

 SWIRE PACIFIC

Annual Report 2008

三里屯 VANGUARD

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The Best of Old and New (cover)

Swire, 太古 (Taikoo - meaning "Great and Ancient" in Chinese), has been known and respected in China for more than 140 years. Today, our name is associated with award-winning properties, airlines, products and services. The Village at Sanlitun in Beijing (pictured), which opened in July, is the Swire Pacific Group's first major property development in the ancient capital.

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Swire Pacific is one of the leading companies in Hong Kong, with five operating divisions: Property, Aviation, Beverages, Marine Services and Trading & Industrial. The Group's operations are predominantly in Greater China, where the name Swire or 太古 has been established for over 140 years. Swire Pacific is deeply committed to Hong Kong, where our subsidiaries and our jointly controlled and associated companies employ over 43,000 staff. Globally we employ over 70,000 staff.

Delivering Value

We are committed to ensuring that our affairs are conducted with high ethical standards, which is a key component of our long-term success. This reflects our belief that in achieving our business objectives it is imperative that we act with high standards of probity, transparency and accountability, and with dignity, respect and in a socially responsible manner within the communities in which we operate.

We focus on the long-term development of businesses where we can create shareholder value in accordance with the return on capital appropriate to each business.

The Group's total net assets employed increased by HK\$8,110 million during 2008 to HK\$167,280 million at the year-end. Profit attributable to the Company's shareholders in the year was HK\$5,908 million against HK\$26,260 million in 2007. Underlying attributable profit, which principally excludes the effect of property revaluation gains and the associated deferred tax, fell by HK\$4,990 million to HK\$5,293 million.

The Property Division employed HK\$134,631 million (80%) of the Group's net assets employed at the year-end and generated a profit of HK\$4,293 million, providing a return on average equity attributable to the Company's shareholders of 4.3%. The division's underlying profit was HK\$3,675 million against HK\$3,302 million in 2007 and its return on average underlying equity attributable to the Company's shareholders was 3.2%.

Net assets employed by the Aviation Division fell by HK\$4,521 million to HK\$17,662 million at the year-end. The loss attributable to the Company's shareholders for the year of HK\$2,867 million provided a negative return on average equity attributable to the Company's shareholders of 14.4%, compared to a positive return of 15.9% in 2007.

