



2020

INTERIM  
REPORT

Stock Codes:

'A' Shares 00019

'B' Shares 00087



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## SUSTAINABLE GROWTH

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

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

### OUR VALUES

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

### OUR CORE PRINCIPLES

- We focus on Asia, principally Greater China, because of its strong growth potential and because it is where the Group has long experience, deep knowledge and strong relationships.
- We mobilise capital, talent and ideas across the Group. Our scale and diversity increase our access to investment opportunities.
- We are prudent financial managers. This enables us to execute long-term investment plans irrespective of short-term financial market volatility.
- We recruit the best people and invest heavily in their training and development. The welfare of our people is critical to our operations.
- We build strong and lasting relationships, based on mutual benefit, with those with whom we do business.

- We invest in sustainable development, because it is the right thing to do and because it supports long-term growth through innovation and improved efficiency.
- We are committed to the highest standards of corporate governance and to the preservation and development of the Swire brand and reputation.

### OUR INVESTMENT PRINCIPLES

- We aim to build a portfolio of businesses that collectively deliver a steady dividend stream over time.
- We are long-term investors. We prefer to have controlling interests in our businesses and to manage them for long-term growth. We do not rule out minority investments in appropriate circumstances.
- We concentrate on businesses where we can contribute expertise, and where our expertise can add value.
- We invest in businesses that provide high-quality products and services and that are leaders in their markets.
- We divest from businesses which have reached their full potential under our ownership, and recycle the capital released into existing or new businesses.

## Performance Highlights

	Note	Six months ended 30th June		Change %	Year ended
		2020 HK\$M	2019 HK\$M		2019 HK\$M
<b>(Loss)/profit attributable to the Company's shareholders</b>					
As reported		<b>(7,737)</b>	7,939	-197%	9,007
Underlying (loss)/profit	(a)	<b>(5,485)</b>	15,846	-135%	17,797
Recurring underlying (loss)/profit	(a)	<b>(123)</b>	4,226	-103%	7,221
Revenue		<b>39,056</b>	42,870	-9%	85,652
Operating (loss)/profit		<b>(1,670)</b>	10,866	-115%	13,792
Operating profit excluding change in fair value of investment properties		<b>931</b>	7,035	-87%	10,064
Change in fair value of investment properties		<b>(2,601)</b>	3,831	-168%	3,728
Cash generated from operations		<b>5,176</b>	4,368	+18%	12,817
Net cash inflow before financing		<b>1,233</b>	15,260	-92%	22,910
Total equity (including non-controlling interests)		<b>316,203</b>	330,045	-4%	329,494
Net debt	(b)	<b>49,277</b>	48,630	+1%	46,688
Gearing ratio	(b)	<b>15.6%</b>	14.7%	+0.9%pt	14.2%
		HK\$	HK\$	Change %	HK\$
<b>(Loss)/earnings per share</b>					
As reported	(c)				
'A' share		<b>(5.15)</b>	5.29	-197%	6.00
'B' share		<b>(1.03)</b>	1.06		1.20
Underlying					
'A' share		<b>(3.65)</b>	10.55	-135%	11.85
'B' share		<b>(0.73)</b>	2.11		2.37
Dividends per share					
'A' share		<b>0.70</b>	1.35	-48%	3.00
'B' share		<b>0.14</b>	0.27		0.60
Equity attributable to the Company's shareholders per share	(d)				
'A' share		<b>173.72</b>	182.78	-5%	182.04
'B' share		<b>34.74</b>	36.56		36.41

### Notes:

- (a) Reconciliations between the reported and underlying profit/(loss), and between underlying profit/(loss) and recurring underlying profit/(loss) are provided on page 37.
- (b) Net debt is the total of loans, bonds and overdrafts net of cash, bank deposits and bank balances. Gearing ratio is measured as net debt to total equity. Including lease liabilities as part of net debt would increase our gearing ratio to 17.2% (see page 42).
- (c) Refer to note 11 in the financial statements for the daily weighted average number of shares in issue throughout the period.
- (d) Refer to note 25 in the financial statements for the number of shares at the period end.

# Chairman's Statement

## HALF YEAR IN REVIEW

The business environment in the first half of 2020 was extremely challenging. COVID-19 had a material adverse effect on a number of our businesses. The Group recorded an underlying loss of HK\$5,485 million in the first half of 2020, compared with an underlying profit of HK\$15,846 million in the first half of 2019. The loss was primarily due to the Group's share of the loss made by Cathay Pacific (which included a significant impairment charge) and to a significant impairment charge at Swire Pacific Offshore. Disregarding significant non-recurring items in both years, the Group recorded a recurring underlying loss of HK\$123 million in the first half of 2020, compared with a profit of HK\$4,226 million in the same period in 2019.

The results of the Property Division were relatively stable. Recurring underlying profit from property investment increased slightly (as a result of lower operating costs and finance charges), despite the impact of COVID-19 on retail investment properties. In the Chinese mainland, footfall and retail sales started to recover well in the second quarter. There were losses in property trading and hotels. The Group's investment properties recorded net property revaluation losses of HK\$2,601 million in the first half of 2020.

The first six months of 2020 were the most challenging which Cathay Pacific has faced in its 70-year history. It lost HK\$9.9 billion in the period (including an impairment charge in respect of aircraft and certain other assets of HK\$2.5 billion). Passenger revenue at Cathay Pacific and Cathay Dragon decreased by 72%, reflecting the precipitous drop in passenger demand resulting from the extensive travel restrictions, border controls and quarantine arrangements which were implemented around the world in response to the COVID-19 pandemic. The cargo business did well, benefiting from an imbalance between supply and demand, but this could not compensate for losses in the passenger business. HAECO's recurring profits increased marginally, but would not have done so but for the receipt of COVID-19 related financial assistance from governments in Hong Kong and the USA.

Swire Coca-Cola recorded an increase in recurring profits in the first half of 2020. Business was adversely affected by COVID-19, but recovered strongly, particularly in the Chinese mainland in the second quarter.

The performance of Swire Pacific Offshore remained weak. It was subject to a further significant impairment charge. Demand for oil fell significantly in the second quarter of 2020 as a result of COVID-19. Business conditions in the offshore supply industry and the outlook for the industry have deteriorated substantially.

The Trading & Industrial Division made a recurring loss in the first half of 2020. Swire Resources in particular was badly affected by COVID-19.

## DIVIDENDS

The Directors have declared first interim dividends of HK\$0.70 per 'A' share and HK\$0.14 per 'B' share. Our dividend policy is to deliver sustainable growth in dividends and to pay out approximately half of our underlying profits over time. This remains our policy. However, given COVID-19 and the consequential very challenging business circumstances in which we find ourselves, we have decided to reduce our dividends.

## OUTLOOK

A number of our businesses continue to be adversely affected by COVID-19. The effect on Cathay Pacific is particularly severe. But our property and beverages businesses in the Chinese mainland are recovering well. In any event, we face whatever challenges may come from a position of financial strength. Our non-core asset disposals have put us in a strong financial position. At the end of June 2020, Swire Pacific's gearing was 15.6%. We believe the long-term success of Swire Pacific will reflect the continued growth of the Chinese mainland and Hong Kong and we are well placed to take advantage of new opportunities that might arise.

**Merlin Swire**

*Chairman*

Hong Kong, 13th August 2020

# Finance Director's Statement

## RESULTS SUMMARY

The consolidated loss attributable to shareholders for the first half of 2020 was HK\$7,737 million, compared to a profit of HK\$7,939 million in the first half of 2019. The underlying loss attributable to shareholders, which principally adjusts for changes in the value of investment properties, was HK\$5,485 million, compared with a profit of HK\$15,846 million in the same period of 2019. The substantial decrease in underlying profit principally reflects the absence in the first half of 2020 of the significant profits on the sale of investment properties in Hong Kong which were made in the first half of 2019 and impairment charges at Swire Pacific Offshore and Cathay Pacific in the first half of 2020. Disregarding significant non-recurring items in both years, the recurring underlying loss for the first half of 2020 was HK\$123 million, compared with a profit of HK\$4,226 million in the first half of 2019. The recurring loss was mainly due to losses at Cathay Pacific.

The Property Division is the major contributor to the Group's profit. The recurring underlying profit from the Property Division in the first half of 2020 (which excludes gains from the sales of interests in investment properties of HK\$42 million, compared with HK\$11,937 million in the first half of 2019) was HK\$3,067 million, compared with HK\$3,319 million in the first half of 2019. Retail businesses in Hong Kong have been adversely affected by COVID-19 and social unrest. Retail rental income from Hong Kong declined because of lower turnover rents and rental concessions. In the Chinese mainland, footfall and retail sales started to recover in the second quarter, but total retail sales for the half year were lower and rental concessions were given. Property trading recorded a small loss due to sales and marketing expenses in Singapore and losses relating to residential units in the USA. Hotels made a loss in the first half of 2020, as the business was severely affected by COVID-19. Operating costs and finance charges were lower in the first half of 2020, particularly for the property investment business.

The Aviation Division incurred a loss of HK\$3,925 million in the first half of 2020, compared to a profit of HK\$1,124 million in the same period in 2019.

The Cathay Pacific group's attributable loss on a 100% basis was HK\$9,865 million in the first half of 2020 (2019 first half: profit of HK\$1,347 million). Cathay Pacific and Cathay Dragon reported a loss after tax of HK\$7,361 million in the first half of 2020 (2019 first half: profit of HK\$675 million), and the share of losses from subsidiaries and associates was HK\$2,504 million (2019 first half: profit of HK\$672 million). The loss for the first half of 2020 was net of the receipt of HK\$1,060 million of COVID-19 related government grants globally and included impairment and related charges of HK\$2,465 million relating to 16 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors, and to certain airline service subsidiaries' assets.

The HAECO group reported an attributable profit of HK\$534 million in the first half of 2020, compared with HK\$535 million in the same period of 2019. Disregarding impairment charges of HK\$21 million in respect of rotatable aircraft parts in the first half of 2020, the recurring profit of HAECO increased. Financial assistance from governments in Hong Kong and the USA and a higher profit at HAESL more than offset the adverse effect of COVID-19 on demand for maintenance and repair services at most HAECO group companies.

Swire Coca-Cola's profit of HK\$946 million in the first half of 2020 was 26% higher than in the first half of 2019. Disregarding a withholding tax payment in the first half of 2019, the increase would have been 14%. Business was adversely affected by COVID-19, but recovered strongly, particularly in the Chinese mainland.

The recurring loss of the Marine Services Division was HK\$631 million in the first half of 2020, compared to HK\$583 million in the first half of 2019. The figures exclude impairment charges of HK\$4,345 million in the first half of 2020 and gains or losses on disposal of vessels and equipment in both first half periods at Swire Pacific Offshore. Demand for oil has fallen significantly as a result of COVID-19. In view of the deteriorating industry conditions, a review of the carrying value of the fleet and other assets was undertaken and the above significant impairment charge was made.

Disregarding non-recurring items, the Trading & Industrial Division made an attributable loss of HK\$32 million in the first half of 2020, compared to a profit of HK\$60 million in the first half of 2019. Swire Resources in particular was badly affected by COVID-19.

## DIVIDENDS

The Directors have declared first interim dividends of HK\$0.70 per 'A' share and HK\$0.14 per 'B' share. The first interim dividends will be paid on 7th October 2020 to shareholders registered at the close of business on the record date, being Friday, 11th September 2020. Shares of the Company will be traded ex-dividend as from Wednesday, 9th September 2020.

## IMPLEMENTING OUR AIMS

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

The second phase of the Taikoo Place redevelopment in Hong Kong will be completed in 2022. Swire Properties has a 50% interest in a 1.25 million square feet retail development in Shanghai, which is expected to be completed by the end of this year. A non-managed hotel (The Silveri Hong Kong – MGallery) which is part of the Citygate extension in Hong Kong is expected to open later this year or next year. In July 2020, Swire Properties completed the sale of two office buildings (Two and Three Brickell City Centre) in Miami, USA.

Cathay Pacific completed its HK\$39 billion recapitalisation in August 2020. The Company contributed HK\$5.3 billion to the recapitalisation by subscribing in full for its entitlement under the rights issue which was part of the recapitalisation. We remain a committed long-term shareholder in Cathay Pacific, and supportive of the prospects and long-term investment plans of the airline group.

In March 2020, the HAECO group acquired an engine maintenance business in Dallas, Texas, USA. It does quick-turn repairs and lease returns for commercial aircraft engines.

Swire Coca-Cola continues to expand its product and package portfolio and to invest in production assets, logistics infrastructure, merchandising equipment and digital capabilities.

In the Marine Services Division, Swire Pacific Offshore redelivered one leased vessel to the owner in the first half of 2020.

In April 2020, the Trading & Industrial Division made an associate investment in a business which owns and operates private hospitals, clinics and senior housing in the Chinese mainland.

In the first half of 2020, we generated HK\$5.2 billion from operations and made total capital investments of HK\$2.4 billion. Our net debt at the end of June 2020 was HK\$49.3 billion, an increase of 6% from the end of 2019. Our gearing ratio at the end of June 2020 was 15.6%, 1.4 percentage points higher than our gearing ratio of 14.2% at the end of 2019. Including lease liabilities as part of net debt would increase our gearing ratio at the end of June 2020 to 17.2%. The financial position remains healthy following significant non-core asset disposals.

## OUTLOOK BY DIVISION

In the Property Division, demand for office space in Hong Kong is expected to be weak in the second half of 2020, reflecting the weakness of the economy. However, only a small proportion of our Hong Kong office leases expire in the second half. Social unrest and COVID-19 have severely affected retail businesses in Hong Kong, although we still expect relatively high occupancy in our malls. Retail sales (except those in supermarkets and of daily necessities) have fallen sharply. This has put significant pressure on retail rents. Rental concessions are expected to continue, in order to support the tenants. Footfall and retail sales in the Chinese mainland have recovered strongly since March 2020.

Retail sales are expected to continue to improve for the rest of the year, led by sales of watches, jewellery and other luxury brands. In Guangzhou, demand for luxury brands is expected to be robust. In Chengdu, demand for luxury goods and for retail space in prime locations is expected to be solid. In Shanghai, demand for retail space from the owners of fashion, cosmetic and lifestyle brands and of food and beverage outlets is expected to be stable. In Beijing, demand for retail space from the owners of lifestyle brands is expected to recover steadily. Demand for office space in Beijing, Guangzhou and Shanghai is expected to be weak in the second half of 2020. This is expected to put pressure on office rents. Vacancies are expected to increase. In Miami, retail sales continue to be affected by COVID-19.

COVID-19 and associated travel restrictions are likely to continue to make trading conditions difficult for hotels for the rest of 2020. Occupancy and revenue are expected to remain under pressure. Costs are being saved where possible without damaging the long-term relationship with customers. In Hong Kong, buyers of residential property have become more cautious in the light of COVID-19, social unrest and international trade tensions. Demand for residential accommodation is expected to be resilient in the medium and long term supported by low interest rates and a limited supply of housing due to a shortage of land. In Miami, sales of Reach and Rise units are expected to be slow. The market is weak and COVID-19 is restricting travel from South America. The markets for the sale of residential properties in Singapore and Jakarta, Indonesia have been adversely affected by COVID-19. However, in Singapore, low interest rates and the long-term prospects of the property market are expected to underpin demand for residential accommodation. In Jakarta, urbanisation and a growing middle class are expected to support a stable residential property market.

The International Air Transport Association (IATA) has released analysis indicating that the COVID-19 crisis will see global airline passenger revenues drop by US\$371 billion in 2020, a 61% decline compared to 2019, and estimates airline industry net losses to be US\$84 billion. Airlines in Asia Pacific will see the largest share of losses (US\$29 billion) and will experience a 54% fall in passenger demand year-on-year. Most industry analysts are forecasting very

gradual recoveries over a protracted period, and IATA is forecasting that it will be 2024 at the earliest before international passenger demand returns to pre-crisis levels. Not only that, but with a global recession looming, and geopolitical tensions intensifying, trade will likely come under significant pressure, and this is expected to have a negative impact on both air travel and cargo demand. This is the biggest challenge to the aviation industry that Cathay Pacific has ever witnessed. Cathay Pacific does not expect to see a meaningful recovery in the passenger business for some time to come. Market demand will continue to be closely monitored as the group works towards progressively reintroducing passenger flights as appropriate.

By the fourth quarter of 2020, Cathay Pacific's management will recommend to its board the optimum size and shape of the Cathay Pacific group to meet the air travel needs of Hong Kong while meeting its responsibilities to its shareholders. Inevitably this will involve rationalisation of future planned capacity compared to pre-crisis plans, taking into account the market outlook and cost structure at that time.

The prospects for the HAECO group's businesses in the second half of 2020 depend on how quickly aviation recovers from the effects of COVID-19. Demand for airframe services in the second half of 2020 in Hong Kong, the USA and Xiamen is expected to continue to fall. Line services work is expected to recover gradually towards the end of the year, but not to 2019 levels. Deferral of engine maintenance because of COVID-19's effect on aircraft usage is expected to result in less work for TEXL and HAESL in the second than in the first half of the year. Forward bookings for cabin integration work are low. Less Panasonic communication equipment work is expected in the second than in the first half of the year. More seats are expected to be sold in the second than in the first half of the year. Management is working with the Xiamen authorities on the relocation of HAECO Xiamen's premises to the new Xiamen airport. The relocation will be material to HAECO Xiamen's operations.

In the Beverages Division, assuming no resurgence of COVID-19, revenue in the Chinese mainland is expected to continue to grow in the second half of 2020 and to grow faster than volume. This reflects better product and package mixes, and improved market execution. Increased operating

costs, particularly staff costs, will put pressure on profits. Capital expenditure will continue as planned. In Hong Kong, the beverages market is expected to continue to be adversely affected by COVID-19 in the second half of 2020. Increased depreciation charges and operating costs (due to the enhancement of distribution and production facilities) will put pressure on profits. Revenue is expected to continue to grow in Taiwan in the second half of 2020. Capacity constraints during the summer should ease when a contract packer's new production line is commissioned in late August. In the USA, the beverages market is expected to continue to be affected by COVID-19. The prolonged spread of the disease is causing adverse changes in channel and product mixes and shortages in the supply of aluminium cans. Expansion of production and logistics facilities will improve operational efficiency but will add depreciation charges and operating costs.

Turning to Swire Pacific Offshore, COVID-19 and reduced oil prices have severely affected the offshore oil and gas industry. Exploration and production companies have cancelled or suspended existing projects and deferred future projects. As a result, there is an oversupply of vessels and day rates will come under pressure.

In the Trading & Industrial Division, the retail market in Hong Kong is depressed because of COVID-19 (in particular because of its effect on inbound tourism from the Chinese mainland). The Division is expected to make a loss in the second half of 2020.

**Michelle Low**

*Finance Director*

Hong Kong, 13th August 2020

# 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 and high quality residential accommodation in prime locations. Including hotels, the completed portfolio in Hong Kong totals 12.6 million square feet of gross floor area, with an additional 1.3 million square feet under development. In the Chinese mainland, Swire Properties owns and operates major mixed-use commercial developments in Beijing, Shanghai, Guangzhou and Chengdu, in joint venture in most cases, which will total 9.8 million square feet on completion. Of this, 9.0 million square feet has already been completed. In the USA, Swire Properties is the primary developer of a 0.8 million square feet mixed-use commercial development at Brickell City Centre in Miami, with an adjoining 1.4 million square feet development under planning.

### Hotel Investment

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at Taikoo Shing. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. In the Chinese mainland, 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. Swire Properties owns 97% and 50% interests in the Mandarin Oriental at Taikoo Hui in Guangzhou and The Sukhothai Shanghai at HKRI Taikoo Hui respectively. 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 (The Silveri Hong Kong – MGallery) which is part of the Citygate extension in Hong Kong is expected to open later this year or next year.

### Property Trading

Swire Properties' trading portfolio comprises completed developments available for sale at the Reach and Rise developments at Brickell City Centre in Miami, USA, and EDEN in Singapore. There are four residential projects under development, three in Hong Kong and one in Indonesia. There are also land banks in Miami, USA.

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

## Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Revenue</b>			
Gross rental income derived from			
Office	3,344	3,302	6,598
Retail	2,530	2,747	5,107
Residential	227	297	566
Other revenue*	46	66	139
Property investment	6,147	6,412	12,410
Property trading	130	392	516
Hotels	274	706	1,296
<b>Total revenue</b>	<b>6,551</b>	<b>7,510</b>	<b>14,222</b>
<b>Operating profit/(losses) derived from</b>			
Property investment			
From operation	4,325	4,460	8,387
Sale of interests in investment properties	(8)	1,361	2,338
Valuation (losses)/gains on investment properties	(2,601)	3,831	3,728
Property trading	(30)	50	4
Hotels	(197)	11	(62)
<b>Total operating profit</b>	<b>1,489</b>	<b>9,713</b>	<b>14,395</b>
<b>Share of post-tax profit from joint venture and associated companies</b>	<b>270</b>	<b>740</b>	<b>1,430</b>
<b>Attributable profit</b>	<b>1,045</b>	<b>8,962</b>	<b>13,423</b>
<b>Swire Pacific share of attributable profit</b>	<b>857</b>	<b>7,349</b>	<b>11,007</b>

\* Other revenue is mainly estate management fees.

