus A350-900 aircraft (to be delivered in 2019 and 2020) and to defer the delivery of five Airbus A350-1000 aircraft from 2020 to 2021.

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

(d) 62 of the 70 aircraft which are subject to operating leases are leased from third parties. The remaining eight of such aircraft (one Boeing 747-400BCFs and seven Airbus A330-300s) are leased within the Group.

Other Operations

Air China

The Cathay Pacific group's share of Air China's results is based on its financial statements drawn up three months in arrear. Consequently, the 2017 results include Air China's results for the 12 months ended 30th September 2017, adjusted for any significant events or transactions for the period from 1st October 2017 to 31st December 2017.

For the 12 months ended 30th September 2017, Air China's underlying results improved compared to the 12 months ended 30th September 2016.

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

Air China Cargo

Air China Cargo's 2017 financial results were better than those of 2016. The cargo market improved. Higher operating costs due to increased fuel prices were more than offset by a significant improvement in yield and unrealised exchange gains on loans denominated in US dollars.

Outlook

The priorities for Cathay Pacific in 2018 are its transformation programme and changing the way that it works so as to better contain costs, which will strengthen its passenger business further. Cathay Pacific is confident of a successful outcome from these efforts. It also looks to benefit from a slowing of the decline in passenger yields as global economic conditions improve. The outlook for its cargo business is positive and it will take best advantage of opportunities in the growing global cargo market. Increased fuel costs are increasing operating costs and adversely affecting results. Fuel hedging losses are declining.

Cathay Pacific is improving its competitive position by expanding its route network, increasing frequencies on its most popular routes and buying more fuel-efficient aircraft. The airlines are increasing productivity and reducing costs, but are at the same time improving their already high customer service standards. The Cathay Pacific group is proud of the quality, dedication and professionalism of its people. Difficult but necessary decisions have been made. The group is acting decisively to make Cathay Pacific and Cathay Dragon better airlines and stronger businesses.

The commitment to Hong Kong and its people remains unwavering, as has been the case over the past 71 years. Cathay Pacific will continue to make strategic investments to develop and strengthen Hong Kong's position as Asia's largest international aviation hub.

Rupert Hogg

Hong Kong Aircraft Engineering Company ("HAECO") group

HAECO group – Financial Highlights

	2017 HK$M		2016 HK$M	
Revenue				
HAECO Hong Kong	**4,041**		3,879	
HAECO Americas	**2,625**		2,836	
HAECO Xiamen	**2,041**		1,640	
TEXL	**5,162**		4,808	
Others	**677**		597	
Net operating (loss)/profit	**(209)**		38	
Attributable profit/(loss)				
HAECO Hong Kong	**257**		194	
HAECO Americas	**(602)**		(238)	
HAECO Xiamen	**135**		94	
TEXL	**209**		196	
Share of profits of:				
HAESL and SAESL	**244**		218	
Other subsidiary and joint venture companies	**97**		52	
Attributable profit (excluding gain on disposal of HAESL's interest in SAESL, impairment charges and write-off of net deferred tax assets)	**340**		516	
Gain on disposal of HAESL's interest in SAESL	**-**		783	
Impairment charges in respect of:				
Goodwill	**(625)**	*	(285)	*
Plant, machinery and tools	**(7)**	*	(39)	
Write-off of net deferred tax assets	**(249)**	*	-	
Attributable (loss)/profit	**(541)**		975	
Swire Pacific share of attributable (loss)/profit	**(406)**		731	

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

HAECO group – Operating Highlights

		2017	2016
Airframe services manhours sold			
HAECO Hong Kong	*Million*	**2.70**	2.67
HAECO Americas	*Million*	**2.80**	3.24
HAECO Xiamen	*Million*	**3.76**	3.21
Line services movements handled			
HAECO Hong Kong	*Average per day*	**320**	307
Engines overhauled			
TEXL		**85**	90
HAESL		**140**	114

2017 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.

2017 RESULTS SUMMARY

In 2017, most HAECO businesses did well but the businesses in America continued to incur losses. The HAECO group overall reported an attributable loss of HK$541 million in 2017 on a 100% basis. This loss included an impairment charge of HK$625 million in respect of the goodwill attributable to HAECO USA Holdings, Inc. ("HAECO Americas") and a write off of HK$249 million in respect of HAECO Americas' net deferred tax assets. This compares with a profit of HK$975 million in 2016, which included a gain of HK$805 million (before associated expenses) on disposal of the interest of Hong Kong Aero Engine Services Limited ("HAESL") in Singapore Aero Engine Services Pte. Limited ("SAESL") and an impairment charge of HK$285 million in respect of the goodwill attributable to HAECO Americas.

Disregarding the impairment charges in both years, the net deferred tax write off in 2017 and the gain on disposal in 2016, the HAECO group's 2017 attributable profit was HK$340 million, 34% lower than in 2016. A higher loss at HAECO Americas more than offset the benefits of more engine repair work at HAESL and TEXL, and better results at HAECO Hong Kong and HAECO Xiamen.

A total of 9.26 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in 2017, 0.14 million more than in 2016. More airframe services work was performed in Hong Kong and Xiamen in 2017. Less work was performed in America, principally due to the loss of significant work from a major customer.

<u>HAECO Hong Kong</u>

Disregarding the profit on the disposal of an interest in SAESL in 2016, HAECO Hong Kong recorded a 33% increase in profit in 2017. This mainly reflected more airframe and line services work.

Manhours sold for airframe services increased from 2.67 million in 2016 to 2.70 million in 2017, reflecting deferral of some customers' work from 2016. 78% of the work was for airlines based outside Hong Kong.

The average number of aircraft movements handled increased in 2017 by 4% to 320 per day. Line services manhours sold increased, reflecting this increase in volume.

Manhours sold in 2017 for component and avionics work (together with those sold by HAECO Component Overhaul (Xiamen)) were 0.215 million, an increase of 4% compared to 2016. The increase reflected additional component maintenance capabilities.

<u>HAECO Americas</u>

HAECO Americas recorded a loss of HK$1,483 million in 2017 (including an impairment charge of HK$625 million in respect of goodwill and the write off of net deferred tax assets of HK$249 million). Excluding the impairment charges in both years and the write off of net deferred tax assets in 2017, HAECO Americas' 2017 loss was HK$602 million, compared to a loss of HK$238 million in 2016.

The higher loss reflected less airframe services, reconfiguration services and Panasonic communication equipment work. The results were also adversely affected (by comparison with 2016) by the non-recognition of deferred tax assets in respect of 2017 tax losses.

Demand for HAECO Americas' airframe services decreased. 2.80 million manhours were sold in 2017 compared with 3.24 million in 2016, reflecting the loss of significant work from a major customer from August 2017 and the completion of some large aircraft and cabin modification programmes in 2016. Results were also adversely affected by the additional costs of training and recruiting staff in preparation for the opening of a fifth hangar at Greensboro in 2018.

Revenue from cabins and seats increased in 2017. More seats were sold (approximately 7,300 premium and economy seats compared with 3,400 in 2016), but there were fewer interior reconfigurations and fewer Panasonic communication equipment installation kits were delivered. Overall, cabin and seats work was loss making, with losses being made on some seat contracts.