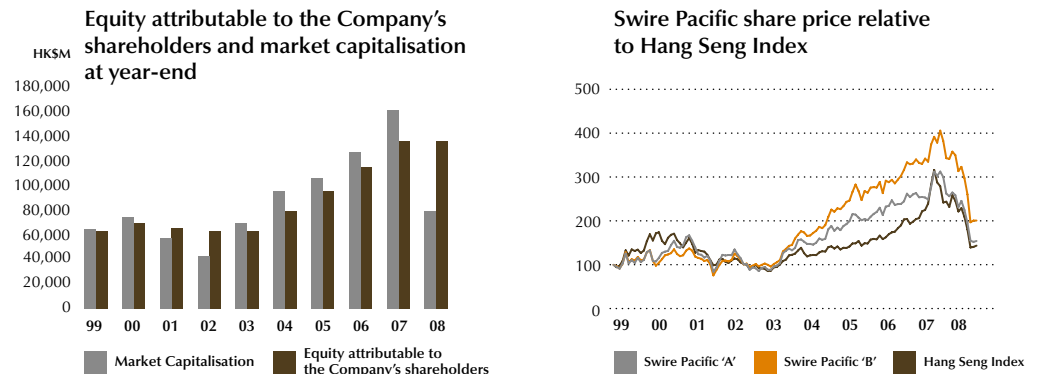
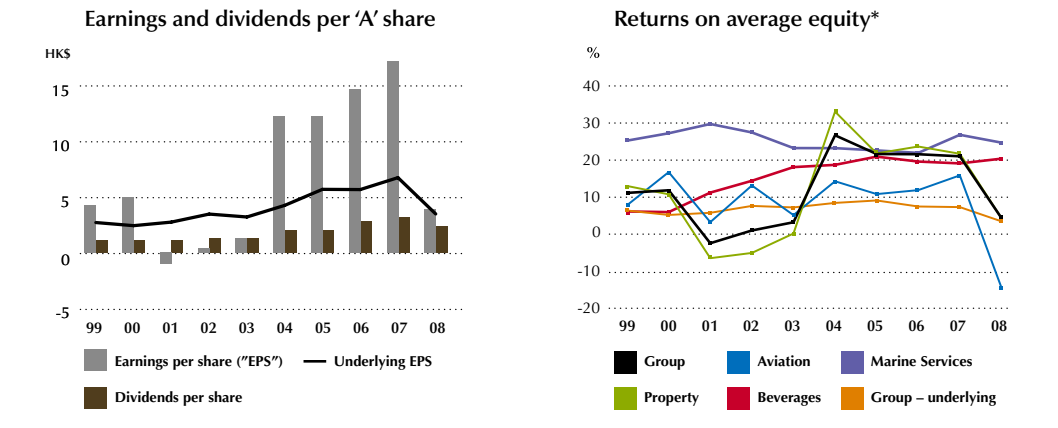
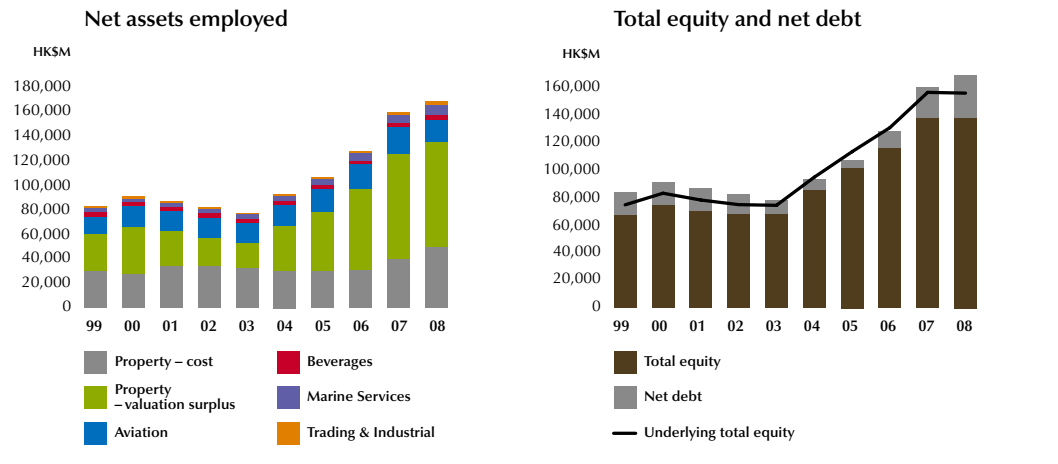
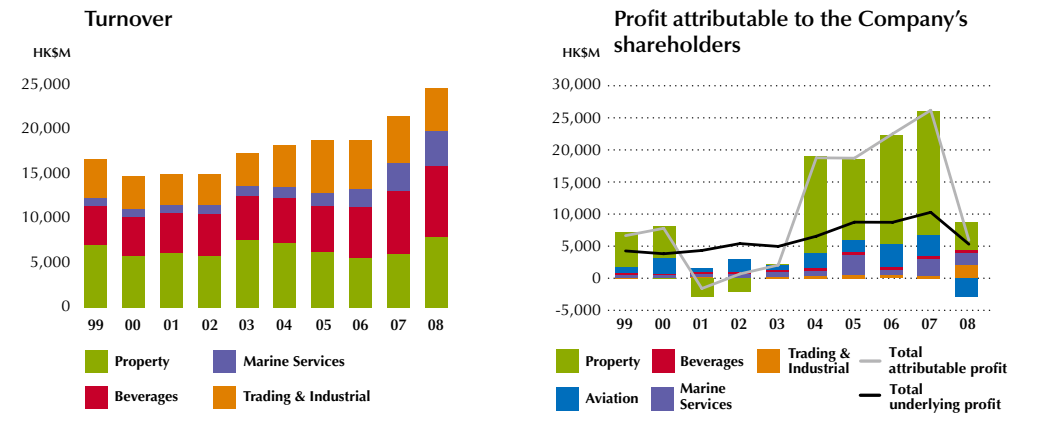
Excluding the effect of the disposals of the Group's interests in Swire SITA in 2008 and Shekou Container Terminals in 2007, the other divisions' total net assets employed increased by HK\$1,705 million to HK\$13,378 million at the year-end. Profits attributable to the Company's shareholders in 2008 were HK\$2,731 million, giving a return on average equity attributable to the Company's shareholders of 22.9%.