**RECONCILIATION OF ATTRIBUTABLE TO UNDERLYING PROFIT**

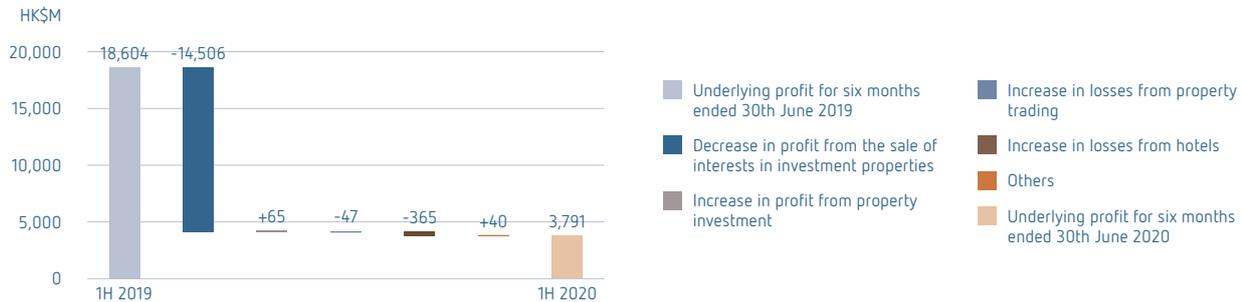
Additional information is provided below to reconcile reported and underlying profit attributable to shareholders. These reconciling items principally adjust for the net revaluation movements on investment properties and the associated deferred tax in the Chinese mainland and the USA, and for other deferred tax provisions in relation to investment properties. Amortisation of right-of-use assets classified as investment properties is charged to underlying profit.

	Note	Six months ended 30th June		Year ended 31st December
		2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Reported attributable profit</b>		<b>1,045</b>	8,962	13,423
Adjustments in respect of investment properties:				
Valuation losses/(gains) of investment properties	(a)	2,743	(4,264)	(4,571)
Deferred tax on investment properties	(b)	68	684	1,138
Valuation gains realised on sale of interests in investment properties	(c)	59	13,197	14,159
Depreciation of investment properties occupied by the Group	(d)	15	16	32
Amortisation of right-of-use assets reported under investment properties	(e)	(24)	(8)	(13)
Non-controlling interests' share of revaluation movements less deferred tax		(115)	17	(25)
<b>Underlying attributable profit</b>		<b>3,791</b>	18,604	24,143
Profit on sale of interests in investment properties		(51)	(14,557)	(16,497)
<b>Recurring underlying attributable profit</b>		<b>3,740</b>	4,047	7,646
<b>Swire Pacific share of underlying attributable profit</b>		<b>3,109</b>	15,256	19,797
<b>Swire Pacific share of recurring underlying attributable profit</b>		<b>3,067</b>	3,319	6,269

## Notes:

- (a) This represents the net revaluation movements as shown in the Group's 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 the Chinese mainland 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.
- (e) HKFRS 16 amends the definition of investment property under HKAS 40 to include properties held by lessees as right-of-use assets to earn rentals or for capital appreciation or both, and requires the Group to account for such right-of-use assets at their fair value. The amortisation of such right-of-use assets is charged to underlying profit.

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



### RESULTS SUMMARY

Attributable profit from the Property Division for the first half of 2020 was HK\$857 million compared to HK\$7,349 million in the first half of 2019. These figures include net property valuation losses, before deferred tax and non-controlling interests, of HK\$2,743 million in the first half of 2020 and net property valuation gains of HK\$4,264 million in the first half of 2019. Attributable underlying profit, which principally adjusts for changes in the valuation of investment properties, decreased by HK\$12,147 million to HK\$3,109 million. The decrease principally reflects the absence in the first half of 2020 of the significant profits on the sale of investment properties in Hong Kong which were made in the first half of 2019.

Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK\$3,067 million in the first half of 2020, compared with HK\$3,319 million in the first half of 2019.

Recurring underlying profit from property investment increased slightly in the first half of 2020. This principally reflected lower operating costs and finance charges. Gross rental income decreased by 4% (to HK\$6,101 million in the first half of 2020, compared with HK\$6,346 million in the first half of 2019). This mainly reflected lower retail rental income from Hong Kong and the Chinese mainland. This in turn reflected lower retail sales and rental concessions as a result of COVID-19. The gross profit margin percentage improved slightly, reflecting a reduction in operating costs in the Chinese mainland.

The small underlying loss from property trading in the first half of 2020 resulted from sales and marketing expenses in Singapore and losses relating to residential units in the USA.

Hotels recorded a loss in the first half of 2020 compared with a profit in the first half of 2019 due to the drastic effect on occupancy and revenue of COVID-19.

### KEY DEVELOPMENT

In July 2020, Swire Properties completed the sale of two office buildings (Two and Three Brickell City Centre) in Miami, USA.

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

Location	At 30th June 2020					At 31st December 2019	
	Office	Retail	Hotels	Residential	Under Planning	Total	Total
<b>Completed</b>							
Pacific Place	2,186	711	496	443	–	3,836	3,836
Taikoo Place	5,571	12	–	63	–	5,646	5,646
Cityplaza	629	1,105	200	–	–	1,934	1,934
Others	450	664	47	50	–	1,211	1,229
– Hong Kong	8,836	2,492	743	556	–	12,627	12,645
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	943
Sino-Ocean Taikoo Li Chengdu	–	678	98	55	–	831	831
HKRI Taikoo Hui	914	587	194	73	–	1,768	1,768
Others	20	91	–	–	–	111	111
– Chinese mainland	2,960	4,595	1,224	180	–	8,959	8,959
– USA	–	497	477	109	–	1,083	1,346
<b>Total completed</b>	<b>11,796</b>	<b>7,584</b>	<b>2,444</b>	<b>845</b>	<b>–</b>	<b>22,669</b>	<b>22,950</b>
<b>Under and pending development</b>							
– Hong Kong <sup>^</sup>	1,218	3	26	15	–	1,262	1,247
– Chinese mainland	–	879	–	–	–	879	879
– USA	–	–	–	–	1,444	1,444	1,444
<b>Total</b>	<b>13,014</b>	<b>8,466</b>	<b>2,470</b>	<b>860</b>	<b>1,444</b>	<b>26,254</b>	<b>26,520</b>

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.

<sup>^</sup> This principally comprises Two Taikoo Place.

## INVESTMENT PROPERTIES

### Hong Kong

#### Office

Gross rental income from the Hong Kong office portfolio in the first half of 2020 was HK\$3,109 million, 2% higher than in the same period in 2019. The increase mainly reflected positive rental reversions and increased rental income at One Taikoo Place (which opened in September 2018) as more tenants moved in. The increase was partly offset by the loss of gross rental income from two office buildings in Taikoo Shing which were disposed of in April 2019. Demand for office space in Hong Kong started to weaken during the

period. However, occupancy was high at Pacific Place, Taikoo Place and Cityplaza One. At 30th June 2020, the office portfolio was 97% let.

#### Retail

Retail businesses in Hong Kong have been adversely affected by COVID-19 and social unrest. Retail sales decreased by 47%, 20% and 26% respectively at The Mall at Pacific Place, Cityplaza and Citygate Outlets.

Gross rental income from the group's retail portfolio in Hong Kong was HK\$1,269 million in the first half of 2020, representing a decrease of 10% compared to the same

period in 2019. The decreases reflected lower turnover rents and rental concessions. Disregarding amortised rental concessions, gross rental income decreased by 8%. Rental income from The Mall at Pacific Place and Cityplaza decreased by 13% and 9% respectively. Occupancy levels at the group's malls were almost 100% during the period.

### **Residential**

The occupancy rate at the residential portfolio was approximately 72% at 30th June 2020.

### **Investment Properties under Development**

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. Superstructure works are in progress. Completion of the redevelopment is expected in 2022.

Planning permission to develop the site at 46-56 Queen's Road East, 1A-11 Landale Street and 2A-12 Anton Street for office use was obtained in 2018. The site area is approximately 14,400 square feet. The proposed development has an aggregate gross floor area of approximately 218,000 square feet. Foundation works are in progress. Completion is expected in 2023.

### **Others**

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

In 2018, a joint venture company in which Swire Properties holds a 50% interest submitted a compulsory sale application in respect of a site at 983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay, Hong Kong. Subject to the joint venture company having successfully bid in

the compulsory sale and in accordance with applicable town planning controls, it is expected that the site can be redeveloped for residential and retail uses with a gross floor area of approximately 400,000 square feet.

### **Outlook**

Demand for office space in Hong Kong is expected to be weak in the second half of 2020, reflecting the weakness of the economy. However, only a small proportion of our Hong Kong office leases expire in the second half.

Social unrest and COVID-19 have severely affected retail businesses in Hong Kong, although we still expect relatively high occupancy in our malls. Retail sales (except those in supermarkets and of daily necessities) have fallen sharply. This has put significant pressure on retail rents. Rental concessions are expected to continue, in order to support our tenants.

Demand for our residential investment properties is being affected by COVID-19.

### **Chinese Mainland**

#### **Retail**

COVID-19 adversely affected the retail investment properties in the Chinese mainland in the first half of 2020, though footfall and retail sales started to recover strongly in March. Total retail sales for the half year were lower and rental concessions were given. Gross rental income from Chinese mainland retail properties in the first half of 2020 was HK\$1,099 million, 8% lower than in the same period in 2019. Disregarding amortised rental concessions and Renminbi depreciation, gross rental income increased by 2%.

#### **Subsidiaries**

Gross rental income at Taikoo Li Sanlitun in Beijing decreased in the first half of 2020. Retail sales decreased by 38%. The occupancy rate was 96% at 30th June 2020. Improvement works are being carried out to reinforce the property's position as a fashionable retail destination in Beijing. The refurbishment of Taikoo Li Sanlitun West as an extension to Taikoo Li Sanlitun (with a gross floor area of 255,731 square feet) is expected to be completed in 2021.

Gross rental income at Taikoo Hui in Guangzhou increased in the first half of 2020. Retail sales increased by 3%, reflecting a strong recovery from March. The mall was 99% occupied at 30th June 2020. Improvements to the tenant mix continued.

#### *Joint Ventures*

The mall at INDIGO in Beijing was 96% occupied at 30th June 2020. Retail sales decreased by 6% in the first half of 2020. Improvements to the tenant mix continued.

Gross rental income at Sino-Ocean Taikoo Li Chengdu decreased in the first half of 2020. Retail sales decreased by 15% in the first half of 2020. Footfall and retail sales started to recover in March. At 30th June 2020, the occupancy rate was 95%.

Gross rental income at HKRI Taikoo Hui decreased in the first half of 2020, as rental concessions were given. Retail sales increased by 2%. Footfall and retail sales started to recover in March. At 30th June 2020, the occupancy rate was 94%.

#### *Office*

The Chinese mainland office portfolio's gross rental income for the first half of 2020 was HK\$176 million, compared with HK\$195 million in the first half of 2019.

COVID-19 reduced demand for office space in the Chinese mainland. The occupancy rate at the Taikoo Hui office towers in Guangzhou was 95% at 30th June 2020. The occupancy rate at ONE INDIGO in Beijing was 74% at 30th June 2020. The occupancy rate at HKRI Taikoo Hui in Shanghai was 97% at 30th June 2020.

#### *Outlook*

Footfall and retail sales in the Chinese mainland have recovered strongly since March 2020. Retail sales are expected to continue to improve for the rest of the year, led by sales of watches, jewellery and other luxury brands. In Guangzhou, demand for luxury brands is expected to be robust. In Chengdu, demand for luxury goods and for retail space in prime locations is expected to be solid. In Shanghai,

demand for retail space from the owners of fashion, cosmetic and lifestyle brands and of food and beverage outlets is expected to be stable. In Beijing, demand for retail space from the owners of lifestyle brands is expected to recover steadily.

Demand for office space in Beijing, Guangzhou and Shanghai is expected to be weak in the second half of 2020. This is expected to put pressure on office rents. Vacancies are expected to increase.

#### *Investment Property under Development*

Taikoo Li Qiantan is a retail development in Qiantan, Pudong New District in Shanghai. Jointly developed with a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd., it will have over 200 shops in an aggregate gross floor area of 1,247,006 square feet. Construction and pre-leasing are in progress. Pre-leasing is going well. The development is expected to be completed by the end of this year.

#### **USA**

The first phase of the Brickell City Centre development consists of a shopping centre, two office buildings (Two 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.

At 30th June 2020, Swire Properties owned 100% of the office, hotel and unsold residential portions and 62.93% of the shopping centre at the Brickell City Centre development. The remaining interest in the shopping centre was owned by Simon Property Group (25%) and Bal Harbour Shops (12.07%). Bal Harbour Shops has an option, exercisable from February 2020, to sell its interest to Swire Properties.

One Brickell City Centre is planned to be a mixed-use development comprising retail, office, hotel and residential space in an 80-storey tower. It will incorporate a 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.

The shopping centre was 93% leased (including by way of letters of intent) at 30th June 2020. Retail sales in the first half of 2020 decreased by 48%. There were no sales from the second half of March to the end of May, when the mall was closed because of COVID-19.

Two and Three Brickell City Centre were almost fully leased at 30th June 2020. In July 2020, Swire Properties completed the sale of these two office buildings.

### Outlook

In Miami, retail sales continue to be affected by COVID-19.

### Valuation of Investment Properties

The portfolio of investment properties was valued at 30th June 2020 on the basis of market value (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK\$272,684 million, compared to HK\$276,008 million at 31st December 2019 and HK\$275,649 million at 30th June 2019.

The decrease in the valuation of the investment property portfolio principally reflects the effect of adverse market conditions and COVID-19 on the valuation of investment properties in Hong Kong and retail investment properties in

the USA, and the reclassification of Two and Three Brickell City Centre in Miami to Assets Held for Sale, pending their disposal in July 2020.

Under HKAS 40, hotel properties are not accounted for as investment properties. The hotel buildings are included within property, plant and equipment. The leasehold land is included within right-of-use assets. Both are recorded at cost less accumulated depreciation or amortisation and any provision for impairment.

### HOTELS

Our managed and non-managed hotels were severely affected by COVID-19. The managed hotels recorded an operating loss before depreciation of HK\$86 million in the first half of 2020, compared with an operating profit before depreciation of HK\$122 million in the first half of 2019.

### Outlook

COVID-19 and associated travel restrictions are likely to continue to make trading conditions difficult for our hotels for the rest of 2020. Occupancy and revenue are expected to remain under pressure. Costs are being saved where possible without damaging the long-term relationship with our customers. A non-managed hotel (The Silveri Hong Kong – MGallery) which is part of the Citygate extension in Hong Kong is expected to open later this year or next year.

### Profile of Capital Commitments for Investment Properties and Hotels

	Expenditure	Forecast expenditure				Total
	Six months ended 30th June 2020 HK\$M	Six months ending 31st December 2020 HK\$M	2021 HK\$M	2022 HK\$M	2023 and later HK\$M	at 30th June 2020 HK\$M
Hong Kong	499	1,974	5,489	1,994	4,900	14,357
Chinese mainland	333	908	153	217	257	1,535
USA and elsewhere	63	11	–	–	–	11
<b>Total</b>	<b>895</b>	<b>2,893</b>	<b>5,642</b>	<b>2,211</b>	<b>5,157</b>	<b>15,903</b>

\* 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\$20 million and HK\$418 million of the capital commitments of joint venture companies in Hong Kong and the Chinese mainland respectively.

## PROPERTY TRADING

### Hong Kong

The site at 8 Star Street, Wanchai (formerly known as 21-31 Wing Fung Street) is to be redeveloped into a 34,000 square feet residential building with retail outlets on the two base levels. Superstructure works are in progress. The development is expected to be completed in 2022.

In September 2019, a joint venture company held as to 80% by Swire Properties and as to 20% by China Motor Bus Company, Limited completed the acquisition of a plot of land in Chai Wan, Hong Kong (Inland Lot No. 88). Subject to agreement with the Hong Kong government, the plot of land is expected to be redeveloped into a residential complex with an aggregate gross floor area of approximately 694,000 square feet.

In October 2019, a joint venture company formed by Swire Properties Limited, Kerry Properties Limited and Sino Land Company Limited tendered successfully for a residential property development at Wong Chuk Hang in Hong Kong (Wong Chuk Hang Station Package Four Property Development). The development is expected to comprise two residential towers with an aggregate gross floor area of approximately 638,000 square feet and about 800 residential units. Ground investigation work is completed and design is in progress. The development is expected to be completed in 2024. Swire Properties has a 25% interest in the joint venture.

### USA

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

The Reach and Rise developments were completed, and handover to purchasers commenced, in 2016. 364 units (out of 390 units) at Reach and 286 units (out of 390 units) at Rise had been sold at 11th August 2020. Sales of one unit at Reach and 11 units at Rise were recognised in the first half of 2020.

### Singapore

EDEN, at 2 Draycott Park in District 10, comprises 20 residential units with an aggregate gross floor area of approximately 77,000 square feet. The development was completed in November 2019 and is available for sale.

### Indonesia

In July 2019, a joint venture between Swire Properties and Jakarta Setiabudi Internasional Group completed the acquisition of a plot of land in south Jakarta, Indonesia. The land will be developed into a residential development with an aggregate gross floor area of approximately 1,123,000 square feet. Demolition works have been completed and foundation works are expected to commence soon. The development is expected to comprise over 400 residential units and to be completed in 2023. Swire Properties has a 50% interest in the joint venture.

### Outlook

In Hong Kong, buyers of residential property have become more cautious in the light of COVID-19, social unrest and international trade tensions. Demand for residential accommodation is expected to be resilient in the medium and long term supported by low interest rates and a limited supply of housing due to a shortage of land. In Miami, sales of Reach and Rise units are expected to be slow. The market is weak and COVID-19 is restricting travel from South America. The markets for the sale of residential properties in Singapore and Jakarta, Indonesia have been adversely affected by COVID-19. However, in Singapore, low interest rates and the long-term prospects of the property market are expected to underpin demand for residential accommodation. In Jakarta, urbanisation and a growing middle class are expected to support a stable residential property market.

### Guy Bradley

## AVIATION DIVISION

The Aviation Division comprises a significant investment in the Cathay Pacific group and the Hong Kong Aircraft Engineering Company (HAECO) group. Cathay Pacific Airways Limited (Cathay Pacific) is listed on The Stock Exchange of Hong Kong Limited. The Cathay Pacific group includes Cathay Pacific, its wholly-owned subsidiaries Hong Kong Dragon Airlines Limited (Cathay Dragon) (Cathay Pacific and Cathay Dragon together the Airlines), Hong Kong Express Airways Limited (HK Express) and AHK Air Hong Kong Limited (Air Hong Kong) and associate interests in Air China Limited (Air China) and Air China Cargo Co., Ltd. (Air China Cargo). Cathay Pacific also has interests in companies providing flight catering and passenger and ramp handling services, and owns and operates a cargo terminal at Hong Kong International Airport.

### Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>HAECO group</b>			
Revenue	6,226	7,873	15,901
Operating profit	551	679	1,048
Attributable profit	534	535	825
<b>Cathay Pacific group</b>			
Share of post-tax (losses)/profits from associated companies	(4,440)	606	761
<b>Swire Pacific share of attributable (loss)/profit</b>	<b>(3,925)</b>	1,124	1,550

#### 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 above do not include Swire Pacific's consolidation adjustments.

## RESULTS SUMMARY

The Aviation Division reported an attributable loss of HK\$3,925 million in the first half of 2020. This compared with a profit of HK\$1,124 million in the same period in 2019.

### CATHAY PACIFIC GROUP

Despite a promising start in January, with encouraging signs that passenger demand was beginning to return following the social unrest which impacted the second half of 2019, the first six months of 2020 were the most challenging that the Cathay Pacific group has faced in its more than 70-year history. The impact of COVID-19 on the group's business and the global economy is unprecedented. The global health crisis has decimated the travel industry and the future remains highly uncertain, with most analysts suggesting that it will take years to recover to pre-crisis levels.

In response to this unprecedented situation, in June 2020 Cathay Pacific announced a HK\$39 billion recapitalisation, comprising a HK\$19.5 billion preference share issue (with attached warrants), a HK\$11.7 billion rights issue and a HK\$7.8 billion bridging loan facility. This recapitalisation was completed on 12th August 2020.

