



INTERIM
REPORT
2018



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OUR STRATEGY

We concentrate on businesses where we have expertise, and where our expertise can add value. Our aim is sustainable long-term growth in shareholder value.

- We deploy capital where we see opportunities to seek long-term returns and focus on businesses where we have a competitive advantage.
- We regularly review our businesses to assess whether they contribute to our strategic objectives.
- We divest from businesses which do not contribute to our strategic objectives or have reached their full potential under our ownership and redeploy the capital to existing or new businesses.
- Our people, and our ability to deploy them across our businesses (which is facilitated by services agreements with our principal shareholder), are critical to our ability to generate long-term value. We recruit the best people and invest heavily in their training and development.
- We are conservative financial managers. This lets us execute long-term investment plans irrespective of short-term financial market volatility.
- We provide premium quality products and services, so as to differentiate ourselves from our competitors.
- We invest in sustainable development, because it helps to achieve long-term growth through innovation and improved efficiency.
- We are committed to the highest standards of corporate governance and to the preservation and development of the Swire brand.

In implementing the above strategy, the principal risks and uncertainties facing the Group are that the economies in which it operates (in particular Hong Kong and Mainland China) will not perform as well in the future as they have in the past and the uncertainties as to whether this will happen.

We are and intend to remain a conglomerate with diverse businesses capable of generating sustainable long-term growth in value.

Financial Highlights

	Note	Six months ended 30th June		Change %	Year ended 31st December
		2018 HK\$M	2017 HK\$M		2017 HK\$M
Revenue		42,265	40,211	+5%	80,289
Operating profit		18,695	17,625	+6%	35,864
Profit attributable to the Company's shareholders		13,501	12,138	+11%	26,070
Cash generated from operations		8,297	9,459	-12%	19,605
Net cash inflow/(outflow) before financing		8,075	(2,228)	+462%	(2,149)
		HK\$	HK\$		HK\$
Earnings per share	(a)				
'A' share		8.99	8.07	+11%	17.34
'B' share		1.80	1.61		3.47
Dividends per share					
'A' share		1.20	1.00	+20%	2.10
'B' share		0.24	0.20		0.42

UNDERLYING PROFIT

		HK\$M	HK\$M		HK\$M
Underlying profit attributable to the Company's shareholders	(b)	1,265	3,880	-67%	4,742
Adjusted underlying profit attributable to the Company's shareholders	(b)	3,026	2,164	+40%	4,762
		HK\$	HK\$		HK\$
Earnings per share:	(a)				
Underlying profit					
'A' share		0.84	2.58	-67%	3.15
'B' share		0.17	0.52		0.63
Adjusted underlying profit					
'A' share		2.02	1.44	+40%	3.17
'B' share		0.40	0.29		0.63

FINANCIAL POSITION

		30th June		Change %	31st December
		2018 HK\$M	2017 HK\$M		2017 HK\$M
Total equity (including non-controlling interests)		322,563	286,535	+13%	306,094
Net debt		67,272	69,099	-3%	72,514
Gearing ratio	(c)	20.9%	24.1%	-3.2%pts	23.7%
		HK\$	HK\$		HK\$
Equity attributable to the Company's shareholders per share					
'A' share		177.39	157.12	+13%	168.58
'B' share		35.48	31.42		33.72

Notes:

(a) Refer to note 11 to the condensed interim financial statements for the weighted average number of shares.

(b) Reconciliations between the reported and underlying profit and adjusted underlying profit attributable to the Company's shareholders are provided on page 35.

(c) Refer to Glossary on page 83 for definition.

Chairman's Statement

RESULTS SUMMARY

Our consolidated profit attributable to shareholders for the first half of 2018 was HK\$13,501 million, HK\$1,363 million or 11% higher than that in the first half of 2017. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, decreased by HK\$2,615 million or 67% to HK\$1,265 million. The decrease in underlying profit principally reflects an impairment charge (and associated write-offs) of HK\$3,900 million at Swire Pacific Offshore. Adjusted underlying profit attributable to shareholders, which excludes the effect of significant non-recurring items, increased by HK\$862 million or 40% to HK\$3,026 million. The increase in adjusted underlying profit reflects better results from the Aviation, Beverages, and Trading & Industrial Divisions, partly offset by less profits from property trading in the Property Division.

Underlying profits from the Property Division increased. There were substantial profits from the sale of interests in investment properties. Results from property investment were better, with those in Mainland China doing particularly well. Gross rental income increased, reflecting positive rental reversions at the office properties and higher retail sales. Profits from property trading decreased substantially.

The Aviation Division reported an attributable profit of HK\$217 million in the first half of 2018, compared with an attributable loss of HK\$678 million in the first half of 2017.

The Cathay Pacific group's attributable loss on a 100% basis was HK\$263 million in the first half of 2018 (2017 first half: loss of HK\$2,051 million). The operating environment for the airlines in the Cathay Pacific group remains challenging. They are half way through a three-year transformation programme, which is designed to make their businesses leaner, more agile and more effective competitors. The programme is on track. Despite higher fuel prices, the airlines performed much better in the first half of 2018 than in the first half of 2017. Revenue generation was satisfactory, with passenger yield improving. The cargo business was strong, with growth in both volume and yield. The airlines benefited in the early part of the period from a weak US dollar, but were adversely affected by significantly increased fuel prices.

The HAECO group reported an attributable profit of HK\$469 million on a 100% basis for the first six months of 2018. This compares with a profit of HK\$348 million for the equivalent period in 2017. HAECO Americas continued to make losses, albeit at a reduced level. This reduction in losses was the principal reason for the increase in the HAECO group's profit. In June 2018, a proposal to privatise HAECO by way of a scheme of arrangement under the Companies Ordinance was announced.

Swire Beverages made an attributable profit of HK\$880 million in the first half of 2018. This included a non-recurring gain of HK\$144 million arising from the disposal of its Kaohsiung plant in Taiwan. This compares with an attributable profit of HK\$1,785 million in the first half of 2017. The 2017 figure included non-recurring gains of HK\$1,229 million arising from the realignment of the Coca-Cola bottling system in Mainland China and a non-recurring gain of HK\$194 million arising from changes to the division's franchise terms in the USA. Disregarding non-recurring gains in both periods, Swire Beverages made an attributable profit of HK\$736 million in the first half of 2018, more than double its attributable profit of HK\$362 million in the first half of 2017. The increase principally reflected higher profits in Mainland China and the USA following the acquisition of new franchised territories. Revenue grew faster than volume in all regions, reflecting improvements in product and package mixes.

The attributable loss of the Marine Services Division in the first half of 2018 was HK\$4,550 million, compared to a loss of HK\$676 million in the first half of 2017. Swire Pacific Offshore ("SPO") reported an attributable loss of HK\$4,563 million for the first half of 2018, compared to a loss of HK\$692 million in the first half of 2017. The loss for the first half of 2018 included an impairment charge in respect of the carrying value of vessels (and an associated impairment of goodwill and deferred tax asset write-off) aggregating HK\$3,900 million. The impairment charge principally reflects significantly less optimistic assumptions about future charter hire rates than those made when earlier impairment charges were made. Despite a substantial recovery in the oil price, there has been no increase in average charter hire rates. Too many vessels, including some being brought out of cold stack, are competing for the available work. The expected

useful life of the relevant vessels has also been reduced, from 25 to 20 years. The offshore market did show early signs of bottoming out during the first half of 2018. However, charter hire rates were depressed.

Attributable profit from the Trading & Industrial Division in the first half of 2018 increased by 137% from the same period in 2017 to HK\$154 million. The increase reflected better results from Swire Retail, Taikoo Motors and Swire Foods, partly offset by weaker results from Akzo Nobel Swire Paints.

DIVIDENDS

The Directors have declared first interim dividends of HK\$1.20 (2017: HK\$1.00) per 'A' share and HK\$0.24 (2017: HK\$0.20) per 'B' share. The first interim dividends, which total HK\$1,802 million (2017: HK\$1,503 million), will be paid on 5th October 2018 to shareholders registered at the close of business on the record date, being Friday, 7th September 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 5th September 2018.

It is intended to maintain a strong balance sheet so as to retain flexibility to finance future investments. Our policy is to return value to shareholders principally through sustainable growth in ordinary dividends rather than through other means.

CAPITAL ALLOCATION

The Group's aim is to generate sustainable long-term growth in shareholder value. We deploy capital in a range of businesses where we see opportunities to generate long-term returns. We regularly review our businesses to assess whether they contribute to our strategic objectives. We divest from businesses which do not contribute to our strategic objectives or have reached their full potential under our ownership and redeploy the capital to existing or new businesses.

The largest recipient of capital is Swire Properties. The most significant capital commitment of Swire Properties is the redevelopment of Taikoo Place. The first phase is expected to be completed later this year. Swire Properties has been disposing of interests in non-core investment properties. In June 2018, Swire Properties conditionally agreed to sell its 100% interest in a subsidiary which indirectly owns interests in the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong. Swire Properties intends to reinvest the proceeds of sale in new developments and does not intend to pay a special dividend.

The Aviation Division represents a significant investment for the Group. We are supportive of the three-year transformation programme on which the Cathay Pacific group embarked in 2017 and of its long term investment plans. Cathay Pacific took delivery of one Airbus A350-1000 aircraft in the first half of 2018, and will have taken delivery of 22 A350-900 aircraft and eight A350-1000 aircraft by the end of the year. Aircraft of these types are fuel efficient and have the right range, capacity and operating economics for Cathay Pacific's requirements.

Swire Beverages completed the expansion of its franchise territories in Mainland China and the USA in 2017. It now has franchise territories in 11 provinces and the Shanghai Municipality in Mainland China, covering 49% of the population of Mainland China. In the USA, it has franchise territories in 13 states. Swire Beverages continues to invest substantial sums in its facilities and its sales and distribution infrastructure.

In the Marine Services Division, SPO disposed of four vessels in the first half of 2018, having disposed of five vessels in 2017. The disposals reflect SPO's view that older vessels will not be able to obtain charters at acceptable rates. SPO took delivery of four new vessels in the first half of 2018. This completed its new build programme. The older vessels in the existing fleet are regularly evaluated for disposal.

In the Trading & Industrial Division, we continue to invest in the bakery business in Mainland China. The cold storage business was sold in July 2018 at a small profit.

PROSPECTS

In the Property Division, high occupancy and limited supply will continue to exert upward pressure on office rents at Pacific Place. High occupancy is expected to result in office rents in our Taikoo Place development being resilient. Despite the availability of new office space in Guangzhou in the second half of 2018, rentals are expected to be resilient. Demand for office space in Beijing and the Jingan District of Shanghai is expected to underpin rentals in the second half of 2018, despite new supply. In Miami, new supply of Grade-A office space is limited and demand is firm. Improved market sentiment and an enhanced tenant mix are expected to support stable sales growth at our retail malls in Hong Kong. Retail sales are expected to grow satisfactorily in Chengdu, steadily in Guangzhou and Beijing and modestly in Shanghai in the second half of 2018. In Miami, weak retail sales have made some retailers cautious about expansion. Profits from property trading are expected to be recognised in the second half of 2018 from sales of six houses at the WHITESANDS development in Hong Kong. Trading conditions for our existing hotels are expected to be stable in the second half of 2018.

The airlines in the Cathay Pacific group usually perform better in the second half of the year than in the first half of the year. This is expected to be the case in 2018. The strength of the US dollar and global trade uncertainties remain challenges. Notwithstanding this, passenger yields are expected to continue to improve and the cargo business to remain strong. Fuel prices are expected to be higher and therefore hedging losses will reduce, but net fuel costs will rise. The transformation programme will continue. The airlines believe that they are on track to achieving sustainable long-term performance.

The airframe services workload of HAECO in the second half of 2018 is expected to be lower than in the first half of 2018 in Hong Kong and Xiamen and higher in HAECO Americas. More line services work is expected in the second than in the first half of 2018. More engines are expected to be repaired and overhauled in the second than in the first half of 2018,

but the worksopes are expected to be less extensive. Fewer seats are expected to be sold in the second than in the first half of 2018. Forward bookings for cabin reconfiguration work are relatively weak. More Panasonic communication equipment installation kit work is expected in the second than in the first half of 2018.

In the Beverages Division, sales revenue in Mainland China is expected to continue to grow faster than sales volume in the second half of 2018. Continued growth in sales volume and revenue is also expected in Hong Kong, Taiwan and the USA in the second half of 2018. In all areas, increased raw material costs will put pressure on profits.

In the Marine Services Division, charter hire rates remain depressed (because of an oversupply of vessels in the market). The increase in offshore exploration and production expenditure remains modest, notwithstanding the recovery in the oil price in the last 12 months.

The overall profits of the Trading & Industrial Division are expected to be higher in the second than in the first half of 2018.

Merlin Swire

Chairman

Hong Kong, 9th August 2018

Review of Operations

PROPERTY DIVISION

Swire Properties' business comprises three main areas:

Property Investment

Swire Properties' property investment portfolio in Hong Kong comprises office and retail premises, serviced apartments and other luxury residential accommodation in prime locations. The completed portfolio in Hong Kong totals 11.5 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 (through subsidiaries and joint ventures) major commercial developments in Beijing, Shanghai, Guangzhou and Chengdu which will total 9.5 million square feet on completion. Of this, 8.9 million square feet has already been completed. In the USA, Swire Properties is the primary developer of a 1.1 million square feet mixed-use commercial development at Brickell City Centre in Miami, with an adjoining 1.4 million square feet development being planned.

Hotel Investment

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at Taikoo Shing. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. In Mainland China, Swire Hotels manages four hotels. The Opposite House at Taikoo Li Sanlitun in Beijing is wholly-owned by Swire Properties. 50% interests are owned in EAST at INDIGO in Beijing, in The Temple House at Sino-Ocean Taikoo Li Chengdu and in The Middle House at HKRI Taikoo Hui in Shanghai. At TaiKoo Hui in Guangzhou, Swire Properties owns a 97% interest in the Mandarin Oriental. Swire Properties has a 50% interest in The Sukhothai Shanghai at HKRI Taikoo Hui in Shanghai. 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. A non-managed hotel which is part of the 20% owned Tung Chung Town Lot No. 11 development is under development.

Property Trading

Swire Properties' trading portfolio comprises completed developments available for sale in Mainland China and Miami, USA. The principal completed developments available for sale are the remaining portion of the Pinnacle One office property at Sino-Ocean Taikoo Li Chengdu in Mainland China, and the Reach and Rise residential developments at Brickell City Centre in Miami, USA. A small development is being planned in Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida in the USA.

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

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Revenue			
Gross rental income derived from			
Office	3,141	3,042	6,124
Retail	2,579	2,274	4,616
Residential	276	239	512
Other revenue*	63	61	128
Property investment	6,059	5,616	11,380
Property trading	530	5,258	5,833
Hotels	720	651	1,345
Total revenue	7,309	11,525	18,558
Operating profit derived from			
Property investment			
From operation	4,442	4,192	8,154
Sale of interests in investment properties	1,254	(2)	9
Valuation gains on investment properties	15,473	9,884	25,331
Property trading	73	1,447	1,397
Hotels	(1)	(50)	(102)
Total operating profit	21,241	15,471	34,789
Share of post-tax profits from joint venture and associated companies	1,064	719	1,792
Attributable profit	21,139	14,698	33,818
Swire Pacific share of attributable profit	17,334	12,052	27,731

* Other revenue is mainly estate management fees.

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	Six months ended 30th June		Year ended 31st December
		2018 HK\$M	2017 HK\$M	2017 HK\$M
Reported attributable profit		21,139	14,698	33,818
Adjustments in respect of investment properties:				
Revaluation of investment properties	(a)	(16,298)	(10,409)	(26,714)
Deferred tax on investment properties	(b)	121	305	573
Realised profit on sale of interests in investment properties	(c)	1,233	47	50
Depreciation of investment properties occupied by the Group	(d)	15	14	28
Non-controlling interests' share of revaluation movements less deferred tax		6	(28)	54
Underlying attributable profit		6,216	4,627	7,809
Profit on sale of interests in investment properties		(2,487)	(4)	(21)
Adjusted underlying attributable profit		3,729	4,623	7,788
Swire Pacific share of underlying attributable profit		5,098	3,794	6,403
Swire Pacific share of adjusted underlying attributable profit		3,058	3,791	6,386

Notes:

- (a) This represents the group's net revaluation movements and the group's share of net revaluation movements of joint venture companies.
- (b) This represents deferred tax movements on the group's investment properties and the group's share of deferred tax movements on investment properties held by joint venture companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and the USA, and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.
- (c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the statement of profit or loss.
- (d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the group.

Property Division – Movement in Underlying Profit on a 100% basis



RESULTS SUMMARY

Attributable profit from the Property Division for the first half of 2018 was HK\$17,334 million compared to HK\$12,052 million in the first half of 2017. These figures include net property valuation gains, before deferred tax and non-controlling interests, of HK\$16,298 million and HK\$10,409 million respectively. Attributable underlying profit, which principally adjusts for changes in the valuation of investment properties, increased by HK\$1,304 million to HK\$5,098 million. This increase principally reflected profit arising from the sale of our interests in an office building in Kowloon Bay and in other investment properties in Hong Kong, partly offset by a substantial decrease in profit from property trading.

Adjusted underlying profit (which excludes the profit on sale of interests in investment properties) was HK\$3,058 million in the first half of 2018, compared with HK\$3,791 million in the first half of 2017.

Recurring underlying profit from property investment increased by 9% in the first half of 2018, with the Mainland China developments doing particularly well. Gross rental income increased by 8% (to HK\$5,996 million in the first half of 2018, compared with HK\$5,555 million in the first half of 2017). This reflected positive rental reversions at the office properties and higher retail sales.

Underlying profit from property trading in the first half of 2018 arose mainly from the sale of houses at the WHITESANDS development and of carparks at the AZURA development in Hong Kong.

