

Corporate Social Responsibility

Swire Pacific has always maintained a philosophy of working in the best interests of all our stakeholders. We care deeply about the communities in which we are involved, the many different people we employ and our broader role in protecting the natural environment. Establishing trust through sound governance, commitments to health and safety, good employment practices, community investment, respect for business partners and sound environmental management practices are very much part of our culture.

In 2006 there were some very positive corporate social responsibility (CSR) initiatives around the group, which in the context of CSR can include our jointly controlled and associated interests. As planned, we engaged our stakeholders and undertook structured dialogue with them. We have maintained our numerous community initiatives and involvement with charities and non-governmental organisations. We have provided training and staff development in a number of new ways. Our continuing commitment to health, safety and the environment saw a number of new initiatives, including a programme of work on climate change issues. We report on each of these areas below.

Our CSR principles seek to align our social responsibilities with our business objectives and have provided a focus for our activities in 2006:

- In continuing to take an ethical path in all our business dealings, we conducted a series of workshops on our Code of Conduct as part of a continuous effort to pursue operational excellence, preserve our reputation for fair dealing and integrity and to take into consideration key concerns of global and local business communities
- We continued to support our staff and the communities in which we operate through a range of activities
- We completed our first ever comprehensive stakeholder dialogue so as to fully engage staff, communities and other organisations in developing the directions for our CSR initiatives

Stakeholder Dialogue

In 2006 we committed the Company to a strengthened process of stakeholder engagement and dialogue in order to review how stakeholders perceive us and align our CSR priorities for the future with their expectations. We commissioned an independent consultant to identify community groups, non-governmental organisations, business partners, legislators, community leaders and other experts to better engage their views about Swire Pacific and associated companies. We also included a range of our own staff in the broad consultation process.

The stakeholder dialogue results reveal that Swire Pacific is seen as a successful, well managed company with a positive image and brand and good corporate governance. It is perceived to be a leader on environmental issues and is recognised, in particular, for its environmental reporting.

However, although the Company is seen as particularly strong on community involvement, support for NGOs and generous to charities, our aspiration is to be recognised as world class. In this regard, there is still more to do and therefore giving CSR a much more strategic focus will be a priority in the future.

Our dialogue reveals that Swire Pacific does not always communicate or explain many of our social and environmental activities well enough. Many of our stakeholders want to see us use this communication process to provide leadership to other parts of the business community in Hong Kong.

Climate change was identified as being an important concern to our stakeholders. Other important environmental challenges include air pollution, energy (including renewable energy), waste, water and biodiversity. Community initiatives, working with disadvantaged groups and children's educational projects are also seen as important to our stakeholders. Our numerous employee volunteer schemes are well regarded. Internally, our staff have pointed to the need for new initiatives on work-life balance, non-discrimination and ethnic diversity.

Listening to and talking with our stakeholders will now be ongoing and will become an integral part of developing our CSR strategy.

Community Initiatives

Swire Pacific is committed to supporting the communities in which it operates. Our major areas of involvement are in the fields of education, arts and culture and the environment. Our philanthropic committee, chaired by a Board Director, ensures that our community activities are focused on these areas. These activities are funded via The Swire Group Charitable Trust (The Trust) of which Swire Pacific is the major contributor.

In 2006 the group provided cash and in-kind donations to seven key NGO partners and more than 100 other NGOs in Hong Kong, Greater China and the Asia Pacific region. Employee volunteering activities were run in partnership with more than 60 NGOs in Hong Kong.

On education, 27 undergraduates at Hong Kong's local universities and five postgraduate students from the Chinese mainland studying in Hong Kong currently receive scholarship fundings.

The Swire International Young Fellows Programme continues into its second year. In total, 12 overseas students benefited from the Programme to take up full-time undergraduate studies and 40 local undergraduates were selected to study overseas through the exchange programme.

The Trust continues to provide substantial financial support to the Taikoo Primary School, which was established in Hong Kong by Swire in 1923.

The Trust also supports 20 underprivileged students to attend senior high school at Yu Yuan in Shaoguan on the Mainland China. Swire Coca-Cola continues to fund Project Hope, a government-endorsed programme to support primary education in Mainland China.

As a result of regulatory requirements imposed as part of the transaction for Cathay Pacific to acquire Dragonair, Cathay Pacific donated 64.7 million shares held in China National Aviation Company Limited

(CNAC), worth over HK\$181 million, to 71 Hong Kong, Mainland China and Asian charities. The funds will benefit the disabled and disadvantaged; children and the elderly; the arts; education; medical care; the environment and conservation and animal welfare.

Swire Pacific and Cathay Pacific continue to be the main sponsors of the Life Education Activity Programme (LEAP). In 2006 we together donated HK\$4 million to the programme which provides education on health promotion and drug awareness for students aged five to 15. These educational initiatives now reach over 80,000 students annually including 3,000 students with special needs. This internationally recognised approach allows students to learn about their physiology and, in turn, how different drugs and other substances affect their bodies. LEAP uses open discussion and role plays to help young people develop social competencies and take responsible decisions about drug use.