As required by applicable accounting standards, a review of the carrying value of the business of HAECO Americas was undertaken. As a result of this review (which took into account the prospects for the airframe maintenance business of HAECO Americas), an impairment charge of HK$625 million was made in 2017 in respect of the goodwill recorded.

The write off of net deferred tax assets in 2017 resulted from a review of the ability to set past tax losses in the USA off against future profits in the USA in the light of the certainty as to timing required by applicable accounting standards.

HAECO Xiamen

HAECO Xiamen recorded a 44% increase in attributable profit compared with 2016, to HK$135 million.

Manhours sold for airframe services in 2017 were 3.76 million, representing 17% growth in volume and reflecting higher demand, which generated a 22% increase in revenue.

An average of 54 aircraft movements were handled per day in 2017, 8% more than in 2016. Revenue increased by 15%.

Revenue from private jet work recorded an increase of 160% in to 2017. A Boeing 747-400 VVIP cabin modification project, which commenced in the second half of 2017, is scheduled to be completed in March 2018.

TEXL

Profit increased by 7% at TEXL to HK$209 million.

In 2017, TEXL completed 52 engine performance restorations and 33 quick turn repairs on GE90 aircraft engines (compared with 48 engine performance restorations and 42 quick turn repairs in 2016). With more engine performance restorations, compressor module repair work and component repair work, TEXL recorded a higher profit in 2017 than in 2016.

HAESL

HAESL recorded an 12% increase in profit (on a 100% basis) in 2017 compared to 2016 (disregarding in 2016 the profit on disposal of its interest in SAESL). The increase in profit principally reflected an increase in volume. 140 engines were overhauled in 2017, compared with 114 in 2016. HAESL invested heavily during 2017 in new facilities and tooling and recruited more people, in order to accommodate new engines types and expected volume growth.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 272 aircraft in 2017, similar to the number in 2016. The profit of HAECO ITM increased in 2017. More aircraft parts were loaned and there was more repair business.

Taikoo (Xiamen) Landing Gear Services Company Limited did more work in 2017 than in 2016. Its losses were reduced accordingly. Its 2016 losses included an impairment charge in respect of plant, machinery and tools.

Outlook

The prospects for the HAECO group's different businesses in 2018 are satisfactory. More engines are expected to be repaired and overhauled. The component and avionics overhaul business is expected to improve gradually, with the development of new capabilities. Demand for line services is expected to be firm. Demand for airframe services is expected to be roughly similar to that of 2017, with little change in Hong Kong and Xiamen, and an increase in America. The number and mix of seats sold are expected to be similar to those in 2017. Forward bookings for cabin integration work are low. Significantly less Panasonic communication equipment work is expected.

Airframe services results will depend on the outcome of efforts to improve efficiency and work flow in America. We expect to realise some of the benefits of this work in 2018.

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 2017, Swire Beverages manufactured 61 beverage brands and distributed them to a franchise population of 724 million people.

FRANCHISE TERRITORIES

	Franchise population (millions) (end 2017)	**GDP per capita (US$)**	**Sales volume (million unit cases) 2017**	Sales volume (million unit cases) 2007	**Per capita consumption (8 oz servings) 2017**	Per capita consumption (8 oz servings) 2007
Mainland China	664.1	9,915	1,112	500	46	30
Hong Kong	7.4	45,050	65	55	210	188
Taiwan	23.6	25,119	53	46	54	48
USA	28.7	46,223	282	86	243	338
	723.8		1,512	687		

Note 1: A unit case comprises 24 8-ounce servings.
Note 2: Mainland China and USA per capita consumption in 2017 includes annualised consumption figures for the new territories acquired during the year.

STRATEGY:

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

- An uncompromising commitment to safety and quality.
- A commitment to work with TCCC to improve our understanding of our customers' businesses, and to use that understanding to create value for our customers and consumers.
- A focus on 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 management, through sustainable revenue growth and optimisation of pricing and product mix, and 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 by engaging with the communities in which we operate.

2017 PERFORMANCE

Beverages Division – Financial Highlights

	2017 HK$M	2016 HK$M
Revenue	**34,067**	18,421
Operating profit derived from:		
Operating activities	**1,689**	1,003
Non-recurring items	**1,636**	-
Total operating profit	**3,325**	1,003
Share of post-tax profits from joint venture and associated companies	**112**	218
Attributable profit (excluding non-recurring items)	**930**	813
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	**289**	-
Attributable profit	**2,441**	813

Beverages Division – Segment Financial Highlights

	Revenue		Attributable Profit	
	2017	2016	**2017**	2016
	HK$M	HK$M	**HK$M**	HK$M
Mainland China				
- operating activities	**16,256**	6,873	**243**	288
- non-recurring items	**-**	-	**1,222**	-
	16,256	6,873	**1,465**	288
Hong Kong	**2,255**	2,212	**220**	205
Taiwan	**1,343**	1,323	**11**	33
USA				
- operating activities	**14,213**	8,013	**494**	306
- non-recurring items	**-**	-	**289**	-
	14,213	8,013	**783**	306
Central costs	**-**	-	**(38)**	(19)
Beverages Division	**34,067**	18,421	**2,441**	813

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

Accounting for the Beverages Division

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. ("Shanghai") was completed by 1st July 2017. The division's joint venture interest in this company is accounted for using the equity method of accounting.

The sales volume for Mainland China shown in the table below represents sales in seven franchise territories from 1st January 2017 to 31st March 2017, sales in twelve franchise territories from 1st April 2017 to 30th June 2017, and sales in thirteen franchise territories from 1st July 2017 to 31st December 2017, in each case including products supplied by CCBMH.

Central costs are arrived at after crediting gains on disposal of available-for-sale investments of HK$1 million (2016: HK$11 million).

Beverages Division – Segment Performance

		Percentage Change in 2017				
		Mainland China**	Hong Kong	Taiwan	USA	Swire Beverages
Customers	Active Outlets	5.3%	-2.6%	2.6%	34.4%	6.6%
Revenue Management	Sales Volume	35.7%	0.8%	-0.4%	67.7%	36.8%
	Revenue *	1.0%	1.3%	3.1%	3.5%	4.0%
Cost Management	Gross Margin *	2.3%	-0.3%	6.2%	8.1%	6.4%
	Operating Profit	20.9%	1.4%	9.7%	86.9%	34.8%
Sustainability	Water Use Ratio	-1.2%	-4.7%	8.1%	-4.1%	-6.0%
	Energy Use Ratio	-6.3%	-	1.3%	17.0%	-8.8%
Safety	LTIR	-23.0%	-38.0%	59.0%	15.0%	-12.0%

* Per unit case.
** Segment performance for Mainland China represents performance in thirteen franchise territories.

2017 BEVERAGES INDUSTRY REVIEW

In Mainland China, the total volume of non-alcoholic ready-to-drink beverages sold grew by 5% in 2017. The volume of sparkling beverages sold grew by 3%. The volume of water and juice sold grew by 8% and 4% respectively.