The Group overall achieved a return on average equity attributable to the Company's shareholders of 4.4% in 2008 against 21.0% in 2007. On an underlying basis, the Group's return on average equity was 3.5% against 7.3% in 2007.

At a glance

	2007 HK\$M	2008 HK\$M
PROFIT AND LOSS ACCOUNT		
Turnover		
Property	6,060	7,903
Beverages	7,066	8,001
Marine Services	3,104	4,007
Trading & Industrial	5,306	4,746
Head Office	17	13
	21,553	24,670
Profit attributable to the Company's shareholders		
Property	19,225	4,293
Aviation	3,330	(2,867)
Beverages	507	585
Marine Services	2,550	1,767
Trading & Industrial	399	2,100
Head Office	249	30
Less:	26,260	5,908
Interim and Final dividends for the year	4,898	3,591
Share repurchases	1,296	649
Retained profit less share repurchases	20,066	1,668
BALANCE SHEET		
Net assets employed		
Property – cost and working capital	39,023	49,253
– valuation surplus	85,173	85,378
Aviation	22,183	17,662
Beverages	3,403	4,040
Marine Services	6,496	7,430
Trading & Industrial	1,774	3,629
Head Office	1,118	(112)
	159,170	167,280
Financed by		
Equity attributable to the Company's shareholders	135,517	135,387
Minority interests	1,161	1,447
Net debt	22,492	30,446
	159,170	167,280
	HK\$	HK\$
'A' shares		
Earnings/(loss) per share	17.26	3.90
Dividends per share	3.23	2.38
Equity attributable to shareholders per share	89.38	89.98
'B' shares		
Earnings/(loss) per share	3.45	0.78
Dividends per share	0.65	0.48
Equity attributable to shareholders per share	17.88	18.00
Ratios		
Return on average equity attributable to the Company's shareholders	21.01%	4.36%
Return on average equity attributable to the Company's shareholders (historic cost)	15.42%	7.68%
Gearing ratio	16.46%	22.25%
Interest cover – times	53.91	10.04
Dividend cover – times	5.36	1.65
Underlying		
Profit (HK\$M)	10,283	5,293
Equity attributable to Company's shareholders (HK\$M)	153,341	152,303
Return on average equity attributable to Company's shareholders	7.30%	3.46%
Earnings per 'A' share (HK\$)	6.76	3.50
Earnings per 'B' share (HK\$)	1.35	0.70
Equity attributable to 'A' shareholders per share (HK\$)	101.13	101.22
Equity attributable to 'B' shareholders per share (HK\$)	20.23	20.24
Gearing ratio	14.56%	19.79%
Interest cover – times	14.73	9.86
Dividend cover – times	2.10	1.47

Ten-year Financial Summary



* Returns on average equity for the Trading & Industrial Division are not shown on the graph as restructuring within the division has rendered the comparison of returns between years unmeaningful.