The Cathay Pacific group's attributable loss on a 100% basis was HK\$9,865 million in the first half of 2020 (2019 first half: profit of HK\$1,347 million). Cathay Pacific and Cathay Dragon reported a loss after tax of HK\$7,361 million in the first half of 2020 (2019 first half: profit of HK\$675 million), and the share of losses from subsidiaries and associates was HK\$2,504 million (2019 first half: profit of HK\$672 million).

## Cathay Pacific and Cathay Dragon – Key Operating Highlights

		Six months ended 30th June		Change
		2020	2019	
Available tonne kilometres (ATK)	<i>Million</i>	<b>8,595</b>	16,318	-47.3%
Available seat kilometres (ASK)	<i>Million</i>	<b>27,732</b>	80,814	-65.7%
Available cargo tonne kilometres (AFTK)	<i>Million</i>	<b>5,958</b>	8,635	-31.0%
Revenue tonne kilometres (RTK)	<i>Million</i>	<b>5,920</b>	11,950	-50.5%
Passenger revenue – group	<i>HK\$M</i>	<b>11,056</b>	37,449	-70.5%
Passenger revenue – Cathay Pacific and Cathay Dragon	<i>HK\$M</i>	<b>10,396</b>	37,449	-72.2%
Passenger revenue per ASK	<i>HK¢</i>	<b>37.5</b>	46.3	-19.0%
Revenue passenger kilometres (RPK)	<i>Million</i>	<b>18,668</b>	68,078	-72.6%
Revenue passengers carried	<i>'000</i>	<b>4,389</b>	18,261	-76.0%
Passenger load factor	<i>%</i>	<b>67.3</b>	84.2	-16.9%pt
Passenger yield	<i>HK¢</i>	<b>55.5</b>	54.9	+1.1%
Cargo revenue – group	<i>HK\$M</i>	<b>12,692</b>	11,498	+10.4%
Cargo revenue – Cathay Pacific and Cathay Dragon	<i>HK\$M</i>	<b>11,177</b>	10,275	+8.8%
Cargo revenue per AFTK	<i>HK\$</i>	<b>1.88</b>	1.19	+58.0%
Cargo revenue tonne kilometres (RFTK)	<i>Million</i>	<b>4,129</b>	5,477	-24.6%
Cargo carried	<i>'000 Tonnes</i>	<b>667</b>	979	-31.9%
Cargo load factor	<i>%</i>	<b>69.3</b>	63.4	+5.9%pt
Cargo yield	<i>HK\$</i>	<b>2.71</b>	1.88	+44.1%
Cost per ATK (with fuel)	<i>HK\$</i>	<b>3.75</b>	3.12	+20.2%
Cost per ATK (without fuel)	<i>HK\$</i>	<b>2.95</b>	2.23	+32.3%
Fuel consumption per million RTK	<i>Barrels</i>	<b>1,819</b>	1,870	-2.7%
Fuel consumption per million ATK	<i>Barrels</i>	<b>1,253</b>	1,369	-8.5%
Aircraft utilisation (including parked aircraft)	<i>Hours per day</i>	<b>5.4</b>	12.0	-55.0%
On-time performance	<i>%</i>	<b>86.5</b>	74.2	+12.3%pt
Average age of fleet	<i>Years</i>	<b>10.3</b>	10.2	+0.1yrs

Refer to Glossary on pages 82 and 83 for definitions.

The loss for the first half of 2020 was net of the receipt of HK\$1,060 million of COVID-19 related government grants globally and included impairment and related charges of HK\$2,465 million relating to 16 aircraft that are unlikely to re-enter meaningful economic service again before they retire or are returned to lessors, and to certain airline service subsidiaries' assets.

## Passenger Services

### *Cathay Pacific and Cathay Dragon*

Passenger revenue for the first half of 2020 was HK\$10,396 million, a decrease of 72% compared with the same period in 2019. The loss of revenue reflects the precipitous drop in passenger demand resulting from the extensive travel restrictions, border controls and quarantine arrangements which were implemented around the world in response to the COVID-19 pandemic. Passengers carried were 4.4 million in the first half of the year, 76% fewer than in the first half of 2019. The load factor also dropped significantly, to 67.3% from 84.2% in the first half of 2019. Passenger capacity decreased by 66%.

### *HK Express*

HK Express reported a significant loss for the first half of 2020. It stopped flying in mid-March because of COVID-19 and associated travel restrictions and has only recently reintroduced some flights.

## Cargo Services

### *Cathay Pacific and Cathay Dragon*

Cargo revenue for the first half of 2020 was HK\$11,177 million, an increase of 9% compared with the same period in 2019. Cargo yield increased by 44% to HK\$2.71 in the first six months. There was an imbalance between capacity and demand in the cargo market. The Airlines' own capacity decreased by 31%. About half of cargo tonnage goes in the bellies of passenger aircraft. Additional cargo-carrying capacity was introduced wherever possible. Utilisation of freighters was increased. Flights were chartered from the all-cargo subsidiary Air Hong Kong. 2,228 pairs of cargo-only passenger flights were operated between March and June. At the end of April, cargo started to be carried in the passenger

cabins of Boeing 777-300ER aircraft. This increased their cargo-carrying capacity by 5% to 9%. Total tonnage carried decreased by 32% to 667 thousand tonnes. The load factor increased 5.9 percentage points to 69.3%.

### *Air Hong Kong*

Air Hong Kong recorded a profit during the first six months of the year. As noted above, there was an imbalance between capacity and demand in the cargo market. The Air Hong Kong aircraft provided additional cargo capacity for the group.

## Operating Costs

Total fuel costs for Cathay Pacific and Cathay Dragon (before the effect of fuel hedging) decreased by HK\$9,069 million (or 63%) compared with the first half of 2019, reflecting a 22% decrease in average into-plane fuel prices and a 52% decrease in consumption. The benefits of the substantial decrease in fuel prices were limited (because the Airlines flew much less) and were offset by losses on fixed volume fuel hedges. After taking fuel hedging into account, fuel costs decreased by HK\$7,640 million (or 53%) compared with the first half of 2019. Fuel consumption per available tonne kilometre fell by 9%.

Disregarding the effect of foreign currency movements and exceptional items (including impairments), the non-fuel costs per available tonne kilometre increased by 34%, reflecting the effect of reducing capacity when some costs are fixed or semi-variable. Numerous cash preservation measures were put in place.

## Fleet Profile

At 30th June 2020, the total number of aircraft in the Cathay Pacific, Cathay Dragon and HK Express fleets was 224.

Given current conditions, it has been decided to transfer approximately a third of the passenger aircraft to parking locations outside of Hong Kong over the coming months in keeping with prudent operational and asset management considerations. This is subject to change as passenger flight capacity continues to be reassessed.

## Fleet profile\*

Aircraft type	Number at 30th June 2020			Total	Average age	Orders			Total	Expiry of operating leases**					
	Owned	Leased**				'20	'21	'22 and beyond		'20	'21	'22	'23	'24	'25 and beyond
<b>Aircraft operated by Cathay Pacific:</b>															
A330-300	17	10	1	28	12.7					1 <sup>(a)</sup>					
A350-900	18	4	2	24	3.1	3	1	2	6					2	
A350-1000	9	3		12	1.6	1	2	3	6						
747-400ERF		6		6	11.5										
747-8F	3	11		14	7.4										
777-300	17			17	18.7										
777-300ER	22	8	21	51	8.3					6	4	2	3	6	
777-9								21	21						
<b>Total</b>	<b>86</b>	<b>42</b>	<b>24</b>	<b>152</b>	<b>8.9</b>	<b>4</b>	<b>3</b>	<b>26</b>	<b>33</b>	<b>1</b>	<b>6</b>	<b>4</b>	<b>2</b>	<b>3</b>	<b>8</b>
<b>Aircraft operated by Cathay Dragon:</b>															
A320-200	5		9	14	14.5					3	3	3			
A321-200	2		6	8	17.6					1	2	2	1		
A321-200neo						2	4	10	16						
A330-300	21 <sup>(b/c)</sup>		5	26	15.9					1				4	
<b>Total</b>	<b>28</b>		<b>20</b>	<b>48</b>	<b>15.8</b>	<b>2</b>	<b>4</b>	<b>10</b>	<b>16</b>	<b>5</b>	<b>5</b>	<b>5</b>	<b>1</b>	<b>4</b>	
<b>Aircraft operated by HK Express:</b>															
A320-200			8	8	10.7						3		1	4	
A321-200			11	11	2.7									11	
A320-200neo			5	5	3.0	4	1		5 <sup>(d)</sup>					5	
A321-200neo								16 <sup>(e)</sup>	16						
<b>Total</b>			<b>24</b>	<b>24</b>	<b>5.4</b>	<b>4</b>	<b>1</b>	<b>16</b>	<b>21</b>	<b>3</b>			<b>1</b>	<b>4</b>	<b>16</b>
<b>Aircraft operated by Air Hong Kong***:</b>															
A300-600F			9	9	16.1						5	3		1	
A330-243F			1	1	7.1									1	
A330-300P2F			1	1	24.6						1				
<b>Total</b>			<b>11</b>	<b>11</b>	<b>16.1</b>						<b>6</b>	<b>3</b>		<b>2</b>	
<b>Grand total</b>	<b>114</b>	<b>42</b>	<b>79</b>	<b>235</b>	<b>10.3</b>	<b>10</b>	<b>8</b>	<b>52</b>	<b>70</b>	<b>6</b>	<b>14</b>	<b>15</b>	<b>7</b>	<b>7</b>	<b>30</b>

\* The table does not reflect aircraft movements after 30th June 2020.

\*\* Leases previously classified as operating leases are accounted for in a similar manner to finance leases under accounting standards. The majority of operating leases in the above table are within the scope of HKFRS 16.

\*\*\* The nine Airbus A300-600F, one Airbus A330-243F and one A330-300P2F freighters are considered to be operated by Air Hong Kong, even though the arrangement does not constitute a lease in accordance with HKFRS 16.

(a) The operating lease of one Airbus A330-300 aircraft expired in July 2020. The aircraft was returned to its lessor.

(b) 11 of these aircraft are owned by Cathay Pacific and leased by Cathay Dragon.

(c) One Airbus A330-300 aircraft was deregistered in August 2020.

(d) These aircraft are subject to operating leases.

(e) These aircraft, ordered by Cathay Dragon, will be operated by HK Express.

### Air China and Air China Cargo

The Cathay Pacific group's share of the results of Air China (in which the Cathay Pacific group had an 18.13% interest at 30th June 2020) is based on its financial statements drawn up three months in arrears. Consequently the 2020 interim results include Air China's results for the six months ended 31st March 2020, adjusted for any significant events or transactions for the period from 1st April 2020 to 30th June 2020. The results do not reflect the impact of COVID-19 on Air China from 1st April 2020 to 30th June 2020.

Air China's financial results declined in the six months to 31st March 2020.

In the first half of 2020, Air China Cargo's profit was higher than in the first half of 2019.

### Outlook

The International Air Transport Association (IATA) has released analysis indicating that the COVID-19 crisis will see global airline passenger revenues drop by US\$371 billion in 2020, a 61% decline compared to 2019, and estimates airline industry net losses to be US\$84 billion. Airlines in Asia Pacific will see the largest share of losses (US\$29 billion) and will experience a 54% fall in passenger demand year-on-year. Most industry analysts are forecasting very gradual recoveries over a protracted period, and IATA is forecasting that it will be 2024 at the earliest before international passenger demand returns to pre-crisis levels. Not only that, but with a global recession looming, and geopolitical tensions intensifying, trade will likely come under significant pressure, and this is expected to have a negative impact on both air travel and cargo demand. This is the biggest challenge to the aviation industry that Cathay Pacific has ever witnessed. Cathay Pacific does not expect to see a meaningful recovery in the passenger business for some time to come. Market demand will continue to be closely monitored as the group works towards progressively reintroducing passenger flights as appropriate.

By the fourth quarter of 2020, Cathay Pacific's management will recommend to its board the optimum size and shape of the Cathay Pacific group to meet the air travel needs of Hong Kong while meeting its responsibilities to its shareholders. Inevitably this will involve rationalisation of future planned capacity compared to pre-crisis plans, taking into account the market outlook and cost structure at that time.

### Augustus Tang

## 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), and engine overhaul work in Hong Kong (by HAECO's 50% joint venture company, Hong Kong Aero Engine Services Limited (HAESL)) and in Xiamen (by Taikoo Engine Services (Xiamen) Company Limited (TEXL)).

HAECO Americas manufactures aircraft seats. The HAECO group has other subsidiaries and joint venture companies in the Chinese mainland, which offer a range of aircraft engineering services, and has a 70% interest in HAECO ITM Limited, an inventory technical management joint venture with Cathay Pacific in Hong Kong.

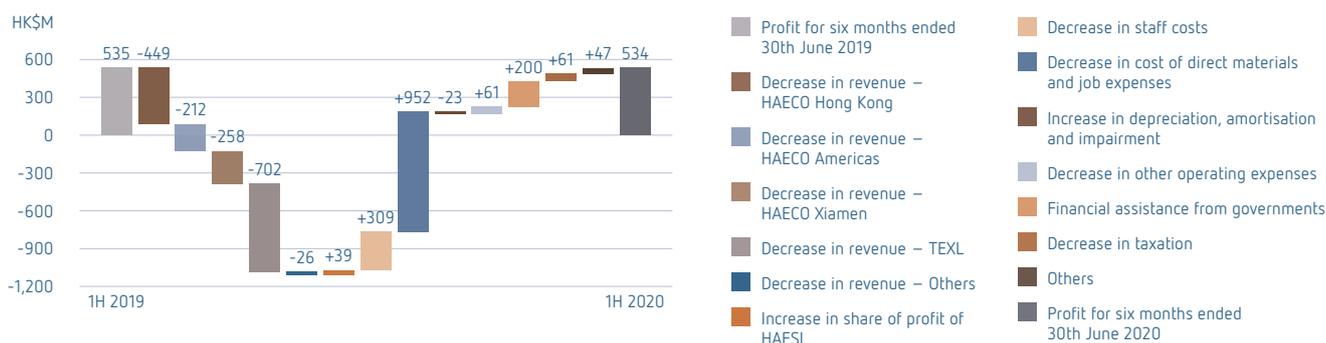
HAECO is a wholly-owned subsidiary of Swire Pacific.

### Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Revenue</b>			
HAECO Hong Kong	1,759	2,208	4,612
HAECO Americas	1,152	1,364	2,730
HAECO Xiamen	830	1,088	2,138
TEXL	1,847	2,549	4,978
Others	638	664	1,443
	<b>6,226</b>	<b>7,873</b>	<b>15,901</b>
<b>Operating profit</b>	<b>551</b>	<b>679</b>	<b>1,048</b>
<b>Attributable profit/(loss)</b>			
HAECO Hong Kong	20	151	243
HAECO Americas	56	(128)	(190)
HAECO Xiamen	111	132	225
TEXL	67	91	180
<b>Share of profit of</b>			
HAESL	247	208	415
Other subsidiary and joint venture companies	54	81	186
<b>Attributable profit (excluding non-recurring items)</b>	<b>555</b>	<b>535</b>	<b>1,059</b>
Impairment charges in respect of:			
Goodwill	–	–	(204)*
Customer relationships	–	–	(30)*
Rotable aircraft parts	(21)	–	–
<b>Attributable profit</b>	<b>534</b>	<b>535</b>	<b>825</b>

\* representing impairment charges of HAECO Americas.

## HAECO Group – Movement in Attributable Profit



## Key Operating Highlights

		Six months ended 30th June		Change
		2020	2019	
<b>Airframe services manhours sold</b>				
HAECO Hong Kong	Million	1.26	1.39	-9%
HAECO Americas	Million	1.39	1.60	-13%
HAECO Xiamen	Million	1.70	2.10	-19%
<b>Line services movements handled</b>				
HAECO Hong Kong	Thousand	30.7	57.4	-47%
Chinese mainland and overseas	Thousand	11.3	24.2	-53%
<b>Engines overhauled</b>				
TEXL		41	46	-11%
HAESL		142	114	+25%

## RESULTS SUMMARY

The HAECO group reported an attributable profit of HK\$534 million for the first six months of 2020, including post-tax impairment charges of HK\$21 million in respect of rotatable aircraft parts of HAECO ITM. This compares with a profit of HK\$535 million for the equivalent period in 2019. Disregarding the impairment charges, the HAECO group's attributable profit for the first six months of 2020 was HK\$555 million, HK\$20 million more than the profit in the first half of 2019. Financial assistance from governments in Hong Kong and the USA and a higher profit at HAESL more than offset the adverse effect of COVID-19 on demand for maintenance and repair services at most HAECO group companies. There were significant profit reductions at HAECO Hong Kong (which was affected in particular by a substantial reduction in demand for line maintenance services), HAECO Xiamen and TEXL.

A total of 4.35 million airframe services manhours were sold by HAECO Hong Kong, HAECO Americas and HAECO Xiamen in the first half of 2020, 15% less than in the first half of 2019. HAECO Hong Kong, HAECO Xiamen and HAECO Americas all performed less airframe services work.

### HAECO Hong Kong

In the first half of 2020, HAECO Hong Kong recorded a profit of HK\$20 million, compared to a profit of HK\$151 million in the first half of 2019. All airline customers flew substantially less because of COVID-19. This particularly affected line maintenance services. Cost savings and the Hong Kong government's employment subsidy provided partial offsets.

HAECO Hong Kong handled approximately 30,700 line services aircraft movements in the first half of 2020, a decrease of 47% compared with the first half of 2019. 1.26 million airframe services manhours were sold in the first half

of 2020, 9% less than in the first half of 2019. Customers rescheduled airframe maintenance.

### **HAECO Americas**

HAECO Americas recorded a profit of HK\$56 million in the first half of 2020, compared with a loss of HK\$128 million in the first half of 2019. There were efficiency gains in the first quarter and an increase in higher margin work. Costs were saved in response to the COVID-19 global pandemic. US government financial assistance under the CARES Act offset the significant decline in airframe services work in the second quarter.

1.39 million airframe services manhours were sold, 13% less than in the first half of 2019. This reflected reduced demand for airframe maintenance because of COVID-19.

Fewer Panasonic communication kits, seats and seating spares were sold in the first half of 2020. There was less cabin reconfiguration work, but margins increased.

### **HAECO Xiamen**

In the first half of 2020, HAECO Xiamen recorded a 16% reduction in attributable profit to HK\$111 million compared to the first half of 2019. COVID-19 reduced demand for airframe services, line services and parts manufacturing.

In airframe services, 1.70 million manhours were sold in the first half of 2020, 19% less than in the first half of 2019. Airlines deferred airframe maintenance because of COVID-19. Aircraft parts manufacturing revenue decreased by 55% in local currency terms. In line services, 4,800 aircraft movements were handled in the first half of 2020, 55% less than in the first half of 2019. Airlines flew less because of COVID-19.

### **TEXL**

In the first half of 2020, TEXL's attributable profit decreased by 26% to HK\$67 million compared with the first half of 2019. Airlines deferred engine maintenance because COVID-19 resulted in aircraft being used less. TEXL performed 19 performance restoration worksopes and 22 quick turn worksopes on GE90 aircraft engines in the first half of 2020 (compared with 25 performance restoration worksopes and 21 quick turn worksopes in the same period of 2019).

### **HAESL**

In the first half of 2020, HAESL recorded a 19% increase in attributable profit to HK\$247 million compared to the first half in 2019. The growth in profit reflected an increase in engine volume and a heavier work mix. 142 engines were overhauled, compared with 114 in the first half of 2019. COVID-19 had minimal impact on demand during the first half of 2020. There was a global backlog of engines (of a type which HAESL repairs) awaiting maintenance and repair.

### **Other Principal Subsidiary Companies**

HAECO ITM's profit in the first half of 2020 was lower than in the first half of 2019. This mainly reflected impairment charges in respect of the carrying value of rotatable aircraft parts, less repair and exchange of aircraft parts and customers' aircraft flying less.

HAECO Landing Gear Services and HAECO Composite Services recorded lower profits in the first half of 2020 than in the first half of 2019. They did less work because of COVID-19.

In March, the group acquired an engine maintenance business (renamed HAECO Global Engine Support) in Dallas, Texas, USA. It does quick-turn repairs and lease returns for commercial aircraft engines.

**Outlook**

The prospects for the HAECO group's businesses in the second half of 2020 depend on how quickly aviation recovers from the effects of COVID-19. Demand for airframe services in the second half of 2020 in Hong Kong, the USA and Xiamen is expected to continue to fall. Line services work is expected to recover gradually towards the end of the year, but not to 2019 levels. Deferral of engine maintenance because of COVID-19's effect on aircraft usage is expected to result in less work for TEXL and HAESL in the second than in the first half of the year. Forward bookings for cabin integration work are low. Less Panasonic communication equipment work is expected in the second than in the first half of the year. More seats are expected to be sold in the second than in the first half of the year.