In 2006, 1,000 young people aged between 13 and 18 completed Cathay Pacific's 15-month 'I Can Fly' programme which consisted of a number of aviation activities and social service programmes with pilots and members of staff. The innovative education concept aims to nurture enthusiasm for aviation and at the same time encourages young people to get involved in community programmes. Aviation activities included training on aerodynamics, aircraft systems and lessons on the weather and radio communications.

Swire Properties has a well-developed Community Ambassador employee volunteering programme. Staff have carried out a range of community services for the elderly, disabled and children. The programme now includes over 400 members working on projects that build better and more integrated communities.

In 2006, The Swire Group Charitable Trust became the Principal Patron of the Hong Kong Philharmonic Orchestra to help in the continued growth of one of Asia's leading orchestras and to assist in its mission of bringing world-class music to Hong Kong. The funding assists the orchestra to bring an increasing variety of programmes, including free events, before the Hong Kong public, to host world-renowned international performers and to introduce outstanding young Chinese musicians.

The Trust has also become the Principal Sponsor of the Arts with the Disabled Association which was established 20 years ago to promote an inclusive society through arts education and other cultural activities.

Health and Safety

Good health and safety practices are an important part of our commitment to ensuring the well-being of our employees, customers and the general public. Occupational health and safety initiatives across group companies are aimed at eliminating accidents and injury and minimising hazards in the workplace so as to ensure that all employees, customers, visitors and contractors remain safe and healthy during their association with the group.

As part of our ongoing safety programmes, designated, qualified staff coordinate seminars and training programmes that address important health and safety issues. In addition, our injury reporting system ensures that there is a rapid and effective response procedure in place in the event of staff injuries in the workplace. In 2006, we suffered two work related fatalities within our workforce.

With avian flu remaining a significant potential threat, the group has prepared relevant business continuity plans and arrangements are in place to ensure that staff are rapidly informed of any new developments and precautions required to be taken. An emergency portal has been developed for internal communications in case of an outbreak. The group continues to subsidise influenza vaccinations for staff.

Employee Volunteering Training

Employee volunteering has a long tradition in Swire Pacific and we know that many staff are keen to be involved in doing more. Our “CSR Champions” training consisted of events for staff interested in developing volunteering skills and volunteer based projects within their own businesses. They were given case examples of good practice from Swire Pacific staff already involved in volunteering programmes as well as speakers from other leading companies in Hong Kong. This equipped interested staff with the competence and skills needed

to develop volunteering programmes within their respective companies. In the second part of their training, groups worked together to present plans for local community volunteering initiatives.

The Environment

Protecting the environment has always been important to Swire Pacific. We seek to ensure that our business operations reduce harm to the environment and we contribute in different ways to ensuring that we protect and enhance environments in which we operate.

The Company has an Environmental Committee, made up of representatives from all divisions of the group, which meets quarterly to oversee our various environmental initiatives. It has set up a group-wide environmental, health and safety database that enables individual companies and the Swire Pacific group as a whole to continuously to monitor their carbon contributions and other impacts and benchmark performance against previous years. Through engagement with a range of external presentations, it identifies key issues which the company needs to address.

Climate Change

There is a vital need for corporations to take action now to mitigate the effects of climate change and to be prepared for the impact that it may have on business. A special taskforce has been formed to examine our impact on climate change and its implications on our business.

The first step was to commission an independent consultant to pilot a study on the group’s greenhouse gas emissions and reporting framework. This ‘Value at Stake’ project provided an inventory of the external carbon-related drivers that can affect these companies and assessed the possible impact on their costs, revenues and reputation.

The consultants commended the efforts and dedication of Swire Pacific companies in addressing various environmental challenges, and suggested areas where Swire Pacific could strive to improve. As a response to

these recommendations, we will adopt the following climate change challenges:

- Aim to become 'best in class' globally in our respective industries
- Examine opportunities for emissions reduction initiatives in our operations
- Ensure transparent and responsive disclosure of information to interested parties
- Identify potential climate change risks and risk mitigation measures
- Engage stakeholders in creating environments for climate change policy formulation
- Support research initiatives on greenhouse gas emissions and climate change

In September 2006 we organised an internal Swire environmental conference, bringing together over 120 senior managers around the group to discuss important environmental issues and, in particular, the challenges associated with managing our greenhouse gas emissions. Colleagues shared insights with renowned sustainable development specialist Jonathan Porritt of *Forum for the Future*. Conference participants were invited to attend a private screening of Al Gore's documentary *An Inconvenient Truth*. To raise climate change awareness amongst other colleagues, Swire Pacific gave away 3,000 tickets to staff to see the film.

Energy

Improving energy efficiency in our operations helps us both to reduce greenhouse gases and to save money. Swire Properties in particular has long been a leader in promoting energy efficiency in its buildings and operations, gaining a number of accolades for its buildings at the Hong Kong Energy Efficiency Award ceremony (organised by the Hong Kong SAR Government Electrical and Mechanical Services Department). These included a Gold Award for Oxford House, a Bronze Award for Festival Walk and Merit Awards for Cityplaza One, Three, Four and the Shopping Mall.