Losses from hotels were higher in the first half of 2018 than in the first half of 2017, principally due to pre-opening costs at hotels in Shanghai in Mainland China. The results of our hotels in Hong Kong and the USA and of our other hotels in Mainland China improved.

KEY DEVELOPMENTS

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 March 2018, Swire Properties completed the acquisition of a 50% interest in Shanghai Qianxiu Company Limited (“Shanghai Qianxiu”) from a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (“LJZ”). Each of Swire Properties and LJZ holds 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. The development is expected to be completed in 2020.

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

In May 2018, the extension to Citygate Outlets, with an aggregate gross floor area of approximately 474,000 square feet, was topped out. The extension, including a hotel, is expected to be completed later in 2018 and the retail portion is expected to open in the first quarter of 2019. Swire Properties has a 20% interest in the development.

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

In June 2018, Swire Properties conditionally agreed to sell its 100% interest in a subsidiary which owns the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong. The consideration for the sale is HK\$15,000 million, subject to adjustments. Completion of the sale is expected to take place in or before April 2019.

Principal Property Investment Portfolio – Gross Floor Area ('000 square feet)

Location	At 30th June 2018					At 31st December 2017	
	Office	Retail	Hotels	Residential	Under Planning	Total	Total
Completed							
Pacific Place	2,186	711	496	443	–	3,836	3,836
Taikoo Place	4,558	12	–	63	–	4,633	4,633
Cityplaza*	629	1,105	200	–	–	1,934	2,703
Others	409	596	47	81	–	1,133	1,140
– Hong Kong	7,782	2,424	743	587	–	11,536	12,312
Taikoo Li Sanlitun	–	1,296	169	–	–	1,465	1,465
TaiKoo Hui	1,732	1,473	584	52	–	3,841	3,841
INDIGO	294	470	179	–	–	943	947
Sino-Ocean Taikoo Li Chengdu	–	657	98	55	–	810	795
HKRI Taikoo Hui	914	552	194	73	–	1,733	1,465
Others	–	91	–	–	–	91	91
– Mainland China	2,940	4,539	1,224	180	–	8,883	8,604
– USA	263	497	477	109	–	1,346	1,346
Total completed	10,985	7,460	2,444	876	–	21,765	22,262
Under and pending development							
– Hong Kong^	2,211	73	26	–	–	2,310	2,310
– Mainland China	–	624	–	–	–	624	269
– USA	–	–	–	–	1,444	1,444	1,444
Total	13,196	8,157	2,470	876	1,444	26,143	26,285

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

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

^ The office portfolio includes One Taikoo Place and Two Taikoo Place.

INVESTMENT PROPERTIES

Hong Kong

Office

Gross rental income from the Hong Kong office portfolio in the first half of 2018 was HK\$2,887 million, HK\$67 million higher than the same period in 2017. Demand for the group's office space in Hong Kong was strong. This was reflected in positive rental reversions. Occupancy was high at Taikoo Place, Cityplaza One and Pacific Place. At 30th June 2018, the office portfolio was almost fully let.

Retail

The Hong Kong retail market improved in the first half of 2018. Retail sales at our malls have shown significant improvements compared with those in the first half of 2017.

Gross rental income from the group's retail portfolio in Hong Kong was HK\$1,367 million in the first half of 2018, representing an increase of 4% compared to the same period in 2017. Rental income from Cityplaza increased by 10%. Rental income from The Mall at Pacific Place was stable. Occupancy levels at the group's malls were effectively 100% during the period.

Residential

The occupancy rate at the residential portfolio was approximately 92% at 30th June 2018. Rental demand for our residential investment properties is expected to be stable in the second half of 2018.

Investment Properties under Development

The first phase of the Taikoo Place redevelopment (the redevelopment of Somerset House) is the construction of One Taikoo Place, a 48-storey (above 2-storey basement) Grade-A office building with an aggregate gross floor area of approximately 1,020,000 square feet. The building was topped out in January 2018. Interior finishing works are in progress. The redevelopment is expected to be completed later in 2018. Tenants have committed (including by way of letters of intent) to lease over 90% of the space in the building.

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

The commercial site (Tung Chung Town Lot No. 11) next to Citygate Outlets is being developed into a commercial building with an aggregate retail and hotel gross floor area of approximately 474,000 square feet. Superstructure works have been completed and fitting out works are in progress. The building was topped out in May 2018. The development is expected to be completed later in 2018. Swire Properties has a 20% interest in the development.

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. Interior finishing works are in progress. The development is expected to be completed later in 2018. Swire Properties has a 50% interest in the development.

Redevelopment of the site at Po Wah Building, 1-11 Landale Street and 2-12 Anton Street 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. An application for planning permission to develop the site for office purposes has been made. The redevelopment is expected to be completed after 2022.

Other

In February 2018, Swire Properties submitted compulsory sale applications in respect of two sites (Wah Ha Factory Building, No. 8 Shipyard Lane and Zung Fu Industrial Building, No. 1067 King's Road) in Hong Kong. Subject to Swire Properties having successfully bid in the compulsory sale of the sites, the sites are intended to be redeveloped for office and other commercial uses. The site areas of Wah Ha Factory Building and Zung Fu Industrial Building are approximately 27,000 square feet and 25,000 square feet, respectively.

Outlook

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

Improved market sentiment and a better tenant mix should support stable sales growth at our retail malls.

Rental demand for our residential investment properties is expected to be stable in the second half of 2018.

Mainland China**Retail**

The Mainland China retail portfolio's gross rental income for the first half of 2018 was HK\$1,093 million. In Renminbi terms, this represents an increase of 11% compared to the same period in 2017.

Subsidiaries

Gross rental income at Taikoo Li Sanlitun in Beijing increased in the first half of 2018. Retail sales increased by 10%. The overall occupancy rate was 97% at 30th June 2018. Demand for retail space in Taikoo Li Sanlitun remains solid as it reinforces its position as a fashionable retail destination in Beijing. Improvement works are being carried out and are

expected to have a positive impact on occupancy and rents. The refurbishment of the Beijing Sanlitun Yashow Building as an extension to Taikoo Li Sanlitun (with a gross floor area of 296,000 square feet) is expected to be completed in 2019.

Gross rental income at TaiKoo Hui in Guangzhou increased in the first half of 2018, reflecting in part improvements to the tenant mix and a customer loyalty programme. Retail sales grew by 12%. The mall was 98% let at 30th June 2018.

Joint Ventures

The mall at INDIGO in Beijing was 100% occupied at 30th June 2018. Improvements to the tenant mix have been made. Retail sales increased by 6% in the first half of 2018. The mall is becoming a significant quality family shopping centre in north-east Beijing.

Gross rental income at Sino-Ocean Taikoo Li Chengdu increased in the first half of 2018. Retail sales increased by 29% in the first half of 2018. The development is gaining popularity as a downtown shopping destination in Chengdu. At 30th June 2018, the occupancy rate was 96%.

Gross rental income at HKRI Taikoo Hui increased in the first half of 2018 as more shops were open than in the first half of 2017. At 30th June 2018, tenants had committed (including by way of letters of intent) to lease 96% of the space and 90% of the shops were open. Retail sales and the number of visitors have grown steadily since the opening in May 2017.

Office

The Mainland China office portfolio's gross rental income for the first half of 2018 was HK\$202 million.

TaiKoo Hui's office towers in Guangzhou were fully let at 30th June 2018. Occupancy at ONE INDIGO in Beijing was 99% at 30th June 2018. Demand for office space in Beijing improved in the first half of 2018. The occupancy rate at HKRI Taikoo Hui in Shanghai was 91% at 30th June 2018.

Outlook

Retail sales are expected to grow satisfactorily in Chengdu, steadily in Guangzhou and Beijing and modestly in Shanghai in the second half of 2018. Demand for retail space for

lifestyle brands and food and beverage outlets is expected to be solid. Demand for luxury goods has improved in Beijing and is strong in Guangzhou and Chengdu. Retail rents are expected to grow satisfactorily in Guangzhou and moderately in Shanghai and Chengdu in the second half of 2018 despite an increase in the availability of competing space.

There has been limited new supply of office space in the core areas of Guangzhou and there is strong demand from existing office tenants to expand or upgrade their accommodation. Vacancy rates have declined. Despite the availability of new office space in Guangzhou in the second half of 2018, rentals are expected to be resilient. Demand for office space in Beijing and the Jingan District of Shanghai is expected to underpin rentals in the second half of 2018, despite new supply.

Investment Property under Development

In March 2018, Swire Properties and a subsidiary of LJZ formed a joint venture to develop a retail project with an aggregate gross floor area of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. Construction is in progress. The development is expected to be completed in 2020.

USA

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

The first phase of the Brickell City Centre development was completed in 2016, and its components opened between March 2016 and February 2017. Two and Three Brickell City Centre are fully leased. The shopping centre was 89% let (including by way of letters of intent) at 30th June 2018.

At 30th June 2018, Swire Properties owned 100% of the office, hotel and unsold residential elements, and 59.25% of the shopping centre, at the Brickell City Centre development. The remaining interest in the shopping centre was owned by Simon Property Group (25%) and Bal Harbour Shops (15.75%). 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 Brickell City Centre development with Brickell Avenue. Swire Properties owns 100% of One Brickell City Centre.

Outlook

In Miami, new supply of Grade-A office space is limited and demand is firm.

In Miami, there is too much retail space available for rent and weak retail sales have made some retailers cautious about expansion.

Valuation of Investment Properties

The portfolio of investment properties was valued at 30th June 2018 on the basis of market value (94% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK\$268,802 million, compared to HK\$265,705 million at 31st December 2017 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 a reduction of 12.5 basis points in the capitalisation rate applicable to office properties and rental increases in Hong Kong. This was partly

offset by the exclusion from the valuation of the Cityplaza Three and Cityplaza Four developments in Quarry Bay, 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.

HOTELS

The managed hotels in Hong Kong performed better in the first half of 2018. The performance of the managed hotels in Mainland China and in the USA improved.

Occupancy increased at the Mandarin Oriental in Guangzhou. A managed hotel (The Middle House) and a non-managed hotel (The Sukhothai Shanghai) at HKRI Taikoo Hui in Shanghai were officially opened in May 2018.

In the USA, EAST, Miami opened in June 2016. Room rates, occupancy and operating margins improved as the business stabilised. The operating results of the Mandarin Oriental hotel in the first half of 2018 were better than in the first half of 2017, mainly due to higher room rates.

Outlook

Trading conditions for our hotels are expected to be stable in the second half of 2018. The two new hotels in Shanghai are building up their occupancy. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open in 2019.

Profile of Capital Commitments for Investment Properties and Hotels

	Expenditure		Forecast period of expenditure			Commitments* at 30th June 2018 HK\$M
	Six months ended 30th June 2018 HK\$M	Six months ending 31st December 2018 HK\$M	2019 HK\$M	2020 HK\$M	2021 and beyond HK\$M	
Hong Kong	3,209	1,778	1,542	4,421	8,452	16,193
Mainland China	2,034	774	1,066	415	68	2,323
USA and others	84	114	273	25	20	432
Total	5,327	2,666	2,881	4,861	8,540	18,948

* 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\$128 million and HK\$7 million of the capital commitments of joint venture companies in Hong Kong and Mainland China, respectively.

PROPERTY TRADING

Hong Kong

The WHITESANDS development consists of 28 detached houses with an aggregate gross floor area of 64,410 square feet. All 28 houses have been sold. The profit from the sale of 16 houses was recognised in previous years and the profit from the sale of six houses was recognised in the first half of 2018. The profit from the sale of the remaining six houses is expected to be recognised in the second half of 2018.

In 2017, Swire Properties completed the acquisition 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. Vacant possession of the site was obtained in May 2018. The development is expected to be completed in 2021.

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 appealed. The result of the appeal is awaited.

USA

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

The Reach and Rise developments were completed, and handover to purchasers commenced, in 2016. 363 units (out of 390 units) at Reach and 227 units (out of 390 units) at Rise had been sold at 7th August 2018. The profits from the sales of one unit at Reach and 14 units at Rise were recognised in the first half of 2018.

Outlook

In Miami, the majority of the demand for condominiums is from South American buyers. That demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. In Hong Kong, profits are expected to be recognised in the second half of 2018 from the sales of six houses at the WHITESANDS development.

Guy Bradley

AVIATION DIVISION

The Aviation Division comprises significant investments in the Cathay Pacific group and the Hong Kong Aircraft Engineering Company ("HAECO") group. Cathay Pacific Airways Limited ("Cathay Pacific") and HAECO are listed on The Stock Exchange of Hong Kong Limited. The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiary Hong Kong Dragon Airlines Limited ("Cathay Dragon") (Cathay Pacific and Cathay Dragon together the "Airlines"), its 60% owned subsidiary AHK Air Hong Kong Limited ("Air Hong Kong"), an associate interest in Air China Limited ("Air China") and an interest in Air China Cargo Co., Ltd. ("Air China Cargo"). In addition, the Cathay Pacific group provides flight catering and ramp and passenger handling services, and owns and operates a cargo terminal at Hong Kong International Airport.

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
HAECO group			
Revenue	7,325	7,405	14,546
Operating profit/(loss)	553	466	(90)
Attributable profit/(loss)	469	348	(541)
Swire Pacific share of attributable profit/(loss)	351	260	(406)
Cathay Pacific group			
Share of post-tax losses from associated companies	(118)	(923)	(567)
Swire Pacific share of attributable profit/(loss)	217	(678)	(1,002)

Accounting for the Aviation Division

The Group accounts for its associate interest in the Cathay Pacific group using the equity method of accounting. The Group recognises its share of net profit or loss as a single line-item in the consolidated statement of profit or loss. The figures for the HAECO and Cathay Pacific groups presented above are before Swire Pacific's consolidation adjustments.

RESULTS SUMMARY

The Aviation Division reported an attributable profit of HK\$217 million in the first half of 2018. This compared with a loss of HK\$678 million in the same period in 2017.

CATHAY PACIFIC GROUP

The Cathay Pacific group's attributable loss on a 100% basis was HK\$263 million in the first half of 2018 (2017 first half: loss of HK\$2,051 million). The Airlines' loss after tax was HK\$904 million in the first half of 2018 (2017 first half: loss of HK\$2,765 million), and the share of profits from subsidiaries and associates was HK\$641 million (2017 first half: HK\$714 million).

The operating environment for the Airlines remains challenging. They are half way through a three-year transformation programme, which is designed to make their businesses leaner, more agile and more effective competitors. The programme is on track. Despite higher fuel prices, the Airlines performed much better in the first half of 2018 than in the first half of 2017. Revenue generation was satisfactory during the first half of 2018. Passenger yield improved. The cargo business was strong, with growth in both volume and yield. The Airlines benefited from a weak US dollar during the early part of the period, but were adversely affected by significantly increased fuel prices.

Passenger Services

Passenger revenue for the first half of 2018 was HK\$35,452 million, an increase of 10% compared with the same period in 2017.

Passenger capacity on the Cathay Pacific and Cathay Dragon network increased by 3%, reflecting the introduction of five new routes, increased frequencies on existing routes and the introduction of larger aircraft on popular routes.

The passenger load factor decreased by 0.5 of a percentage point, to 84.2%. Passengers carried increased by 2% to 17.5 million. Yield increased by 8% to HK\$55.4 cents, reflecting improvements in revenue management, favourable foreign currency movements, increased revenue from fuel surcharges and strong premium class demand. There was satisfactory growth in ancillary revenue.

Cargo Services

Cathay Pacific and Cathay Dragon

Cargo revenue of Cathay Pacific and Cathay Dragon for the first half of 2018 was HK\$11,276 million, an increase of 25% compared with the same period in 2017.

The cargo capacity of Cathay Pacific and Cathay Dragon increased by 4%. The cargo load factor increased by 2.1 percentage points to 68.3%. Tonnage carried increased by 8% to 1 million tonnes. Yield grew by 16% to HK\$1.93, reflecting increasing demand for specialist cargo shipments and the movement of higher value goods to and from Asia.

Cathay Pacific and Cathay Dragon – Key Operating Highlights

		Six months ended 30th June		
		2018	2017	Change
Available tonne kilometres ("ATK")*	Million	15,747	15,190	+3.7%
Available seat kilometres ("ASK")*	Million	75,770	73,444	+3.2%
Passenger revenue	HK\$M	35,452	32,105	+10.4%
Revenue passengers carried	'000	17,485	17,163	+1.9%
Passenger load factor*	%	84.2	84.7	-0.5%pt
Passenger yield*	HK¢	55.4	51.5	+7.6%
Cargo revenue – group	HK\$M	12,971	10,515	+23.4%
Cargo revenue – Cathay Pacific and Cathay Dragon	HK\$M	11,276	9,007	+25.2%
Cargo and mail carried	Tonnes '000	1,038	966	+7.5%
Cargo and mail load factor*	%	68.3	66.2	+2.1%pts
Cargo and mail yield*	HK\$	1.93	1.66	+16.3%
Cost per ATK*	HK\$	3.29	3.14	+4.8%
Cost per ATK without fuel	HK\$	2.29	2.17	+5.5%
Aircraft utilisation	Hours per day	12.2	12.3	-0.8%
On-time performance*	%	74.1	73.1	+1.0%pt

* Refer to Glossary on page 83 for definitions.

Air Hong Kong

In the first half of 2018, Air Hong Kong recorded an increase in profit compared with the same period in 2017.

Capacity decreased by 2% to 372 million available tonne kilometres and the load factor decreased by 1.1 percentage points to 64.4%.

Operating Costs

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) increased by HK\$3,621 million (or 32%) compared with the first half of 2017, reflecting a 28% increase in average into plane fuel prices and a 2% increase in consumption. Fuel is the group's most significant cost, accounting for 30% of total operating costs in the first half of 2018 (compared to 30% in the same period in 2017). Fuel hedging losses were reduced. After taking fuel hedging into account, fuel costs increased by HK\$1,037 million (or 7%) compared with the first half of 2017. Fuel consumption per revenue tonne kilometre fell by 3%, as a result of the introduction of more fuel efficient aircraft.