Management is working with the Xiamen authorities on the relocation of HAECO Xiamen's premises to the new Xiamen airport. The relocation will be material to HAECO Xiamen's operations.

**Frank Walschot**

## BEVERAGES DIVISION

Swire Coca-Cola has the exclusive right to manufacture, market and distribute products of The Coca-Cola Company (TCCC) in 11 provinces and the Shanghai Municipality in the Chinese mainland and in Hong Kong, Taiwan and an extensive area of the western USA.

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

At 30th June 2020, Swire Coca-Cola manufactured 63 beverage brands and distributed them to a franchise population of 739 million people.

### Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Revenue</b>	<b>21,251</b>	21,169	43,317
<b>EBITDA</b>	<b>2,316</b>	2,135	4,344
<b>Operating profit derived from</b>			
Operating activities	<b>1,350</b>	1,201	2,346
Non-recurring items	–	–	141
Total operating profit	<b>1,350</b>	1,201	2,487
<b>Share of post-tax profits from joint venture and associated companies</b>	<b>73</b>	96	153
<b>Attributable profit (excluding non-recurring items)</b>	<b>946</b>	748	1,584
<b>Non-recurring items</b>			
Gain on disposal of a plant in Yunnan, the Chinese mainland	–	–	85
Gain on disposal of a sales centre in the USA	–	–	17
<b>Attributable profit</b>	<b>946</b>	748	1,686

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

## Segment Financial Highlights

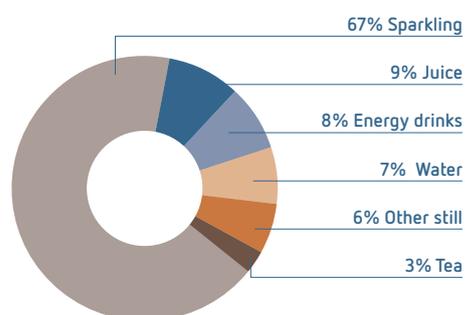
	Revenue			EBITDA			Attributable Profit		
	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M	2019 HK\$M
Chinese mainland									
Operating activities	10,904	11,042	22,087	1,414	1,252	2,362	571	509	856
Non-recurring items	–	–	–	–	–	118	–	–	85
	10,904	11,042	22,087	1,414	1,252	2,480	571	509	941
Hong Kong	1,000	1,095	2,340	127	141	327	69	90	207
Taiwan	873	781	1,694	90	68	164	42	27	75
USA									
Operating activities	8,474	8,251	17,196	734	715	1,453	314	164	550
Non-recurring items	–	–	–	–	–	23	–	–	17
	8,474	8,251	17,196	734	715	1,476	314	164	567
Central costs	–	–	–	(49)	(41)	(103)	(50)	(42)	(104)
<b>Beverages Division</b>	<b>21,251</b>	<b>21,169</b>	<b>43,317</b>	<b>2,316</b>	<b>2,135</b>	<b>4,344</b>	<b>946</b>	<b>748</b>	<b>1,686</b>

## Revenue by Territory

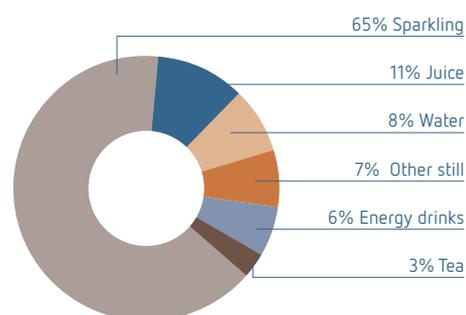
Revenue shown in the table below includes that of a joint venture company and excludes sales to other bottlers.

	Chinese mainland HK\$M	Hong Kong HK\$M	Taiwan HK\$M	USA HK\$M	Total HK\$M
Six months ended 30th June 2020	11,796	966	871	7,872	21,505
Six months ended 30th June 2019	12,621	1,051	779	7,535	21,986

## Breakdown of Total Revenue by Category (%)



Six months ended 30th June 2020



Six months ended 30th June 2019

## Segment Performance

	Note	Chinese mainland	Hong Kong	Taiwan	USA	Swire Coca-Cola
EBITDA margin	1					
<b>Six months ended 30th June 2020</b>		<b>12.6%</b>	<b>12.9%</b>	<b>10.3%</b>	<b>9.3%</b>	<b>11.3%</b>
Six months ended 30th June 2019		10.2%	13.4%	8.8%	9.3%	10.0%
EBIT margin	1					
<b>Six months ended 30th June 2020</b>		<b>8.9%</b>	<b>8.2%</b>	<b>6.3%</b>	<b>5.1%</b>	<b>7.3%</b>
Six months ended 30th June 2019		6.8%	9.7%	4.6%	5.1%	6.3%

Note 1: (i) EBITDA and EBIT for Swire Coca-Cola (including that of a joint venture company and excluding non-recurring gains and central costs) for the first half of 2020 were HK\$2,434 million (2019: HK\$2,199 million) and HK\$1,579 million (2019: HK\$1,377 million) respectively.

(ii) EBITDA margin and EBIT margin represent EBITDA and EBIT expressed as percentages of revenue (which include that of a joint venture company and exclude sales to other bottlers).

## RESULTS SUMMARY

Swire Coca-Cola made an attributable profit of HK\$946 million in the first half of 2020, a 26% increase from its attributable profit of HK\$748 million in the first half of 2019. Disregarding a withholding tax payment in the USA in the first half of 2019, the increase would have been 14%.

Total revenue (including that of a joint venture company and excluding sales to other bottlers) decreased by 2% to HK\$21,505 million. Overall sales volume decreased by 5% to 837 million unit cases. Revenue and volume decreased in the Chinese mainland and Hong Kong. In the USA and Taiwan, revenue and volume grew.

EBITDA (including that of a joint venture company and excluding non-recurring gains and central costs) increased by 11% to HK\$2,434 million. The EBITDA margin increased from 10.0% to 11.3%.

### Chinese Mainland

Attributable profit from the Chinese mainland for the first half of 2020 was HK\$571 million, a 12% increase from the first half of 2019.

Revenue (including that of a joint venture company and excluding sales to other bottlers) declined by 2% in local currency terms. Sales were adversely affected by COVID-19, but there was a strong recovery from May 2020.

Sparkling revenue increased by 4%. Still revenue decreased by 16%. Water and juice revenue decreased by 23% and 17% respectively. Energy drink revenue increased by 11%.

Total sales volume decreased by 7%.

The decrease in revenue was more than offset by lower raw material costs and containment of operating expenses.

EBITDA and EBIT (including that of a joint venture company and excluding non-recurring gains and central costs) increased by 21% and 29% in local currency terms respectively. The EBITDA margin increased from 10.2% in the first half of 2019 to 12.6% in the first half of 2020. The EBIT margin increased from 6.8% to 8.9%.

### Hong Kong

Attributable profit from Hong Kong for the first half of 2020 was HK\$69 million, a 23% decrease from the first half of 2019. The results were adversely affected by COVID-19 and social unrest.

Revenue decreased by 8%. Sparkling revenue decreased by 3%. Still revenue decreased by 14%. Juice, tea and water revenue decreased by 12%, 7% and 31% respectively.

Total sales volume decreased by 15%.

EBITDA and EBIT decreased by 12% and 22% respectively. The EBITDA margin decreased from 13.4% in the first half of 2019 to 12.9% in the first half of 2020. The EBIT margin decreased from 9.7% to 8.2%.

## Taiwan

Attributable profit from Taiwan for the first half of 2020 was HK\$42 million, a 56% increase from the first half of 2019.

Revenue in local currency terms increased by 9%, a higher growth rate than that of volume. This reflected effective revenue growth management, successful introductions of new products and an improved product mix.

Sparkling revenue increased by 10%. Still revenue increased by 8%. Tea and energy drink revenue increased by 14% and 5% respectively.

Total sales volume increased by 4%.

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

EBITDA and EBIT increased by 29% and 51% in local currency terms respectively. The EBITDA margin increased from 8.8% in the first half of 2019 to 10.3% in the first half of 2020. The EBIT margin increased from 4.6% to 6.3%.

## USA

Attributable profit from the USA for the first half of 2020 was HK\$314 million, a 91% increase from the first half of 2019.

The beneficial effects of an increase in revenue and absence of a withholding tax payment were partly offset by higher operating expenses.

Revenue in local currency terms (excluding sales to other bottlers) grew by 6%. The revenue increase reflected higher sales volume and an improved product mix.

Sparkling revenue increased by 6%. Still revenue increased by 5%. The latter increase reflected an increase in revenue from energy drinks of 18%.

Total sales volume increased by 3%.

EBITDA and EBIT (excluding non-recurring gains and central costs) increased by 5% and 4% in local currency terms respectively. The EBITDA margin was the same (9.3%) in the first half of 2020 as in the first half of 2019. The EBIT margin (5.1%) was also unchanged.

## Outlook

Assuming no resurgence of COVID-19, revenue in the Chinese mainland is expected to continue to grow in the second half of 2020 and to grow faster than volume. This reflects better product and package mixes, and improved market execution. Increased operating costs, particularly staff costs, will put pressure on profits. Capital expenditure will continue as planned.

In Hong Kong, the beverages market is expected to continue to be adversely affected by COVID-19 in the second half of 2020. Increased depreciation charges and operating costs (due to the enhancement of distribution and production facilities) will put pressure on profits.

Revenue is expected to continue to grow in Taiwan in the second half of 2020. Capacity constraints during the summer should ease when a contract packer's new production line is commissioned in late August.

In the USA, the beverages market is expected to continue to be affected by COVID-19. The prolonged spread of the disease is causing adverse changes in channel and product mixes and shortages in the supply of aluminium cans. Expansion of production and logistics facilities will improve operational efficiency but will add depreciation charges and operating costs.

## Patrick Healy

## MARINE SERVICES DIVISION

The Marine Services Division, through Swire Pacific Offshore (SPO), owns and operates offshore support vessels servicing the energy industries in every major offshore production and exploration region outside the USA.

SPO supports offshore drilling, production, exploration, platform construction, subsea inspection, maintenance and repairs (IMR) and light construction work. SPO also carries out seismic survey support, marine salvage, oil spill preparedness and response, offshore wind farm construction and servicing and oil rig decommissioning.

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

### Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Swire Pacific Offshore group</b>			
Revenue	1,010	1,287	2,452
Operating loss derived from			
Operating activities	(553)	(491)	(1,134)
Gain/(loss) on disposal of vessels and equipment	9	(28)	(41)
Impairment charges	(4,345)	–	(2,121)
Restructuring provision	–	–	(125)
Total operating loss	(4,889)	(519)	(3,421)
Attributable loss	(4,976)	(633)	(3,672)
<b>HUD group</b>			
Share of post-tax profits from joint venture companies	9	22	38
<b>Attributable loss</b>	<b>(4,967)</b>	<b>(611)</b>	<b>(3,634)</b>
<b>Non-recurring items</b>			
Gain/(loss) on disposal of vessels and equipment	9	(28)	(41)
Impairment charges	(4,345)	–	(2,121)
Restructuring provision	–	–	(125)
	(4,336)	(28)	(2,287)
<b>Recurring loss</b>	<b>(631)</b>	<b>(583)</b>	<b>(1,347)</b>

### Fleet Size

	At 30th June		At 31st December
	2020	2019	2019
<b>Number of vessels operated</b>			
Swire Pacific Offshore group	72	75	73
HUD group	19	21	19
<b>Total</b>	<b>91</b>	<b>96</b>	<b>92</b>

## RESULTS SUMMARY

The attributable loss of the Marine Services Division in the first half of 2020 was HK\$4,967 million, compared to a loss of HK\$611 million in the first half of 2019. The loss in the first half of 2020 included an impairment charge at SPO of HK\$4,345 million. The impairment charge was in respect of vessels and other assets.

### Swire Pacific Offshore group

SPO reported an attributable loss of HK\$4,976 million for the first half of 2020, compared to a loss of HK\$633 million in the first half of 2019.

The positive signs of a market recovery in late 2019 continued thereafter with higher day rates and improved utilisation for the core fleet, including in the first quarter of 2020. As a result of COVID-19, the demand for oil fell significantly in the second quarter of 2020. Business conditions in the offshore supply industry and the outlook for the industry have deteriorated substantially. There was a significant decrease in utilisation of SPO's fleet starting in the second quarter of 2020. Average day rates were flat during the period. They decreased (due to a change in vessel mix) from those in the first half of 2019.

Following a review of the carrying value of SPO's fleet and other assets, an impairment charge of HK\$4,345 million was made. Disregarding the impairment charge and the gain on disposal of equipment of HK\$9 million, SPO reported a loss of HK\$640 million in the first half of 2020.

SPO recorded a net cash inflow from operating activities of HK\$11 million in the first half of 2020 (first half of 2019: net cash outflow of HK\$129 million).

### Charter Hire

Charter hire revenue decreased by 22% to HK\$920 million in the first half of 2020. Fleet utilisation during the first half of 2020 was 72.9%, 1.8 percentage points lower than in the first half of 2019. Average charter hire rates decreased by 14% to US\$12,400 per day.

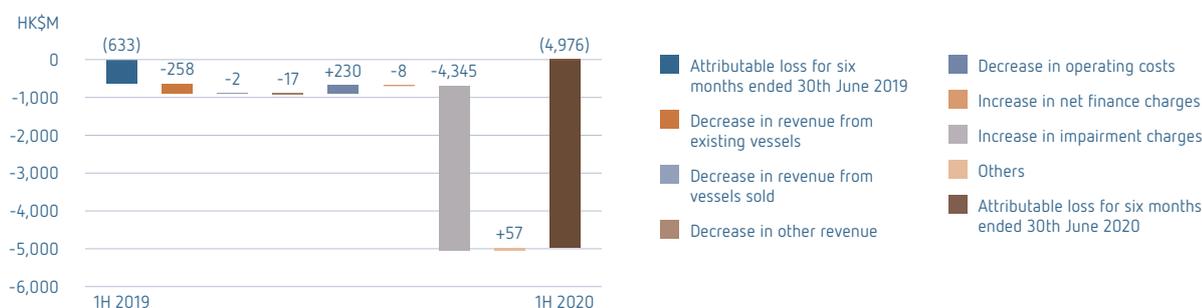
Utilisation of SPO's core fleet of anchor handling tug supply vessels (AHTSs) and platform supply vessels (PSVs) decreased by 2.0 percentage points to 77.9%. Average charter hire rates for the core fleet were US\$11,400 per day, an increase of 6% from those in the first half of 2019.

Utilisation of SPO's construction and specialist vessels (CSVs) decreased by 4.9 percentage points to 38.7%. The CSVs' average charter hire rates decreased by 53% to US\$25,600 per day.

Utilisation of SPO's wind farm installation vessels increased to 56.0% in the first half of 2020 from 54.8% in the first half of 2019. Revenue decreased by 70%.

Utilisation of SPO's other CSVs decreased to 33.9% in the first half of 2020 (first half of 2019: 41.1%). Day rates decreased by 36% to US\$17,600 per day. Revenue decreased by 57%.

### SPO – Movement in Attributable Loss



**SPO – Fleet Size**

Vessel class	31st December 2019	Redelivery	30th June 2020
Anchor Handling Tug Supply Vessels	41	–	41
Platform Supply Vessels	22	–	22
Construction and Specialist Vessels*	10	(1)	9
	73	(1)	72

\* one vessel subject to an operating lease was returned upon lease expiry in the first half of 2020.

**Non-charter Hire**

Non-charter hire income decreased by 16% to HK\$90 million in the first half of 2020 as compared to the same period in 2019.

**Operating Costs**

Total operating costs decreased by 13% in the first half of 2020 as compared to the same period in 2019. This reflected reduced manning and repair and maintenance costs.

**Fleet**

The fleet size at 30th June 2020 was 72, compared to 73 at 31st December 2019. SPO redelivered one leased vessel to its owner in the first half of 2020.

At 30th June 2020, one vessel was in cold stack and two vessels were in warm stack. Of the total fleet of 72 vessels, at least 28 are planned to be stacked (and four to be sold) by the end of 2020.

Total capital expenditure on fixed assets during the first half of 2020 was HK\$97 million, compared to HK\$230 million in the first half of 2019.

**Outlook**

COVID-19 and reduced oil prices have severely affected the offshore oil and gas industry. Exploration and production companies have cancelled or suspended existing projects and deferred future projects. As a result, there is an oversupply of vessels and day rates will come under pressure.

SPO is doing its best to adapt to market conditions and is managing costs prudently.

**Peter Langslow – SPO**

**Hongkong United Dockyards (HUD) group**

The attributable profit of the HUD group in the first half of 2020 was HK\$9 million, compared to HK\$22 million in the first half of 2019.

The engineering division recorded a loss (before tax and interest and on a 100% basis) of HK\$25 million in the first half of 2020, compared to a loss of HK\$22 million in the first half of 2019.

The profit of Hongkong Salvage & Towage (HKST) (before tax and interest and on a 100% basis) in the first half of 2020 was HK\$42 million, compared to HK\$73 million in the first half of 2019. The decrease reflected the absence of 2019's one-off emergency oil spill response services, and less towage activity as a result of COVID-19.

HKST has 19 vessels, including six container vessels.

***Outlook***

Container liner activity is expected to remain subdued due to COVID-19's impact on industrial output. Output in the Chinese mainland is recovering, but world demand is not.

The engineering division's turnover is expected to decrease. Cost saving measures have been planned.

**David Cogman – HUD**

## TRADING & INDUSTRIAL DIVISION

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

### **Swire Resources**

Swire Resources retails and distributes footwear, apparel and related accessories. At 30th June 2020, it operated 185 retail outlets in Hong Kong and Macau and 13 retail outlets in the Chinese mainland.

### **Taikoo Motors**

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

### **Swire Foods group**

#### *Chongqing New Qinyuan Bakery*

Qinyuan Bakery is a leading bakery chain in southwest China, with 564 stores in Chongqing, Guiyang and Chengdu at 30th June 2020.

#### *Taikoo Sugar*

Taikoo Sugar packages and sells sugar in Hong Kong and the Chinese mainland under the Taikoo Sugar brand.

### **Swire Environmental Services**

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

### **Healthcare**

The Group has an associate interest in Columbia China Healthcare Co., Limited, the business of which is to own and operate private hospitals, clinics and senior housing in the Chinese mainland.

## Financial Highlights

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Revenue</b>			
Swire Resources	1,069	1,779	3,113
Taikoo Motors	2,381	2,537	5,190
Swire Foods	620	801	1,605
	<b>4,070</b>	<b>5,117</b>	<b>9,908</b>
<b>Operating (losses)/profits</b>			
Swire Resources	(48)	74	(3)
Taikoo Motors	99	94	173
Swire Foods	(9)	(13)	(348)
Swire Pacific Cold Storage*	–	73	104
Swire Environmental Services	(2)	(283)	(285)
Healthcare	(7)	–	–
Central costs	(8)	(11)	(20)
	<b>25</b>	<b>(66)</b>	<b>(379)</b>
<b>Attributable (losses)/profits</b>			
Swire Resources	(49)	56	(24)
Taikoo Motors	72	69	132
Swire Foods	(42)	(19)	(365)
Swire Pacific Cold Storage*	–	110	140
Swire Environmental Services	7	(318)	(315)
Healthcare	(12)	–	–
Central costs	(8)	(12)	(20)
Attributable loss	<b>(32)</b>	<b>(114)</b>	<b>(452)</b>
<b>Non-recurring items</b>			
Gain on disposal of businesses	–	107	140
Provision for business rationalisation at Qinyuan Bakery	–	–	(152)
Write-off of:			
– Goodwill in respect of Qinyuan Bakery	–	–	(200)
– An associated company	–	(281)	(281)
	<b>–</b>	<b>(174)</b>	<b>(493)</b>
<b>Recurring (loss)/profit</b>	<b>(32)</b>	<b>60</b>	<b>41</b>

\* representing adjustments on disposal of interest in the company in 2018.

## RESULTS SUMMARY

The Trading & Industrial Division made an attributable loss in the first half of 2020 of HK\$32 million, compared with an attributable loss of HK\$114 million in the first half of 2019. The latter included a non-recurring gain on disposal of businesses of HK\$107 million and a write-off of an investment of HK\$281 million. Excluding the non-recurring items, the division made a profit of HK\$60 million in the first half of 2019. The deterioration in the first half of 2020 mainly reflects the impact of COVID-19.

### Swire Resources

The attributable loss of Swire Resources in the first half of 2020 was HK\$49 million, compared with an attributable profit of HK\$56 million in the first half of 2019. The business was severely affected by COVID-19 (which effectively eliminated inbound tourism) and weak local consumption. The latter reflected COVID-19 related social distancing and social unrest.