In Hong Kong, the total volume of non-alcoholic ready-to-drink beverages sold in the modern trade grew by 2% in 2017. Sparkling beverages volume declined by 2%. Still beverages volume grew by 3%. Tea grew by 6%. Water volume grew by 4%.

In Taiwan, the total volume of non-alcoholic ready-to-drink beverages sold grew by 2% in 2017. The volume of tea and juice sold grew by 2% and 1% respectively. Sparkling beverages volume declined by 3%.

In the USA, the total volume of sparkling beverages sold declined by 3% in 2017. Still beverages volume grew by 4%. The volume of energy drinks and water sold grew by 1% and 6% respectively.

2017 RESULTS SUMMARY

Swire Beverages made an attributable profit of HK$2,441 million in 2017. This included non-recurring gains of HK$1,222 million arising out of the realignment of the Coca-Cola bottling system in Mainland China. These gains arose from the disposal of the Shaanxi franchise business and the remeasurement of the fair value of interests in three joint venture franchise businesses (in Guangdong, Zhejiang and Jiangsu) when they became subsidiary companies. There were non-recurring gains in the USA aggregating HK$289 million. These gains arose out of the terms on which new franchise territories and new production and distribution assets were acquired.

Disregarding non-recurring gains, Swire Beverages made an attributable profit of HK$930 million in 2017, a 14% increase from 2016. Overall sales volume increased by 37% to 1,512 million unit cases. Sales revenue (including the joint venture companies) increased by 42% to HK$35,582 million. Volume and revenue grew in Mainland China, reflecting the inclusion of sales in the provinces of Hubei, Guangxi, Yunnan, Jiangxi and Hainan and the cities of Zhanjiang and Maoming in Guangdong with effect from April 2017 and Shanghai with effect from July 2017. Volume and revenue grew in the USA, reflecting the inclusion of sales in the states of Arizona and New Mexico with effect from August 2016, Washington and Idaho from March 2017 and Oregon from May 2017. Volume and revenue increased in Hong Kong. In Taiwan, volume was in line with 2016 and revenue increased.

Mainland China

Attributable profit from Mainland China was HK$1,465 million in 2017.

In November and December 2016, Swire Beverages Holdings Limited ("SBHL") entered into conditional agreements with TCCC and a subsidiary of China Foods Limited ("China Foods") for the realignment of the Coca-Cola bottling system in Mainland China. SBHL also agreed (conditionally on the realignment proceeding) to acquire from a subsidiary of TCCC the 12.5% interest in Swire Beverages Limited ("SBL") which was not already owned by SBHL.

The realignment was completed on 1st April 2017 except for the transfer to SBHL of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. and the acquisition of the 12.5% interest in SBL. SBHL took on franchise territories in the provinces of Hubei, Guangxi, Yunnan, Jiangxi and Hainan and the cities of Zhanjiang and Maoming in Guangdong, and increased its interests in franchise territories in Jiangsu, Zhejiang, and Guangdong. The Shaanxi territory was transferred to a subsidiary of China Foods.

The transfer of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. and the acquisition of the 12.5% interest in SBL were completed on 1st July 2017.

The net amount paid by SBHL in respect of the realignment (including the acquisition of the 12.5% interest in SBL) was RMB5,535 million.

A gain of HK$247 million was recorded on the disposal of the Shaanxi franchise business.

A gain of HK$975 million was recorded on the remeasurement of the fair value of interests in three joint venture franchise businesses (in Guangdong, Zhejiang and Jiangsu) when they became subsidiary companies.

The attributable profit from operating activities from Mainland China in 2017 was HK$243 million, a 16% decrease from 2016.

Total sales volume and revenue (including from Shanghai and the three joint venture franchise businesses which became subsidiaries under the realignment) increased by 36% and 37% respectively in local currency, compared with 2016, principally as a result of the acquisition of new franchise territories in the second and third quarters of 2017.

Sparkling and juice sales volume grew by 36% and 30% respectively. Water sales volume grew by 37%.

Revenue grew by 37%, faster than volume growth, reflecting a favourable product and package mix. The beneficial effect of these factors was more than offset by higher operating costs and finance charges relating to the capital cost of the realignment.

Hong Kong

Attributable profit from Hong Kong in 2017 was HK$220 million, a 7% increase from 2016. The increase reflected the additional share of profits in Hong Kong resulting from the acquisition of the 12.5% interest in SBL. The operating profit increased by 1%.

Sales volume increased by 1%. Sparkling sales volume decreased by 0.3%. Still sales volume increased by 2%. Sales of tea increased by 10%. Sales of water were unchanged.

Revenue (excluding sales to other bottlers) increased by 2%, faster than volume, as a result of reduced discounting. However, the increase in revenue was partly offset by increases in raw material and operating costs.

Taiwan

Attributable profit from Taiwan in 2017 was HK$11 million, a 67% decrease from 2016.

Sales volume declined by 0.4%. Sparkling sales volume decreased by 1%. Still sales volume was unchanged. Tea and juice sales volumes decreased by 2% and 5% respectively. Revenue in local currency increased by 3%.

Gross margins increased owing to a favourable sales mix. However, the beneficial effect of this was more than offset by losses resulting from restructuring of production and logistics assets which will be completed later in 2018 and which will generate cost advantages after completion.

USA

Attributable profit from the USA was HK$783 million in 2017. Disregarding the non-recurring gains referred to above, the attributable profit from operating activities was HK$494 million, a 61% increase from 2016.

Sales volume and revenue (excluding sales to other bottlers) increased by 68% and 74% respectively in local currency compared with 2016, principally as a result of the inclusion of sales in the states of Arizona and New Mexico from August 2016, Washington and Idaho from March 2017 and Oregon from May 2017.

Sparkling sales volume increased by 63%. Still sales volume increased by 78%, principally due to increases in sales of water drinks of 80% and energy drinks of 80%.

Gross margins increased, principally as a result of higher sales volume, but the beneficial effect of this was partially offset by higher operating costs in the newly acquired territories.

In August and October 2017, Swire Beverages completed the acquisition of production assets in Arizona and Colorado respectively.

OUTLOOK

Sales volume and revenue in the Swire Beverages franchise territories in Mainland China are expected to grow modestly in 2018. Revenue is expected to grow faster than volume, reflecting a better category mix, the introduction of new products and packaging, strong marketing support and improved market execution. Additional operating profits will be earned from the new territories. However, increased raw materials, staff and finance costs will put pressure on profits.

Modest growth in sales volume and revenue is expected in Hong Kong in 2018. Raw material costs are expected to increase. Supply constraints are adversely affecting operations.

The retail market in Taiwan is expected to be weak in 2018. The adverse effect of this is expected to be mitigated to an extent by improvements in the mix of packaging and in the management of sales channels. Closure of the Kaohsiung plant is expected to be completed by the end of the first half of 2018. The closure is expected to result in long-term efficiency improvements through operating cost savings.

In the USA, the beverages market is expected to grow moderately in 2018. Sales of energy drinks and water are expected to continue to grow. Additional profits will be earned from the newly acquired businesses in Washington, Idaho, and Oregon.