Non-fuel costs per available tonne kilometre increased by 6% in the first half of 2018 compared with the same period in 2017. Disregarding the effect of foreign currency movements, exceptional items and the impact of adopting a new accounting standard, the increase was 3%.

The increase reflected higher depreciation and finance costs resulting from the acquisition of aircraft, increased route related expenses and costs incurred to improve the customer proposition.

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 30th June 2018, the total number of aircraft in the Cathay Pacific and Cathay Dragon fleets was 195.

Cathay Pacific took delivery of its first Airbus A350-1000 aircraft in June 2018 and expects to take delivery of a further seven aircraft of this type in the second half of the year. The new aircraft have Wi-Fi and Cathay Pacific's latest seats and inflight entertainment systems. New economy class seating is being installed in Cathay Pacific's existing Boeing 777-300ER and Boeing 777-300 aircraft, in a new configuration. The new seats are more comfortable than the existing ones, have larger televisions and a better inflight entertainment system. Wi-Fi is being installed on Cathay Pacific's Boeing 777 and Airbus A330 aircraft.

The operating leases of three Airbus A330-300 aircraft expired in the first half of 2018. The aircraft were returned to their lessors. As indicated above, one Airbus A350-1000 aircraft was delivered in the first half of 2018 and a further seven aircraft of this type are expected to be delivered in the second half of the year. Two used Boeing 777-300 aircraft are being delivered this year.

At 30th June 2018 there were 78 new aircraft on order for delivery up to 2024.

Fleet profile*

Aircraft type	Number at 30th June 2018			Total	Firm orders				Expiry of operating leases						
	Owned	Leased			'18	'19	'20 and beyond	Total	'18	'19	'20	'21	'22	'23	'24 and beyond
		Finance	Operating												
Aircraft operated by Cathay Pacific:															
A330-300	20	11	3	34						1	2				
A350-900	16	4	2	22		2	4	6						2	
A350-1000	1			1	7 ^(a)	4	8	19							
747-400BCF			1 ^(b)	1					1						
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	1	6	4	2	9	
777-9X							21	21							
Total	76	43	29	148	9	9	33	51	2	2	2	6	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							
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	3		7	10					7						
747-400BCF			1 ^(b/d)	1					1						
Total	3		8	11					8						
Grand total	96	43	67^(d)	206	9	9	65	83	12	6	8	13	13	3	12

* The table does not reflect aircraft movements after 30th June 2018.

(a) One aircraft was delivered in July 2018.

(b) A freighter leased to Air Hong Kong was returned to Cathay Pacific in June 2018 and will be returned to the lessor in the second half of 2018.

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

(d) 59 of the 67 aircraft which are subject to operating leases are leased from third parties. The remaining eight of such aircraft (one Boeing 747-400BCF and seven Airbus A330-300s) are leased within the Cathay Pacific group.

Air China

The Cathay Pacific group's share of the results of Air China (in which the Cathay Pacific group had a 18.13% interest at 30th June 2018) is based on its financial statements drawn up three months in arrears. Consequently the 2018 interim results include Air China's results for the six months ended 31st March 2018, adjusted for any significant events or transactions for the period from 1st April 2018 to 30th June 2018.

Air China's profit increased in the six months to 31st March 2018. This reflected growth in capacity and traffic.

Air China Cargo

In the first half of 2018, Air China Cargo's profit was lower than in the first half of 2017. Cargo yield improved, but this was more than offset by higher fuel costs and unrealised exchange losses on loans denominated in US dollars.

Outlook

The Airlines usually perform better in the second half of the year than in the first half of the year. This is expected to be the case in 2018. The strength of the US dollar and economic uncertainty arising from global trade concerns remain challenges. But passenger yields are expected to continue to improve and the cargo business is expected to remain strong. Fuel prices are expected to be higher. Hedging losses will reduce but net fuel costs will increase. New aircraft will improve fuel efficiency and more ancillary revenue is expected.

The transformation programme will continue. The Airlines believe that they are on track to their objective of achieving sustainable long-term performance. There is still much to do, but the Airlines are confident in their future.

Cathay Pacific has been Hong Kong's home airline for over seven decades and remains fully committed to this magnificent city. It will continue to make substantial investments in the development and strengthening of Hong Kong's position as Asia's largest international aviation hub.

Rupert Hogg

HONG KONG AIRCRAFT ENGINEERING COMPANY (“HAECO”) GROUP

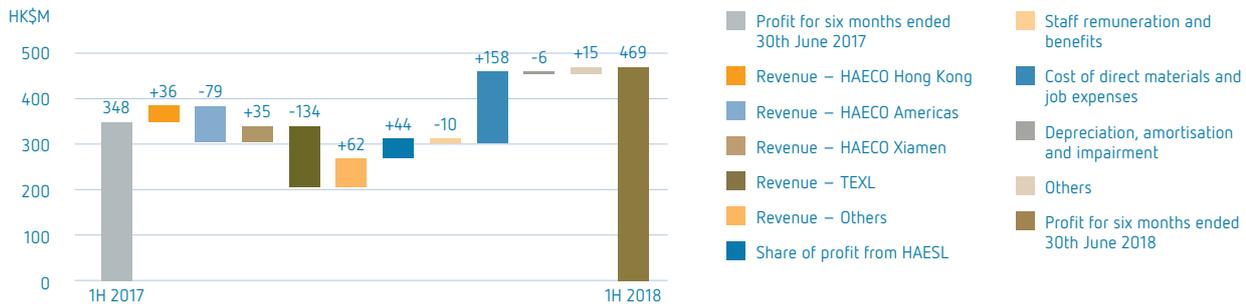
The HAECO group provides aviation maintenance and repair services. Its primary activities are aircraft maintenance and modification work in Hong Kong (by HAECO Hong Kong), in Xiamen (by HAECO Xiamen) and in the USA (by HAECO Americas). HAECO Americas also manufactures aircraft seats. Engine overhaul work is performed by HAECO’s joint venture company Hong Kong Aero Engine Services Limited (“HAESL”) and by HAECO’s subsidiary Taikoo Engine Services (Xiamen) Company Limited (“TEXL”). 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.

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Revenue			
HAECO Hong Kong	2,077	2,041	4,041
HAECO Americas	1,356	1,435	2,625
HAECO Xiamen	1,090	1,055	2,041
TEXL	2,422	2,556	5,162
Others	380	318	677
	7,325	7,405	14,546
Net operating profit/(loss)	500	415	(209)
Attributable profit/(loss)			
HAECO Hong Kong	117	139	257
HAECO Americas	(118)	(208)	(602)
HAECO Xiamen	126	104	135
TEXL	90	112	209
Share of profit of			
HAESL	180	136	244
Other subsidiary and joint venture companies	74	65	97
Attributable profit (excluding impairment charges and write-off of net deferred tax assets)	469	348	340
Impairment charges in respect of:			
Goodwill	–	–	(625)*
Plant, machinery and tools	–	–	(7)*
Write-off of net deferred tax assets	–	–	(249)*
Attributable profit/(loss)	469	348	(541)
Swire Pacific share of attributable profit/(loss)	351	260	(406)

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

HAECO Group – Movement in Attributable Profit



Key Operating Highlights

		Six months ended 30th June		Change
		2018	2017	
Airframe services manhours sold – HAECO Hong Kong	Million	1.37	1.50	-8.7%
Airframe services manhours sold – HAECO Americas	Million	1.40	1.59	-11.9%
Airframe services manhours sold – HAECO Xiamen	Million	2.03	2.01	1.0%
Line services movements handled – HAECO Hong Kong	Average per day	319	317	0.6%
Engines overhauled – TEXL		42	40	5.0%
Engines overhauled – HAESL		91	71	28.2%

RESULTS SUMMARY

The HAECO group reported an attributable profit of HK\$469 million on a 100% basis for the first six months of 2018. This compares with a profit of HK\$348 million for the equivalent period in 2017. HAECO Americas continued to make losses, albeit at a reduced level. This reduction in losses was the principal reason for the increase in the HAECO group's profit.

A total of 4.80 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in the first half of 2018, 6% fewer than those in the corresponding period in 2017. More airframe services work was performed at HAECO Xiamen but less at HAECO Hong Kong and HAECO Americas.

HAECO Hong Kong

HAECO Hong Kong recorded a 16% decrease in profit in the first half of 2018 to HK\$117 million compared to the first half of 2017. 1.37 million airframe services manhours were sold in the first half of 2018, 9% fewer than in the first half of 2017. The decrease reflected less cabin modification work and the deferral of work by some customers from the first to the second half of the year.

HAECO Hong Kong handled approximately 57,800 aircraft movements (representing an average of 319 per day) in the first half of 2018, an increase of 1% compared with the first half of 2017.

Component maintenance manhours sold, including those sold by HAECO Component Overhaul (Xiamen), were 0.11 million in the first half of 2018, 10% higher than those in the first half of 2017. The growth reflected increased demand.

HAECO Americas

HAECO Americas recorded a loss of HK\$118 million in the first half of 2018, HK\$90 million less than the loss of HK\$208 million in the first half of 2017.

1.40 million airframe services manhours were sold, 12% fewer than the first half of 2017. This reflected the loss of significant work from a major customer from August 2017, offset in part by more work from another major customer. The improvement in results reflected an increased proportion of higher margin work and gains in efficiency.

Results from cabin and seat work improved in the first half of 2018 compared with the first half of 2017. More seats were sold at higher margins. Demand for old style seats was strong. Demand for the new Vector seats was encouraging. There was less cabin reconfiguration work and fewer Panasonic communication equipment installation kits were delivered.

HAECO Xiamen

HAECO Xiamen recorded a 21% increase in attributable profit to HK\$126 million in the first half of 2018 compared with the first half of 2017. This reflected an increase in airframe services work.

2.03 million manhours of airframe services were sold in the first half of 2018, 1% higher than in the first half of 2017.

HAECO Xiamen line services handled an average of 57 aircraft movements per day in the first half of 2018, 10% more than in the first half of 2017, and revenue increased by 22%.

TEXL

In the first half of 2018, TEXL performed 30 performance restoration worksopes and 12 quick turn worksopes on GE90 aircraft engines (compared with 26 performance restoration worksopes and 14 quick turn worksopes in the first half of 2017). Attributable profit fell by 20% to HK\$90 million in the first half of 2018 compared with the first half of 2017. This principally reflected a change in the terms on which TEXL contracts with its key customer.

HAESL

HAESL recorded a 32% increase in attributable profit in the first half of 2018 compared to the first half of 2017. The increase in profit was principally due to an increase in engine volume. 91 engines were overhauled, compared with 71 in the first half of 2017. HAESL has invested heavily in new facilities and tooling (and continues to recruit additional manpower) in order to accommodate further growth opportunities.

Other Principal Subsidiary and Joint Venture Companies

HAECO ITM provided inventory technical management services for 295 aircraft in the first half of 2018, 10% more than the number in the corresponding period in 2017. However, its profit in the first half of 2018 was lower than that in the first half of 2017. There was less lending and exchange of aircraft parts.

HAECO Landing Gear Services made a profit in the first half of 2018, compared to a loss in the same period of 2017. It did more work.

Outlook

The airframe services workload in the second half of 2018 is expected to be lower than in the first half of 2018 in Hong Kong and Xiamen and higher in HAECO Americas. More line services work is expected in the second than in the first half of 2018. More engines are expected to be repaired and overhauled in the second than in the first half of 2018, but the worksopes are expected to be less extensive. Fewer seats are expected to be sold in the second than in the first half of 2018. Forward bookings for cabin reconfiguration work are relatively weak. More Panasonic communication equipment installation kit work is expected in the second than in the first half of 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

BEVERAGES DIVISION

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 30th June 2018, Swire Beverages manufactured 60 beverage brands and distributed them to a franchise population of 727 million people.

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Revenue	20,538	14,697	34,067
Operating profit derived from			
Operating activities	1,144	692	1,689
Non-recurring items	144	1,561	1,636
Total operating profit	1,288	2,253	3,325
Share of post-tax profits from joint venture and associated companies	105	49	112
Attributable profit (excluding non-recurring items)	736	362	930
Gain on remeasurement of previously held interests in joint venture companies in Mainland China	–	975	975
Gain on disposal of a subsidiary company in Mainland China	–	254	247
Gain from the acquisition of new franchise territories and assets in the USA	–	194	289
Gain on disposal of Kaohsiung plant in Taiwan	144	–	–
Attributable profit	880	1,785	2,441

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

Segment Financial Highlights

	Revenue			Attributable Profit / (Loss)		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2017 HK\$M
Mainland China						
Operating activities	10,871	6,459	16,256	377	74	243
Non-recurring items	–	–	–	–	1,229	1,222
	10,871	6,459	16,256	377	1,303	1,465
Hong Kong	1,097	1,021	2,255	99	75	220
Taiwan						
Operating activities	740	645	1,343	21	20	11
Non-recurring items	–	–	–	144	–	–
	740	645	1,343	165	20	11
USA						
Operating activities	7,830	6,572	14,213	260	212	494
Non-recurring items	–	–	–	–	194	289
	7,830	6,572	14,213	260	406	783
Central costs	–	–	–	(21)	(19)	(38)
Beverages Division	20,538	14,697	34,067	880	1,785	2,441

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:

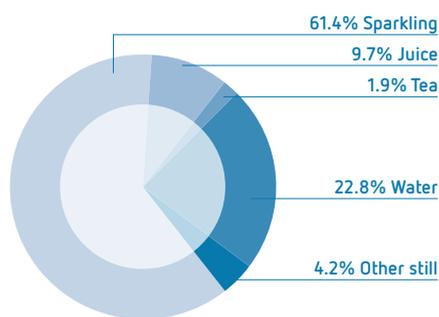
The transfer of interests in the Coca-Cola bottling unit of Shanghai Shen-Mei Beverage and Food Co., Ltd. was completed by 1st July 2017. The division's joint venture interest in this company is accounted for using the equity method of accounting.

Sales Volume by Territory (million unit cases)

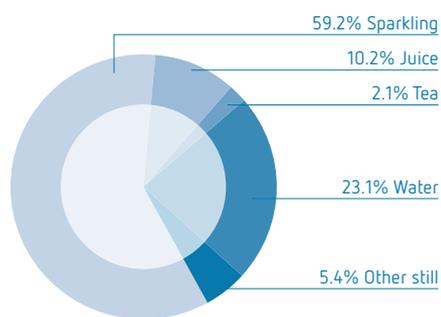
The sales volume for Mainland China shown in the table below represents sales in seven franchise territories from 1st January 2017 to 31st March 2017, sales in 12 franchise territories from 1st April 2017 to 30th June 2017 and sales in 13 franchise territories starting from 1st July 2017, in each case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

	Mainland China	Hong Kong	Taiwan	USA	Total
Six months ended 30th June 2018	668.5	30.9	26.5	147.1	873.0
Six months ended 30th June 2017	459.4	29.6	24.7	130.1	643.8

Breakdown of Total Volume by Category (%)



Six months ended 30th June 2018



Six months ended 30th June 2017

RESULTS SUMMARY

Swire Beverages made an attributable profit of HK\$880 million in the first half of 2018. This included a non-recurring gain of HK\$144 million arising from the disposal of its Kaohsiung plant in Taiwan. This compares with an attributable profit of HK\$1,785 million in the first half of 2017. The 2017 figure included non-recurring gains of HK\$1,229 million arising from the realignment of the Coca-Cola bottling system in Mainland China and a non-recurring gain of HK\$194 million arising from changes to the division's franchise terms in the USA.

Disregarding non-recurring gains in both periods, Swire Beverages made an attributable profit of HK\$736 million in the first half of 2018, more than double its attributable profit of HK\$362 million in the first half of 2017.

Overall sales volume increased by 36% to 873 million unit cases. Sales revenue (including that of joint venture companies and excluding sales to other bottlers) increased by 38% to HK\$21,334 million. Volume and revenue grew in Mainland China and the USA, mainly due to the inclusion of

sales in the territories acquired in 2017. Volume and revenue also grew in Hong Kong and Taiwan.

Mainland China

Attributable profit from Mainland China for the first half of 2018 was HK\$377 million. Disregarding non-recurring gains in the first half of 2017, the attributable profit in the first half of 2018 was more than five times that in the first half of 2017.

Total sales volume increased by 46%, compared with the same period in 2017. This principally reflected the acquisition of new franchise territories in 2017. Sales volume in existing territories increased by 12%.

Sparkling and juice sales volume grew by 53% and 30% respectively. Water volume grew by 39%.

Revenue in local currency terms grew by 49%, a higher growth rate than that of volume. This was due to improvements in product and package mixes, combined with price increases. The increase in revenue was partly offset by higher raw material and operating costs.

Hong Kong

Attributable profit from Hong Kong for the first half of 2018 was HK\$99 million, a 32% increase from the first half of 2017. The increase included the additional share of profits in Hong Kong resulting from the acquisition of the 12.5% of Swire Beverages Limited previously owned by TCCC. The operating profit increased by 24%.

Sales volume increased by 4%. Sparkling sales volume increased by 7%. Still sales volume increased by 3%, with sales of tea having increased by 17% and sales of juice having increased by 8%.

Revenue increased by 7%, a higher growth rate than that of volume. This reflected the introduction of new products, an improved product mix and price increases. The increase in revenue was partly offset by higher raw material and operating costs.

Taiwan

Attributable profit from Taiwan for the first half of 2018 was HK\$165 million. Disregarding the non-recurring gain on disposal of the Kaohsiung plant, the attributable profit was HK\$21 million, a 5% increase from the first half of 2017.

Sales volume increased by 7%. Sparkling and still beverage sales volume increased by 2% and 16% respectively. Tea sales volume increased by 11%. Water sales volume increased by 188%.

Revenue in local currency terms increased by 12%, a higher growth rate than that of volume, reflecting price increases.