Revenue in the first half of 2020 was 40% lower than in the first half of 2019. The gross profit percentage decreased because of heavy discounting. Costs were reduced aggressively.

Swire Resources operated 185 retail outlets in Hong Kong and Macau at 30th June 2020, six fewer than at the end of 2019. The group operated 13 retail outlets in the Chinese mainland at 30th June 2020.

### Taikoo Motors

The attributable profit of Taikoo Motors increased from HK\$69 million in the first half of 2019 to HK\$72 million in the first half of 2020.

8,149 vehicles were sold in the first half of 2020, 4% fewer than in the first half of 2019. Revenue decreased by 6%. The gross profit percentage improved as a result of a favorable sales mix. Operating profits increased due to cost savings.

### Swire Foods group

The Swire Foods group reported an attributable loss of HK\$42 million for the first half of 2020, compared with an attributable loss of HK\$19 million for the first half of 2019.

Qinyuan Bakery (which was adversely affected by COVID-19) recorded an attributable loss of HK\$54 million in the first half of 2020, compared with an attributable loss of HK\$31 million

in the first half of 2019. 564 stores were operated at 30th June 2020, compared with 571 stores at the end of 2019.

The volume of sugar sold by Taikoo Sugar decreased by 1% and 9% in Hong Kong and the Chinese mainland respectively. The food services business was adversely affected by COVID-19. Margins decreased with lower sales volume.

### Swire Environmental Services

Swire Environmental Services reported an attributable profit of HK\$7 million in the first half of 2020, compared to an attributable loss of HK\$318 million in the first half of 2019. The latter figure included a write-off of an investment in an associated company of HK\$281 million.

### Healthcare

In April 2020, an associate investment was made in Columbia China Healthcare Co., Limited, the business of which is to own and operate private hospitals, clinics and senior housing in the Chinese mainland.

### Outlook

The retail market in Hong Kong is depressed because of COVID-19 (in particular because of its effect on inbound tourism from the Chinese mainland). The results of Swire Resources will continue to be adversely affected accordingly.

Taikoo Motors expects steady market demand in the second half of 2020, but supply may be affected by closure of factories in the places where vehicles are made. Taikoo Motors' second half results are expected to be similar to those of the first half.

Qinyuan Bakery will continue to expand its retail network and product range, and to make its supply chain more agile and efficient, all with a view to improving longer term performance.

Taikoo Sugar's food services business will continue to be adversely affected by COVID-19.

The Division is expected to make a loss in the second half of 2020.

### David Cogman

## Financial Review

### Financial Information Reviewed by Auditors

Additional information is provided below to reconcile reported and underlying profit/(loss) attributable to the Company's shareholders. The reconciling items principally adjust for the net revaluation movements on investment properties and the associated deferred tax in the Chinese mainland and the USA, and for other deferred tax provisions in relation to investment properties. Amortisation of right-of-use assets classified as investment properties is charged to underlying profit/(loss).

	Note	Six months ended 30th June		Year ended 31st December
		2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Underlying (loss)/profit</b>				
(Loss)/profit attributable to the Company's shareholders		<b>(7,737)</b>	7,939	9,007
Adjustments in respect of investment properties:				
Valuation losses/(gains) of investment properties	(a)	<b>2,743</b>	(4,264)	(4,571)
Deferred tax on investment properties	(b)	<b>68</b>	684	1,138
Valuation gains realised on sale of interests in investment properties	(c)	<b>59</b>	13,197	14,159
Depreciation of investment properties occupied by the Group	(d)	<b>15</b>	16	32
Amortisation of right-of-use assets reported under investment properties	(e)	<b>(24)</b>	(8)	(13)
Non-controlling interests' share of adjustments		<b>(609)</b>	(1,718)	(1,955)
<b>Underlying (loss)/profit attributable to the Company's shareholders</b>		<b>(5,485)</b>	15,846	17,797

#### Notes:

- This represents the net revaluation movements as shown in the Group's consolidated statement of profit or loss plus the Group's share of net revaluation movements of joint venture companies.
- 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 the Chinese mainland 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.
- 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.
- Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.
- HKFRS 16 amends the definition of investment property under HKAS 40 to include properties held by lessees as right-of-use assets to earn rentals or for capital appreciation or both, and requires the Group to account for such right-of-use assets at their fair value. The amortisation of such right-of-use assets is charged to underlying profit/(loss).

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

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Underlying (loss)/profit attributable to the Company's shareholders</b>	<b>(5,485)</b>	15,846	17,797
Significant non-recurring items:			
Profit on sale of interests in investment properties	<b>(42)</b>	(11,937)	(13,528)
Profit on sale of businesses in Trading & Industrial Division	<b>–</b>	(109)	(140)
Loss/(profit) on sale of property, plant and equipment and other investments	<b>24</b>	22	(145)
Impairment of property, plant and equipment and intangible assets and write-off of investments	<b>5,380</b>	404	3,237
<b>Recurring underlying (loss)/profit</b>	<b>(123)</b>	4,226	7,221

# Financing

## Summary of Cash Flows

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Net cash from businesses and investments</b>			
Cash generated from operations	5,176	4,368	12,817
Dividends received	356	664	1,327
Tax paid	(1,448)	(993)	(1,397)
Net interest paid	(926)	(1,122)	(2,206)
Cash (used in)/generated from investing activities	(1,925)	12,343	12,369
	1,233	15,260	22,910
<b>Cash paid to shareholders and net funding by external debt</b>			
Dividends paid	(3,360)	(3,589)	(5,976)
Purchase of shares in existing subsidiary companies	–	(226)	(226)
Increase/(decrease) in borrowings	3,830	(2,094)	(3,571)
Principal elements of lease payments	(462)	(488)	(950)
Partial disposal of shares in a subsidiary company	–	–	171
	8	(6,397)	(10,552)
<b>Increase in cash and cash equivalents</b>	1,241	8,863	12,358

## Changes in Financing

### Financial Information Reviewed by Auditors Analysis of Changes in Financing during the Period

	Six months ended 30th June 2020		Year ended 31st December 2019	
	Loans and bonds HK\$M	Lease liabilities HK\$M	Loans and bonds HK\$M	Lease liabilities HK\$M
At 1st January	68,033	5,375	71,775	5,659
Loans drawn and refinancing	13,270	–	10,564	–
Repayment of loans and bonds	(9,440)	–	(14,135)	–
Principal elements of lease payments	–	(462)	–	(950)
New leases arranged during the period	–	273	–	763
Acquisition of a subsidiary company	10	–	–	–
Effect of exchange differences	(227)	(16)	(288)	(6)
Other non-cash movements	63	53	117	(91)
At 30th June/31st December	71,709	5,223	68,033	5,375

## Sources of Finance

### Financial Information Reviewed by Auditors

At 30th June 2020, committed facilities and debt securities amounted to HK\$107,452 million, of which HK\$35,647 million (33%) were undrawn. In addition, there were lease liabilities amounting to HK\$5,223 million. The Group had undrawn uncommitted facilities totalling HK\$7,461 million. Sources of gross borrowings at 30th June 2020 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn expiring within one year HK\$M	Undrawn expiring beyond one year HK\$M	Total Undrawn HK\$M
<b>Committed facilities</b>					
Loans and bonds					
Fixed/floating rate bonds	49,440	49,440	–	–	–
Bank loans and overdrafts	58,012	22,365	14,201	21,446	35,647
<b>Total committed facilities</b>	107,452	71,805	14,201	21,446	35,647
<b>Uncommitted facilities</b>					
Bank loans and overdrafts	7,694	233	7,461	–	7,461
<b>Total</b>	115,146	72,038	21,662	21,446	43,108

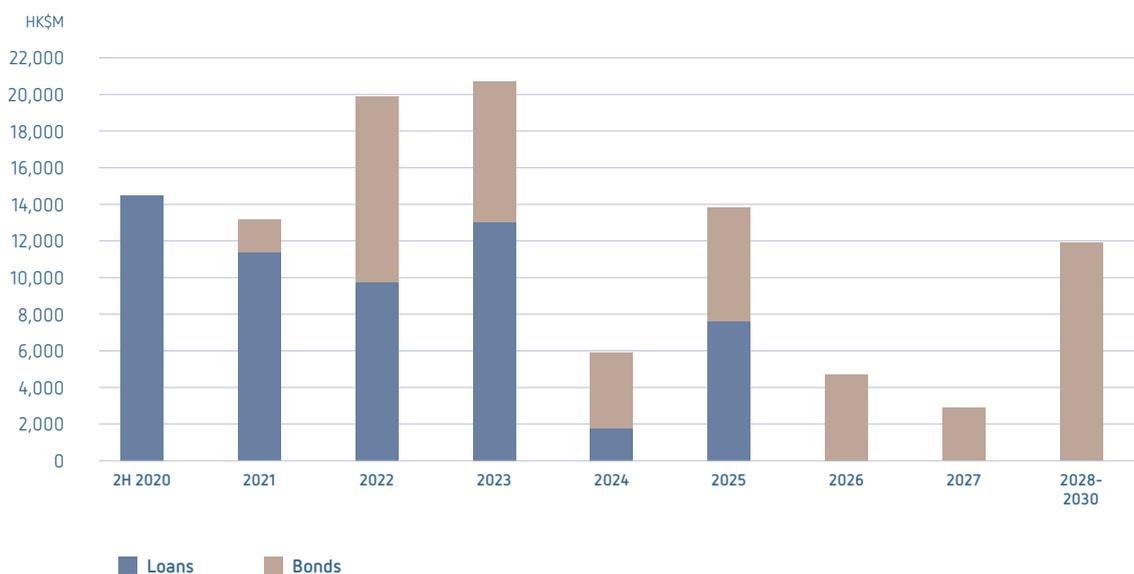
Note: The figures above are stated before unamortised loan fees of HK\$329 million.

The Group had bank balances and short-term deposits of HK\$22,432 million at 30th June 2020 compared to HK\$21,345 million at 31st December 2019.

## Maturity Profile and Refinancing

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

### Total Available Committed Facilities By Maturity – at 30th June 2020



### Financial Information Reviewed by Auditors Gross Borrowings and Lease Liabilities Maturity Profile

	30th June 2020					31st December 2019				
	Loans and bonds HK\$M	%	Lease liabilities HK\$M	%	Total HK\$M	Loans and bonds HK\$M	%	Lease liabilities HK\$M	%	Total HK\$M
Within one year	6,640	9%	863	17%	7,503	11,569	17%	858	16%	12,427
Between one and two years	19,163	27%	745	14%	19,908	8,603	13%	733	14%	9,336
Between two and five years	21,160	30%	1,043	20%	22,203	29,251	43%	1,096	20%	30,347
Over five years	24,746	34%	2,572	49%	27,318	18,610	27%	2,688	50%	21,298
<b>Total</b>	<b>71,709</b>	<b>100%</b>	<b>5,223</b>	<b>100%</b>	<b>76,932</b>	<b>68,033</b>	<b>100%</b>	<b>5,375</b>	<b>100%</b>	<b>73,408</b>

### Currency Profile

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

Currency	30th June 2020					31st December 2019				
	Loans and bonds HK\$M	%	Lease liabilities HK\$M	%	Total HK\$M	Loans and bonds HK\$M	%	Lease liabilities HK\$M	%	Total HK\$M
Hong Kong dollar	54,246	76%	3,339	64%	57,585	50,469	74%	3,425	64%	53,894
United States dollar	15,980	22%	358	7%	16,338	16,190	24%	400	7%	16,590
Renminbi	599	1%	1,008	19%	1,607	610	1%	1,036	19%	1,646
Others	884	1%	518	10%	1,402	764	1%	514	10%	1,278
<b>Total</b>	<b>71,709</b>	<b>100%</b>	<b>5,223</b>	<b>100%</b>	<b>76,932</b>	<b>68,033</b>	<b>100%</b>	<b>5,375</b>	<b>100%</b>	<b>73,408</b>

## Finance Charges

### Financial Information Reviewed by Auditors

At 30th June 2020, 74% of the Group's gross borrowings were on a fixed rate basis and 26% were on a floating rate basis (31st December 2019: 73% and 27% respectively). Interest charged and earned was as follows:

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Interest charged</b>			
Bank loans and overdrafts	225	286	597
Other loans and bonds	857	929	1,792
Fair value gains on derivative instruments			
Cross-currency and interest rate swaps: cash flow hedges, transferred from other comprehensive income	–	(43)	(61)
Cross-currency and interest rate swaps not qualifying as hedges	–	(2)	(6)
Amortised loan fees – loans at amortised cost	60	68	120
	<b>1,142</b>	<b>1,238</b>	<b>2,442</b>
Lease liabilities	106	105	206
Fair value (gain)/loss on put options over non-controlling interests in subsidiary companies	(50)	12	(3)
Fair value gain on put options over other partners' interests in a joint venture company	(4)	(18)	(24)
Other financing costs	79	71	147
Capitalised on:			
Investment properties	(117)	(129)	(242)
Properties for sale	(20)	(8)	(32)
	<b>1,136</b>	<b>1,271</b>	<b>2,494</b>
<b>Less: interest income</b>			
Short-term deposits and bank balances	187	125	371
Other loans	54	41	81
	<b>241</b>	<b>166</b>	<b>452</b>
<b>Net finance charges</b>	<b>895</b>	<b>1,105</b>	<b>2,042</b>

The amount transferred from other comprehensive income in respect of cash flow hedges for the six months ended 30th June 2020 included HK\$10 million (30th June 2019: nil; year ended 31st December 2019: HK\$15 million) relating to currency basis.

## Gearing Ratio and Interest Cover

	30th June		31st December
	2020	2019	2019
Gearing ratio*	15.6%	14.7%	14.2%
Gearing ratio – including lease liabilities#	17.2%	16.4%	15.8%
Interest cover – times*	N/A	9.8	6.8
Cash interest cover – times*	N/A	8.7	6.0
Underlying cash interest cover – times	1.0	16.3	10.5

\* Refer to Glossary on pages 82 and 83 for definition.

# Lease liabilities amounted to HK\$5,223 million at 30th June 2020 and HK\$5,375 million at 31st December 2019 (refer to note 23 to the financial statements).

## 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 share of net debt of its joint venture and associated companies. These companies had the following net debt positions at 30th June 2020 and 31st December 2019:

	Total net debt/(cash) of joint venture and associated companies		Portion of net debt/(cash) shared by the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	30th June 2020 HK\$M	31st December 2019 HK\$M	30th June 2020 HK\$M	31st December 2019 HK\$M	30th June 2020 HK\$M	31st December 2019 HK\$M
Property Division	20,577	18,512	7,669	7,307	2,306	1,878
Aviation Division						
Cathay Pacific group	55,154	41,904	24,819	18,857	–	–
HAECO group	623	461	384	318	–	–
Other	4	–	2	–	–	–
Beverages Division	(1,113)	(1,241)	(490)	(545)	10	3
Marine Services Division	753	721	378	361	500	500
Trading & Industrial Division	(97)	(62)	(45)	(27)	–	–
	75,901	60,295	32,717	26,271	2,816	2,381

If the share of the net debt in joint venture and associated companies were to be added to the Group's net debt, gearing would rise to 25.9% at 30th June 2020 (31st December 2019: 22.1%).

The lease liabilities of these companies at 30th June 2020 and 31st December 2019 were as follows:

	Total lease liabilities of joint venture and associated companies		Portion of lease liabilities shared by the Group	
	30th June 2020 HK\$M	31st December 2019 HK\$M	30th June 2020 HK\$M	31st December 2019 HK\$M
Property Division	229	241	92	98
Aviation Division				
Cathay Pacific group	37,879	40,492	17,045	18,221
HAECO group	81	62	40	30
Beverages Division	242	245	103	106
Marine Services Division	1	1	–	–
Trading & Industrial Division	1	–	1	–
	38,433	41,041	17,281	18,455

# 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 44 to 78, which comprise the consolidated statement of financial position of Swire Pacific Limited (the "Company") and its subsidiaries (together the "Group") as at 30th June 2020 and the 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 condensed 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, 13th August 2020

# Consolidated Statement of Profit or Loss

for the six months ended 30th June 2020

	Note	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
		2020 HK\$M	2019 HK\$M	2019 HK\$M
Revenue	4	39,056	42,870	85,652
Cost of sales		(24,094)	(26,553)	(53,831)
<b>Gross profit</b>		<b>14,962</b>	16,317	31,821
Distribution costs		(6,750)	(7,163)	(14,565)
Administrative expenses		(3,174)	(3,151)	(6,563)
Other operating expenses		(156)	(160)	(304)
Other net (losses)/gains	5	(3,951)	1,192	(325)
Change in fair value of investment properties		(2,601)	3,831	3,728
<b>Operating (loss)/profit</b>		<b>(1,670)</b>	10,866	13,792
Finance charges		(1,136)	(1,271)	(2,494)
Finance income		241	166	452
Net finance charges	7	(895)	(1,105)	(2,042)
Share of profits less losses of joint venture companies		650	994	1,949
Share of (losses) less profits of associated companies		(4,470)	684	885
<b>(Loss)/profit before taxation</b>		<b>(6,385)</b>	11,439	14,584
Taxation	8	(1,050)	(1,639)	(2,746)
<b>(Loss)/profit for the period</b>		<b>(7,435)</b>	9,800	11,838
(Loss)/profit attributable to:				
The Company's shareholders		(7,737)	7,939	9,007
Non-controlling interests		302	1,861	2,831
		(7,435)	9,800	11,838
Underlying (loss)/profit attributable to the Company's shareholders	9	(5,485)	15,846	17,797
		HK\$	HK\$	HK\$
(Loss)/earnings per share from (loss)/profit attributable to the Company's shareholders (basic and diluted)	11			
'A' share		(5.15)	5.29	6.00
'B' share		(1.03)	1.06	1.20

The notes on pages 49 to 78 form part of these financial statements.

# Consolidated Statement of Other Comprehensive Income

for the six months ended 30th June 2020

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>(Loss)/profit for the period</b>	<b>(7,435)</b>	<b>9,800</b>	<b>11,838</b>
<b>Other comprehensive income</b>			
<b>Items that will not be reclassified to profit or loss</b>			
Revaluation of property previously occupied by the Group			
gains recognised during the period	105	256	294
deferred tax	(1)	(2)	(2)
Defined benefit plans			
remeasurement (losses)/gains recognised during the period	(8)	(11)	76
deferred tax	1	1	7
Changes in the fair value of equity investments at fair value through other comprehensive income	35	(16)	(59)
Share of other comprehensive income of joint venture and associated companies	27	4	494
	<b>159</b>	<b>232</b>	<b>810</b>
<b>Items that may be reclassified subsequently to profit or loss</b>			
Cash flow hedges			
gains recognised during the period	119	254	495
transferred to net finance charges	–	(43)	(61)
transferred to operating profit	64	16	84
deferred tax	(31)	(38)	(75)
Share of other comprehensive (loss)/income of joint venture and associated companies	(1,913)	116	(350)
Net translation differences on foreign operations recognised during the period	(841)	(274)	(1,022)
	<b>(2,602)</b>	<b>31</b>	<b>(929)</b>
<b>Other comprehensive (loss)/income for the period, net of tax</b>	<b>(2,443)</b>	<b>263</b>	<b>(119)</b>
<b>Total comprehensive (loss)/income for the period</b>	<b>(9,878)</b>	<b>10,063</b>	<b>11,719</b>
Total comprehensive (loss)/income attributable to:			
The Company's shareholders	(10,017)	8,185	9,000
Non-controlling interests	139	1,878	2,719
	<b>(9,878)</b>	<b>10,063</b>	<b>11,719</b>

The notes on pages 49 to 78 form part of these financial statements.