Patrick Healy

REVIEW OF OPERATIONS

MARINE SERVICES DIVISION

OVERVIEW OF THE BUSINESS

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

SPO can support offshore drilling, production, exploration, platform construction, subsea IMR and light construction work and high speed crew changes. SPO can carry out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing, oil rig decommissioning and subsea remotely operated vehicle support.

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

STRATEGY:

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

- Ensuring safety always comes first in every aspect of our business.
- Delivering operational excellence in marine services.
- Developing an Industry leading team recognised for quality and professionalism.
- Efficiently operating a modern and reliable fleet.
- Managing its business sustainably with high standards of corporate governance.
- Developing complementary marine services that add value.

SPO:

SPO's Fleet:
At 31st December 2017, 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, 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	2016	Additions 2017	Disposals 2017	Year-end 2017	Vessels expected to be received in: 2018	Vessels expected to be received in: 2019
Anchor Handling Tug Supply Vessels	34	-	4	30	-	-
Large Anchor Handling Tug Supply Vessels	19	-	-	19	-	-
Platform Supply Vessels	9	2	1	10	4	-
Large Platform Supply Vessels	8	-	-	8	-	-
Construction and Specialist Vessels	11	-	1	10	1	1
	81	**2**	**6**	**77**	**5**	**1**

Note: SPO's fleet at 31st December 2016 included one CSV chartered from an external party. The CSV was redelivered to its owner in 2017 and is included as a disposal. The CSVs expected to be received in 2018 and 2019 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, Azerbaijan, Brazil, Brunei, Cameroon, Canada, Denmark, Equatorial Guinea, Ghana, India, Indonesia, Kenya, Malaysia, New Zealand, Norway, Qatar, the Philippines, Scotland, Trinidad & Tobago and the United Arab Emirates. SPO also has a representative office in the USA.

HUD:

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

2017 PERFORMANCE
Marine Services Division – Financial Highlights

	2017 HK$M	2016 HK$M
Swire Pacific Offshore group		
Revenue	**3,067**	4,238
Operating (loss)/profit derived from:		
Operating activities	**(779)**	(165)
Impairment charges	**(1,015)**	(2,313)
Gain/(Loss) on disposal of a subsidiary	**3**	(118)
Total operating loss	**(1,791)**	(2,596)
Attributable loss	**(2,255)**	(3,033)
HUD group		
Share of post-tax profits from joint venture companies	**23**	20
Attributable loss	**(2,232)**	(3,013)

Marine Services Division – Fleet Size

	2017	2016
Fleet size (number of vessels)		
Swire Pacific Offshore group	**77**	81
HUD group	**19**	19
Total	**96**	100

Swire Pacific Offshore group

2017 OFFSHORE EXPLORATION AND PRODUCTION INDUSTRY REVIEW

The level of exploration and production spending by oil majors remained weak in 2017 and continued to have a material adverse effect on the offshore exploration market. This was despite a recovery in oil prices during the year. Rig fixing activities increased in the second half of 2017, resulting in an improvement in vessel utilisation rates. However, the oversupply of offshore support vessels continued to put pressure on charter hire rates.

2017 RESULTS SUMMARY

SPO reported an attributable loss of HK$2,255 million in 2017, compared to a loss of HK$3,033 million in 2016.

In the second half of 2017, as required by applicable accounting standards, a review was undertaken of the carrying value of SPO's fleet. A significant influence on the value of the fleet is the outlook for the offshore industry in which it operates. The review of the fleet's carrying value reflected that outlook. As a result of the review, impairment charges of HK$1,015 million were included in the results for the year (2016: HK$2,313 million).

SPO disposed of five vessels in 2017 at an aggregate loss of HK$19 million (2016: gain of HK$147 million).

Excluding impairment charges and profits and losses on disposal of vessels in both years and the loss on disposal of Altus Oil & Gas Services of HK$118 million in 2016, SPO reported an attributable loss of HK$1,224 million in 2017 (compared to a loss of HK$749 million in 2016). These results reflect the difficult market conditions in the offshore energy industry.

SPO generated net cash from operating activities of HK$389 million in 2017, compared to HK$1,303 million in 2016.

Charter Hire

Charter hire revenue decreased by 25% to HK$2,684 million in 2017, principally reflecting reduced charter hire rates.

SPO had a fleet utilisation rate of 62.5% in 2017, a small decline (of 0.9 percentage points) from 2016. Average charter hire rates declined by 19% to USD18,800 per day.

Core Fleet (AHTSs and PSVs)

The utilisation rate of SPO's AHTSs and PSVs increased by 1.1 percentage points to 64.3% in 2017. Charter hire rates for the core fleet decreased by 25%, to USD 12,400 per day.

Four AHTSs were in cold stack at 31st December 2017.

Specialist Fleet

The utilisation rate of SPO's CSVs decreased by 13.7 percentage points, to 51.2% in 2017. Charter hire rates for the CSVs decreased by 7%, to USD71,000 per day.

Following periods of being offhire, the wind farm installation vessels were both working in the North Sea, installing wind farm foundations and turbines in the summer months of 2017. One accommodation barge and two seismic survey vessels were in cold stack at 31st December 2017.

Non-charter Hire

Non-charter hire income was HK$383 million in 2017, a decline of 42% compared to 2016. This principally reflected the absence of logistics revenue following the disposal of Altus Oil & Gas Services in November 2016. The decline was offset in part by higher income from project engineering and survey work.

Operating Costs

Total operating costs in 2017 decreased by HK$761 million (or 17%) to HK$3,833 million. The reduction principally reflected lower activity, the disposal and stacking of vessels and reductions in administrative and discretionary expenditure. SPO had seven vessels in cold stack at 31st December 2017. The vessels will be returned to service (when opportunities arise and deferred maintenance is completed) or sold.

FLEET

The fleet size at 31st December 2017 was 77 compared to 81 at 31st December 2016.

SPO disposed of four older AHTSs and one PSV in 2017. One subsea IMR vessel chartered from an external party was redelivered to its owner during the year. SPO expects to dispose of more older vessels.

Two PSVs were delivered to SPO during the year. A bareboat charter was signed for a survey and light construction vessel for a period of up to three years. SPO is expecting delivery of another four PSVs in 2018.

Total capital expenditure on new vessels and other fixed assets in 2017 was HK$818 million, compared to HK$946 million in 2016.

At 31st December 2017, SPO had total capital expenditure commitments of HK$1,647 million (31st December 2016: HK$2,278 million).

OUTLOOK

Industry conditions remain difficult, but there are signs that the offshore support market may be bottoming out. Exploration and production spending is expected to increase modestly in 2018. Utilisation of mobile offshore drilling units and of offshore supply vessels is gradually recovering. However, charter hire rates remain depressed.

SPO is vigilant in controlling costs. It is evaluating its fleet profile with a view to being well placed to take advantage of any market recovery in the coming years.