USA

Attributable profit from the USA for the first half of 2018 was HK\$260 million. Disregarding the non-recurring gain on changes to the division's franchise terms in the first half of 2017, the attributable profit increased by 23%.

Sales volume (excluding sales to other bottlers) increased by 13%, compared with the same period in 2017. This principally reflected the inclusion of sales in the states of Washington and Idaho from March 2017 and Oregon from May 2017.

Sparkling sales volume increased by 14%. Still sales volume increased by 10%. The latter increase principally reflected a 15% increase in sales of water and a 13% increase in sales of energy drinks.

Revenue in local currency (excluding sales to other bottlers) grew by 17%, a higher growth rate than that of volume. This reflected a favourable product mix and price increases. Gross margins increased, principally as a result of higher sales volume, but the beneficial effect of this was partially offset by higher raw material and operating costs. The reduction in US corporate tax rates improved the attributable profit.

Outlook

Sales volume and revenue in Mainland China are expected to continue to grow in the second half of 2018, reflecting better product and package mixes, improved market execution and strong marketing. However, increased raw material costs will put pressure on profits.

Continued growth in sales volume and revenue is expected in Hong Kong in the second half of 2018, with revenue growing faster than volume. Increased raw material and operating costs will reduce margins. Supply constraints are adversely affecting operations during the summer.

Sales volume and revenue is expected to continue to grow in Taiwan in the second half of 2018, reflecting improvements in package mix and in the management of sales channels. Production capacity constraints will adversely affect operating costs.

In the USA, the beverages market is expected to grow moderately in the second half of 2018. However, increased raw material costs will put pressure on profits.

Patrick Healy

MARINE SERVICES DIVISION

The Marine Services Division, through Swire Pacific Offshore (“SPO”), operates offshore support vessels servicing the energy industry in every major offshore production and exploration region outside the USA. SPO has an offshore wind farm installation business and a subsea inspection, maintenance and repair (“IMR”) business. The division has joint venture interests in engineering and harbour towage services in Hong Kong through the Hongkong United Dockyards (“HUD”) group.

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Swire Pacific Offshore group			
Revenue	1,527	1,474	3,067
Operating loss derived from			
Vessel activities and services	(469)	(460)	(779)
Impairment charges on vessels and related goodwill	(3,861)	–	(1,015)
Adjustment on disposal of a subsidiary in 2016	–	–	3
Total operating loss	(4,330)	(460)	(1,791)
Attributable loss	(4,563)	(692)	(2,255)
HUD group			
Share of post-tax profits from joint venture companies	13	16	23
Attributable loss	(4,550)	(676)	(2,232)
Adjusted attributable loss (excluding impairment charges and associated write-offs of deferred tax assets)	(650)	(676)	(1,217)

Fleet Size

	At 30th June		At 31st December
	2018	2017	2017
Number of vessels			
Swire Pacific Offshore group	78	77	77
HUD group – Hongkong Salvage & Towage	19	19	19
Total	97	96	96

RESULTS SUMMARY

The attributable loss of the Marine Services Division in the first half of 2018 was HK\$4,550 million (including the impairment charges and associated write-off referred to below), compared to a loss of HK\$676 million in the first half of 2017.

Swire Pacific Offshore group

SPO reported an attributable loss of HK\$4,563 million for the first half of 2018, compared to a loss of HK\$692 million in the first half of 2017.

The loss for the first half of 2018 included impairment charges in respect of the carrying value of vessels (and an associated impairment of goodwill and deferred tax asset write-off) aggregating HK\$3,900 million. Excluding the impairment charges (and associated write-off) of HK\$3,900 million, SPO reported an attributable loss of HK\$663 million in the first half of 2018. This reflects the continuing difficult conditions in the offshore industry.

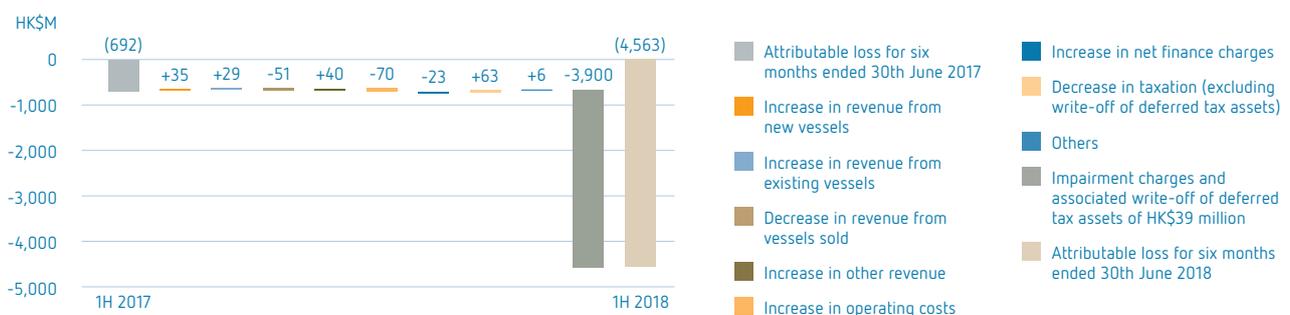
Significant impairment charges were made by SPO in earlier years. These impairment charges reflected reviews of the carrying value of SPO's fleet, as required by applicable accounting standards. A significant influence on the value of the fleet is the outlook for the offshore industry in which SPO operates.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

A further review of the carrying value of SPO's fleet has been undertaken. The previous reviews took into account an expectation that a recovery in the oil price would result in increased offshore exploration and therefore increased utilisation of SPO's fleet and an increase in the charter hire rates which SPO could secure. The oil price has recovered, from a price of US\$50 per barrel 12 months ago (and a low in 2016 of US\$28 per barrel) to its current US\$73 per barrel. This has not resulted in a significant increase in offshore exploration. There has been some increase in utilisation of SPO's fleet but average charter hire rates have not increased. Too many vessels, including some being brought out of cold stack, are competing for the available work. As a result, the latest review of the carrying value of SPO's fleet takes into account significantly less optimistic assumptions about future charter hire rates than the previous reviews. The expected useful life of the relevant SPO vessels has also been reduced, from 25 to 20 years.

SPO disposed of four vessels in the first half of 2018 at an aggregate loss of HK\$3 million (first half of 2017: four vessels disposed of at an aggregate loss of HK\$19 million).

SPO incurred a net cash deficit from operating activities of HK\$248 million in the first half of 2018 (first half of 2017: generated a net cash surplus of HK\$64 million).

SPO – Movement in Attributable Loss



Charter Hire

Charter hire revenue increased by 1% to HK\$1,293 million in the first half of 2018. Fleet utilisation during the first half of 2018 was 68.9%, ten percentage points higher than in the first half of 2017. Average charter hire rates decreased by 7% to US\$17,300 per day.

Utilisation of SPO's core fleet of anchor handling tug supply vessels ("AHTSs") and platform supply vessels ("PSVs") increased by 12.7 percentage points to 73.5%. Average charter hire rates for the core fleet were US\$10,900 per day, a decrease of 13% from those in the first half of 2017.

Utilisation of SPO's construction and specialist vessels ("CSVs") decreased by 6.1 percentage points to 41.2%. The CSVs' average charter hire rates increased by 31% to US\$87,300 per day.

Utilisation of SPO's subsea vessels decreased to 73.7% for the first half of 2018 (first half of 2017: 94.9%). Day rates increased by 4% to US\$65,500 per day, but revenue decreased by 22%.

Utilisation of SPO's wind farm installation vessels increased to 59.6% for the first half of 2018 (first half of 2017: 36.2%). Revenue from wind farm installation vessels increased by 118%. There were high operating rates for installation work.

One accommodation barge, one seismic survey and two AHTS vessels were in cold stack at 30th June 2018.

Non-charter Hire

Non-charter hire income increased by 21% to HK\$234 million in the first half of 2018. This mainly reflected consultancy and engineering services provided by subsea vessels. No such services were provided in the first half of 2017.

Operating Costs

Total operating costs increased by 4% in the first half of 2018. This reflected an increase in non-charter activities.

Fleet

The fleet size at 30th June 2018 was 78, compared to 77 at 30th June and 31st December 2017.

SPO disposed of four older AHTSs in the first half of 2018. SPO expects to continue to dispose of older vessels.

One IMR vessel was chartered in and four PSVs were delivered to SPO in the first half of 2018. Total capital expenditure on new vessels and other fixed assets during the first half of 2018 was HK\$907 million, compared to HK\$381 million in the first half of 2017. SPO has completed its new build programme.

SPO – Fleet Size

Vessel class	31st December	Additions	Disposals	Half-year
	2017	30th June 2018		
Anchor Handling Tug Supply Vessels	30	–	1	29
Large Anchor Handling Tug Supply Vessels	19	–	3	16
Platform Supply Vessels	10	4	–	14
Large Platform Supply Vessels	8	–	–	8
Construction and Specialist Vessels	10	1*	–	11
	77	5	4	78

* Subject to an operating lease.

Outlook

There are some signs of returning confidence in offshore industry. Exploration and production spending is expected to increase modestly in 2018 and 2019. This should benefit utilisation of mobile offshore drilling units and offshore supply vessels. However, charter hire rates are expected to remain depressed. Too many vessels, including some being brought out of cold stack, are competing for the available work.

SPO's new build programme was completed with the delivery of four new vessels in the first half of 2018. SPO evaluates its older vessels with a view to being in the best position to take advantage of market opportunities. It remains active in its control of costs.

Ron Mathison

Hongkong United Dockyards ("HUD") group

The attributable profit of the HUD group in the first half of 2018 was HK\$13 million, compared to HK\$16 million in the first half of 2017.

The engineering division recorded a loss (before tax and interest and on a 100% basis) of HK\$33 million in the first half of 2018, compared to a loss of HK\$24 million in the first half of 2017. The profitability of non-marine contracts was adversely affected by high labour and sub-contracting costs.

The profit of HongKong Salvage & Towage ("HKST") (before tax and interest and on a 100% basis) in the first half of 2018 was HK\$60 million, compared to HK\$63 million in the first half of 2017. The number of tug moves was similar to that in the first half of 2017, but fuel prices increased substantially.

HKST has 19 vessels in its fleet, including six container vessels.

Outlook

A similar amount of engineering work and (at HKST) a similar number of tug movements are expected in the second half of 2018 as in the first half of 2018. However, towage rates at HKST will be under pressure.

Derrick Chan

TRADING & INDUSTRIAL DIVISION

The Trading & Industrial Division has interests in the following wholly-owned and joint venture companies:

- Swire Retail group:
 - (i) Swire Resources group – distribution and retailing of footwear, apparel and related accessories in Hong Kong, Macau and Mainland China
 - (ii) Swire Brands group – an investment in Columbia China
- Taikoo Motors group – distribution and retailing of motor vehicles in Taiwan, Hong Kong and Malaysia
- Swire Foods group:
 - (i) Chongqing New Qinyuan Bakery Co. Ltd (“Qinyuan Bakery”) – a leading bakery chain in southwest China
 - (ii) Swire Foods (including Taikoo Sugar) – distribution of food products and packaging and selling of sugar in Hong Kong and Mainland China under the Taikoo Sugar brand
- Akzo Nobel Swire Paints – manufacture and distribution of paint in Mainland China, Hong Kong and Macau
- Swire Environmental Services group:
 - (i) Swire Waste Management – provision of waste management services in Hong Kong
 - (ii) Swire Sustainability Fund – investment in early-stage sustainable technology companies

Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Revenue			
Swire Retail group	1,699	1,551	3,074
Taikoo Motors group	2,969	2,790	5,306
Swire Foods group	905	813	1,761
Swire Pacific Cold Storage group	82	44	105
	5,655	5,198	10,246
Operating profits/(losses)			
Swire Retail group	69	5	(69)
Taikoo Motors group	99	40	91
Swire Foods group	34	18	65
Swire Pacific Cold Storage group	(57)	(56)	(136)
Swire Environmental Services group	(9)	(1)	(9)
Others, including central costs	(8)	(16)	(22)
	128	(10)	(80)
Attributable profits/(losses)			
Swire Retail group	98	32	(14)
Taikoo Motors group	83	33	77
Swire Foods group	18	13	42
Swire Pacific Cold Storage group	(73)	(71)	(171)
Swire Environmental Services group	(39)	(39)	(50)
Akzo Nobel Swire Paints	80	113	215
Others, including central costs	(13)	(16)	(30)
	154	65	69
Adjusted attributable profit (excluding HK\$94 million loss on disposal of an interest in Rebecca Minkoff in December 2017 by Swire Retail group)	154	65	163

RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in the first half of 2018 increased by 137% from the same period in 2017 to HK\$154 million. The increase reflected better results from Swire Retail, Taikoo Motors and Swire Foods, partly offset by weaker results from Akzo Nobel Swire Paints.

Swire Retail group

Attributable profit increased by 206% in the first half of 2018 to HK\$98 million. The increase reflected better profits in Hong Kong and reduced losses in Mainland China. The Hong Kong business benefited from cold weather in the early part of the period, increased inbound tourism and a stable sports retail market. The Mainland China results benefited from the closure of the Catalog stores. The profits of the Columbia China joint venture increased satisfactorily.

Revenue in the first half of 2018 was 10% higher than in the first half of 2017. With less discounting, gross margins increased. This was partially offset by increased occupancy, advertising and promotion costs.

The group operated 194 retail outlets in Hong Kong and Macau at 30th June 2018, 14 more than at the end of 2017. Swire Resources started to distribute and retail an additional footwear brand in April 2018.

The group operated nine retail outlets in Mainland China at 30th June 2018. Loss making stores are being closed.

Taikoo Motors group

The attributable profit of Taikoo Motors increased from HK\$33 million in the first half of 2017 to HK\$83 million in the first half of 2018. The 2017 and 2018 figures included HK\$18 million and HK\$2 million respectively of non-recurring costs resulting from the closure of loss making businesses.

9,099 vehicles were sold in the first half of 2018, 0.4% fewer than in the first half of 2017. However, revenue and operating profits benefited from a favourable product mix.

Swire Foods group

The Swire Foods group reported an attributable profit of HK\$18 million for the first half of 2018, compared with an attributable profit of HK\$13 million for the first half of 2017.

Qinyuan Bakery contributed an attributable profit of HK\$9 million in the first half of 2018, compared with an attributable profit of HK\$12 million in the first half of 2017.

The revenue and gross profit of Qinyuan Bakery increased by 6% and 2% respectively in the first half of 2018. This reflected growth in the number of stores and strong sales of seasonal products. Qinyuan Bakery operated 668 stores in southwest China at 30th June 2018, compared with 650 stores at the end of 2017. Operating costs increased, mainly because of business development costs.

The volume of sugar sold by Taikoo Sugar rose by 15% and 11% in Hong Kong and Mainland China respectively. Margins benefited from higher volume and lower sugar costs.

The attributable loss at the 34% owned sugar refinery plant in Guangdong for the first half of 2018 was HK\$7 million. This principally reflected production problems.

Swire Pacific Cold Storage group

Swire Pacific Cold Storage recorded an attributable loss for the first half of 2018 of HK\$73 million, compared with a loss of HK\$71 million in the same period in 2017. There were operating losses at the cold stores in Chengdu, Nanjing, Ningbo and Xiamen. The Fengxian, Langfang and Guangdong cold stores recorded profits.

Swire Pacific Cold Storage was sold in July 2018 at a small profit. Swire Pacific regularly reviews its businesses to assess whether they contribute to its strategic objectives. It was thought right to take the opportunity to sell the Mainland China cold storage business.

Swire Environmental Services group

Swire Environmental Services reported an attributable loss of HK\$39 million in the first half of 2018, the same as that in the first half of 2017.

Akzo Nobel Swire Paints

Attributable profit from Akzo Nobel Swire Paints for the first half of 2018 was HK\$80 million, compared to HK\$113 million in the same period in 2017.

Sales volume in Mainland China decreased. The gross margin rate decreased as a result of higher material costs and an unfavourable product mix. This was partially offset by reduced operating costs.

Outlook

The retail market in Hong Kong remains competitive but is doing better than in 2017. However, recent Renminbi depreciation may, because of its effect on inbound tourism to Hong Kong, adversely affect the revenue of Swire Resources.

Columbia has exercised a contractual right to acquire our interest in Columbia China with effect from the beginning of 2019.

Sales of Volkswagen and Mercedes passenger cars are stable. Sales of Volvo trucks are slowing down. Sales of Harley-Davidson motorcycles and Vespa scooters are increasing. Competition is intensifying and customers are less keen to buy trucks.

Qinyuan Bakery is expanding its retail network and product range, upgrading its stores and making its supply chain more agile and efficient. All this is expected to improve performance in the second half of 2018.

Akzo Nobel Swire Paints is continuing to expand and strengthen its distribution network in Mainland China. It expects higher sales volume in the second than in the first half of 2018.

The overall profits of the Trading & Industrial Division are expected to be higher in the second than in the first half of 2018.