# Consolidated Statement of Financial Position

at 30th June 2020

	Note	(Unaudited) 30th June 2020 HK\$M	(Audited) 31st December 2019 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	12	27,724	32,680
Investment properties	13	272,871	276,250
Intangible assets	14	12,829	12,852
Right-of-use assets	15	9,223	9,899
Properties held for development		1,206	1,212
Joint venture companies	16	19,115	19,112
Loans due from joint venture companies	16	16,344	16,827
Associated companies	17	25,148	30,695
Loans due from associated companies	17	9	9
Equity investments at fair value through other comprehensive income		232	193
Other receivables	20	75	67
Derivative financial instruments	19	513	384
Deferred tax assets	24	597	667
Retirement benefit assets		122	97
		<b>386,008</b>	<b>400,944</b>
<b>Current assets</b>			
Properties for sale		3,547	3,604
Stocks and work in progress		5,344	5,539
Contract assets		929	1,301
Trade and other receivables	20	11,937	8,618
Derivative financial instruments	19	10	46
Bank balances and short-term deposits		22,432	21,345
		<b>44,199</b>	<b>40,453</b>
Assets classified as held for sale	21	1,263	–
		<b>45,462</b>	<b>40,453</b>
<b>Current liabilities</b>			
Trade and other payables	22	23,969	23,230
Contract liabilities		410	721
Taxation payable		606	1,170
Derivative financial instruments	19	19	14
Short-term loans		233	110
Long-term loans and bonds due within one year		6,407	11,459
Lease liabilities due within one year	23	863	858
		<b>32,507</b>	<b>37,562</b>
<b>Net current assets</b>		<b>12,955</b>	<b>2,891</b>
<b>Total assets less current liabilities</b>		<b>398,963</b>	<b>403,835</b>
<b>Non-current liabilities</b>			
Long-term loans and bonds		65,069	56,464
Long-term lease liabilities	23	4,360	4,517
Derivative financial instruments	19	134	92
Other payables	22	1,088	1,095
Deferred tax liabilities	24	11,017	11,014
Retirement benefit liabilities		1,092	1,159
		<b>82,760</b>	<b>74,341</b>
<b>NET ASSETS</b>		<b>316,203</b>	<b>329,494</b>
<b>EQUITY</b>			
Share capital	25	1,294	1,294
Reserves	26	259,563	272,058
<b>Equity attributable to the Company's shareholders</b>		<b>260,857</b>	<b>273,352</b>
<b>Non-controlling interests</b>	27	<b>55,346</b>	<b>56,142</b>
<b>TOTAL EQUITY</b>		<b>316,203</b>	<b>329,494</b>

The notes on pages 49 to 78 form part of these financial statements.

# Consolidated Statement of Cash Flows

for the six months ended 30th June 2020

	(Unaudited) Six months ended 30th June		(Audited) Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Operating activities</b>			
Cash generated from operations	5,176	4,368	12,817
Interest paid	(1,204)	(1,251)	(2,603)
Interest received	278	129	397
Tax paid	(1,448)	(993)	(1,397)
	2,802	2,253	9,214
Dividends received from joint venture and associated companies	356	664	1,327
<b>Net cash generated from operating activities</b>	<b>3,158</b>	<b>2,917</b>	<b>10,541</b>
<b>Investing activities</b>			
Purchase of property, plant and equipment	(1,596)	(1,630)	(3,782)
Additions of investment properties	(452)	(673)	(1,962)
Purchase of intangible assets	(89)	(633)	(736)
Proceeds from disposals of property, plant and equipment	341	142	303
Proceeds from disposals of investment properties	92	94	295
Proceeds from disposals of subsidiary companies, net of cash disposed of	–	17,529	17,534
Proceeds from disposal of a joint venture company	–	–	2,352
Proceeds from disposal of an associated company	–	140	140
Purchase of shares in a new subsidiary company	(128)	–	–
Purchase of shares in joint venture companies	–	(214)	(276)
Purchase of shares in a new associated company	(437)	–	–
Purchase of equity investment at fair value through other comprehensive income	(5)	(2)	(8)
Deposit paid for financial assets at fair value through profit or loss	(47)	–	–
Loans to joint venture companies	(212)	(48)	(2,588)
Repayment of loans by joint venture companies	588	669	1,120
Repayment of loan by an associated company	1	10	9
Decrease/(increase) in deposits maturing after more than three months	22	(3,024)	(13)
Initial leasing costs incurred	(3)	(17)	(19)
<b>Net cash (used in)/generated from investing activities</b>	<b>(1,925)</b>	<b>12,343</b>	<b>12,369</b>
<b>Net cash inflow before financing activities</b>	<b>1,233</b>	<b>15,260</b>	<b>22,910</b>
<b>Financing activities</b>			
Loans drawn and refinancing	13,270	5,661	10,564
Repayment of loans and bonds	(9,440)	(7,755)	(14,135)
Principal elements of lease payments	(462)	(488)	(950)
	3,368	(2,582)	(4,521)
Purchase of shares in existing subsidiary companies	–	(226)	(226)
Proceeds from partial disposal of interest in a subsidiary company	–	–	171
Dividends paid to the Company's shareholders	(2,478)	(2,703)	(4,730)
Dividends paid to non-controlling interests	(882)	(886)	(1,246)
<b>Net cash generated from/(used in) financing activities</b>	<b>8</b>	<b>(6,397)</b>	<b>(10,552)</b>
<b>Increase in cash and cash equivalents</b>	<b>1,241</b>	<b>8,863</b>	<b>12,358</b>
Cash and cash equivalents at 1st January	21,322	9,102	9,102
Effect of exchange differences	(132)	(31)	(138)
<b>Cash and cash equivalents at end of the period</b>	<b>22,431</b>	<b>17,934</b>	<b>21,322</b>
<b>Represented by:</b>			
Bank balances and short-term deposits maturing within three months	22,431	17,934	21,322

The notes on pages 49 to 78 form part of these financial statements.

# Consolidated Statement of Changes in Equity

for the six months ended 30th June 2020

	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		
<b>At 1st January 2020</b>	1,294	270,330	1,728	273,352	56,142	329,494
(Loss)/profit for the period	–	(7,737)	–	(7,737)	302	(7,435)
Other comprehensive income/(loss)	–	20	(2,300)	(2,280)	(163)	(2,443)
<b>Total comprehensive (loss)/income for the period</b>	–	(7,717)	(2,300)	(10,017)	139	(9,878)
Dividends paid	–	(2,478)	–	(2,478)	(935)	(3,413)
<b>At 30th June 2020 (unaudited)</b>	1,294	260,135	(572)	260,857	55,346	316,203

	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		
<b>At 1st January 2019</b>	1,294	265,563	2,288	269,145	54,661	323,806
Profit for the period	–	7,939	–	7,939	1,861	9,800
Other comprehensive income	–	(17)	263	246	17	263
<b>Total comprehensive income for the period</b>	–	7,922	263	8,185	1,878	10,063
Dividends paid	–	(2,703)	–	(2,703)	(895)	(3,598)
Acquisition of non-controlling interests	–	(173)	–	(173)	(53)	(226)
<b>At 30th June 2019 (unaudited)</b>	1,294	270,609	2,551	274,454	55,591	330,045

The notes on pages 49 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 2020	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
<b>Property</b>											
Property investment	6,121	26	4,317	(279)	174	579	–	(650)	4,141	3,361	3,402
Change in fair value of investment properties	–	–	(2,601)	–	–	(187)	–	(23)	(2,811)	(2,211)	–
Property trading	130	–	(30)	(18)	1	9	–	(7)	(45)	(37)	(37)
Hotels	274	–	(197)	(11)	–	(81)	(50)	25	(314)	(256)	(256)
	<b>6,525</b>	<b>26</b>	<b>1,489</b>	<b>(308)</b>	<b>175</b>	<b>320</b>	<b>(50)</b>	<b>(655)</b>	<b>971</b>	<b>857</b>	<b>3,109</b>
<b>Aviation</b>											
Cathay Pacific group	–	–	–	–	–	–	(4,440)	–	(4,440)	(4,440)	(4,440)
HAECO group	6,226	–	551	(101)	7	265	–	(69)	653	534	534
Others	–	–	(27)	–	–	(2)	–	–	(29)	(19)	(19)
	<b>6,226</b>	<b>–</b>	<b>524</b>	<b>(101)</b>	<b>7</b>	<b>263</b>	<b>(4,440)</b>	<b>(69)</b>	<b>(3,816)</b>	<b>(3,925)</b>	<b>(3,925)</b>
<b>Beverages</b>											
Chinese mainland	10,904	–	867	(52)	21	48	25	(259)	650	571	571
Hong Kong	999	1	82	(2)	–	–	–	(11)	69	69	69
Taiwan	873	–	54	(1)	–	–	–	(11)	42	42	42
USA	8,474	–	397	(66)	10	–	–	(27)	314	314	314
Central costs	–	–	(50)	–	–	–	–	–	(50)	(50)	(50)
	<b>21,250</b>	<b>1</b>	<b>1,350</b>	<b>(121)</b>	<b>31</b>	<b>48</b>	<b>25</b>	<b>(308)</b>	<b>1,025</b>	<b>946</b>	<b>946</b>
<b>Marine Services</b>											
Swire Pacific Offshore group*	1,010	–	(4,889)	(106)	4	–	–	15	(4,976)	(4,976)	(4,976)
HUD group	–	–	–	–	–	9	–	–	9	9	9
	<b>1,010</b>	<b>–</b>	<b>(4,889)</b>	<b>(106)</b>	<b>4</b>	<b>9</b>	<b>–</b>	<b>15</b>	<b>(4,967)</b>	<b>(4,967)</b>	<b>(4,967)</b>
<b>Trading &amp; Industrial</b>											
Swire Resources	1,069	–	(48)	(16)	3	1	–	11	(49)	(49)	(49)
Taikoo Motors	2,381	–	99	(6)	–	–	–	(21)	72	72	72
Swire Foods	591	29	(9)	(6)	–	–	–	(27)	(42)	(42)	(42)
Swire Environmental Services	–	–	(2)	–	–	9	–	–	7	7	7
Healthcare#	–	–	(7)	–	–	–	(5)	–	(12)	(12)	(12)
Central costs	–	–	(8)	–	–	–	–	–	(8)	(8)	(8)
	<b>4,041</b>	<b>29</b>	<b>25</b>	<b>(28)</b>	<b>3</b>	<b>10</b>	<b>(5)</b>	<b>(37)</b>	<b>(32)</b>	<b>(32)</b>	<b>(32)</b>
<b>Head Office</b>											
Net income/(expenses)	4	22	(169)	(681)	230	–	–	4	(616)	(616)	(616)
<b>Inter-segment elimination</b>											
	–	(78)	–	209	(209)	–	–	–	–	–	–
<b>Total</b>	<b>39,056</b>	<b>–</b>	<b>(1,670)</b>	<b>(1,136)</b>	<b>241</b>	<b>650</b>	<b>(4,470)</b>	<b>(1,050)</b>	<b>(7,435)</b>	<b>(7,737)</b>	<b>(5,485)</b>

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

\* Impairment charges included under operating profit/(loss) in the Swire Pacific Offshore group were HK\$4,345 million.

# New in 2020 with no comparative.

**1. SEGMENT INFORMATION** (continued)

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

Six months ended 30th June 2019	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
<b>Property</b>											
Property investment	6,360	52	5,821	(396)	114	488	–	(645)	5,382	4,382	15,211
Change in fair value of investment properties	–	–	3,831	–	–	203	–	(454)	3,580	2,922	–
Property trading	392	–	50	(22)	1	(13)	–	(14)	2	2	2
Hotels	706	–	11	(20)	–	(4)	66	(1)	52	43	43
	<b>7,458</b>	<b>52</b>	<b>9,713</b>	<b>(438)</b>	<b>115</b>	<b>674</b>	<b>66</b>	<b>(1,114)</b>	<b>9,016</b>	<b>7,349</b>	<b>15,256</b>
<b>Aviation</b>											
Cathay Pacific group	–	–	–	–	–	–	606	–	606	606	606
HAECO group	7,873	–	679	(134)	23	250	–	(130)	688	535	535
Others	–	–	(28)	–	–	2	(1)	–	(27)	(17)	(17)
	<b>7,873</b>	<b>–</b>	<b>651</b>	<b>(134)</b>	<b>23</b>	<b>252</b>	<b>605</b>	<b>(130)</b>	<b>1,267</b>	<b>1,124</b>	<b>1,124</b>
<b>Beverages</b>											
Chinese mainland	11,042	–	707	(45)	11	42	54	(203)	566	509	509
Hong Kong	1,094	1	102	(1)	–	–	–	(11)	90	90	90
Taiwan	781	–	35	–	–	–	–	(8)	27	27	27
USA	8,251	–	399	(73)	5	–	–	(167)	164	164	164
Central costs	–	–	(42)	–	–	–	–	–	(42)	(42)	(42)
	<b>21,168</b>	<b>1</b>	<b>1,201</b>	<b>(119)</b>	<b>16</b>	<b>42</b>	<b>54</b>	<b>(389)</b>	<b>805</b>	<b>748</b>	<b>748</b>
<b>Marine Services</b>											
Swire Pacific Offshore group	1,287	–	(519)	(100)	6	–	(4)	(22)	(639)	(633)	(633)
HUD group	–	–	–	–	–	22	–	–	22	22	22
	<b>1,287</b>	<b>–</b>	<b>(519)</b>	<b>(100)</b>	<b>6</b>	<b>22</b>	<b>(4)</b>	<b>(22)</b>	<b>(617)</b>	<b>(611)</b>	<b>(611)</b>
<b>Trading &amp; Industrial</b>											
Swire Resources	1,779	–	74	(17)	4	3	–	(8)	56	56	56
Taikoo Motors	2,537	–	94	(6)	–	–	–	(19)	69	69	69
Swire Foods	765	36	(13)	(9)	1	(1)	–	3	(19)	(19)	(19)
Swire Pacific Cold Storage#	–	–	73	–	–	–	–	37	110	110	110
Swire Environmental Services	–	–	(283)	–	–	2	(37)	–	(318)	(318)	(318)
Central costs	–	–	(11)	–	–	–	–	(1)	(12)	(12)	(12)
	<b>5,081</b>	<b>36</b>	<b>(66)</b>	<b>(32)</b>	<b>5</b>	<b>4</b>	<b>(37)</b>	<b>12</b>	<b>(114)</b>	<b>(114)</b>	<b>(114)</b>
<b>Head Office</b>											
Net income/(expenses)	3	16	(114)	(638)	191	–	–	4	(557)	(557)	(557)
Inter-segment elimination	–	(105)	–	190	(190)	–	–	–	–	–	–
<b>Total</b>	<b>42,870</b>	<b>–</b>	<b>10,866</b>	<b>(1,271)</b>	<b>166</b>	<b>994</b>	<b>684</b>	<b>(1,639)</b>	<b>9,800</b>	<b>7,939</b>	<b>15,846</b>

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.

# Profit for the period represents the write-back of provisions made in 2018 in relation to sale of Swire Pacific Cold Storage.

## 1. SEGMENT INFORMATION (continued)

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

Year ended 31st December 2019	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
<b>Property</b>											
Property investment	12,323	87	10,725	(760)	335	942	–	(1,121)	10,121	8,243	19,869
Change in fair value of investment properties	–	–	3,728	–	–	433	–	(728)	3,433	2,836	–
Property trading	516	–	4	(41)	3	30	–	(14)	(18)	(15)	(15)
Hotels	1,296	–	(62)	(36)	–	(46)	71	3	(70)	(57)	(57)
	<b>14,135</b>	<b>87</b>	<b>14,395</b>	<b>(837)</b>	<b>338</b>	<b>1,359</b>	<b>71</b>	<b>(1,860)</b>	<b>13,466</b>	<b>11,007</b>	<b>19,797</b>
<b>Aviation</b>											
Cathay Pacific group	–	–	–	–	–	–	761	–	761	761	761
HAECO group*	15,901	–	1,048	(255)	42	483	–	(217)	1,101	825	825
Others	–	–	(55)	–	–	3	(4)	–	(56)	(36)	(36)
	<b>15,901</b>	<b>–</b>	<b>993</b>	<b>(255)</b>	<b>42</b>	<b>486</b>	<b>757</b>	<b>(217)</b>	<b>1,806</b>	<b>1,550</b>	<b>1,550</b>
<b>Beverages</b>											
Chinese mainland	22,087	–	1,423	(107)	36	55	98	(439)	1,066	941	941
Hong Kong	2,339	1	240	(4)	–	–	–	(29)	207	207	207
Taiwan	1,694	–	97	(1)	–	–	–	(21)	75	75	75
USA	17,196	–	831	(150)	15	–	–	(129)	567	567	567
Central costs	–	–	(104)	–	–	–	–	–	(104)	(104)	(104)
	<b>43,316</b>	<b>1</b>	<b>2,487</b>	<b>(262)</b>	<b>51</b>	<b>55</b>	<b>98</b>	<b>(618)</b>	<b>1,811</b>	<b>1,686</b>	<b>1,686</b>
<b>Marine Services</b>											
Swire Pacific Offshore group*	2,451	1	(3,421)	(196)	2	–	(4)	(62)	(3,681)	(3,672)	(3,672)
HUD group	–	–	–	–	–	38	–	–	38	38	38
	<b>2,451</b>	<b>1</b>	<b>(3,421)</b>	<b>(196)</b>	<b>2</b>	<b>38</b>	<b>(4)</b>	<b>(62)</b>	<b>(3,643)</b>	<b>(3,634)</b>	<b>(3,634)</b>
<b>Trading &amp; Industrial</b>											
Swire Resources	3,113	–	(3)	(35)	7	2	–	5	(24)	(24)	(24)
Taikoo Motors	5,190	–	173	(12)	–	–	–	(29)	132	132	132
Swire Foods*	1,540	65	(348)	(16)	3	2	–	(6)	(365)	(365)	(365)
Swire Pacific Cold Storage#	–	–	104	–	–	–	–	36	140	140	140
Swire Environmental Services*	–	–	(285)	–	–	7	(37)	–	(315)	(315)	(315)
Central costs	–	–	(20)	(1)	1	–	–	–	(20)	(20)	(20)
	<b>9,843</b>	<b>65</b>	<b>(379)</b>	<b>(64)</b>	<b>11</b>	<b>11</b>	<b>(37)</b>	<b>6</b>	<b>(452)</b>	<b>(452)</b>	<b>(452)</b>
<b>Head Office</b>											
Net income/(expenses)	<b>6</b>	<b>35</b>	<b>(283)</b>	<b>(1,277)</b>	<b>405</b>	<b>–</b>	<b>–</b>	<b>5</b>	<b>(1,150)</b>	<b>(1,150)</b>	<b>(1,150)</b>
Inter-segment elimination	–	(189)	–	397	(397)	–	–	–	–	–	–
<b>Total</b>	<b>85,652</b>	<b>–</b>	<b>13,792</b>	<b>(2,494)</b>	<b>452</b>	<b>1,949</b>	<b>885</b>	<b>(2,746)</b>	<b>11,838</b>	<b>9,007</b>	<b>17,797</b>

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

\* Impairment charges included under operating profit/(loss) in the HAECO group, the Swire Pacific Offshore group, Swire Foods and Swire Environmental Services were HK\$234 million, HK\$2,121 million, HK\$239 million and HK\$281 million respectively.

# Profit for the year represents the write-back of provisions made in 2018 in relation to the sale of Swire Pacific Cold Storage.

**1. SEGMENT INFORMATION** (continued)

(b) Analysis of total assets of the Group

At 30th June 2020	Segment assets HK\$M	Joint venture companies* HK\$M	Associated companies* HK\$M	Bank deposits HK\$M	Total assets HK\$M
Property					
Property investment	279,099	25,590	–	11,029	315,718
Property trading	5,039	2,858	–	112	8,009
Hotels	5,665	1,270	359	96	7,390
	<b>289,803</b>	<b>29,718</b>	<b>359</b>	<b>11,237</b>	<b>331,117</b>
Aviation					
Cathay Pacific group	–	–	22,667	–	22,667
HAECO group	13,823	1,804	–	1,167	16,794
Others	4,326	2,819	–	–	7,145
	<b>18,149</b>	<b>4,623</b>	<b>22,667</b>	<b>1,167</b>	<b>46,606</b>
Beverages					
Swire Coca-Cola	<b>28,921</b>	<b>1,100</b>	<b>1,580</b>	<b>2,627</b>	<b>34,228</b>
Marine Services					
Swire Pacific Offshore group	6,418	–	13	268	6,699
HUD group	–	(71)	–	–	(71)
	<b>6,418</b>	<b>(71)</b>	<b>13</b>	<b>268</b>	<b>6,628</b>
Trading & Industrial					
Swire Resources	1,261	36	–	174	1,471
Taikoo Motors	2,086	–	–	202	2,288
Swire Foods	1,225	6	–	212	1,443
Swire Environmental Services	–	47	–	–	47
China Healthcare#	–	–	538	–	538
Other activities	58	–	–	52	110
	<b>4,630</b>	<b>89</b>	<b>538</b>	<b>640</b>	<b>5,897</b>
Head Office	<b>501</b>	<b>–</b>	<b>–</b>	<b>6,493</b>	<b>6,994</b>
	<b>348,422</b>	<b>35,459</b>	<b>25,157</b>	<b>22,432</b>	<b>431,470</b>

\* The assets relating to joint venture and associated companies included the respective loans due from these companies.