SPO - Profile of Capital Commitments (HK$M)

	Expenditure	Forecast year of expenditure			Commitments
	2017	2018	2019	2020	**at 31st December 2017**
Anchor Handling Tug Supply Vessels and Platform Supply Vessels	**708**	892	277	163	**1,332**
Construction and Specialist Vessels	**60**	63	78	16	**157**
Other fixed assets	**50**	25	48	85	**158**
Total	**818**	980	403	264	**1,647**

SPO – Charter Hire Revenue by Vessel Class

Vessel Class	**2017 HK$M**	**2017 %**	2016 HK$M	2016 %
Anchor Handling Tug Supply Vessels	**619**	**23%**	801	22%
Large Anchor Handling Tug Supply Vessels	**520**	**19%**	783	22%
Platform Supply Vessels	**250**	**9%**	550	15%
Large Platform Supply Vessels	**147**	**6%**	164	5%
Construction and Specialist Vessels	**1,148**	**43%**	1,276	36%
Total	**2,684**	**100%**	3,574	100%

Hongkong United Dockyards group

2017 INDUSTRY REVIEW

The shipping industry benefited from a number of alliances and mergers in 2017. It is more stable as a result. But the result may be fewer and larger ships visiting Hong Kong, which could adversely affect the results of the salvage and towage division.

There were fewer engineering contracts awarded in connection with infrastructure projects in Hong Kong in 2017. This adversely affected HUD's non-marine engineering business.

2017 RESULTS SUMMARY

The attributable profit of the HUD group for 2017 was HK$23 million compared to HK$20 million in 2016.

The salvage and towage division's profit (before tax and interest and on a 100% basis) was HK$127 million in 2017, compared with HK$118 million in 2016. Tug moves increased by 4%.

The engineering division recorded a loss (before tax and interest and on a 100% basis) for 2017 of HK$69 million, compared to a HK$62 million loss in 2016. Fewer marine engineering contracts were obtained in a highly competitive market. The profitability of non-marine contracts was adversely affected by high labour costs.

The salvage and towage division has 19 vessels in its fleet, including six container vessels.

OUTLOOK

The results of the salvage and towage division are expected to be affected by increasing competition.

Demand for engineering work is expected to be weak in 2018.

Ron Mathison – SPO
Derrick Chan – HUD

REVIEW OF OPERATIONS

TRADING & INDUSTRIAL DIVISION

OVERVIEW OF THE BUSINESS

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

Swire Retail group:

(i) Swire Resources group:

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2017, it operated 180 retail outlets in Hong Kong and Macau and seven retail outlets in Mainland China.

(ii) Swire Brands group:

Swire Brands holds investments in brand-owning companies. It has an interest in an associated company with Columbia, which distributes and retails Columbia products in Mainland China.

Taikoo Motors group:

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

Swire Foods group:

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

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

(ii) Swire Foods (including Taikoo Sugar):

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

Swire Pacific Cold Storage group:

Swire Pacific Cold Storage wholly owns cold storage facilities in Shanghai, Hebei, Nanjing, Ningbo and Chengdu and owns 60% and 65% equity interests in cold storage facilities in Guangzhou and Xiamen respectively.

Akzo Nobel Swire Paints:

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

Swire Environmental Services group:

(i) Swire Waste Management:

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

(ii) Swire sustainability fund:

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

STRATEGY:

The strategic objective of the Trading & Industrial Division is to expand the businesses which it operates and to seek new business opportunities in related fields where advantage can be taken of existing skills, assets or relationships. The strategies employed in order to achieve this objective are these:

- Strengthening the capability of Swire Resources in branded footwear, apparel and related accessories by expanding the range and quality of those branded goods.
- 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.
- Improving the operating efficiency and customer service of the cold storage business in Mainland China and thereby acquiring new customers.
- Expanding and strengthening the distribution network and sales channels of Akzo Nobel Swire Paints in Mainland China.
- Increasing the number of waste management contracts awarded to Swire Waste Management.

2017 PERFORMANCE

Trading & Industrial Division - Financial Highlights

	2017 HK$M	2016 HK$M
Revenue		
Swire Retail group	**3,074**	3,216
Taikoo Motors group	**5,306**	4,514
Swire Foods group	**1,761**	1,540
Swire Pacific Cold Storage group	**105**	80
	10,246	9,350
Operating profits/(losses)		
Swire Retail group	**(69)**	27
Taikoo Motors group	**91**	18
Swire Foods group	**65**	61
Swire Pacific Cold Storage group	**(136)**	(102)
Swire Environmental Services group	**(9)**	(7)
Others, including central costs	**(22)**	(44)
	(80)	(47)
Attributable profits/(losses)		
Swire Retail group	**(14)**	83
Taikoo Motors group	**77**	15
Swire Foods group	**42**	59
Swire Pacific Cold Storage group	**(171)**	(126)
Swire Environmental Services group	**(50)**	(79)
Akzo Nobel Swire Paints	**215**	198
Others, including central costs	**(30)**	(36)
Attributable profit	**69**	114
Attributable profit (disregarding the loss on disposal of the interest in Rebecca Minkoff)	**163**	114

2017 INDUSTRY REVIEW

Retailing in Hong Kong and Mainland China – Retail sales of apparel and footwear in Hong Kong in 2017 were similar to those in 2016. Total retail sales in Mainland China increased by 10% in 2017.

Car sales in Taiwan – Car registrations in Taiwan increased by 1% to 444,624 units in 2017.

Sugar sales in Mainland China – The total amount of sugar sold in Mainland China increased by 2% to 33,730 million pounds in 2017.

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

Paint sales in Mainland China – Total sales of decorative paints in Mainland China increased by 4% to 3,159 million litres in 2017.

2017 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2017 was HK$69 million. This included a loss of HK$94 million on disposal of Swire Brands' interest in Rebecca Minkoff. Disregarding this loss, the Division's attributable profit in 2017 was HK$163 million, an increase of 43% from 2016. The increase principally reflected better results from Taikoo Motors and Akzo Nobel Swire Paints. Losses from Swire Environmental Services decreased. The attributable profits of Swire Retail and Swire Foods decreased (the latter decrease reflecting the absence of a non-recurring release of provisions in 2016) and the attributable losses of the cold storage business increased.

Swire Retail group

Disregarding the loss on disposal of Rebecca Minkoff of HK$94 million in 2017, the attributable profit of the Swire Retail group decreased from HK$83 million in 2016 to HK$80 million in 2017. The decrease mainly reflected lower profits in Hong Kong. Losses in Mainland China reduced.

Revenue in Hong Kong and Macau was 3% lower than that in 2016. Gross margins declined due to discounting in response to competition. Operating costs, in particular advertising costs, decreased.

The retail group operated 180 retail outlets in Hong Kong and Macau at the end of 2017, seven less than at the end of 2016. It operated seven retail outlets in Mainland China at the end of 2017, 11 less than at the end of 2016. The decrease in Mainland China principally reflected the closure of loss-making outlets.

The attributable profit of the Columbia associated company was HK$56 million in 2017, in line with 2016.

Taikoo Motors group

The attributable profit of the Taikoo Motors group increased significantly (from HK$15 million in 2016) to HK$77 million in 2017. The 2017 results included HK$14 million costs resulting from the closure of loss making businesses.

18,468 cars, commercial vehicles and motorcycles were sold in 2017, 9% more than in 2016. 96% of these units were sold in Taiwan. Gross profit improved and operating costs were lower, in particular occupancy costs and promotional expenditure.