Derrick Chan / Ivan Chu

Financial Review

Financial Information Reviewed by Auditors

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

	Note	Six months ended 30th June		Year ended 31st December
		2018 HK\$M	2017 HK\$M	2017 HK\$M
Underlying profit				
Profit attributable to the Company's shareholders		13,501	12,138	26,070
Adjustments in respect of investment properties:				
Revaluation of investment properties	(a)	(16,298)	(10,409)	(26,714)
Deferred tax on investment properties	(b)	121	305	573
Realised profit on sale of investment properties	(c)	1,233	47	50
Depreciation of investment properties occupied by the Group	(d)	15	14	28
Non-controlling interests' share of adjustments		2,693	1,785	4,735
Underlying profit attributable to the Company's shareholders		1,265	3,880	4,742

Notes:

- (a) This represents the net revaluation movements as shown in the consolidated statement of profit or loss plus the Group's share of net revaluation movements of joint venture companies.
- (b) This represents deferred tax movements on the Group's investment properties and the Group's share of deferred tax movements on investment properties held by joint venture companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and the USA, and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.
- (c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the consolidated statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the consolidated statement of profit or loss.
- (d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

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

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Adjusted underlying profit			
Underlying profit attributable to the Company's shareholders	1,265	3,880	4,742
Other significant adjusting items:			
Profit on sale of property, plant and equipment and other investments	(111)	(293)	(200)
Profit on sale of interests in investment properties	(2,039)	(2)	(12)
Gain by Swire Beverages from territory and business changes in Mainland China and the USA	–	(1,423)	(1,511)
Net impairment of property, plant and equipment, and intangible assets and write-off of deferred tax assets	3,911	2	1,743
Adjusted underlying profit	3,026	2,164	4,762

Financing

Summary of Cash Flows

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Net cash from/(used by) businesses and investments			
Cash generated from operations	8,297	9,459	19,605
Dividends received	542	300	557
Tax paid	(738)	(721)	(2,172)
Net interest paid	(1,213)	(1,169)	(2,390)
Cash generated from/(used in) investing activities	1,187	(10,097)	(17,749)
	8,075	(2,228)	(2,149)
Cash (paid to)/received from shareholders and net funding by external debt			
Dividends paid	(2,450)	(2,369)	(4,335)
Purchase of shares in existing subsidiary companies	–	–	(1,384)
(Decrease)/increase in borrowings	(1,345)	4,362	7,263
Repurchase of the Company's shares	(21)	(68)	(153)
	(3,816)	1,925	1,391
Increase/(decrease) in cash and cash equivalents	4,259	(303)	(758)

Cash generated from investing activities during the first half of 2018 included cash proceeds from disposal of subsidiary companies net of cash used for capital expenditure on property projects and plant and equipment and for investments in joint venture companies.

Changes in Financing

Financial Information Reviewed by Auditors

Analysis of Changes in Financing During the Period

	Six months ended 30th June 2018 HK\$M	Year ended 31st December 2017 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	78,586	70,570
Loans drawn and refinancing	7,967	20,312
Repayment of loans and bonds	(9,312)	(13,049)
Currency adjustment	150	629
Other non-cash movements	64	124
At 30th June / 31st December	77,455	78,586

Sources of Finance

Financial Information Reviewed by Auditors

At 30th June 2018, committed loan facilities and debt securities amounted to HK\$97,942 million, of which HK\$20,513 million remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$9,691 million. Sources of funds at 30th June 2018 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring after one year HK\$M	Total Undrawn HK\$M
Committed facilities					
Loans and bonds					
Fixed/floating rate bonds	50,467	50,467	–	–	–
Bank loans, overdrafts and other loans	47,475	26,962	3,445	17,068	20,513
Total committed facilities	97,942	77,429	3,445	17,068	20,513
Uncommitted facilities					
Bank loans, overdrafts and other loans	10,091	400	9,691	–	9,691
Total	108,033	77,829	13,136	17,068	30,204

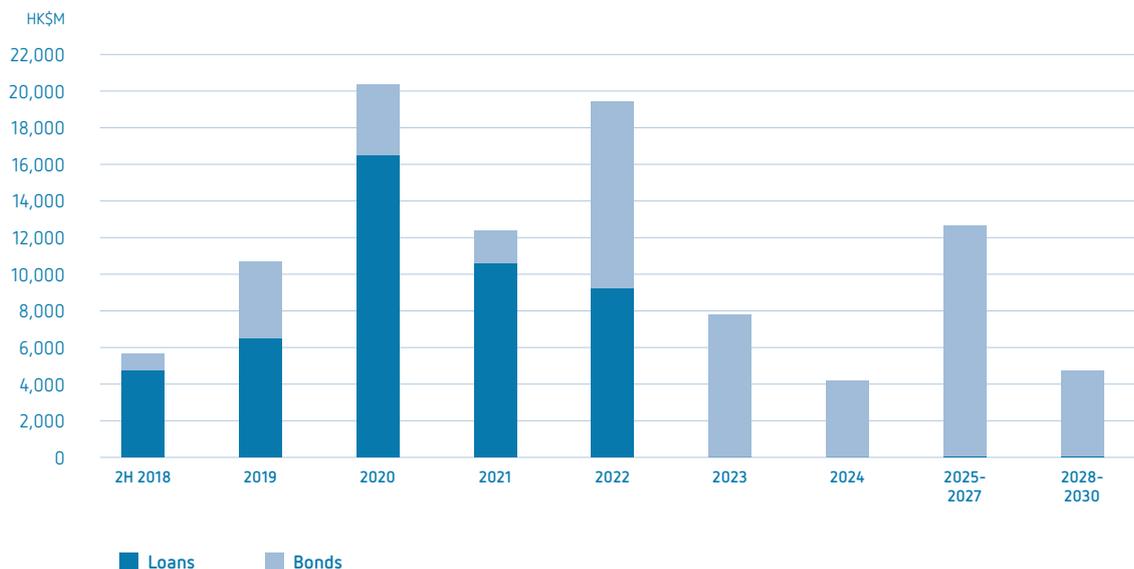
Note: The figures above are stated before unamortised loan fees of HK\$374 million.

The Group had bank balances and short-term deposits of HK\$10,183 million at 30th June 2018 compared to HK\$6,072 million at 31st December 2017.

Maturity Profile and Refinancing

The maturity profile of the Group's available committed facilities is set out below:

Total Available Committed Facilities By Maturity – at 30th June 2018



Financial Information Reviewed by Auditors

Gross Borrowings Maturity Profile

	30th June 2018		31st December 2017	
	HK\$M		HK\$M	
Within 1 year	6,014	8%	9,412	12%
1 – 2 years	13,212	17%	9,516	12%
2 – 5 years	29,912	39%	34,413	44%
After 5 years	28,317	36%	25,245	32%
Total	77,455	100%	78,586	100%

Currency Profile

An analysis of the carrying amounts of gross borrowings by currency (after cross-currency swaps) is shown below:

	30th June 2018		31st December 2017	
	HK\$M		HK\$M	
Currency				
Hong Kong dollar	52,553	68%	55,025	70%
United States dollar	22,705	29%	20,640	26%
Renminbi	1,679	2%	2,480	3%
Others	518	1%	441	1%
Total	77,455	100%	78,586	100%

Finance Charges

Financial Information Reviewed by Auditors

At 30th June 2018, 71% of the Group's gross borrowings were on a fixed rate basis and 29% were on a floating rate basis (31st December 2017: 71% and 29% respectively). Interest charged and earned was as follows:

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Interest charged:			
Bank loans and overdrafts	316	245	520
Other loans, bonds and perpetual capital securities	1,026	1,028	2,041
Fair value gains on derivative instruments			
Interest rate swaps: cash flow hedges, transferred from other comprehensive income	(46)	(44)	(74)
Interest rate swaps not qualifying as hedges	(3)	–	(1)
Amortised loan fees – loans at amortised cost	63	61	114
	1,356	1,290	2,600
Fair value loss on put options over non-controlling interests in subsidiary companies	5	7	34
Fair value loss on put options over other partners' interests in a joint venture company	15	–	30
Other financing costs	67	75	124
Capitalised on:			
Investment properties	(127)	(102)	(212)
Hotels and other properties	–	(79)	(167)
Vessels	(2)	(6)	(10)
	1,314	1,185	2,399
Less interest income:			
Short-term deposits and bank balances	43	26	70
Other loans	49	46	90
	92	72	160
Net finance charges	1,222	1,113	2,239

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$1,356 million (30th June 2017: HK\$1,290 million; year ended 31st December 2017: HK\$2,600 million).

Gearing Ratios and Interest Cover

	30th June		31st December
	2018	2017	2017
Gearing ratio*			
Per accounts	20.9%	24.1%	23.7%
Interest cover – times*			
Per accounts	15.3	15.8	16.0
Underlying	3.7	7.0	4.7
Cash interest cover – times*			
Per accounts	13.8	13.6	13.6
Underlying	3.3	6.0	4.0

* Refer to Glossary on page 83 for definition.

Debt in Joint Venture and Associated Companies

In accordance with Hong Kong Financial Reporting Standards, the net debt of Swire Pacific reported in the consolidated statement of financial position does not include the net debt of its joint venture and associated companies. These companies had the following net debt positions at 30th June 2018 and 31st December 2017:

	Total net debt/(cash) of joint venture and associated companies		Portion of net debt/(cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	30th June 2018 HK\$M	31st December 2017 HK\$M	30th June 2018 HK\$M	31st December 2017 HK\$M	30th June 2018 HK\$M	31st December 2017 HK\$M
Property Division	17,645	17,334	7,136	7,058	1,622	1,483
Aviation Division						
Cathay Pacific group	55,272	59,300	24,873	26,685	–	–
HAECO group	668	527	298	240	–	–
Others	1	1	1	1	–	–
Beverages Division	(311)	(392)	(162)	(221)	–	–
Marine Services Division	786	841	393	420	500	500
Trading & Industrial Division	(2,413)	(3,221)	(784)	(1,086)	28	29
	71,648	74,390	31,755	33,097	2,150	2,012

If the attributable portion of the net debt in joint venture and associated companies were to be added to the Group's net debt, gearing would rise to 30.7% at 30th June 2018.

Report on Review of Condensed Interim Financial Statements

To the Board of Directors of Swire Pacific Limited
(incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed interim financial statements set out on pages 42 to 78, which comprise the consolidated statement of financial position of Swire Pacific Limited (the "Company") and its subsidiaries (together the "Group") as at 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of the Group are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 9th August 2018

Consolidated Statement of Profit or Loss

for the six months ended 30th June 2018

	Note	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
		2018 HK\$M	2017 HK\$M	2017 HK\$M
Revenue	4	42,265	40,211	80,289
Cost of sales		(26,827)	(26,032)	(51,991)
Gross profit		15,438	14,179	28,298
Distribution costs		(6,843)	(5,028)	(11,684)
Administrative expenses		(3,066)	(2,949)	(6,027)
Other operating expenses		(154)	(172)	(299)
Other net (losses)/gains	5	(2,153)	1,711	245
Change in fair value of investment properties		15,473	9,884	25,331
Operating profit		18,695	17,625	35,864
Finance charges		(1,314)	(1,185)	(2,399)
Finance income		92	72	160
Net finance charges	7	(1,222)	(1,113)	(2,239)
Share of profits less losses of joint venture companies		1,338	962	2,209
Share of profits less losses of associated companies		14	(821)	(328)
Profit before taxation		18,825	16,653	35,506
Taxation	8	(1,169)	(1,603)	(3,124)
Profit for the period		17,656	15,050	32,382
Profit attributable to:				
The Company's shareholders		13,501	12,138	26,070
Non-controlling interests		4,155	2,912	6,312
		17,656	15,050	32,382
Underlying profit attributable to the Company's shareholders	9	1,265	3,880	4,742
		HK\$	HK\$	HK\$
Earnings per share from profit attributable to the Company's shareholders (basic and diluted)	11			
'A' share		8.99	8.07	17.34
'B' share		1.80	1.61	3.47

The notes on pages 47 to 78 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2018

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Profit for the period	17,656	15,050	32,382
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Revaluation of property previously occupied by the Group			
gains recognised during the period	4	120	125
deferred tax	–	(2)	(3)
Changes in the fair value of equity investments at fair value through other comprehensive income	(53)	–	–
Defined benefit plans			
remeasurement losses recognised during the period	(10)	(1)	(17)
deferred tax	4	(1)	(29)
Share of other comprehensive income of joint venture and associated companies	18	18	353
	(37)	134	429
Items that can be reclassified subsequently to profit or loss			
Cash flow hedges			
gains/(losses) recognised during the period	119	(511)	(349)
transferred to net finance charges	(46)	(44)	(74)
transferred to operating profit	(49)	(56)	(88)
deferred tax	(6)	106	88
Net fair value changes on available-for-sale assets			
gains recognised during the period	–	38	69
transferred to profit or loss on disposal	–	–	(1)
Share of other comprehensive income of joint venture and associated companies	1,463	214	3,666
Net translation differences on foreign operations			
(losses)/gains recognised during the period	(543)	1,263	3,051
reclassified to profit or loss on disposal	–	–	6
	938	1,010	6,368
Other comprehensive income for the period, net of tax	901	1,144	6,797
Total comprehensive income for the period	18,557	16,194	39,179
Total comprehensive income attributable to:			
The Company's shareholders	14,527	13,012	32,218
Non-controlling interests	4,030	3,182	6,961
	18,557	16,194	39,179

The notes on pages 47 to 78 form part of these financial statements.

Consolidated Statement of Financial Position

at 30th June 2018

	Note	(Unaudited) 30th June 2018 HK\$M	(Audited) 31st December 2017 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	12	42,085	45,619
Investment properties	13	269,026	265,944
Leasehold land and land use rights	12	1,626	1,663
Intangible assets	14	13,329	13,486
Properties held for development		1,350	1,342
Joint venture companies	15	32,482	29,449
Associated companies	16	32,344	30,404
Available-for-sale assets		–	375
Equity investments at fair value through other comprehensive income		326	–
Derivative financial instruments	18	292	174
Other receivables	19	81	50
Deferred tax assets	21	603	603
Retirement benefit assets		88	93
		393,632	389,202
Current assets			
Properties under development and for sale		1,980	2,300
Stocks and work in progress		5,747	6,229
Trade and other receivables	19	12,456	10,979
Derivative financial instruments	18	20	55
Bank balances and short-term deposits		10,183	6,072
Other current assets	22	–	6,262
		30,386	31,897
Assets classified as held for sale	23	14,704	–
		45,090	31,897
Current liabilities			
Trade and other payables	20	24,458	22,439
Taxation payable		1,043	624
Derivative financial instruments	18	14	11
Short-term loans		400	671
Long-term loans and bonds due within one year		5,614	8,741
		31,529	32,486
Liabilities directly associated with assets classified as held for sale	23	233	–
		31,762	32,486
Net current assets/(liabilities)		13,328	(589)
Total assets less current liabilities		406,960	388,613
Non-current liabilities			
Long-term loans and bonds		71,441	69,174
Derivative financial instruments	18	76	89
Other payables	20	2,114	2,343
Deferred tax liabilities	21	9,703	9,881
Retirement benefit liabilities		1,063	1,032
		84,397	82,519
NET ASSETS		322,563	306,094
EQUITY			
Share capital	24	1,294	1,294
Reserves	25	265,066	251,869
Equity attributable to the Company's shareholders		266,360	253,163
Non-controlling interests	26	56,203	52,931
TOTAL EQUITY		322,563	306,094

The notes on pages 47 to 78 form part of these financial statements.

Consolidated Statement of Cash Flows

for the six months ended 30th June 2018

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Operating activities			
Cash generated from operations	8,297	9,459	19,605
Interest paid	(1,298)	(1,242)	(2,553)
Interest received	85	73	163
Tax paid	(738)	(721)	(2,172)
	6,346	7,569	15,043
Dividends received from joint venture and associated companies (2017: including available-for-sale assets)	542	300	557
Net cash generated from operating activities	6,888	7,869	15,600
Investing activities			
Purchase of property, plant and equipment	(2,610)	(1,863)	(3,777)
Additions of investment properties	(2,598)	(2,693)	(5,179)
Additions of other current assets/other non-current assets	(71)	(494)	(623)
Purchase of intangible assets	(43)	(32)	(103)
Proceeds from disposals of property, plant and equipment	305	128	263
Proceeds from disposals of investment properties	236	11	40
Proceeds from disposals of subsidiary companies, net of cash disposed of	7,771	631	614
Proceeds from disposals of available-for-sale assets	–	61	71
Purchase of shares in new subsidiary companies	–	(4,107)	(4,163)
Purchase of shares in joint venture companies	(1,670)	(3)	(1,046)
Purchase of new businesses	–	(1,467)	(2,347)
Adjustment for previous year's purchase of new business	66	–	–
Purchase of available-for-sale assets	–	(20)	(11)
Purchase of equity investment at fair value through other comprehensive income	(4)	–	–
Loans to joint venture companies	(558)	(421)	(1,535)
Loans to associated companies	(60)	(10)	(87)
Repayment of loans by joint venture companies	326	107	128
Repayment of loans by associated companies	1	114	115
Decrease/(increase) in deposits maturing after more than three months	102	(30)	(85)
Initial leasing costs incurred	(6)	(9)	(24)
Net cash generated from/(used in) investing activities	1,187	(10,097)	(17,749)
Net cash inflow/(outflow) before financing	8,075	(2,228)	(2,149)
Financing activities			
Loans drawn and refinancing	7,967	13,904	20,312
Repayment of loans and bonds	(9,312)	(9,542)	(13,049)
	(1,345)	4,362	7,263
Repurchase of the Company's shares	(21)	(68)	(153)
Purchase of shares in existing subsidiary companies	–	–	(1,384)
Dividends paid to the Company's shareholders	(1,652)	(1,655)	(3,158)
Dividends paid to non-controlling interests	(798)	(714)	(1,177)
Net cash (used in)/generated from financing activities	(3,816)	1,925	1,391
Increase/(decrease) in cash and cash equivalents	4,259	(303)	(758)
Cash and cash equivalents at 1st January	5,951	6,450	6,450
Currency adjustment	(47)	98	259
Cash and cash equivalents at end of the period	10,163	6,245	5,951
Represented by:			
Bank balances and short-term deposits maturing within three months	10,163	6,245	5,951

The notes on pages 47 to 78 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the six months ended 30th June 2018

	Note	Attributable to the Company's shareholders			Non-controlling interests HK\$M	Total equity HK\$M	
		Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M			Total HK\$M
At 1st January 2018							
as originally stated		1,294	246,881	4,988	253,163	52,931	306,094
adjustment on adoption of HKFRS 9		–	326	(326)	–	–	–
adjustment on adoption of HKFRS 15		–	331	–	331	32	363
as restated		1,294	247,538	4,662	253,494	52,963	306,457
Profit for the period		–	13,501	–	13,501	4,155	17,656
Other comprehensive income		–	12	1,014	1,026	(125)	901
Total comprehensive income for the period		–	13,513	1,014	14,527	4,030	18,557
Dividends paid		–	(1,652)	–	(1,652)	(798)	(2,450)
Capital contribution from non-controlling interests		–	–	–	–	8	8
Repurchase of the Company's shares	24	–	(9)	–	(9)	–	(9)
At 30th June 2018 (unaudited)		1,294	259,390	5,676	266,360	56,203	322,563

	Note	Attributable to the Company's shareholders			Non-controlling interests HK\$M	Total equity HK\$M	
		Share capital HK\$M	Revenue reserve HK\$M	Other reserves HK\$M			Total HK\$M
At 1st January 2017		1,294	224,464	(879)	224,879	47,289	272,168
Profit for the period		–	12,138	–	12,138	2,912	15,050
Other comprehensive income		–	16	858	874	270	1,144
Total comprehensive income for the period		–	12,154	858	13,012	3,182	16,194
Dividends paid		–	(1,655)	–	(1,655)	(693)	(2,348)
Capital contribution from non-controlling interests		–	–	–	–	241	241
Repurchase of the Company's shares		–	(80)	–	(80)	–	(80)
Change in composition of the Group		–	–	–	–	360	360
At 30th June 2017 (unaudited)		1,294	234,883	(21)	236,156	50,379	286,535

The notes on pages 47 to 78 form part of these financial statements.