# New in 2020 with no comparative.

## 1. SEGMENT INFORMATION (continued)

## (b) Analysis of total assets of the Group (continued)

At 31st December 2019	Segment assets HK\$M	Joint venture companies* HK\$M	Associated companies* HK\$M	Bank deposits HK\$M	Total assets HK\$M
<b>Property</b>					
Property investment	281,370	25,609	–	14,703	321,682
Property trading	4,876	3,281	–	130	8,287
Hotels	5,782	1,276	409	152	7,619
	<b>292,028</b>	<b>30,166</b>	<b>409</b>	<b>14,985</b>	<b>337,588</b>
<b>Aviation</b>					
Cathay Pacific group	–	–	28,697	–	28,697
HAECO group	13,065	1,774	–	1,453	16,292
Others	4,352	2,820	–	–	7,172
	<b>17,417</b>	<b>4,594</b>	<b>28,697</b>	<b>1,453</b>	<b>52,161</b>
<b>Beverages</b>					
Swire Coca-Cola	<b>27,355</b>	<b>1,088</b>	<b>1,584</b>	<b>3,323</b>	<b>33,350</b>
<b>Marine Services</b>					
Swire Pacific Offshore group	11,191	–	14	293	11,498
HUD group	–	12	–	–	12
	<b>11,191</b>	<b>12</b>	<b>14</b>	<b>293</b>	<b>11,510</b>
<b>Trading &amp; Industrial</b>					
Swire Resources	1,462	36	–	175	1,673
Taikoo Motors	2,236	–	–	135	2,371
Swire Foods	1,318	6	–	250	1,574
Swire Environmental Services	–	37	–	–	37
Other activities	30	–	–	56	86
	<b>5,046</b>	<b>79</b>	<b>–</b>	<b>616</b>	<b>5,741</b>
<b>Head Office</b>	<b>372</b>	<b>–</b>	<b>–</b>	<b>675</b>	<b>1,047</b>
	<b>353,409</b>	<b>35,939</b>	<b>30,704</b>	<b>21,345</b>	<b>441,397</b>

\* The assets relating to joint venture and associated companies included the respective loans due from these companies.

**1. SEGMENT INFORMATION** (continued)

(c) Analysis of total liabilities and non-controlling interests of the Group

At 30th June 2020	Segment liabilities HK\$M	Current and deferred tax liabilities HK\$M	Inter-segment borrowings/ (advances) HK\$M	External borrowings HK\$M	Lease liabilities HK\$M	Total liabilities HK\$M	Non-controlling interests HK\$M
Property							
Property investment	7,173	9,733	(1,486)	24,904	519	40,843	50,857
Property trading	310	16	1,204	1,767	–	3,297	924
Hotels	157	–	282	1,033	–	1,472	1,145
	<b>7,640</b>	<b>9,749</b>	<b>–</b>	<b>27,704</b>	<b>519</b>	<b>45,612</b>	<b>52,926</b>
Aviation							
HAECO group	2,588	526	2,429	437	2,486	8,466	1,997
Beverages							
Swire Coca-Cola	13,093	1,207	2,313	3,081	701	20,395	423
Marine Services							
Swire Pacific Offshore group	1,177	53	787	–	28	2,045	–
Trading & Industrial							
Swire Resources	590	4	(37)	–	810	1,367	–
Taikoo Motors	457	21	–	–	484	962	–
Swire Foods	385	29	(56)	–	195	553	–
Other activities	131	–	56	–	–	187	–
	<b>1,563</b>	<b>54</b>	<b>(37)</b>	<b>–</b>	<b>1,489</b>	<b>3,069</b>	<b>–</b>
Head Office	651	34	(5,492)	40,487	–	35,680	–
	<b>26,712</b>	<b>11,623</b>	<b>–</b>	<b>71,709</b>	<b>5,223</b>	<b>115,267</b>	<b>55,346</b>

## 1. SEGMENT INFORMATION (continued)

(c) Analysis of total liabilities and non-controlling interests of the Group (continued)

At 31st December 2019	Segment liabilities HK\$M	Current and deferred tax liabilities HK\$M	Inter-segment borrowings / (advances) HK\$M	External borrowings HK\$M	Lease liabilities HK\$M	Total liabilities HK\$M	Non-controlling interests HK\$M
<b>Property</b>							
Property investment	7,785	10,263	(1,523)	26,792	548	43,865	51,534
Property trading	327	41	1,268	1,926	–	3,562	926
Hotels	238	–	255	1,011	–	1,504	1,124
	<b>8,350</b>	<b>10,304</b>	<b>–</b>	<b>29,729</b>	<b>548</b>	<b>48,931</b>	<b>53,584</b>
<b>Aviation</b>							
HAECO group	2,910	611	1,756	424	2,516	8,217	2,089
<b>Beverages</b>							
Swire Coca-Cola	11,728	1,122	3,394	3,136	683	20,063	468
<b>Marine Services</b>							
Swire Pacific Offshore group	1,043	54	5,168	–	30	6,295	1
<b>Trading &amp; Industrial</b>							
Swire Resources	730	33	(54)	–	855	1,564	–
Taikoo Motors	595	28	–	–	513	1,136	–
Swire Foods	458	8	(57)	–	230	639	–
Other activities	24	–	58	–	–	82	–
	<b>1,807</b>	<b>69</b>	<b>(53)</b>	<b>–</b>	<b>1,598</b>	<b>3,421</b>	<b>–</b>
Head Office	473	24	(10,265)	34,744	–	24,976	–
	<b>26,311</b>	<b>12,184</b>	<b>–</b>	<b>68,033</b>	<b>5,375</b>	<b>111,903</b>	<b>56,142</b>

## 1. SEGMENT INFORMATION (continued)

(d) Analysis of external revenue of the Group – Timing of revenue recognition

	Six months ended 30th June 2020				Six months ended 30th June 2019			
	At a point in time HK\$M	Over time HK\$M	Rental income on leases HK\$M	Total HK\$M	At a point in time HK\$M	Over time HK\$M	Rental income on leases HK\$M	Total HK\$M
Property								
Property investment	–	46	6,075	6,121	1	65	6,294	6,360
Property trading	130	–	–	130	392	–	–	392
Hotels	168	106	–	274	332	374	–	706
	298	152	6,075	6,525	725	439	6,294	7,458
Aviation								
HAECO group	298	5,928	–	6,226	450	7,423	–	7,873
Beverages								
Chinese mainland	10,904	–	–	10,904	11,042	–	–	11,042
Hong Kong	999	–	–	999	1,094	–	–	1,094
Taiwan	873	–	–	873	781	–	–	781
USA	8,474	–	–	8,474	8,251	–	–	8,251
	21,250	–	–	21,250	21,168	–	–	21,168
Marine Services								
Swire Pacific Offshore group	39	689	282	1,010	28	905	354	1,287
Trading & Industrial								
Swire Resources	1,069	–	–	1,069	1,779	–	–	1,779
Taikoo Motors	2,375	6	–	2,381	2,533	4	–	2,537
Swire Foods	591	–	–	591	765	–	–	765
	4,035	6	–	4,041	5,077	4	–	5,081
Head Office	–	4	–	4	–	3	–	3
Total	25,920	6,779	6,357	39,056	27,448	8,774	6,648	42,870

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

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

There are no significant differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

## 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 44 to 78 and also include the “Financial Information Reviewed by Auditors” under Financial Review on page 37 and Financing on pages 38 to 42.

The financial information relating to the year ended 31st December 2019 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 2019 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 2019 annual financial statements except for those noted in 2(b), 2(c) and 2(d) below.

- (b) The following revised standards were required to be adopted by the Group effective from 1st January 2020:

Amendments to HKFRS 3	Definition of a Business
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge Accounting
Amendments to HKAS 1 and HKAS 8	Definition of Material
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting

None of these revised standards had a significant effect on the Group’s financial statements or accounting policies.

## 2. BASIS OF PREPARATION (continued)

- (c) Except for the early adoption of the amendment to HKFRS 16, the Group has not early adopted any other new standards and interpretations that are not yet effective for the current accounting period.

An amendment to HKFRS 16 “COVID-19-related rent concessions” was issued in June 2020 and is effective for annual reporting periods beginning on or after 1st June 2020. This amendment allows a lessee to elect not to assess whether a rent concession occurring as a direct consequence of the COVID-19 pandemic is a lease modification. Such practical expedient has been applied to all rent concessions occurring as a direct consequence of the COVID-19 pandemic and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30th June 2021;
- There is no substantive change to other terms and conditions of the lease.

The Group has early adopted this amendment to the existing standard retrospectively from 1st January 2020, but has not restated comparatives for the 2019 reporting period, as permitted under the specific transition provisions in the standard. The adoption of this amendment has no impact on the opening statement of financial position on 1st January 2020 and the amount recognised in profit and loss (as a reduction of other lease expenses) for the period ended 30th June 2020 is approximately HK\$66 million.

- (d) The Group has applied the accounting policy on “Government Grants” during the period ended 30th June 2020 as follows:

The Group recognises government grants when there is reasonable assurance that the Group will comply with the conditions attached to the grants and the grants will be received. Government grants, that are intended to compensate the Group for expenses incurred, are recognised in profit or loss on a systematic basis in the periods in which the related expenses are recognised.

- (e) 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 2019 annual financial statements.

## 2. BASIS OF PREPARATION (continued)

As a result of COVID-19, economic and business conditions deteriorated substantially in the period ended 30th June 2020. This caused the Group to reassess its critical accounting judgements and estimates. As part of this process, the Group undertook reviews of the carrying value of those assets with impairment indicators, mainly in the Aviation and Marine Services Divisions. This resulted in an impairment charge of HK\$4.3 billion in respect of vessels owned by Swire Pacific Offshore. In addition, the Group's associate Cathay Pacific recognised impairment charges of HK\$2.5 billion (of which the Group's share is HK\$1,016 million). The recoverable amounts of the rest of the Group's assets with impairment indicators have been tested for impairment, generally determined on a value in use basis. These recoverable amounts remain above their carrying values at 30th June 2020. The headrooms of recoverable amounts over carrying values have substantially reduced since 31st December 2019 in respect of the Group's interest in Cathay Pacific (the carrying value of which is HK\$22,667 million) and in respect of goodwill related to HAECO's Hong Kong and Chinese mainland businesses (the carrying value of which is HK\$3,510 million).

Uncertainty as to accounting estimates and the requirement for judgement have increased since 31st December 2019 because of COVID-19. As a result, there is an increased risk of future outcomes being materially different from the critical accounting estimates at 30th June 2020.

## 3. FINANCIAL RISK MANAGEMENT

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 2019 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
	2020 HK\$M	2019 HK\$M	2019 HK\$M
Gross rental income from investment properties	6,074	6,294	12,185
Property trading	130	392	516
Hotels	274	706	1,296
Aircraft and engine maintenance services	5,455	6,942	13,924
Sales of goods	25,556	26,661	53,933
Charter hire*	920	1,180	2,263
Rendering of other services	647	695	1,535
	<b>39,056</b>	<b>42,870</b>	<b>85,652</b>

\* Charter hire revenue included leasing of vessels amounting to HK\$282 million for the six months ended 30th June 2020 (30th June 2019: HK\$354 million; year ended 31st December 2019: HK\$723 million). The remaining revenue was related to ship management services for the provision of crews.

## 5. OTHER NET (LOSSES)/GAINS

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
Profit on disposal of subsidiary companies	–	1,372	1,384
Profit on disposal of a joint venture company	–	–	994
Write-back of provisions on potential claims in connection with sale of a subsidiary in 2018	–	–	104
Loss on sale of investment properties	(8)	(11)	(17)
(Loss)/profit on sale of property, plant and equipment	(20)	(5)	50
Net foreign exchange gains	70	28	85
Fair value losses on cross-currency swaps transferred from cash flow hedge reserve	(56)	(9)	(64)
Fair value losses on forward foreign exchange contracts transferred from cash flow hedge reserve	(6)	(8)	(16)
Fair value losses on forward foreign exchange contracts not qualifying as hedges	–	–	(1)
Impairment losses recognised on			
Property, plant and equipment	(4,361)	(1)	(2,162)
Intangible assets	(7)	–	(434)
Investment in an associated company	–	(281)	(281)
Provision on restructuring costs	–	–	(125)
Dividend income on equity investments	–	–	3
Receipt of government subsidies	305	42	108
Other income	132	65	47
<b>Total</b>	<b>(3,951)</b>	<b>1,192</b>	<b>(325)</b>

## 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
		2020 HK\$M	2019 HK\$M	2019 HK\$M
Direct rental outgoings of investment properties		1,011	1,135	2,458
Cost of goods sold		16,584	17,930	36,285
Write-down of stocks and work in progress		76	75	204
Reversal of impairment losses on trade receivables		(45)	(10)	(18)
Depreciation of property, plant and equipment	12	1,621	1,725	3,467
Depreciation of right-of-use assets				
Leasehold land held for own use		16	16	32
Land use rights		22	23	46
Property		447	443	903
Plant and equipment		38	40	77
Vessels		–	14	28
Amortisation of				
Intangible assets	14	116	109	222
Initial leasing costs on investment properties		17	17	35
Others		7	5	13
Staff costs		8,381	8,796	17,656
Other lease expenses*		28	95	183
Other expenses		5,855	6,614	13,672
<b>Total cost of sales, distribution costs, administrative expenses and other operating expenses</b>		<b>34,174</b>	<b>37,027</b>	<b>75,263</b>

\* These expenses relate to short-term leases, leases of low-value assets or leases with variable payments. They are directly charged to the consolidated statement of profit or loss and are not included in the measurement of lease liabilities under HKFRS 16.

## 7. NET FINANCE CHARGES

Refer to the table with the heading "Financial Information Reviewed by Auditors" on page 41 for details of the Group's net finance charges.

## 8. TAXATION

	Note	Six months ended 30th June		Year ended 31st December
		2020 HK\$M	2019 HK\$M	2019 HK\$M
<b>Current taxation</b>				
Hong Kong profits tax		319	466	760
Overseas taxation		576	646	1,195
Over-provisions in prior years		(6)	(26)	(49)
		<b>889</b>	<b>1,086</b>	<b>1,906</b>
<b>Deferred taxation</b>				
Change in fair value of investment properties	24	(122)	311	366
Origination and reversal of temporary differences		283	242	485
Effect of change in tax rate in the USA		–	–	(11)
		<b>161</b>	<b>553</b>	<b>840</b>
		<b>1,050</b>	<b>1,639</b>	<b>2,746</b>

Hong Kong profits tax is calculated at 16.5% (2019: 16.5%) on the estimated assessable profits for the period. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

The Group's share of joint venture companies' tax charges for the six months ended 30th June 2020 of HK\$27 million (30th June 2019: HK\$318 million; year ended 31st December 2019: HK\$588 million) and share of associated companies' tax credit for the six months ended 30th June 2020 of HK\$379 million (30th June 2019: tax charges of HK\$205 million; year ended 31st December 2019: tax charges of HK\$309 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 (LOSS)/PROFIT ATTRIBUTABLE TO THE COMPANY'S SHAREHOLDERS

Refer to the table with the heading "Financial Information Reviewed by Auditors" on page 37 for details of the Group's underlying (loss)/profit attributable to the Company's shareholders.

## 10. DIVIDENDS

	Six months ended 30th June		Year ended 31st December
	2020 HK\$M	2019 HK\$M	2019 HK\$M
First interim dividend declared on 13th August 2020 of HK\$0.70 per 'A' share and HK\$0.14 per 'B' share (2019 first interim dividend paid: HK\$1.35 and HK\$0.27)	1,051	2,027	2,027
Second interim dividend paid on 8th May 2020 of HK\$1.65 per 'A' share and HK\$0.33 per 'B' share	–	–	2,478
	1,051	2,027	4,505

The Directors have declared first interim dividends of HK\$0.70 (2019: HK\$1.35) per 'A' share and HK\$0.14 (2019: HK\$0.27) per 'B' share for the year ending 31st December 2020. The first interim dividends, which total HK\$1,051 million (2019: HK\$2,027 million), will be paid on 7th October 2020 to shareholders registered at the close of business on the record date, being Friday, 11th September 2020. Shares of the Company will be traded ex-dividend as from Wednesday, 9th September 2020.

The register of members will be closed on Friday, 11th September 2020, 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, 10th September 2020.

## 11. (LOSS)/EARNINGS PER SHARE (BASIC AND DILUTED)

(Loss)/earnings per share is calculated by dividing the loss attributable to the Company's shareholders for the period ended 30th June 2020 of HK\$7,737 million (30th June 2019: profit of HK\$7,939 million; 31st December 2019: profit of HK\$9,007 million) by the daily weighted average number of 905,206,000 'A' shares and 2,981,870,000 'B' shares in issue during the period (30th June 2019 and 31st December 2019: 905,206,000 'A' shares and 2,981,870,000 'B' shares) in the proportion five to one.

## 12. PROPERTY, PLANT AND EQUIPMENT

	Note	HK\$M
<b>Cost</b>		
At 1st January 2020		67,595
Translation differences		(435)
Acquisition of a subsidiary company		1
Additions		1,543
Disposals		(778)
Net transfers to investment properties	13	(3)
Transfer to assets classified as held for sale		(91)
At 30th June 2020		<b>67,832</b>
<b>Accumulated depreciation and impairment</b>		
At 1st January 2020		34,915
Translation differences		(205)
Depreciation for the period	6	1,621
Impairment charges	5	4,361
Disposals		(576)
Net transfers to investment properties	13	(2)
Transfer to assets classified as held for sale		(6)
At 30th June 2020		<b>40,108</b>
<b>Net book value</b>		
At 30th June 2020		<b>27,724</b>
At 1st January 2020		32,680

## 12. PROPERTY, PLANT AND EQUIPMENT (continued)

Property, plant and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Swire Pacific Offshore group (SPO) has vessels with aggregate carrying values of HK\$5,297 million at 30th June 2020. During the period, management reviewed the outlook for the business and SPO's operating plans and consequently reassessed the carrying values of the vessels. An impairment provision of HK\$4,279 million was recorded during the period to reduce the carrying value of certain vessels to their estimated recoverable value. The recoverable amount of vessels subject to impairment provisions amounted to HK\$2,954 million. The recoverable amount is with reference to the vessels' fair value less costs to sell and their value in use. Fair value less costs to sell is based on management estimates having regard to estimated resale values, with the support from external experts. Fair value less costs to sell is a level 3 fair value measurement. Value in use is determined using cash flow projections based on financial budgets covering a ten-year period prepared by management. A ten-year forecast is considered appropriate for offshore vessel operations, in order to take into account the expected industry operating cycle, including an expected market recovery. The key assumptions include utilisation, charter hire rates, disposal values and discount rates applied to future cash flows. The pre-tax discount rate used in the 2020 impairment review was 8.5% (2019: 8.5%). Changes in any or all of the key assumptions could result in a material change in the carrying value of vessels. A 5% decrease in daily charter hire rates would decrease the estimated recoverable value of vessels by HK\$704 million. A 1% increase in the pre-tax discount rate would decrease the estimated recoverable value of vessels by HK\$392 million. These sensitivities are based on an unfavourable change in an assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in assumptions may be correlated. A favourable change in the above assumptions would not result in the same level of favourable financial impact to the estimated recoverable value as the related unfavourable change.

## 13. INVESTMENT PROPERTIES

	Note	HK\$M
At 1st January 2020		276,008
Translation differences		(634)
Additions		583
Disposals		(100)
Net transfers from property, plant and equipment	12	1
Net transfers from leasehold land held for own use under right-of-use assets		566
Transfer to assets classified as held for sale		(1,139)
Net fair value losses		(2,601)
At 30th June 2020		272,684
Add: Initial leasing costs		187
At 30th June 2020		<b>272,871</b>
At 1st January 2020 (including initial leasing costs)		276,250

## 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
<b>Cost</b>							
At 1st January 2020		7,950	909	5,480	954	247	15,540
Translation differences		(49)	(6)	(62)	(5)	(1)	(123)
Acquisition of a subsidiary company		118	–	–	–	–	118
Other transfers		–	1	–	–	–	1
Additions		–	89	–	–	–	89
Disposals		–	(4)	–	–	–	(4)
At 30th June 2020		<b>8,019</b>	<b>989</b>	<b>5,418</b>	<b>949</b>	<b>246</b>	<b>15,621</b>
<b>Accumulated amortisation and impairment</b>							
At 1st January 2020		1,346	588	304	370	80	2,688
Translation differences		(6)	(5)	(2)	(2)	–	(15)
Amortisation for the period	6	–	43	32	31	10	116
Impairment losses	5	–	7	–	–	–	7
Disposals		–	(4)	–	–	–	(4)
At 30th June 2020		<b>1,340</b>	<b>629</b>	<b>334</b>	<b>399</b>	<b>90</b>	<b>2,792</b>
<b>Net book value</b>							
At 30th June 2020		<b>6,679</b>	<b>360</b>	<b>5,084</b>	<b>550</b>	<b>156</b>	<b>12,829</b>
At 1st January 2020		6,604	321	5,176	584	167	12,852

## 15. RIGHT-OF-USE ASSETS

The Group (acting as lessee) leases various land, offices, warehouses, retail stores, equipment and vessels. Except for certain long-term leasehold land in Hong Kong, rental contracts are typically made for fixed periods of 1 to 50 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The recognised right-of-use assets relate to the following types of assets:

	30th June 2020 HK\$M	31st December 2019 HK\$M
Leasehold land held for own use	3,373	3,850
Land use rights	1,298	1,337
Property	4,207	4,351
Plant and equipment	345	361
<b>Total</b>	<b>9,223</b>	<b>9,899</b>

**15. RIGHT-OF-USE ASSETS** (continued)

Additions to right-of-use assets during the six months ended 30th June 2020 were HK\$273 million (30th June 2019: HK\$391 million; year ended 31st December 2019: HK\$770 million).