Swire Foods group

Swire Foods reported an attributable profit of HK$42 million in 2017, compared with an attributable profit of HK$59 million in 2016.

The attributable profit of Qinyuan Bakery in 2017 was HK$33 million, compared with an attributable profit of HK$55 million in 2016. The 2016 figure included a HK$27 million release of provisions for tax and for incentive payments to the previous owners of the business. Disregarding the release of provisions in 2016, the attributable profit of Qinyuan Bakery in 2017 was 18% higher than in 2016.

Revenue and gross profit of Qinyuan Bakery increased by 17% and 20% respectively in 2017 compared with 2016. This reflected growth in the number of stores and in sales per store, and the appreciation of the Renminbi against the Hong Kong dollar. Operating costs increased, reflecting higher compliance, staff and rental costs. Qinyuan Bakery operated 650 stores at the end of 2017, a net increase of 100 stores since 31st December 2016.

Volumes of sugar sold rose by 13% in Hong Kong and fell by 2% in Mainland China. A 34% owned sugar refinery in Guangdong started commercial production in August 2017.

Swire Pacific Cold Storage group

Swire Pacific Cold Storage recorded an attributable loss of HK$171 million in 2017 compared with a loss of HK$126 million in 2016. The loss principally reflected operating losses, the cost of developing new cold stores and the appreciation of the Renminbi against the Hong Kong dollar. The Guangdong cold store recorded a small profit.

The capital commitments of the Swire Pacific Cold Storage group at 31st December 2017 were HK$73 million.

Swire Environmental Services group

Swire Environmental Services reported an attributable loss of HK$50 million in 2017, compared with an attributable loss of HK$79 million in 2016. The attributable loss of Green Biologics reduced.

Akzo Nobel Swire Paints

The attributable profit of Akzo Nobel Swire Paints for 2017 was HK$215 million, an increase of 9% over 2016.

Sales volume in Mainland China increased by 34% from 2016. Gross margins decreased as a result of higher average material costs and an unfavourable product mix. Operating costs, in particular advertising costs, decreased. Akzo Nobel Swire Paints distributed paint in approximately 550 cities in Mainland China at the end of 2017.

OUTLOOK

The retail market for apparel and footwear in Hong Kong is expected to remain highly competitive. Discounting and higher staff costs are expected to put pressure on profit margins at Swire Resources.

Taikoo Motors will open more showrooms in Taiwan.

Qinyuan Bakery will open more stores in Chongqing, Chengdu and Guiyang. The format of its small stores is being upgraded. Its products are improving. Its supply chain is becoming more agile and efficient.

Taikoo Sugar will expand its distribution network in Mainland China, in particular in Guangdong, and will increase capacity.

The business at Swire Pacific Cold Storage is expected to remain challenging. The market is highly competitive. Pricing is under pressure.

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

The overall profits of the Trading & Industrial Division are expected to increase in 2018 but to continue to be affected by the cost of new business development.

Derrick Chan / Ivan Chu / Richard Sell

FINANCIAL REVIEW

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

Audited Financial Information		**2017**	2016
	Note	**HK$M**	HK$M
Underlying profit			
Profit attributable to the Company's shareholders		**26,070**	9,644
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	**(26,714)**	(9,637)
Deferred tax on investment properties	(b)	**573**	1,459
Realised profit on sale of investment properties	(c)	**50**	3
Depreciation of investment properties occupied by the Group	(d)	**28**	28
Non-controlling interests' share of adjustments		**4,735**	1,566
Underlying profit attributable to the Company's shareholders		**4,742**	3,063

Notes:

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

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

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

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

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

	2017	2016
Adjusted underlying profit	**HK$M**	HK$M
Underlying profit attributable to the Company's shareholders	**4,742**	3,063
Other significant non-recurring items:		
Profit on disposal of HAESL's interest in SAESL, net of associated expenses	**-**	(587)
Profit on sale of investment properties	**(12)**	(65)
(Profit)/loss on sale of property, plant and equipment and other investments	**(200)**	18
Gain by Swire Beverages from territory and business changes in Mainland China and USA	**(1,511)**	-
Impairment of property, plant and equipment and intangible assets and write off of deferred tax assets	**1,743**	2,568
Adjusted underlying profit	**4,762**	4,997

Consolidated Statement of Profit or Loss
For the year ended 31st December 2017

	Note	**2017 HK$M**	2016 HK$M
Revenue	2	**80,289**	62,389
Cost of sales		**(51,991)**	(40,392)
Gross profit		**28,298**	21,997
Distribution costs		**(11,684)**	(7,082)
Administrative expenses		**(6,027)**	(5,402)
Other operating expenses		**(299)**	(293)
Other net gains/(losses)		**245**	(2,281)
Change in fair value of investment properties		**25,331**	8,445
Operating profit	3	**35,864**	15,384
Finance charges		**(2,399)**	(2,458)
Finance income		**160**	161
Net finance charges	4	**(2,239)**	(2,297)
Share of profits less losses of joint venture companies		**2,209**	2,731
Share of losses less profits of associated companies		**(328)**	(70)
Profit before taxation		**35,506**	15,748
Taxation	5	**(3,124)**	(2,816)
Profit for the year		**32,382**	12,932
Profit for the year attributable to:			
The Company's shareholders		**26,070**	9,644
Non-controlling interests		**6,312**	3,288
		32,382	12,932
Underlying profit attributable to the Company's shareholders		**4,742**	3,063
		HK$	HK$
Earnings per share from profit attributable to the Company's shareholders (basic and diluted)	7		
'A' share		**17.34**	6.41
'B' share		**3.47**	1.28

Consolidated Statement of Other Comprehensive Income
For the year ended 31st December 2017

	2017	2016
	HK$M	HK$M
Profit for the year	**32,382**	12,932
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	**125**	120
deferred tax	**(3)**	(3)
Defined benefit plans		
remeasurement (losses)/gains recognised during the year	**(17)**	68
deferred tax	**(29)**	14
Share of other comprehensive income of joint venture and associated companies	**353**	271
	429	470
Items that can be reclassified subsequently to profit or loss		
Cash flow hedges		
(losses)/gains recognised during the year	**(349)**	568
transferred to net finance charges	**(74)**	(92)
transferred to operating profit	**(88)**	(33)
deferred tax	**88**	(66)
Net fair value changes on available-for-sale assets		
gains/(losses) recognised during the year	**69**	(51)
transferred to profit or loss on disposal	**(1)**	(10)
Share of other comprehensive income of joint venture and associated companies	**3,666**	3,128
Net translation differences on foreign operations		
gains/(losses) recognised during the year	**3,051**	(1,913)
reclassified to profit or loss on disposal	**6**	-
	6,368	1,531
Other comprehensive income for the year, net of tax	**6,797**	2,001
Total comprehensive income for the year	**39,179**	14,933
Total comprehensive income attributable to:		
The Company's shareholders	**32,218**	12,068
Non-controlling interests	**6,961**	2,865
	39,179	14,933