Notes to the Condensed Interim Financial Statements

1. SEGMENT INFORMATION

(a) Analysis of Consolidated Statement of Profit or Loss

Six months ended 30th June 2018	External revenue HK\$M	Inter- segment revenue HK\$M	Operating profit/ (loss) HK\$M	Finance charges HK\$M	Finance income HK\$M	Share of profits less losses of joint venture companies HK\$M	Share of profits less losses of associated companies HK\$M	Tax (charge)/ credit HK\$M	Profit/ (loss) for the period HK\$M	Profit/(loss) attributable to the Company's shareholders HK\$M	Underlying profit/(loss) attributable to the Company's shareholders HK\$M
Property											
Property investment	6,001	58	5,696	(514)	51	388	–	(629)	4,992	4,075	5,099
Change in fair value of investment properties	–	–	15,473	–	–	678	–	26	16,177	13,260	–
Property trading	530	–	73	(20)	–	(4)	–	(17)	32	18	18
Hotels	720	–	(1)	(20)	–	(72)	74	(5)	(24)	(19)	(19)
	7,251	58	21,241	(554)	51	990	74	(625)	21,177	17,334	5,098
Aviation											
Cathay Pacific group	–	–	–	–	–	–	(118)	–	(118)	(118)	(118)
HAECO group	7,325	–	553	(59)	6	222	–	(115)	607	351	351
Others	–	–	(28)	–	–	3	(5)	–	(30)	(16)	(16)
	7,325	–	525	(59)	6	225	(123)	(115)	459	217	217
Beverages											
Mainland China	10,871	–	646	(75)	17	37	68	(250)	443	377	377
Hong Kong	1,096	1	112	–	–	–	–	(13)	99	99	99
Taiwan	740	–	173	(2)	–	–	–	(6)	165	165	165
USA	7,830	–	378	(58)	–	–	–	(60)	260	260	260
Central costs	–	–	(21)	–	–	–	–	–	(21)	(21)	(21)
	20,537	1	1,288	(135)	17	37	68	(329)	946	880	880
Marine Services											
Swire Pacific Offshore group*	1,527	–	(4,330)	(171)	1	–	1	(60)	(4,559)	(4,563)	(4,563)
HUD group	–	–	–	–	–	13	–	–	13	13	13
	1,527	–	(4,330)	(171)	1	13	1	(60)	(4,546)	(4,550)	(4,550)
Trading & Industrial											
Swire Retail group	1,699	–	69	(1)	5	2	34	(11)	98	98	98
Taikoo Motors group	2,969	–	99	–	1	–	–	(17)	83	83	83
Swire Foods group	871	34	34	–	1	(8)	–	(9)	18	18	18
Swire Pacific Cold Storage group	82	–	(57)	(12)	–	(3)	–	(1)	(73)	(73)	(73)
Akzo Nobel Swire Paints	–	–	5	–	–	79	–	(4)	80	80	80
Swire Environmental Services group	–	–	(9)	–	7	3	(40)	–	(39)	(39)	(39)
Other activities	–	–	(13)	–	–	–	–	–	(13)	(13)	(13)
	5,621	34	128	(13)	14	73	(6)	(42)	154	154	154
Head Office											
Net income/(expenses)	4	12	(157)	(732)	353	–	–	2	(534)	(534)	(534)
Inter-segment elimination	–	(105)	–	350	(350)	–	–	–	–	–	–
Total	42,265	–	18,695	(1,314)	92	1,338	14	(1,169)	17,656	13,501	1,265

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.

* Swire Pacific Offshore group's impairment charges included under operating profit/loss and tax charge were HK\$3,861 million and HK\$39 million respectively.

1. SEGMENT INFORMATION (continued)

(a) Analysis of Consolidated Statement of Profit or Loss (continued)

Six months ended 30th June 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 period HK\$M	Profit/(loss) attributable to the Company's shareholders HK\$M	Underlying profit/(loss) attributable to the Company's shareholders HK\$M
Property											
Property investment	5,557	59	4,190	(477)	38	228	–	(572)	3,407	2,785	2,800
Change in fair value of investment properties	–	–	9,884	–	–	435	–	(215)	10,104	8,308	–
Property trading	5,258	–	1,447	(19)	1	(3)	–	(246)	1,180	968	1,003
Hotels	651	–	(50)	(19)	–	(11)	70	(2)	(12)	(9)	(9)
	11,466	59	15,471	(515)	39	649	70	(1,035)	14,679	12,052	3,794
Aviation											
Cathay Pacific group	–	–	–	–	–	–	(923)	–	(923)	(923)	(923)
HAECO group	7,405	–	466	(56)	5	181	–	(121)	475	260	260
Others	–	–	(27)	–	–	3	(5)	–	(29)	(15)	(15)
	7,405	–	439	(56)	5	184	(928)	(121)	(477)	(678)	(678)
Beverages											
Mainland China#	6,459	–	1,608	(78)	8	(3)	52	(209)	1,378	1,303	1,303
Hong Kong	1,020	1	90	–	–	–	–	(8)	82	75	75
Taiwan	645	–	28	(3)	–	–	–	(5)	20	20	20
USA#	6,572	–	546	(22)	1	–	–	(119)	406	406	406
Central costs	–	–	(19)	–	–	–	–	–	(19)	(19)	(19)
	14,696	1	2,253	(103)	9	(3)	52	(341)	1,867	1,785	1,785
Marine Services											
Swire Pacific											
Offshore group	1,473	1	(460)	(149)	2	–	1	(84)	(690)	(692)	(692)
HUD group	–	–	–	–	–	16	–	–	16	16	16
	1,473	1	(460)	(149)	2	16	1	(84)	(674)	(676)	(676)
Trading & Industrial											
Swire Retail group	1,551	–	5	(1)	6	3	24	(5)	32	32	32
Taikoo Motors group	2,790	–	40	–	1	–	–	(8)	33	33	33
Swire Foods group	783	30	18	–	2	(2)	–	(5)	13	13	13
Swire Pacific Cold Storage group	44	–	(56)	(10)	–	(4)	–	(1)	(71)	(71)	(71)
Akzo Nobel Swire Paints	–	–	–	–	–	119	–	(6)	113	113	113
Swire Environmental Services group	–	–	(1)	–	2	–	(40)	–	(39)	(39)	(39)
Other activities	–	–	(16)	–	–	–	–	–	(16)	(16)	(16)
	5,168	30	(10)	(11)	11	116	(16)	(25)	65	65	65
Head Office											
Net income/(expenses)	3	13	(68)	(779)	434	–	–	3	(410)	(410)	(410)
Inter-segment elimination	–	(104)	–	428	(428)	–	–	–	–	–	–
Total	40,211	–	17,625	(1,185)	72	962	(821)	(1,603)	15,050	12,138	3,880

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.

Gains on acquisition/disposal of territories made by Swire Beverages included under operating profit/loss in Mainland China and the USA were HK\$1,367 million and HK\$194 million respectively.

1. SEGMENT INFORMATION (continued)

(a) Analysis of Consolidated Statement of Profit or Loss (continued)

Year ended 31st December 2017	External revenue HK\$M	Inter- segment revenue HK\$M	Operating profit/ (loss) HK\$M	Finance charges HK\$M	Finance income HK\$M	Share of profits less losses of joint venture companies HK\$M	Share of profits less losses of associated companies HK\$M	Tax (charge)/ credit HK\$M	Profit/ (loss) for the year HK\$M	Profit/(loss) attributable to the Company's shareholders HK\$M	Underlying profit/(loss) attributable to the Company's shareholders HK\$M
Property											
Property investment	11,266	114	8,163	(908)	82	500	–	(1,169)	6,668	5,464	5,492
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)
	18,443	115	34,789	(983)	83	1,646	146	(1,805)	33,876	27,731	6,403
Aviation											
Cathay Pacific group	–	–	–	–	–	–	(567)	–	(567)	(567)	(567)
HAECO group*	14,546	–	(90)	(131)	11	314	–	(450)	(346)	(406)	(406)
Others	–	–	(54)	–	–	5	(7)	–	(56)	(29)	(29)
	14,546	–	(144)	(131)	11	319	(574)	(450)	(969)	(1,002)	(1,002)
Beverages											
Mainland China#	16,256	–	2,053	(166)	30	19	93	(443)	1,586	1,465	1,465
Hong Kong	2,254	1	242	–	–	–	–	(15)	227	220	220
Taiwan	1,343	–	20	(5)	–	–	–	(4)	11	11	11
USA#	14,213	–	1,048	(70)	1	–	–	(196)	783	783	783
Central costs	–	–	(38)	–	–	–	–	–	(38)	(38)	(38)
	34,066	1	3,325	(241)	31	19	93	(658)	2,569	2,441	2,441
Marine Services											
Swire Pacific Offshore group*	3,066	1	(1,791)	(304)	5	–	1	(160)	(2,249)	(2,255)	(2,255)
HUD group	–	–	–	–	–	23	–	–	23	23	23
	3,066	1	(1,791)	(304)	5	23	1	(160)	(2,226)	(2,232)	(2,232)
Trading & Industrial											
Swire Retail group	3,074	–	(69)	(2)	10	2	56	(11)	(14)	(14)	(14)
Taikoo Motors group	5,306	–	91	–	2	–	–	(16)	77	77	77
Swire Foods group	1,678	83	65	–	4	(10)	–	(17)	42	42	42
Swire Pacific Cold Storage group	105	–	(136)	(22)	–	(9)	–	(4)	(171)	(171)	(171)
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
Head Office											
Net income/(expenses)	5	30	(235)	(1,540)	832	–	–	6	(937)	(937)	(937)
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

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.

* HAECO group's and Swire Pacific Offshore group's impairment charges 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)

(b) Analysis of Total Assets of the Group

At 30th June 2018	Segment assets HK\$M	Joint venture companies HK\$M	Associated companies HK\$M	Bank deposits HK\$M	Total assets HK\$M
Property					
Property investment	289,957	24,028	–	2,359	316,344
Property trading and development	3,532	666	–	115	4,313
Hotels	6,185	1,204	437	138	7,964
	299,674	25,898	437	2,612	328,621
Aviation					
Cathay Pacific group	–	–	29,734	–	29,734
HAECO group	10,833	1,795	–	1,450	14,078
Others	4,434	2,821	–	–	7,255
	15,267	4,616	29,734	1,450	51,067
Beverages					
Swire Beverages	28,214	1,003	1,598	1,716	32,531
Marine Services					
Swire Pacific Offshore group	14,374	–	57	288	14,719
HUD group	–	(53)	–	–	(53)
	14,374	(53)	57	288	14,666
Trading & Industrial					
Swire Retail group	558	35	275	302	1,170
Taikoo Motors group	1,573	–	–	361	1,934
Swire Foods group	1,493	20	–	119	1,632
Swire Pacific Cold Storage group	1,826	327	–	76	2,229
Akzo Nobel Swire Paints	–	583	–	–	583
Swire Environmental Services group	70	53	243	–	366
Other activities	232	–	–	2	234
	5,752	1,018	518	860	8,148
Head Office	432	–	–	3,257	3,689
	363,713	32,482	32,344	10,183	438,722

1. SEGMENT INFORMATION (continued)

(b) Analysis of Total Assets of the Group (continued)

At 31st December 2017	Segment assets HK\$M	Joint venture companies HK\$M	Associated companies HK\$M	Bank deposits HK\$M	Total assets HK\$M
Property					
Property investment	278,389	21,119	–	1,440	300,948
Property trading and development	3,976	670	–	103	4,749
Hotels	6,363	1,237	374	165	8,139
	288,728	23,026	374	1,708	313,836
Aviation					
Cathay Pacific group	–	–	27,959	–	27,959
HAECO group	11,317	1,727	–	991	14,035
Others	4,462	2,823	–	–	7,285
	15,779	4,550	27,959	991	49,279
Beverages					
Swire Beverages	26,298	981	1,552	2,252	31,083
Marine Services					
Swire Pacific Offshore group	17,644	–	56	267	17,967
HUD group	–	(66)	–	–	(66)
	17,644	(66)	56	267	17,901
Trading & Industrial					
Swire Retail group	673	32	243	159	1,107
Taikoo Motors group	1,826	–	–	368	2,194
Swire Foods group	1,497	28	–	146	1,671
Swire Pacific Cold Storage group	1,862	333	–	50	2,245
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
Head Office	306	–	–	130	436
	355,174	29,449	30,404	6,072	421,099

1. SEGMENT INFORMATION (continued)

(c) Analysis of Total Liabilities and Non-controlling Interests of the Group

At 30th June 2018	Segment liabilities HK\$M	Current and deferred tax liabilities HK\$M	Inter-segment borrowings/ (advances) HK\$M	External borrowings HK\$M	Total liabilities HK\$M	Non-controlling interests HK\$M
Property						
Property investment	8,846	8,877	684	30,121	48,528	49,774
Property trading and development	347	350	228	1,374	2,299	438
Hotels	186	–	33	1,034	1,253	1,230
	9,379	9,227	945	32,529	52,080	51,442
Aviation						
HAECO group	2,727	446	–	3,301	6,474	4,326
Beverages						
Swire Beverages	12,625	881	4,159	2,456	20,121	413
Marine Services						
Swire Pacific Offshore group	744	74	9,834	–	10,652	22
Trading & Industrial						
Swire Retail group	804	45	(73)	–	776	–
Taikoo Motors group	572	3	–	–	575	–
Swire Foods group	280	22	(124)	–	178	–
Swire Pacific Cold Storage group	171	1	397	–	569	–
Other activities	26	21	2	–	49	–
	1,853	92	202	–	2,147	–
Head Office	630	26	(15,140)	39,169	24,685	–
	27,958	10,746	–	77,455	116,159	56,203

1. SEGMENT INFORMATION (continued)

(c) Analysis of Total Liabilities and Non-controlling Interests of the Group (continued)

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

1. SEGMENT INFORMATION (continued)

(d) Analysis of External Revenue of the Group

Six months ended 30th June 2018	Timing of revenue recognition		
	At a point in time HK\$M	Over time HK\$M	Total HK\$M
Property			
Property investment	1	6,000	6,001
Property trading	530	–	530
Hotels	335	385	720
	866	6,385	7,251
Aviation			
HAECO group	520	6,805	7,325
Beverages			
Mainland China	10,871	–	10,871
Hong Kong	1,096	–	1,096
Taiwan	740	–	740
USA	7,830	–	7,830
	20,537	–	20,537
Marine Services			
Swire Pacific Offshore group	156	1,371	1,527
Trading & Industrial			
Swire Retail group	1,699	–	1,699
Taikoo Motors group	2,965	4	2,969
Swire Foods group	871	–	871
Swire Pacific Cold Storage group	82	–	82
	5,617	4	5,621
Head Office	–	4	4
Total	27,696	14,569	42,265

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 in note 1(a) presents the results of the Beverages Division by geographical location in order to provide further information to the users of the Interim Report.

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss except for the additional disclosure under IAS 34 for the timing of revenue recognition following the adoption of IFRS 15 (HKFRS 15) with effect from 1st January 2018.

2. BASIS OF PREPARATION

- (a) The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of The Listing Rules of The Stock Exchange of Hong Kong Limited.

The unaudited condensed interim financial statements are set out on pages 42 to 78 and also include the "Financial Information Reviewed by Auditors" under Financial Review on page 35 and Financing on pages 36 to 40.

The financial information relating to the year ended 31st December 2017 that is included in this document as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the "Ordinance")) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor's report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies and methods of computation and presentation used in the preparation of the condensed interim financial statements are consistent with those described in the 2017 annual financial statements except for those noted in 2(b) below.

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

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
HKAS 40 (Amendment)	Transfers of Investment Property
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration

2. BASIS OF PREPARATION (continued)

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

HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

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

- (i) Rental income from lease agreements is specifically excluded from the scope of the new standard;
- (ii) The nature of the Group's current trading property sales in its primary markets in Hong Kong and the USA, the terms of the contracts and the associated laws mean that revenue from these sales continues to be recognised at the point in time of transfer of effective ownership. The transfer of ownership in future property sales may occur over time or at a point in time, and this will be assessed on a case by case and territory by territory basis. No changes to the Group's accounting policies are required;
- (iii) Revenue on certain engine maintenance contracts will be recognised over time rather than at a point in time. Other services are performed over short periods and therefore do not result in any significant change in the timing of revenue recognition;
- (iv) Sales of goods in the Group's beverages and retail operations happen at a point in time and do not include any significant separate performance obligations; and
- (v) Typical vessel charter hire agreements generally include only one significant performance obligation being the provision of the vessel and crew concurrently for a specified period.

