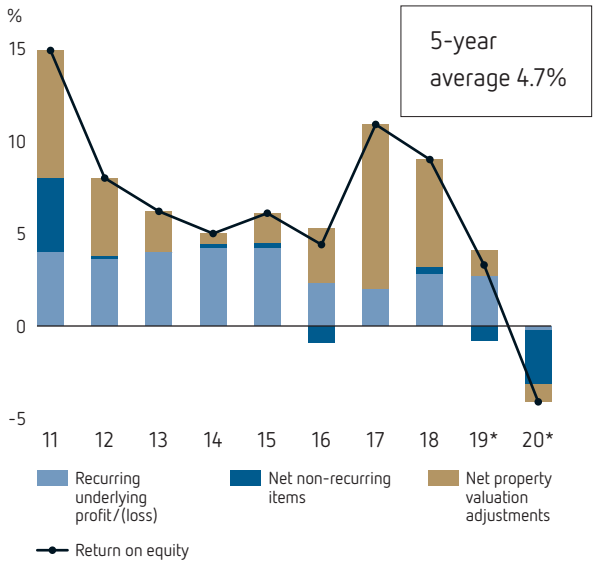
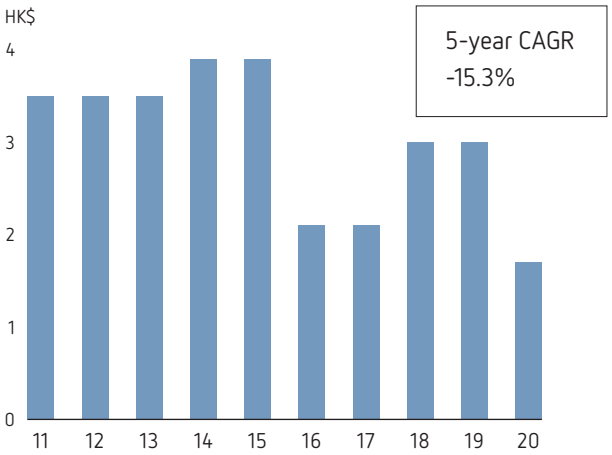
Return on Equity

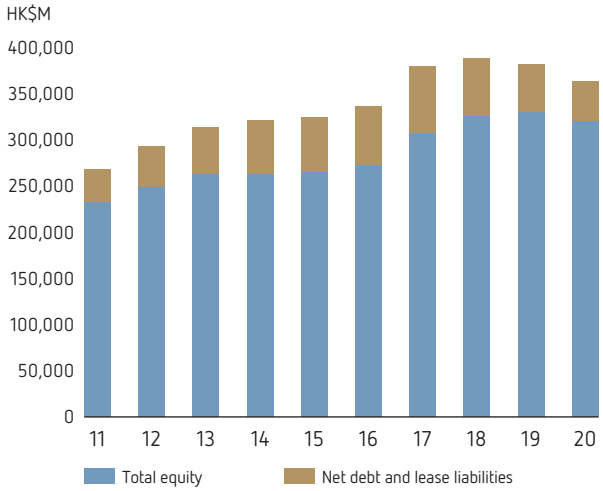


* The attributable realised profit (HK$12.7 billion or 4.7% of the return) in 2019 arising from the sales of interests in Cityplaza Three and Four and 625 King's Road and the attributable realised profit (HK$4.5 billion or 1.7% of the return) in 2020 arising from the sale of the interest in Cityplaza One have been reclassified from net non-recurring items to net property valuation adjustments.

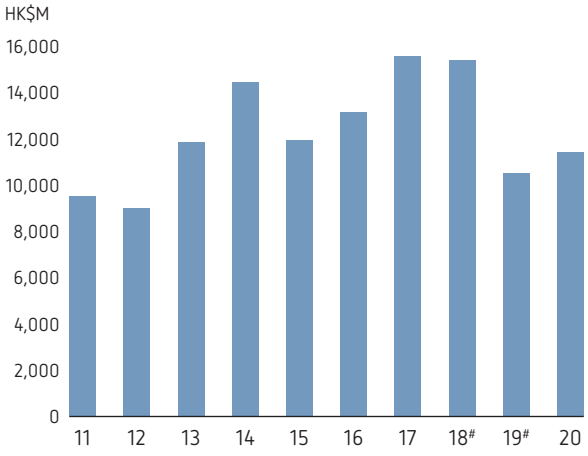
Ordinary Dividends per 'A' Share



Total Equity and Net Debt (including Lease Liabilities)



Net Cash Generated from Operating Activities



The net cash generated from operating activities takes into account (i) HK$3.3 billion deposits received in 2018 in respect of sales of interests in investment properties and (ii) the derecognition of those deposits in 2019 on completion of those sales.

CHAIRMAN'S STATEMENT

Year In Review

The progress of many of our businesses was arrested in 2020 by COVID-19. Cathay Pacific was particularly hard hit. We recorded an underlying loss in 2020 for the first time since listing in 1959. I would encourage shareholders, however, to draw comfort from the resilience our organisation has shown in the face of unprecedented challenges, from the strong momentum of our property and beverages businesses in the Chinese mainland and from the healthy condition of our balance sheet.