Consolidated Statement of Financial Position
At 31st December 2017

	Note	2017 HK$M	2016 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**45,619**	40,922
Investment properties		**265,944**	233,718
Leasehold land and land use rights		**1,663**	1,087
Intangible assets		**13,486**	9,195
Properties held for development		**1,342**	1,279
Joint venture companies		**29,449**	25,908
Associated companies		**30,404**	27,546
Available-for-sale assets		**375**	457
Other receivables	8	**50**	49
Derivative financial instruments		**174**	528
Deferred tax assets		**603**	697
Retirement benefit assets		**93**	80
Other non-current assets		**-**	5,479
		389,202	346,945
Current assets			
Properties under development and for sale		**2,300**	5,669
Stocks and work in progress		**6,229**	4,790
Trade and other receivables	8	**10,979**	9,597
Derivative financial instruments		**55**	20
Bank balances and short-term deposits		**6,072**	6,477
Other current assets		**6,262**	-
		31,897	26,553
Current liabilities			
Trade and other payables	9	**22,439**	17,448
Taxation payable		**624**	388
Derivative financial instruments		**11**	32
Short-term loans		**671**	595
Perpetual capital securities		**-**	2,327
Long-term loans and bonds due within one year		**8,741**	5,357
		32,486	26,147
Net current (liabilities)/assets		**(589)**	406
Total assets less current liabilities		**388,613**	347,351
Non-current liabilities			
Long-term loans and bonds		**69,174**	62,291
Derivative financial instruments		**89**	34
Other payables	9	**2,343**	3,427
Deferred tax liabilities		**9,881**	8,291
Retirement benefit liabilities		**1,032**	1,140
		82,519	75,183
NET ASSETS		**306,094**	272,168
EQUITY			
Share capital	10	**1,294**	1,294
Reserves	11	**251,869**	223,585
Equity attributable to the Company's shareholders		**253,163**	224,879
Non-controlling interests		**52,931**	47,289
TOTAL EQUITY		**306,094**	272,168

Consolidated Statement of Cash Flows
For the year ended 31st December 2017

	2017 HK$M	2016 HK$M
Operating activities		
Cash generated from operations	**19,605**	14,864
Interest paid	**(2,553)**	(2,514)
Interest received	**163**	160
Tax paid	**(2,172)**	(1,993)
	15,043	10,517
Dividends received from joint venture and associated companies and available-for-sale assets	**557**	2,673
Net cash generated from operating activities	**15,600**	13,190
Investing activities		
Purchase of property, plant and equipment	**(3,777)**	(3,551)
Additions of investment properties	**(5,179)**	(5,883)
Additions of other current assets/other non-current assets	**(623)**	(254)
Purchase of intangible assets	**(103)**	(65)
Proceeds from disposals of property, plant and equipment	**263**	1,364
Proceeds from disposals of investment properties	**40**	735
Proceeds from disposals of subsidiary companies, net of cash disposed of	**614**	(16)
Proceeds from disposals of available-for-sale assets	**71**	35
Purchase of shares in new subsidiary companies	**(4,163)**	-
Purchase of shares in joint venture companies	**(1,046)**	(543)
Purchase of shares in associated companies	**-**	(23)
Purchase of new businesses	**(2,347)**	(1,455)
Purchase of available-for-sale assets	**(11)**	(41)
Loans to joint venture companies	**(1,535)**	(648)
Loans to associated companies	**(87)**	(77)
Repayment of loans by joint venture companies	**128**	174
Repayment of loan by associated companies	**115**	4
(Increase)/decrease in deposits maturing after more than three months	**(85)**	19
Initial leasing costs incurred	**(24)**	(134)
Net cash used in investing activities	**(17,749)**	(10,359)
Net cash (outflow)/inflow before financing activities	**(2,149)**	2,831
Financing activities		
Loans drawn and refinancing	**20,312**	15,321
Repayment of loans and bonds	**(13,049)**	(13,195)
	7,263	2,126
Capital contributions from non-controlling interests	**-**	90
Repurchase of the Company's shares	**(153)**	-
Purchase of shares in existing subsidiary companies	**(1,384)**	(640)
Dividends paid to the Company's shareholders	**(3,158)**	(5,686)
Dividends paid to non-controlling interests	**(1,177)**	(1,030)
Net cash generated from/(used in) financing activities	**1,391**	(5,140)
Decrease in cash and cash equivalents	**(758)**	(2,309)
Cash and cash equivalents at 1st January	**6,450**	8,936
Currency adjustment	**259**	(177)
Cash and cash equivalents at 31st December	**5,951**	6,450
Represented by:		
Bank balances and short-term deposits maturing within three months	**5,951**	6,450

1. Segment Information

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

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)	-
Other activities	-	-	(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 losses 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 – Analysis of Consolidated Statement of Profit or Loss (continued)

Year ended 31st December 2016

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

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

* Impairment losses made by the HAECO group and the Swire Pacific Offshore group included under operating profit/loss were HK$324 million and HK$2,313 million respectively.

1. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group

At 31st December 2017	**Segment assets**	**Joint venture companies**	**Associated companies**	**Bank deposits**	**Total assets**	**Additions to non-current assets (note)**
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$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**

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

Note:

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

1. Segment Information (continued)

(a) Information about reportable segments (continued)

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

At 31st December 2017	**Segment liabilities**	**Current and deferred tax liabilities**	**Inter-segment borrowings/ (advances)**	**External borrowings**	**Total liabilities**	**Non-controlling interests**
	HK$M	**HK$M**	**HK$M**	**HK$M**	**HK$M**	**HK$M**
Property						
Property investment	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**

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

1. Segment Information (continued)

(a) Information about reportable segments (continued)

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

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

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

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

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

	Revenue		**Non-current assets (Note)**	
	2017 HK$M	2016 HK$M	**2017 HK$M**	2016 HK$M
Hong Kong	**24,817**	20,415	**242,081**	220,580
Asia (excluding Hong Kong)	**34,712**	23,268	**51,286**	37,507
USA	**17,659**	14,610	**17,887**	15,607
Others	**46**	150	**-**	-
Ship owning and operating activities	**3,055**	3,946	**16,800**	17,986
	80,289	62,389	**328,054**	291,680

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:

	2017 HK$M	2016 HK$M
Gross rental income from investment properties	**11,138**	10,675
Property trading	**5,833**	4,760
Hotels	**1,344**	1,129
Aircraft and engine maintenance services	**12,892**	12,242
Sales of goods	**45,008**	28,385
Charter hire	**2,684**	3,574
Rendering of other services	**1,390**	1,624
Total	**80,289**	62,389

3. Operating Profit

	2017 HK$M	2016 HK$M
Operating profit has been arrived at after charging:		
Depreciation of property, plant and equipment	**3,361**	2,944
Amortisation of leasehold land and land use rights	**46**	37
Amortisation of intangible assets	**190**	171
Amortisation of initial leasing costs	**51**	60
Loss on sale of property, plant and equipment	**70**	-
Loss on disposal of a subsidiary company	**-**	118
Loss on sale of available-for-sale assets	**93**	-
Impairment losses recognised on		
- property, plant and equipment	**1,032**	2,362
- intangible assets	**625**	286
And after crediting:		
Remeasurement gains on interests in joint venture companies which became subsidiary companies	**975**	-
Profit on disposal of subsidiary companies	**387**	-
Gain from the acquisition of new franchise territories and assets in the USA	**289**	-
Profit on sale of investment properties	**9**	76
Profit on sale of property, plant and equipment	**-**	114
Profit on sale of available-for-sale assets	**-**	9