During the six months ended 30th June 2020, total cash outflow for leases was included in the statement of cash flows in (a) interest paid of HK\$105 million (30th June 2019: HK\$104 million; year ended 31st December 2019: HK\$195 million) under "operating activities", (b) payment for short-term and low-value assets leases and variable lease payments of HK\$28 million (30th June 2019: HK\$95 million; year ended 31st December 2019: HK\$183 million) under "operating activities", and (c) principal elements of lease payments of HK\$462 million (30th June 2019: HK\$488 million; year ended 31st December 2019: HK\$950 million) under "financing activities".

**16. INTERESTS IN JOINT VENTURE COMPANIES**

	30th June 2020 HK\$M	31st December 2019 HK\$M
Share of net assets, unlisted	18,360	18,349
Goodwill	755	763
	<b>19,115</b>	<b>19,112</b>
Loans due from joint venture companies less provisions		
Interest-free	13,725	13,742
Interest-bearing	2,619	3,085
	<b>16,344</b>	<b>16,827</b>

**17. INTERESTS IN ASSOCIATED COMPANIES**

	30th June 2020 HK\$M	31st December 2019 HK\$M
Share of net assets		
Listed in Hong Kong	21,910	27,940
Unlisted	2,250	1,998
	<b>24,160</b>	<b>29,938</b>
Goodwill	988	757
	<b>25,148</b>	<b>30,695</b>
Interest-bearing loan due from an associated company	9	9

The market value of the shares in the listed associated company, Cathay Pacific, at 30th June 2020 was HK\$13,277 million (31st December 2019: HK\$20,393 million).

## 18. 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
<b>Assets as per consolidated statement of financial position</b>					
At 30th June 2020					
Equity investments at fair value through other comprehensive income					
Listed investments		176	–	–	176
Unlisted investments		–	–	56	56
Derivative financial assets	19	–	523	–	523
<b>Total</b>		<b>176</b>	<b>523</b>	<b>56</b>	<b>755</b>
At 31st December 2019					
Equity investments at fair value through other comprehensive income					
Listed investments		141	–	–	141
Unlisted investments		–	–	52	52
Derivative financial assets	19	–	430	–	430
<b>Total</b>		<b>141</b>	<b>430</b>	<b>52</b>	<b>623</b>
<b>Liabilities as per consolidated statement of financial position</b>					
At 30th June 2020					
Derivative financial liabilities	19	–	153	–	153
Put option over a non-controlling interest in the USA	22	–	–	504	504
Put option over a non-controlling interest in a subsidiary company	22	–	–	112	112
Contingent consideration	22	–	–	1,189	1,189
<b>Total</b>		<b>–</b>	<b>153</b>	<b>1,805</b>	<b>1,958</b>
At 31st December 2019					
Derivative financial liabilities	19	–	106	–	106
Put option over a non-controlling interest in the USA	22	–	–	564	564
Put option over a non-controlling interest in a subsidiary company	22	–	–	113	113
Contingent consideration	22	–	–	1,194	1,194
<b>Total</b>		<b>–</b>	<b>106</b>	<b>1,871</b>	<b>1,977</b>

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.

**18. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS** (continued)

The following table presents the changes in level 3 financial instruments for the period ended 30th June 2020:

	Put options over non-controlling interests HK\$M	Unlisted investments HK\$M	Contingent consideration HK\$M
At 1st January 2020	677	52	1,194
Translation differences	(3)	–	(5)
Additions	–	4	–
Distribution during the period	(8)	–	–
Change in fair value recognised in profit or loss during the period*	(50)	–	54
Payment of consideration	–	–	(54)
At 30th June 2020	616	56	1,189
* Included unrealised gains/(losses) recognised in the consolidated profit or loss in respect of balances held at 30th June 2020	50	–	(54)

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

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

The fair value estimate of the put option over a non-controlling interest in the USA is classified within level 3 because it is based on a number of unobservable inputs, including the expected fair value of the associated investment property at the expected time of exercise, the expected time of exercise itself and the discount rate used. Changing the unobservable inputs based on reasonable alternative assumptions would change the valuation of the put option.

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

**18. 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 amortised cost are not materially different from their fair values at 30th June 2020 and 31st December 2019 except for the following financial liabilities, for which their carrying amounts and fair value are disclosed below:

	At 30th June 2020		At 31st December 2019	
	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	65,069	65,567	56,464	57,882

**19. 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 2020		31st December 2019	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cross-currency swaps				
Cash flow hedges	513	17	428	18
Not qualifying as hedges	–	48	–	36
Interest rate swaps – cash flow hedges	–	67	1	27
Forward foreign exchange contracts				
Cash flow hedges	1	4	1	4
Commodity swaps				
Not qualifying as hedges	9	–	–	–
Put options exercisable by joint venture partners for sale of their interests to Beverages Division	–	17	–	21
<b>Total</b>	<b>523</b>	<b>153</b>	<b>430</b>	<b>106</b>
Analysed as:				
Current	10	19	46	14
Non-current	513	134	384	92
	523	153	430	106

## 20. TRADE AND OTHER RECEIVABLES

	30th June 2020 HK\$M	31st December 2019 HK\$M
Trade debtors	5,341	4,074
Amounts due from immediate holding company	8	1
Amounts due from joint venture companies	11	26
Amounts due from associated companies	1,120	230
Deposit paid for financial assets at fair value through profit or loss	46	–
Mortgage loan receivable – Non-current portion	18	36
Prepayments and accrued income	2,394	1,822
Other receivables	3,074	2,496
	12,012	8,685
Amounts due after one year included under non-current assets	(75)	(67)
	11,937	8,618

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

	30th June 2020 HK\$M	31st December 2019 HK\$M
Under three months	5,024	3,812
Between three and six months	276	170
Over six months	41	92
	5,341	4,074

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

## 21. ASSETS CLASSIFIED AS HELD FOR SALE

Assets classified as held for sale relate to Swire Properties' 100% interest in Two and Three Brickell City Centre in Miami, USA. After the end of the period, a sales and purchase agreement was entered into by wholly-owned subsidiary companies of Swire Properties with a third party and the sale was completed on 21st July 2020. The fair value of the relevant investment properties determined by management at 30th June 2020 reasonably approximated the final consideration payable under the sales and purchase agreement.

## 22. TRADE AND OTHER PAYABLES

	30th June 2020 HK\$M	31st December 2019 HK\$M
Trade creditors	5,469	4,299
Amounts due to immediate holding company	171	159
Amounts due to joint venture companies	71	7
Amounts due to associated companies	425	448
Interest-bearing advances from joint venture companies	37	54
Interest-bearing advance from an associated company	290	291
Advances from non-controlling interests	188	187
Rental deposits from tenants	2,895	2,905
Put options over non-controlling interests	616	677
Contingent consideration	1,189	1,194
Accrued capital expenditure	1,220	1,260
Provision for restructuring costs	60	125
Other accruals	8,162	8,359
Other payables	4,264	4,360
	25,057	24,325
Amounts due after one year included under non-current liabilities	(1,088)	(1,095)
	23,969	23,230

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

	30th June 2020 HK\$M	31st December 2019 HK\$M
Under three months	5,176	4,138
Between three and six months	138	78
Over six months	155	83
	5,469	4,299

## 23. LEASE LIABILITIES

	30th June 2020 HK\$M	31st December 2019 HK\$M
Maturity profile		
Within one year	863	858
Between one and two years	745	733
Between two and five years	1,043	1,096
Over five years	2,572	2,688
	5,223	5,375
Amount due within one year included under current liabilities	(863)	(858)
	4,360	4,517

## 24. DEFERRED TAXATION

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

	Note	HK\$M
At 1st January 2020		10,347
Translation differences		(119)
Charged to statement of profit or loss	8	161
Charged to other comprehensive income		31
At 30th June 2020		10,420
Represented by:		
Deferred tax assets		(597)
Deferred tax liabilities		11,017
		10,420

## 25. SHARE CAPITAL

	'A' shares	'B' shares	Total HK\$M
<b>Issued and fully paid:</b>			
At 30th June 2020 and 31st December 2019	905,206,000	2,981,870,000	1,294

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period.

## 26. RESERVES

	Revenue reserve HK\$M	Property revaluation reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Translation reserve HK\$M	Total HK\$M
At 1st January 2020	270,330	2,444	(159)	524	(1,081)	272,058
<b>Loss for the period</b>	(7,737)	–	–	–	–	(7,737)
<b>Other comprehensive income</b>						
Revaluation of property previously occupied by the Group						
– gains recognised during the period	–	86	–	–	–	86
– deferred tax	–	(1)	–	–	–	(1)
Defined benefit plans						
– remeasurement losses recognised during the period	(8)	–	–	–	–	(8)
– deferred tax	1	–	–	–	–	1
Changes in the fair value of equity investments at fair value through other comprehensive income	–	–	35	–	–	35
Cash flow hedges						
– gains recognised during the period	–	–	–	107	–	107
– transferred to net finance charges	–	–	–	(1)	–	(1)
– transferred to operating profit	–	–	–	64	–	64
– deferred tax	–	–	–	(29)	–	(29)
Share of other comprehensive income/(loss) of joint venture and associated companies	27	–	–	(1,417)	(452)	(1,842)
Net translation differences on foreign operations	–	–	–	–	(692)	(692)
<b>Total comprehensive loss for the period</b>	<b>(7,717)</b>	<b>85</b>	<b>35</b>	<b>(1,276)</b>	<b>(1,144)</b>	<b>(10,017)</b>
2019 second interim dividend	(2,478)	–	–	–	–	(2,478)
<b>At 30th June 2020</b>	<b>260,135</b>	<b>2,529</b>	<b>(124)</b>	<b>(752)</b>	<b>(2,225)</b>	<b>259,563</b>

(a) The Group's revenue reserve at 30th June 2020 includes HK\$1,051 million representing the declared first interim dividend for the year (31st December 2019: HK\$2,478 million representing the second interim dividend for 2019).

(b) At 30th June 2020, the Group's cash flow hedge reserve includes HK\$76 million (net of tax) relating to the currency basis element of the Group's derivatives which is recognised separately as a cost of hedging (31st December 2019: HK\$64 million).

## 27. NON-CONTROLLING INTERESTS

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

	HK\$M
<b>At 1st January 2020</b>	<b>56,142</b>
Share of profits less losses for the period	302
Share of cash flow hedges	
– gains recognised during the period	12
– transferred to net finance charges	1
– deferred tax	(2)
Share of revaluation of property previously occupied by the Group	19
Share of other comprehensive loss of joint venture and associated companies	(44)
Share of translation differences on foreign operations	(149)
<b>Share of total comprehensive income for the period</b>	<b>139</b>
Dividends paid and payable	(935)
<b>At 30th June 2020</b>	<b>55,346</b>

## 28. CAPITAL COMMITMENTS

	30th June 2020 HK\$M	31st December 2019 HK\$M
The Group's outstanding capital commitments at the end of the period in respect of:		
Property, plant and equipment		
Contracted but not provided for	681	599
Authorised by Directors but not contracted for	7,447	7,409
Investment properties		
Contracted but not provided for	4,864	5,293
Authorised by Directors but not contracted for	10,119	10,211
	<b>23,111</b>	<b>23,512</b>
The Group's share of capital commitments of joint venture companies at the end of the period*		
Contracted but not provided for	109	364
Authorised by Directors but not contracted for	683	740
	<b>792</b>	<b>1,104</b>

\* of which the Group is committed to funding HK\$438 million (31st December 2019: HK\$483 million).

## 29. CONTINGENCIES

(a) Guarantees outstanding at the end of the period in respect of bank loans and other liabilities of joint venture companies totalled HK\$2,816 million (31st December 2019: HK\$2,381 million). Bank guarantees given in lieu of utility deposits and others totalled HK\$254 million at the end of the period (31st December 2019: HK\$261 million).

(b) Cathay Pacific Airways

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions except as otherwise noted below. 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, except as otherwise stated below, 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 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 European 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. The appeal hearing in the General Court took place on 5th July 2019. There is no fixed date for the General Court to issue its decision.

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 Germany, the Netherlands and Norway 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.

### 30. 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 Services Agreements commenced on 1st January 2020 for a period of three years expiring on 31st December 2022. For the six months ended 30th June 2020, service fees payable amounted to HK\$159 million (2019: HK\$158 million). Expenses of HK\$181 million (2019: HK\$157 million) were reimbursed at cost; in addition, HK\$200 million (2019: HK\$195 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 2018 for a further term of three years expiring on 31st December 2021. For the six months ended 30th June 2020, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the Tenancy Framework Agreement applies amounted to HK\$53 million (2019: HK\$56 million).

The above transactions under the Services Agreements and the 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.

**30. RELATED PARTY TRANSACTIONS** (continued)

The following is a summary of significant transactions between the Group and related parties (including transactions under the 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.

	Note	For the six months ended 30th June							
		Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
		2020 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M	2020 HK\$M	2019 HK\$M
Revenue from	(a)								
Sales of beverage drinks		10	20	4	12	–	–	–	–
Sales of goods		503	–	–	–	–	–	–	–
Rendering of services		27	30	3	3	9	8	1	–
Aircraft and engine maintenance		21	11	1,348	1,681	–	–	–	–
Rental of investment properties	(b)	1	–	2	2	–	–	53	56
Purchases of beverage drinks	(a)	58	2	1,305	1,649	–	–	–	–
Purchases of other goods	(a)	6	2	23	47	–	–	–	–
Purchases of services	(a)	42	33	2	3	3	2	–	–
Interest income	(c)	47	37	4	1	–	–	–	–
Interest charges	(c)	–	2	4	6	–	–	–	–

## 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 16 and 17. Amounts due from and to joint venture and associated companies are disclosed in notes 20 and 22.

**31. EVENT AFTER THE REPORTING PERIOD**

On 9th June 2020, Cathay Pacific announced a proposed HK\$39 billion recapitalisation involving an issue of preference shares and warrants, a rights issue of shares and a bridge loan facility. A prospectus for the rights issue was issued on 22nd July 2020. The rights issue closed on 5th August 2020. The total amount raised by the rights issue was HK\$11.7 billion. The Company subscribed in full for its entitlement under the rights issue, at a cost of HK\$5.3 billion.

## 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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the period.

## DIRECTORS' INTERESTS

At 30th June 2020, 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				
<b>Swire Pacific Limited</b>						
<b>'A' shares</b>						
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	
M B Swire	135,000	–	–	135,000	0.0149	
<b>'B' shares</b>						
M Cubbon	100,000	–	–	100,000	0.0034	
C Lee	1,370,000	–	21,605,000	22,975,000	0.7705	1
M B Swire	260,000	–	–	260,000	0.0087	

	Capacity			Total no. of shares	Percentage of issued share capital (comprised in the class) (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
<b>John Swire &amp; Sons Limited</b>						
<b>Ordinary Shares of £1</b>						
M B Swire	2,671,599	130,000	17,546,068	20,347,667	20.34	2
S C Swire	1,948,381	–	21,135,992	23,084,373	23.08	2
<b>8% Cum. Preference Shares of £1</b>						
M B Swire	3,946,580	–	13,662,426	17,609,006	19.56	2
S C Swire	2,279,414	–	17,142,377	19,421,791	21.57	2

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

Notes:

- All the shares held by C Lee under Trust interest were held by him as beneficiary of trusts.
- M B Swire and S C Swire were trustees and/or potential beneficiaries of trusts which held 6,222,732 ordinary shares and 9,812,656 ordinary shares respectively and 3,450,024 preference shares and 6,929,975 preference shares respectively in John Swire & Sons Limited included under Trust interest and did 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 2020 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	'B' shares	Percentage of	Note
		voting shares (comprised in the class) (%)		voting shares (comprised in the class) (%)	
<b>Substantial Shareholders</b>					
John Swire & Sons Limited	411,458,720	45.45	2,087,309,282	70.00	1
BlackRock, Inc.	45,362,208	5.01	–	–	2
<b>Short position</b>					
BlackRock, Inc.	47,000	0.00	–	–	3

Note:

- John Swire & Sons Limited (Swire) was deemed to be interested in a total of 411,458,720 'A' shares and 2,087,309,282 'B' shares of the Company at 30th June 2020, comprising:
  - 885,861 'A' shares and 13,367,962 'B' shares held directly;
  - 12,632,302 'A' shares and 37,597,019 'B' shares held directly by its wholly-owned subsidiary Taikoo Limited;
  - 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
  - the following shares held directly by wholly-owned subsidiaries of John Swire & Sons (H.K.) Limited: 322,603,700 'A' shares and 123,945,000 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 8,040,000 'A' shares and 328,343,444 '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.
- These shares were held in the capacity as interest of corporations controlled by BlackRock, Inc., of which 1,827,000 'A' shares are in cash settled unlisted derivatives.
- This short position was held in the capacity as interest of corporations controlled by BlackRock, Inc. and in cash settled unlisted derivatives.

At 30th June 2020, the Swire group was interested in 55.20% of the equity of the Company and controlled 64.28% of the voting rights attached to shares in the Company.

# Glossary

## TERMS

References in this document to Hong Kong are to Hong Kong SAR, to Macau are to Macao SAR and to Taiwan are to the Taiwan region.

## FINANCIAL

### Underlying profit or loss

Reported profit or loss adjusted principally for the impact of (i) changes in the fair value of investment properties, (ii) deferred tax on investment properties and (iii) amortisation of right-of-use assets reported under investment properties.

### Recurring profit or loss

Recurring profit or loss is the attributable profit or loss adjusted for significant credits and charges of a non-recurring nature, including gains and losses on the sale of businesses and investment properties and non-cash impairments.

### Recurring underlying profit or loss

Recurring underlying profit or loss is the recurring profit or loss adjusted principally for changes in the valuation of investment properties and the associated deferred tax impact.

### EBIT

Earnings before interest and tax.

### EBITDA

Earnings before interest, tax, depreciation and amortisation.

### Equity attributable to the Company's shareholders

Equity excluding non-controlling interests.

### Gross borrowings

Total of loans, bonds and overdrafts.

### Net debt

Total of loans, bonds and overdrafts net of cash, bank deposits and bank balances.

## AVIATION

### Available tonne kilometres (ATK)

Overall capacity, measured in tonnes available for the carriage of passengers, excess baggage and cargo on each sector multiplied by the sector distance.

### 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 cargo tonne kilometres (AFTK)

Cargo capacity, measured in tonnes available for the carriage of freight on each sector multiplied by the sector distance.

### Revenue tonne kilometres (RTK)

Traffic volume, measured in tonnes from the carriage of passengers, excess baggage and cargo on each sector multiplied by the sector distance.

### Revenue passenger kilometres (RPK)

Number of passengers carried on each sector multiplied by the sector distance.

### Cargo revenue tonne kilometres (RFTK)

Amount of cargo, measured in tonnes, carried on each sector multiplied by the sector distance.

### On-time performance

Departure within 15 minutes of scheduled departure time.

## RATIOS

### FINANCIAL

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

$$\text{Return on Equity} = \frac{\text{Profit/(loss) attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$$

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

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

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

### AVIATION

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

$$\text{Passenger/Cargo yield} = \frac{\text{Passenger revenue / Cargo revenue}}{\text{Revenue passenger kilometres / Cargo revenue tonne kilometres}}$$

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

# Financial Calendar and Information for Investors

## FINANCIAL CALENDAR 2020

Interim Report available to shareholders	8th September
'A' and 'B' shares trade ex-dividend	9th September
Share registers closed for first interim dividends entitlement	11th September
Payment of 2020 first interim dividends	7th October
Annual results announcement	March 2021
Second interim dividends payable	May 2021
Annual General Meeting	May 2021

## REGISTERED OFFICE

Swire Pacific Limited  
33rd Floor, One Pacific Place  
88 Queensway  
Hong Kong

## REGISTRARS

Computershare Hong Kong Investor Services Limited  
17M Floor, Hopewell Centre  
183 Queen's Road East  
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Website: [www.computershare.com](http://www.computershare.com)

## DEPOSITARY

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Tel: Calls within USA – toll free: 1-888-BNY-ADRS  
International callers: 1-201-680-6825

## 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  
Certified Public Accountants and Registered PIE Auditor

## INVESTOR RELATIONS

E-mail: [ir@swirepacific.com](mailto:ir@swirepacific.com)

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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](mailto:ir@swirepacific.com)

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## DISCLAIMER

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