As a result, the effects of adopting HKFRS 15 on the Group's opening retained earnings at 1st January 2018 and on the financial statements for the six months ended 30th June 2018 are as follows:

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

	1st January 2018 HK\$M
Increase in revenue reserve	331
Increase in non-controlling interests	32

2. BASIS OF PREPARATION (continued)

Effect on Consolidated Statement of Profit or Loss:

	Six months ended 30th June 2018 HK\$M
Decrease in revenue	(273)
Decrease in cost of sales	(265)
Increase in share of profit of joint venture companies	13
Increase in share of profit of associated companies	11
Decrease in taxation	(1)
Increase in profit attributable to the Company's shareholders	17

Effect on Consolidated Statement of Financial Position:

	30th June 2018 HK\$M
Increase in joint venture companies	36
Increase in associated companies	296
Decrease in stocks and work in progress	(167)
Decrease in trade and other payables	(227)
Increase in deferred tax liabilities	12
Increase in non-controlling interests	32
Increase in revenue reserve	348

HKFRS 9 Financial Instruments

The complete version of HKFRS 9 replaced HKAS 39.

(i) Classification and measurement

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

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

2. BASIS OF PREPARATION (continued)

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

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

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

(ii) Impairment of financial assets

The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. This has no significant impact on the Group's financial statements

(iii) Derivatives and hedging activities

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

HKAS 40 (Amendment) Transfers of Investment Property

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

2. BASIS OF PREPARATION (continued)

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

HKFRS 16	Leases
HK(IFRIC) 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation

All of the above are to be applied by the Group from 1st January 2019.

None of these new and revised standards and new interpretation is expected to have a significant effect on the Group's financial statements, except the following set out below:

HKFRS 16 Leases

HKFRS 16 replaces HKAS 17 and related interpretations and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the balance sheet for all leases by lessees. HKFRS 16 also amends the definition of investment property under HKAS 40 to include property held by a lessee as a right-of-use asset to earn rentals or for capital appreciation or both, and the Group will be required to apply the fair value method under HKAS 40 for such right-of-use assets. The standard does not significantly change the accounting of lessors. Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's operating lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments in note 40 to the 2017 annual financial statements. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses. The Group has yet to finalise the assessment of the full impact of the new standard.

- (d) The preparation of the condensed interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity and areas where assumptions and estimates are significant to the Group's consolidated financial statements are detailed in the 2017 annual financial statements.

3. FINANCIAL RISK MANAGEMENT

Financial risk factors

In the normal course of business the Group is exposed to financial risks attributable to interest rates, currencies, credit and liquidity.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2017 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

4. REVENUE

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

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Gross rental income from investment properties	5,939	5,496	11,138
Property trading	530	5,258	5,833
Hotels	720	651	1,344
Aircraft and engine maintenance services	6,511	6,617	12,892
Sales of goods	26,534	20,288	45,008
Charter hire	1,293	1,280	2,684
Rendering of other services	738	621	1,390
	42,265	40,211	80,289

5. OTHER NET (LOSSES)/GAINS

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
Remeasurement gains on interests in joint venture companies which became subsidiary companies	–	975	975
Profit on disposal of subsidiary companies	1,198	392	387
Gain from the acquisition of new franchise territories and assets in the USA	–	194	289
Profit/(loss) on sale of investment properties	60	(2)	9
Profit/(loss) on sale of property, plant and equipment	133	(24)	(70)
Loss on the sale of available-for-sale assets	–	–	(93)
Net foreign exchange (losses)/gains	(19)	4	(3)
Fair value gains on cross-currency swaps transferred from cash flow hedge reserve	30	74	92
Fair value (losses)/gains on forward foreign exchange contracts transferred from cash flow hedge reserve	(13)	(14)	2
Fair value gains/(losses) on forward foreign exchange contracts not qualifying as hedges	1	(1)	1
Net impairment charges recognised on			
Property, plant and equipment	(3,771)	(3)	(1,032)
Intangible assets	(86)	–	(625)
Dividend income on available-for-sale assets	–	–	3
Other income	314	116	310
Total	(2,153)	1,711	245

6. EXPENSES BY NATURE

Expenses included in cost of sales, distribution costs, administrative expenses and other operating expenses are analysed as follows:

	Note	Six months ended 30th June		Year ended 31st December
		2018 HK\$M	2017 HK\$M	2017 HK\$M
Direct operating expenses of investment properties		1,134	997	2,267
Cost of stocks sold		18,279	18,457	35,971
Write-down of stocks and work in progress		70	48	193
Impairment (reversals)/charges on trade receivables		(9)	12	16
Depreciation of property, plant and equipment	12	1,786	1,587	3,361
Amortisation of				
Leasehold land and land use rights	12	26	20	46
Intangible assets	14	93	73	190
Initial leasing costs on investment properties		22	28	51
Others		6	2	10
Staff costs		8,376	7,238	15,295
Operating lease rentals				
Properties		625	542	1,203
Vessels		13	29	33
Plant and equipment		32	21	44
Others		6,437	5,127	11,321
Total cost of sales, distribution costs, administrative expenses and other operating expenses		36,890	34,181	70,001

7. NET FINANCE CHARGES

Refer to the table with the heading "Financial Information Reviewed by Auditors" on page 39 for details of the Group's net finance charges.

8. TAXATION

	Note	Six months ended 30th June		Year ended 31st December
		2018 HK\$M	2017 HK\$M	2017 HK\$M
Current taxation				
Hong Kong profits tax		637	753	1,178
Overseas taxation		649	746	1,152
Under-provisions in prior years		16	80	32
		1,302	1,579	2,362
Deferred taxation	21			
Change in fair value of investment properties		128	76	460
Origination and reversal of temporary differences		(261)	(52)	620
Effect of change in tax rate in the USA		–	–	(318)
		(133)	24	762
		1,169	1,603	3,124

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at rates applicable in the jurisdictions in which the Group is assessable to tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2018 of HK\$262 million (30th June 2017: HK\$184 million; year ended 31st December 2017: HK\$366 million) and share of associated companies' tax charges for the six months ended 30th June 2018 of HK\$137 million (30th June 2017: tax credit of HK\$6 million; year ended 31st December 2017: tax charges of HK\$195 million) respectively is included in the share of profits less losses of joint venture and associated companies shown in the consolidated statement of profit or loss.

9. UNDERLYING PROFIT ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS

Refer to the table with the heading "Financial Information Reviewed by Auditors" on page 35 for details of the Group's underlying profit attributable to the Company's shareholders.

10. DIVIDENDS

	Six months ended 30th June		Year ended 31st December
	2018 HK\$M	2017 HK\$M	2017 HK\$M
First interim dividend declared on 9th August 2018 of HK\$1.20 per 'A' share and HK\$0.24 per 'B' share (2017 first interim dividend paid: HK\$1.00 and HK\$0.20)	1,802	1,503	1,503
Second interim dividend paid on 4th May 2018 of HK\$1.10 per 'A' share and HK\$0.22 per 'B' share	–	–	1,652
	1,802	1,503	3,155

The Directors have declared first interim dividends of HK\$1.20 (2017: HK\$1.00) per 'A' share and HK\$0.24 (2017: HK\$0.20) per 'B' share for the year ending 31st December 2018. The first interim dividends, which total HK\$1,802 million (2017: HK\$1,503 million), will be paid on 5th October 2018 to shareholders registered at the close of business on the record date, being Friday, 7th September 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 5th September 2018.

The register of members will be closed on Friday, 7th September 2018, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first 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, 6th September 2018.

11. EARNINGS PER SHARE (BASIC AND DILUTED)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2018 of HK\$13,501 million (30th June 2017: HK\$12,138 million; 31st December 2017: HK\$26,070 million) by the weighted average number of 905,206,000 'A' shares and 2,981,875,000 'B' shares in issue during the period (30th June 2017: 905,206,000 'A' shares and 2,994,397,610 'B' shares and 31st December 2017: 905,206,000 'A' shares and 2,990,852,870 'B' shares) in the proportion five to one.

12. PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND AND LAND USE RIGHTS

	Note	Property, plant and equipment HK\$M	Leasehold land and land use rights HK\$M	Total HK\$M
Cost				
At 1st January 2018		71,889	2,001	73,890
Translation differences		(10)	(9)	(19)
Disposal of subsidiary companies		(12)	–	(12)
Additions		2,470	–	2,470
Disposals		(1,330)	–	(1,330)
Revaluation surplus		4	–	4
Net transfers from investment properties	13	52	–	52
Transfer to assets classified as held for sale		(125)	–	(125)
Other net transfers		(3)	(4)	(7)
At 30th June 2018		72,935	1,988	74,923
Accumulated depreciation/amortisation and impairment				
At 1st January 2018		26,270	338	26,608
Translation differences		57	(2)	55
Disposal of subsidiary companies		(7)	–	(7)
Charge/amortisation for the period	6	1,786	26	1,812
Impairment charges		3,775	–	3,775
Reversal of impairment charges		(4)	–	(4)
Disposals		(1,047)	–	(1,047)
Net transfers to investment properties	13	(1)	–	(1)
Transfer to assets classified as held for sale		(3)	–	(3)
Other net transfers		24	–	24
At 30th June 2018		30,850	362	31,212
Net book value				
At 30th June 2018		42,085	1,626	43,711
At 1st January 2018		45,619	1,663	47,282

Property, plant and equipment and leasehold land and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. During the period, the carrying amount of certain vessels included in property, plant and equipment have been written down by HK\$3,775 million to their recoverable amount, which is primarily based on value in use. The discount rate applied to future cashflows was 8.5% (31st December 2017: 8.5%).

At the end of the period, the expected useful lives of the majority of the Group's vessels were revised from 25 years to 20 years. This change in accounting estimate will be applied prospectively from 1st July 2018.

13. INVESTMENT PROPERTIES

	Note	HK\$M
At 1st January 2018		265,705
Translation differences		(381)
Disposal of a subsidiary		(139)
Additions		2,908
Disposals		(165)
Net transfers to property, plant and equipment	12	(53)
Transfer to assets classified as held for sale		(14,546)
Net fair value gains		15,473
At 30th June 2018		268,802
Add: Initial leasing costs		224
At 30th June 2018		269,026
At 1st January 2018 (including initial leasing costs)		265,944

14. INTANGIBLE ASSETS

	Note	Goodwill HK\$M	Computer software HK\$M	Service, franchise and operating rights HK\$M	Customer relationships HK\$M	Others HK\$M	Total HK\$M
Cost							
At 1st January 2018		8,303	666	5,423	968	201	15,561
Translation differences		(23)	(2)	(26)	3	2	(46)
Adjustments on previous year's acquisition		7	–	(46)	–	–	(39)
Additions		–	43	–	–	49	92
Disposals		–	(3)	–	–	(1)	(4)
At 30th June 2018		8,287	704	5,351	971	251	15,564
Accumulated amortisation and impairment							
At 1st January 2018		1,137	470	217	216	35	2,075
Translation differences		4	(3)	1	1	1	4
Other transfers		–	(20)	–	–	–	(20)
Amortisation for the period	6	–	34	17	32	10	93
Impairment charges		86	–	–	–	–	86
Disposals		–	(3)	–	–	–	(3)
At 30th June 2018		1,227	478	235	249	46	2,235
Net book value							
At 30th June 2018		7,060	226	5,116	722	205	13,329
At 1st January 2018		7,166	196	5,206	752	166	13,486

15. JOINT VENTURE COMPANIES

	30th June 2018 HK\$M	31st December 2017 HK\$M
Share of net assets, unlisted	16,622	13,999
Goodwill	848	859
	17,470	14,858
Loans due from joint venture companies		
Interest-free	13,301	13,117
Interest-bearing	1,711	1,474
	32,482	29,449

16. ASSOCIATED COMPANIES

	30th June 2018 HK\$M	31st December 2017 HK\$M
Share of net assets		
Listed in Hong Kong	28,978	27,203
Unlisted	2,291	2,185
	31,269	29,388
Goodwill	855	855
	32,124	30,243
Interest-bearing loans due from associated companies	220	161
	32,344	30,404

The market value of the shares in the listed associated company, Cathay Pacific, at 30th June 2018 was HK\$21,845 million (31st December 2017: HK\$21,455 million).

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

(a) Financial instruments that are measured at fair value are included in the following fair value hierarchy:

	Note	Level 1 HK\$M	Level 2 HK\$M	Level 3 HK\$M	Total carrying amount HK\$M
Assets as per consolidated statement of financial position					
At 30th June 2018					
Equity investments at fair value through comprehensive income					
Listed investments		266	–	–	266
Unlisted investments		–	–	60	60
Derivatives	18	–	312	–	312
Total		266	312	60	638
At 31st December 2017					
Available-for-sale assets					
Listed investments		319	–	–	319
Unlisted investments		–	–	56	56
Derivatives	18	–	229	–	229
Total		319	229	56	604
Liabilities as per consolidated statement of financial position					
At 30th June 2018					
Derivatives	18	–	90	–	90
Put option over non-controlling interest in Brickell City Centre	20	–	–	772	772
Put option over non-controlling interest in a subsidiary company	20	–	–	108	108
Contingent consideration	20	–	–	1,422	1,422
Total		–	90	2,302	2,392
At 31st December 2017					
Derivatives	18	–	100	–	100
Put option over non-controlling interest in Brickell City Centre	20	–	–	716	716
Put option over non-controlling interest in a subsidiary company	20	–	–	106	106
Contingent consideration	20	–	–	1,443	1,443
Total		–	100	2,265	2,365

Notes:

The levels in the hierarchy represent the following:

Level 1 – Financial instruments measured at fair value using quoted prices in active markets.

Level 2 – Financial instruments measured at fair value using inputs other than quoted prices but where those inputs are based on observable market data.

Level 3 – Financial instruments measured at fair value using inputs not based on observable market data.

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

The following table presents the changes in level 3 financial instruments for the period ended 30th June 2018:

	Put options over non-controlling interests HK\$M	Unlisted investments HK\$M	Contingent consideration HK\$M
At 1st January 2018	822	56	1,443
Translation differences	3	–	6
Additions	50	4	–
Disposals	–	–	(35)
Change in fair value recognised in profit or loss during the period	5	–	39
Payment of consideration	–	–	(31)
At 30th June 2018	880	60	1,422
Total losses for the period included in profit or loss in respect of financial instruments held at 30th June 2018	(5)	–	(39)
Change in unrealised losses for the period included in profit or loss in respect of financial instruments held at 30th June 2018	(5)	–	(39)

There has been no change in valuation techniques for level 2 and level 3 fair value hierarchy assets and liabilities.

The fair value of derivatives used for hedging in level 2 has been determined based on quotes from market makers or discounted cash flow techniques and is supported by observable inputs. The most significant observable inputs are market interest rates, exchange rates and yields and commodity prices.

The fair value estimate of the put option over a non-controlling interest in the retail portion of Brickell City Centre classified as level 3 is determined using a discounted cash flow valuation technique and contains a number of unobservable inputs, including the expected fair value of the investment property at the expected exercise date, the expected exercise date itself and the discount rate used. Changing the unobservable inputs as a consequence of selecting reasonable alternative assumptions would change the valuation of the put option.

The fair value of put option over a non-controlling interest in a subsidiary company, unlisted investments and contingent consideration classified as level 3 are determined using a discounted cash flow valuation technique. The significant unobservable inputs used are expected future growth rates and discount rates. Changing the unobservable inputs as a consequence of selecting reasonable alternative assumptions would not significantly change the valuation of the put option, the unlisted investments or the contingent consideration.

The Group's finance departments perform the valuations of financial instruments required for reporting purposes, including level 3 fair values. The valuations are reviewed and approved by divisional finance directors.

17. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (continued)

(b) Fair values of financial assets and liabilities carried at other than fair value:

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values at 30th June 2018 and 31st December 2017 except for the following financial liabilities, for which their carrying amounts and fair value are disclosed below:

	At 30th June 2018		At 31st December 2017	
	Carrying amount HK\$M	Fair value HK\$M	Carrying amount HK\$M	Fair value HK\$M
Long-term loans and bonds due after one year	71,441	71,400	69,174	70,770

18. DERIVATIVE FINANCIAL INSTRUMENTS

The Group uses derivative financial instruments solely for management of an underlying risk. The Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the assets, liabilities or transactions being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

	30th June 2018		31st December 2017	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cross-currency swaps				
Cash flow hedges	255	18	195	53
Not qualifying as hedges	–	12	–	6
Interest rate swaps – cash flow hedges	46	3	11	5
Forward foreign exchange contracts				
Cash flow hedges	10	12	21	6
Not qualifying as hedges	1	–	1	–
Commodity swaps				
Not qualifying as hedges	–	–	1	–
Put options exercisable by joint venture partners for sale of their interests to Beverages Division	–	45	–	30
Total	312	90	229	100
Analysed as:				
Current	20	14	55	11
Non-current	292	76	174	89
	312	90	229	100

19. TRADE AND OTHER RECEIVABLES

	30th June 2018 HK\$M	31st December 2017 HK\$M
Trade debtors	5,132	4,680
Amounts due from immediate holding company	1	1
Amounts due from joint venture companies	52	8
Amounts due from associated companies	452	380
Interest-bearing advances to joint venture companies	–	77
Prepayments and accrued income	2,920	2,047
Other receivables	3,980	3,836
	12,537	11,029
Amounts due after one year included under non-current assets	(81)	(50)
	12,456	10,979

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

	30th June 2018 HK\$M	31st December 2017 HK\$M
Under three months	4,775	4,354
Between three and six months	256	202
Over six months	101	124
	5,132	4,680

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

20. TRADE AND OTHER PAYABLES

	30th June 2018 HK\$M	31st December 2017 HK\$M
Trade creditors	5,470	4,572
Amounts due to immediate holding company	160	164
Amounts due to joint venture companies	24	7
Amounts due to associated companies	619	164
Interest-bearing advances from joint venture companies	335	353
Interest-bearing advance from an associated company	294	292
Advances from non-controlling interests	35	34
Rental deposits from tenants	2,662	2,616
Put option over non-controlling interests	880	822
Deposit received on the sale of subsidiary companies	1,480	1,306
Contingent consideration	1,422	1,443
Accrued capital expenditure	897	922
Other accruals	6,800	6,952
Other payables	5,494	5,135
	<u>26,572</u>	<u>24,782</u>
Amounts due after one year included under non-current liabilities	(2,114)	(2,343)
	<u>24,458</u>	<u>22,439</u>

The analysis of the age of trade creditors is as follows:

	30th June 2018 HK\$M	31st December 2017 HK\$M
Under three months	5,122	4,382
Between three and six months	301	126
Over six months	47	64
	<u>5,470</u>	<u>4,572</u>

21. DEFERRED TAXATION

The movement on the net deferred tax liabilities account is as follows:

	Note	HK\$M
At 1st January 2018		
as originally stated		9,278
adjustment on adoption of HKFRS 15		11
as restated		9,289
Translation differences		(61)
Adjustments on previous year's acquisition of subsidiaries		(4)
Transfer to assets classified as held for sale		7
Credited to statement of profit or loss	8	(133)
Charged to other comprehensive income		2
At 30th June 2018		9,100
Represented by:		
Deferred tax assets		(603)
Deferred tax liabilities		9,703
		9,100

22. OTHER CURRENT ASSETS

For the year ended 31st December 2017, other current assets comprised an uncompleted property in Kowloon Bay, Hong Kong. In October 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns this property. The consideration for the sale was HK\$6,528 million, subject to adjustment. The property was transferred to other non-current assets at fair value in the financial statements on signing the sale agreement in 2016 and was reclassified to other current assets in the 2017 financial statements. The carrying value of the property at 31st December 2017 represented its fair value at the date of transfer plus the development costs incurred subsequently. On 6th June 2018, the sale of the 100% interest in the subsidiary company was completed.