Festival Walk also achieved the Platinum Standard in the Hong Kong Building Environmental Assessment Method (HK-BEAM), the thirteenth Swire Properties facility to achieve the highest rating in the HK-BEAM.

Our energy saving initiatives included substantial lighting improvements at Festival Walk where fluorescent fittings were changed to T5 lamp tubes and electronic ballasts. The investment amounted to HK\$3.7 million and the saving in energy is worth HK\$590,000 a year. Total initiatives at Swire Properties locations amounted to HK\$5.9 million with expected annual savings of HK\$1.1 million.

Achieving fuel efficiency at Cathay Pacific is a high priority given the pressure on fuel price and the fact that aircraft emissions are being seen as significant contributors to greenhouse gas emissions. Although the global airline industry is only responsible for two per cent of man-made carbon dioxide emissions at present, this is set to rise in the future and we will not shirk our responsibilities. As well as internal efficiency drives Cathay Pacific works closely with industry partners to reduce fuel wastage arising from inefficient air traffic management. In 2006 Cathay Pacific worked with the industry association, IATA, and the Chinese government to improve flight routes. In particular, this resulted in the approval of a new route in China used by traffic to and from Europe. In the first three months alone, this saved 120 hours of flight time, equating to 1,200 tonnes of fuel and more than 3,500 tonnes of carbon dioxide.

Moving forward, one focus will be to identify opportunities for the use of renewable energy. Cathay Pacific has already successfully installed a solar panel to heat water for the food court at Cathay City and in 2006 it commenced installation of an experimental wind turbine on the site, which should be operational in 2007. Working with our power providers, connection will be made to the electricity grid. If successful, this pilot project will enable us to consider wind power generation as part of future building developments.

Waste Management

Swire Pacific's waste management taskforce has continued to work hard to reduce the amount and impact of waste emanating from our operations. Working together and sharing valuable experiences from across divisions, we are developing projects that not only help to reduce, reuse and recycle waste but to deal with the challenges of waste and water management in creative and effective ways.

Swire Pacific has produced a 12 minute DVD designed for use in schools. It worked with Swire Coca-Cola HK, Swire Properties and Swire SITA in telling the story of how waste generated from our business operations is managed. In particular it shows how waste water can be recycled into a reusable clean resource.

The Swire Properties Digital Project, implemented for the design of One Island East and a hotel under construction in Cityplaza, is a state-of-the-art three dimensional model that can produce coordinated drawings eliminating potential mistakes which occur in traditional two-dimensional designs. Such mistakes often require retroactive correction and cause unnecessary waste and delays. The model also helps us to produce more accurate estimates of materials needed, effectively allowing us to reduce waste through design.

In 2006 Swire Beverages launched a pilot project in partnership with the government to recycle PET (plastic) bottles. The new system allows customers to put an empty bottle into a specially designed reverse-vending machine and receive credits on their Octopus debit card. The first experimental machine was installed in a secondary school in April. This machine will be introduced to more users from February 2007.

We are well aware of the need to use water in a sustainable way and to ensure that the quality of potable water is maintained. Swire Coca-Cola has been a leader in Hong Kong by putting in place a comprehensive water conservation system, minimising use, treating discharged water and leading to zero wastage.

At Cathay Pacific our flight attendants have been keen supporters of our drive to improve environmental performance and following successful trials, were the key to the rolling out of an in-flight waste recovery initiative in March 2006. We estimate that due to the hard work and initiatives of flight attendants as well as co-operation from Cathay Pacific Catering Services, we are now recovering about 64% of plastic bottles and 27% of cans from Hong Kong inbound flights.

Conservation and Biodiversity

Our commitment to the environment extends beyond our direct impacts and as a responsible business we must protect and conserve nature, eco-systems and wildlife.

At Swire Properties' Brickell Key development in Miami, Florida, we have continued our work on species conservation which includes the maintenance of an on-island native species nursery and related educational initiatives. We contribute to conservation efforts for the manatee, or sea cow, a local endangered species.

2006 saw the completion of a three year tree planting programme during which Cathay Pacific worked in partnership with Friends of the Earth and the Hong Kong SAR Government's Agriculture, Fisheries and Conservation Department. Funding allowed for an additional 10,000 trees to be planted around Hong Kong.

In 2005 the Asian Waterbird Conservation Fund was established with a donation of \$500,000 from Cathay Pacific. The Fund, administered by WWF Hong Kong, provides financial support for projects that promote the conservation of migratory waterbirds and the sustainable use of their wetland habitats. In the first round of Conservation Fund applications in 2006, grants were awarded to projects that included a public awareness campaign in Southern Thailand, community based waterbird conservation projects in Bangladesh and conservation and public education activities in Mongolia.

Looking forward

We have set the following CSR objectives for 2007:

- To maintain ongoing stakeholder engagement and dialogue
- To conduct a benchmark analysis to determine what 'best in class' means for the business sectors in which Swire companies operate
- To strengthen our commitment to dealing with the challenges of climate change as outlined above
- To commence an initiative on water management, following the lead of Swire Beverages
- To strengthen our supply chain and procurement initiatives
- To enhance initiatives on work-life balance and ethnic diversity