4. Net Finance Charges

	2017 HK$M	2016 HK$M
Interest charged:		
Bank loans and overdrafts	**520**	503
Other loans, bonds and perpetual capital securities	**2,041**	2,109
Fair value gains on derivative instruments:		
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	**(74)**	(92)
Interest rate swaps not qualifying as hedges	**(1)**	-
Amortised loan fees - loans at amortised cost	**114**	117
	2,600	2,637
Fair value loss on put options over non-controlling interests in subsidiary companies	**34**	116
Fair value loss on put options over other partners' interests in a joint venture company	**30**	-
Other financing costs	**124**	137
Capitalised on:		
Investment properties	**(212)**	(248)
Properties under development and for sale	**-**	(140)
Hotel, other properties and equipment	**(167)**	(31)
Vessels	**(10)**	(13)
	2,399	2,458
Less interest income:		
Short-term deposits and bank balances	**70**	66
Other loans	**90**	95
	160	161
Net finance charges	**2,239**	2,297

5. Taxation

	2017	2016
	HK$M	HK$M
Current taxation:		
Hong Kong profits tax	**1,178**	911
Overseas taxation	**1,152**	763
Under-provisions in prior years	**32**	45
	2,362	1,719
Deferred taxation:		
Changes in fair value of investment properties	**460**	902
Origination and reversal of temporary differences	**620**	195
Effect of change in tax rate in the USA	**(318)**	-
	762	1,097
	3,124	2,816

Hong Kong profits tax is calculated at 16.5% (2016: 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

	2017	2016
	HK$M	HK$M
First interim dividend paid on 12th October 2017 of HK$1.00 per 'A' share and HK$0.20 per 'B' share (2016: HK$1.00 and HK$0.20)	**1,503**	1,504
Second interim dividend declared on 15th March 2018 of HK$1.10 per 'A' share and HK$0.22 per 'B' share (2016 actual dividend paid: HK$1.10 and HK$0.22)	**1,652**	1,655
	3,155	3,159

The second interim dividend is not accounted for in 2017 because it had not been declared at the year end date. The actual amount payable in respect of 2017 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2018.

The Directors have declared second interim dividends of HK$1.10 per 'A' share and HK$0.22 per 'B' share which, together with the first interim dividends of HK$1.00 per 'A' share and HK$0.20 per 'B' share paid in October 2017, amount to full year dividends of HK$2.10 per 'A' share and HK$0.42 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 2016. The second interim dividends will be paid on 4th May 2018 to shareholders registered at the close of business on the record date, being Friday, 13th April 2018. Shares of the Company will be traded ex-dividend from Wednesday, 11th April 2018.

The register of members will be closed on Friday, 13th April 2018, 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, 12th April 2018.

To facilitate the processing of proxy voting for the annual general meeting to be held on 10th May 2018, the register of members will be closed from 7th May 2018 to 10th May 2018, 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, 4th May 2018.

7. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$26,070 million (2016: HK$9,644 million) by the weighted average number of 905,206,000 'A' shares and 2,990,852,870 'B' shares in issue during the year (2016: 905,206,000 'A' shares and 2,995,220,000 'B' shares), in the proportion five to one.

8. Trade and Other Receivables

	2017	2016
	HK$M	HK$M
Trade debtors	**4,680**	3,862
Amounts due from immediate holding company	**1**	4
Amounts due from joint venture companies	**8**	135
Amounts due from associated companies	**380**	465
Interest-bearing advance to joint venture companies at 4.5%	**77**	-
Interest-bearing advance to an associated company (2016:7.0%)	**-**	113
Prepayments and accrued income	**2,047**	2,042
Other receivables	**3,836**	3,025
	11,029	9,646
Amounts due after one year included under non-current assets	**(50)**	(49)
	10,979	9,597

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:

	2017	2016
	HK$M	HK$M
Up to three months	**4,354**	3,635
Between three and six months	**202**	152
Over six months	**124**	75
	4,680	3,862

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

	2017	2016
	HK$M	HK$M
Trade creditors	**4,572**	3,150
Amounts due to immediate holding company	**164**	171
Amounts due to joint venture companies	**7**	78
Amounts due to associated companies	**164**	120
Interest-bearing advances from joint venture companies	**353**	326
Interest-bearing advances from an associated company	**292**	289
Advances from non-controlling interests	**34**	150
Rental deposits from tenants	**2,616**	2,494
Put option over non-controlling interests	**822**	747
Deposit received on the sale of a subsidiary company	**1,306**	653
Contingent consideration	**1,443**	1,770
Accrued capital expenditure	**922**	1,484
Other accruals	**6,952**	5,487
Other payables	**5,135**	3,956
	24,782	20,875
Amounts due after one year included under non-current liabilities	**(2,343)**	(3,427)
	22,439	17,448

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

	2017	2016
	HK$M	HK$M
Up to three months	**4,382**	2,985
Between three and six months	**126**	133
Over six months	**64**	32
	4,572	3,150

10. Share Capital

	'A' shares	'B' shares	Total HK$M
Issued and fully paid:			
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
At 1st January and 31st December 2016	905,206,000	2,995,220,000	1,294

During the year, the company repurchased 12,650,000 'B' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK$165 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 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 (note 6)	(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

11. Reserves (continued)

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

12. Changes in Accounting Policies and Disclosures

i. The following amendments to standards were required to be adopted by the Group effective from 1st January 2017:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

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

ii. The Group has not early adopted the following relevant new and revised standards and new interpretations that have been issued but are effective for annual periods beginning after 1st January 2018 and have not been applied in preparing these consolidated financial statements:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle[1]
HKFRS 9	Financial Instruments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
HKFRS 15	Revenue from Contracts with Customers[1]
HKFRS 16	Leases[2]
HKAS 40 (Amendment)	Transfers of Investment Property[1]
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC) 23	Uncertainty over Income Tax Treatments[2]

1 To be applied by the Group from 1st January 2018
2 To be applied by the Group from 1st January 2019

iii. The financial information relating to the years ended 31st December 2016 and 2017 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 2016 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 2017 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 2016 and 2017. 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 2017, committed loan facilities and debt securities amounted to HK$99,639 million, of which HK$21,307 million (21%) were undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK$11,851 million. Sources of funds at 31st December 2017 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	**50,681**	**50,681**	**-**	**-**
Bank loans, overdrafts and other loans	**48,958**	**27,651**	**1,360**	**19,947**
Total committed facilities	**99,639**	**78,332**	**1,360**	**19,947**
Uncommitted facilities				
Bank loans, overdrafts and other loans	**12,522**	**671**	**11,851**	**-**
Total	**112,161**	**79,003**	**13,211**	**19,947**

Note: The figures above are stated before unamortised loan fees of HK$417 million.

At 31st December 2017, 71% of the Group's gross borrowings were on a fixed rate basis and 29% were on a floating rate basis (2016: 73% and 27%).

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 2017 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 10th April 2018.

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