23. ASSETS CLASSIFIED AS HELD FOR SALE

On 15th June 2018, a subsidiary of Swire Properties Limited entered into a sale and purchase agreement with a third party for the sale of a 100% interest in a subsidiary company which holds a wholly-owned property holding subsidiary. The relevant subsidiaries were classified as held for sale at 30th June 2018. The fair value of the investment properties owned by the relevant subsidiaries was determined by reference to the consideration payable under the sale and purchase agreement.

24. SHARE CAPITAL

	Company		Total HK\$M
	'A' shares	'B' shares	
Issued and fully paid:			
At 1st January 2018	905,206,000	2,982,570,000	1,294
Repurchased during the period	–	700,000	–
At 30th June 2018	905,206,000	2,981,870,000	1,294

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

Details of shares acquired by month are as follows:

'B' shares Month	Number purchased	Highest price paid HK\$	Lowest price paid HK\$	Total HK\$M
January	700,000	12.43	12.31	9

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

25. RESERVES

	Note	Revenue reserve* HK\$M	Property revaluation reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Translation reserve HK\$M	Total HK\$M
At 1st January 2018							
as originally stated		246,881	2,190	342	(762)	3,218	251,869
adjustment on adoption of HKFRS 9		326	–	(326)	–	–	–
adjustment on adoption of HKFRS 15		331	–	–	–	–	331
as restated		247,538	2,190	16	(762)	3,218	252,200
Profit for the period		13,501	–	–	–	–	13,501
Other comprehensive income							
Revaluation of property previously occupied by the Group							
– gains recognised during the period		–	3	–	–	–	3
Changes in the fair value of equity investments at fair value through other comprehensive income							
		–	–	(53)	–	–	(53)
Defined benefit plans							
– remeasurement losses recognised during the period		(10)	–	–	–	–	(10)
– deferred tax		4	–	–	–	–	4
Cash flow hedges							
– gains recognised during the period		–	–	–	111	–	111
– transferred to net finance charges		–	–	–	(44)	–	(44)
– transferred to operating profit		–	–	–	(48)	–	(48)
– deferred tax		–	–	–	(5)	–	(5)
Share of other comprehensive income of joint venture and associated companies		18	–	3	1,925	(430)	1,516
Net translation differences on foreign operations		–	–	–	–	(448)	(448)
Total comprehensive income for the period		13,513	3	(50)	1,939	(878)	14,527
Repurchase of Company's shares	24	(9)	–	–	–	–	(9)
2017 second interim dividend		(1,652)	–	–	–	–	(1,652)
At 30th June 2018		259,390	2,193	(34)	1,177	2,340	265,066

* The revenue reserve at 30th June 2018 includes HK\$1,802 million representing the declared first interim dividend for the year (31st December 2017: HK\$1,652 million representing the second interim dividend for 2017).

26. NON-CONTROLLING INTERESTS

The movement of non-controlling interests during the period is as follows:

	HK\$M
At 1st January 2018	
as originally stated	52,931
adjustment on adoption of HKFRS 15	32
as restated	52,963
Share of profits less losses for the period	4,155
Share of cash flow hedges	
– gains recognised during the period	8
– transferred to net finance charges	(2)
– transferred to operating profit	(1)
– deferred tax	(1)
Share of revaluation gains of property previously occupied by the Group	1
Share of other comprehensive income of joint venture and associated companies	(35)
Share of translation differences on foreign operations	(95)
Share of total comprehensive income for the period	4,030
Dividends paid and payable	(798)
Capital contribution from non-controlling interests accrued	8
At 30th June 2018	56,203

27. CAPITAL COMMITMENTS

	30th June 2018 HK\$M	31st December 2017 HK\$M
The Group's outstanding capital commitments at the end of the period in respect of:		
Property, plant and equipment		
Contracted for	480	1,010
Authorised by Directors but not contracted for	1,046	2,415
Investment properties		
Contracted for	1,987	3,961
Authorised by Directors but not contracted for	15,043	8,807
	18,556	16,193
The Group's share of capital commitments of joint venture companies at the end of the period*		
Contracted for	804	880
Authorised by Directors but not contracted for	1,248	720
	2,052	1,600

* of which the Group is committed to funding HK\$135 million (31st December 2017: HK\$355 million).

28. CONTINGENCIES

(a) Guarantees outstanding at the end of the period in respect of bank loans and other liabilities of joint venture companies totalled HK\$2,150 million (31st December 2017: HK\$2,012 million). Bank guarantees given in lieu of utility deposits totalled HK\$176 million at the end of the period (31st December 2017: HK\$185 million).

(b) Cathay Pacific Airways

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions. The proceedings are focused on issues relating to pricing and competition. Cathay Pacific is represented by legal counsel in connection with these matters.

The proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the relevant accounting policy.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, Cathay Pacific and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on Cathay Pacific. However, the European Commission's finding against Cathay Pacific and the imposition of this fine was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to Cathay Pacific in February 2016. The European Commission issued a new decision against Cathay Pacific and the other airlines involved in the case in March 2017. A fine of Euros 57.12 million was imposed on Cathay Pacific, which was paid by Cathay Pacific in June 2017. Cathay Pacific filed an appeal against this latest decision, to which the Commission filed a defence. In December 2017, Cathay Pacific filed a reply to this defence. On 9th March 2018, the European Commission filed a rejoinder to Cathay Pacific's reply. No date has yet been fixed for an appeal hearing.

Cathay Pacific is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including the United Kingdom, Germany, the Netherlands, Norway and Korea alleging violations of applicable competition laws arising from Cathay Pacific's alleged conduct relating to its air cargo operations. Cathay Pacific is represented by legal counsel and is defending these actions.

29. RELATED PARTY TRANSACTIONS

There are agreements for services ("Services Agreements"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK") provides services to various companies in the Group and under which costs are reimbursed and fees payable. In return for these services, JSSHK receives annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from joint venture and associated companies of the Company, where there are no agreements for services with such companies, and (B) in the case of its subsidiary and associated companies with such agreements, as 2.5% of their relevant consolidated profits before taxation and non-controlling interests after certain adjustments. The current Services Agreements commenced on 1st January 2017 and will last for three years until 31st December 2019. For the six months ended 30th June 2018, service fees payable amounted to HK\$154 million (2017: HK\$171 million). Expenses of HK\$148 million (2017: HK\$146 million) were reimbursed at cost; in addition, HK\$181 million (2017: HK\$174 million) in respect of shared administrative services was reimbursed.

Under a tenancy framework agreement ("Tenancy Framework Agreement") between JSSHK, the Company and Swire Properties Limited dated 14th August 2014, members of the Group enter into tenancy agreements with members of the JSSHK group from time to time on normal commercial terms based on prevailing market rentals. The Tenancy Framework Agreement was renewed on 1st October 2015 for a term of three years from 1st January 2016 to 31st December 2018. For the six months ended 30th June 2018, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the JSSHK Tenancy Framework Agreement applies amounted to HK\$51 million (2017: HK\$50 million).

The above transactions under the Services Agreement and the JSSHK Tenancy Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

29. RELATED PARTY TRANSACTIONS (continued)

The following is a summary of significant transactions between the Group and related parties (including transactions under the JSSHK Tenancy Framework Agreement), which were carried out in the normal course of the Group's business, in addition to those transactions disclosed elsewhere in the financial statements.

		For the six months ended 30th June							
		Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
Note		2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M	2018 HK\$M	2017 HK\$M
	Revenue from	(a)							
	Sales of beverage drinks	41	–	13	17	–	–	–	–
	Aircraft and engine maintenance	18	23	1,516	1,385	–	–	–	–
	Rendering of services	–	–	2	2	6	8	2	–
	Purchases of beverage drinks	(a)	4	–	1,666	1,078	–	–	–
	Purchases of other goods	(a)	2	2	14	8	–	–	–
	Purchases of services	(a)	22	17	2	5	4	9	–
	Rental revenue	(b)	1	1	2	2	–	–	51
	Interest income	(c)	39	36	8	6	–	–	–
	Interest charges	(c)	5	5	5	4	–	–	–

Notes:

- (a) Sales and purchases of goods and rendering of services to and from related parties were conducted in the normal course of business at prices and on terms no less favourable to the Group than those charged to/by and contracted with other customers/suppliers of the Group.
- (b) The Swire Properties group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying periods up to six years. The leases were entered into on normal commercial terms.
- (c) Loans advanced to joint venture and associated companies are disclosed in notes 15 and 16. Amounts due from and to joint venture and associated companies are disclosed in notes 19 and 20.

30. EVENT AFTER THE REPORTING PERIOD

In July 2018, the Group sold its interests in the cold storage business in Mainland China.

Supplementary Information

CORPORATE GOVERNANCE

The Company complied with all the code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the accounting period covered by the interim 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") set out 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 interim 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 interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

SHARE CAPITAL

During the period, the Company bought back no 'A' shares and 700,000 'B' shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate cost of HK\$8,642,510. The buy-back of these 'B' shares was made for the benefit of the Company and shareholders taking into account relevant factors and circumstances at the time. All the 'B' shares bought back were cancelled. Particulars of the share buy-back and details of the Company's share capital are set out in note 24 to the financial statements.

DIRECTORS' PARTICULARS

Changes in the particulars of the Directors are set out as follows:

1. T G Freshwater retired as an Independent Non-Executive Director of Hong Kong Exchanges and Clearing Limited with effect from the conclusion of its annual general meeting held on 25th April 2018.
2. R W M Lee was elected as an Independent Non-Executive Director of MTR Corporation Limited with effect from its annual general meeting held on 16th May 2018.
3. J R Slosar retired as Chairman and an Executive Director of the Company, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.
4. M B Swire was elected as Chairman and re-designated as an Executive Director of the Company, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.

DIRECTORS' INTERESTS

At 30th June 2018, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Swire Pacific Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Swire Properties Limited and Cathay Pacific Airways Limited:

	Capacity			Total no. of shares	Percentage of voting shares (comprised in the class) (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Pacific Limited						
'A' shares						
P K Etchells	–	12,000	–	12,000	0.0013	
T G Freshwater	41,000	–	–	41,000	0.0045	
G R H Orr	9,000	–	–	9,000	0.0010	
'B' shares						
C Lee	1,200,000	–	21,605,000	22,805,000	0.7648	1

	Capacity			Total no. of shares	Percentage of issued share capital (comprised in the class) (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
John Swire & Sons Limited						
Ordinary Shares of £1						
M B Swire	2,077,523	130,000	17,546,068	19,753,591	19.75	2
S C Swire	1,354,305	–	14,622,061	15,976,366	15.98	2
8% Cum. Preference Shares of £1						
M B Swire	2,769,489	–	13,656,040	16,425,529	18.25	2
S C Swire	1,102,323	–	12,175,623	13,277,946	14.75	2

	Capacity			Total no. of shares	Percentage of voting shares (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Properties Limited						
Ordinary Shares						
P K Etchells	–	8,400	–	8,400	0.00014	
T G Freshwater	28,700	–	–	28,700	0.00049	
C Lee	200,000	–	3,024,700	3,224,700	0.05512	1

	Capacity			Total no. of shares	Percentage of voting shares (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Cathay Pacific Airways Limited						
Ordinary Shares						
M M S Low	1,000	–	–	1,000	0.00003	

Notes:

- All the shares held by C Lee under "Trust interest" are held by him as beneficiary of trusts.
- M B Swire and S C Swire are trustees and/or potential beneficiaries of trusts which held 6,222,732 ordinary shares and 3,298,725 ordinary shares respectively and 3,443,638 preference shares and 1,963,221 preference shares in John Swire & Sons Limited included under "Trust interest" and do not have any beneficial interest in those shares.

Other than as stated above, no Director or Chief Executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

SUBSTANTIAL SHAREHOLDERS' AND OTHER INTERESTS

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 2018 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	'A' shares	Percentage of voting shares (comprised in the class) (%)	'B' shares	Percentage of voting shares (comprised in the class) (%)	Note
John Swire & Sons Limited	412,558,720	45.58	2,074,008,782	69.55	1

Note:

1. John Swire & Sons Limited ("Swire") was deemed to be interested in a total of 412,558,720 'A' shares and 2,074,008,782 'B' shares of the Company at 30th June 2018, comprising:
 - (a) 885,861 'A' shares and 13,367,962 'B' shares held directly;
 - (b) 12,632,302 'A' shares and 37,597,019 'B' shares held directly by its wholly-owned subsidiary Taikoo Limited;
 - (c) 39,580,357 'A' shares and 1,482,779,222 'B' shares held directly by its wholly-owned subsidiary John Swire & Sons (H.K.) Limited; and
 - (d) the following shares held directly by wholly-owned subsidiaries of John Swire & Sons (H.K.) Limited: 322,603,700 'A' shares and 117,747,500 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 9,140,000 'A' shares and 321,240,444 'B' shares held by Shrewsbury Holdings Limited, 99,221,635 'B' shares held by Tai-Koo Limited and 27,716,500 'A' shares held by Waltham Limited.

At 30th June 2018, the Swire group was interested in 55.10% of the equity of the Company and controlled 63.97% of the voting rights attached to shares in the Company.

Glossary

TERMS

FINANCIAL

Equity attributable to the Company's shareholders

Equity before non-controlling interests.

Gross borrowings Total of loans, bonds, overdrafts and perpetual capital securities.

Net debt Total of loans, bonds, overdrafts and perpetual capital securities net of bank deposits and bank balances.

Underlying profit Reported profit adjusted principally for net revaluation movements on investment properties and the associated deferred tax in Mainland China and the USA, and for 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.

RATIOS

FINANCIAL

$$\text{Earnings/(loss) per share} = \frac{\text{Profit/(loss) attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the period}}$$

$$\text{Equity attributable to the Company's shareholders per share} = \frac{\text{Equity before non-controlling interests}}{\text{Number of shares in issue at the end of the period}}$$

$$\text{Interest cover} = \frac{\text{Operating profit/(loss)}}{\text{Net finance charges}}$$

$$\text{Cash interest cover} = \frac{\text{Operating profit/(loss)}}{\text{Total of net finance charges and capitalised interest}}$$

$$\text{Gearing ratio} = \frac{\text{Net debt}}{\text{Total equity}}$$

AVIATION

Available seat kilometres ("ASK") Passenger seat capacity, measured in seats available for the carriage of passengers on each sector multiplied by the sector distance.

Available tonne kilometres ("ATK") Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

On-time performance Departure within 15 minutes of scheduled departure time.

Revenue tonne kilometres ("RTK") Traffic volume, measured in load tonnes from the carriage of passengers, excess baggage, cargo and mail on each sector multiplied by the sector distance.

AVIATION

$$\text{Passenger/Cargo and mail load factor} = \frac{\text{Revenue passenger kilometres / Cargo and mail tonne kilometres}}{\text{Available seat kilometres / Available cargo and mail tonne kilometres}}$$

$$\text{Passenger/Cargo and mail yield} = \frac{\text{Passenger turnover / Cargo and mail turnover}}{\text{Revenue passenger kilometres / Cargo and mail tonne kilometres}}$$

$$\text{Cost per ATK} = \frac{\text{Total operating expenses}}{\text{ATK}}$$

Financial Calendar and Information for Investors

FINANCIAL CALENDAR 2018

Interim Report sent to shareholders	4th September
'A' and 'B' shares trade ex-dividend	5th September
Share registers closed	7th September
Payment of 2018 first interim dividends	5th October
Annual results announcement	March 2019
Second interim dividends payable	May 2019
Annual General Meeting	May 2019

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STOCK CODES

	'A'	'B'
Hong Kong Stock Exchange	19	87
ADR	SWRAY	SWRBY

Except for voting rights, which are equal, the entitlements of 'A' and 'B' shareholders are in the proportion 5 to 1.

AUDITORS

PricewaterhouseCoopers

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REQUEST FOR FEEDBACK

In order that we may improve our reporting, we would be grateful to receive your comments on our public announcements and disclosures via e-mail to ir@swirepacific.com





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