The Group recorded an underlying loss for the year of HK$3,969 million, compared with an underlying profit of HK$17,797 million in 2019. The deterioration in the results was primarily due to a significant reduction in profits on the sale of investment properties and to losses (including impairment charges and restructuring costs) at Cathay Pacific. Disregarding non-recurring items in both years, the Group recorded a recurring underlying loss of HK$609 million in 2020, compared to a profit of HK$7,221 million in 2019. There was also a small decrease in the value of our property portfolio. This, with the loss for the year, was the main reason for our return on equity falling to a negative 4.1% in 2020 from 3.3% in 2019 and an average over the last five years of 4.7%.

Cathay Pacific experienced the most challenging 12 months of its more than 70-year history in 2020. Travel restrictions and quarantine requirements in place around the world as a result of COVID-19 paralysed the global air travel market. Cathay Pacific reduced operating capacity in its passenger network to below 10% of normal levels for most of the year, and reported a loss of HK$21.6 billion. In response to the challenges facing it, Cathay Pacific completed a HK$39 billion recapitalisation (which was anchored by the Hong Kong government) in August and announced a major restructuring of its business in October, which included a reduction in headcount of 8,500. COVID-19 also adversely affected HAECO, which reported a much lower profit in 2020 than in 2019.

Recurring profit of the Property Division decreased in 2020, principally due to higher losses from hotels due to COVID-19. Our retail portfolio in the Chinese mainland, which was initially affected by COVID-19, recovered strongly from March. The Hong Kong office portfolio continued to perform solidly.

The profits of Swire Coca-Cola grew robustly in 2020. Business was adversely affected by COVID-19 in the early part of the year, but recovered well outside Hong Kong, particularly in the Chinese mainland. Swire Pacific Offshore continued to incur losses and was subject to a further impairment charge. The Trading & Industrial Division made a small profit in 2020. Swire Resources was badly affected by COVID-19.

Capital recycling continued following the disposals of a number of non-core assets in 2018 and 2019. We disposed of Two and Three Brickell City Centre in Miami and Cityplaza One in Hong Kong in 2020. The total proceeds from disposing of non-core or underperforming assets from 2018 to 2020 was HK$44.5 billion. This has left us with a strong balance sheet. At the end of 2020, our gearing, excluding lease liabilities, was 12.2% (compared with 14.2% at the end of 2019) and our liquidity was strong.

Our focus remains on Asia (in particular Greater China), which we believe has strong growth potential and where we have long experience and deep capabilities. Our capital commitments in Greater China aggregated HK$26.7 billion at the end of 2020 (including HK$3.6 billion for a major mixed-use property project in Beijing). In February 2021, we made our second healthcare investment and now have exposure to the sector in the Yangtze River Delta and the Greater Bay Area.

Dividends

Our dividend policy is to deliver sustainable growth in dividends and to pay out approximately half of our underlying profits in ordinary dividends over time. This remains our policy. However, given COVID-19 and the consequential challenging operating environment and uncertain outlook, we consider it appropriate to reduce our 2020 dividends. Dividends for the year are HK$1.70 per 'A' share and HK$0.34 per 'B' share. During the five years ending with 2020, our dividends represented 59% of underlying profits.

Sustainability

In 2020, we introduced SwireTHRIVE 2.0, which focuses on five priorities for our businesses: climate, water, waste, people and communities. The revised strategy reflects greater ambition, and we will report progress later in the year in our annual sustainability report.

We are particularly conscious of the need to minimise workplace accidents, and to provide a healthy and safe working environment. We put in place robust procedures designed to minimise the transmission of COVID-19 in our workplaces. The response of our teams in implementing and following these procedures has been outstanding.

Our People

2020 has been a difficult year for our people, in particular for those in the Aviation and Marine Services Divisions. We very much regret the job losses that have been necessary, and thank those who have left the Group for their hard work and dedication over many years.

I would like to salute all of our people for the tremendous teamwork, resilience and professionalism they have shown in response to the challenges, both professional and personal, arising from COVID-19.

Board

In April this year, Michelle Low will retire from the Board after three years' service as finance director and 33 years with the Swire group. During her tenure, great strides have been taken in strengthening financial controls. I thank Michelle for her exemplary commitment to our values and her substantial contribution to the Group.

Also in April this year, Martin Murray will join the Board as finance director. Martin has worked for the Swire group for 26 years. He was the chief financial officer of Cathay Pacific until January this year. He was previously the deputy finance director of the Company. His experience and insights will be most valuable.

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

Outlook

We continue to face significant challenges and uncertainties in 2021 as a result of COVID-19. The effect on the Aviation Division, particularly Cathay Pacific, is severe. We expect to incur a recurring loss in the first half of 2021. But in the long run we remain confident of Swire Pacific's prospects. They are underpinned by Hong Kong's role as a major international financial centre and by robust economic growth in the Chinese mainland, where our businesses are improving year by year. We have a strong balance sheet and a strong pipeline of investment opportunities in Greater China.

Merlin Swire
Chairman
Hong Kong, 11th March 2021