	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
PROFIT AND LOSS ACCOUNT										
Turnover										
Property	7,024	5,787	6,163	5,798	7,539	7,306	6,197	5,595	6,060	7,903
Beverages	4,450	4,439	4,513	4,787	4,955	4,978	5,187	5,750	7,066	8,001
Marine Services	809	843	893	991	1,216	1,297	1,492	1,997	3,104	4,007
Trading & Industrial	4,420	3,816	3,453	3,442	3,637	4,704	6,036	5,554	5,306	4,746
Head Office	21	21	29	28	40	39	25	215	17	13
	16,724	14,906	15,051	15,046	17,387	18,324	18,937	19,111	21,553	24,670
Profit attributable to the Company's shareholders										
Property	5,341	4,881	(2,956)	(2,129)	68	15,097	12,684	16,983	19,225	4,293
Aviation	1,040	2,510	520	2,128	843	2,393	1,928	3,605	3,330	(2,867)
Beverages	164	153	235	276	363	385	474	480	507	585
Marine Services	467	505	617	658	646	741	3,035	834	2,550	1,767
Trading & Industrial	92	(84)	130	4	228	388	520	444	399	2,100
Head Office	(475)	(187)	(193)	(300)	(132)	(186)	116	220	249	30
Less:	6,629	7,778	(1,647)	637	2,016	18,818	18,757	22,566	26,260	5,908
Interim and Final dividends for the year	1,707	1,738	1,738	1,996	2,052	3,062	3,154	4,321	4,898	3,591
Share repurchases	–	–	–	540	60	–	–	–	1,296	649
Retained profit less share repurchases	4,922	6,040	(3,385)	(1,899)	(96)	15,756	15,603	18,245	20,066	1,668
BALANCE SHEET										
Net assets employed										
Property – cost and working capital	29,346	27,272	33,932	33,380	32,114	30,041	29,609	30,558	39,023	49,253
– valuation surplus	30,110	38,141	28,510	23,011	20,217	36,004	48,483	65,694	85,173	85,378
Aviation	14,323	16,740	15,898	16,565	16,260	17,304	18,431	19,874	22,183	17,662
Beverages	3,838	3,509	3,369	3,479	3,111	2,936	2,930	3,201	3,403	4,040
Marine Services	2,962	2,752	2,899	3,814	4,335	4,772	5,061	6,026	6,496	7,430
Trading & Industrial	1,994	1,849	1,767	1,379	1,042	1,363	1,540	1,715	1,774	3,629
Head Office	637	87	102	27	283	410	166	(114)	1,118	(112)
	83,210	90,350	86,477	81,655	77,362	92,830	106,220	126,954	159,170	167,280
Financed by										
Equity attributable to the Company's shareholders	62,473	68,923	65,507	62,983	62,440	78,625	94,843	114,414	135,517	135,387
Minority interests	3,972	4,691	4,291	4,537	4,806	5,943	5,929	610	1,161	1,447
Net debt	16,765	16,736	16,679	14,135	10,116	8,262	5,448	11,930	22,492	30,446
	83,210	90,350	86,477	81,655	77,362	92,830	106,220	126,954	159,170	167,280
	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$	HK\$
'A' shares										
Earnings/(loss) per share	4.27	5.02	(1.06)	0.41	1.32	12.29	12.25	14.74	17.26	3.90
Dividends per share	1.10	1.12	1.12	1.30	1.34	2.00	2.06	2.83	3.23	2.38
Equity attributable to shareholders per share	40.25	44.41	42.20	41.09	40.79	51.35	61.95	74.73	89.38	89.98
'B' shares										
Earnings/(loss) per share	0.85	1.00	(0.21)	0.08	0.26	2.46	2.45	2.95	3.45	0.78
Dividends per share	0.22	0.22	0.22	0.26	0.27	0.40	0.41	0.57	0.65	0.48
Equity attributable to shareholders per share	8.05	8.88	8.44	8.22	8.16	10.27	12.39	14.95	17.88	18.00
Ratios										
Return on average equity attributable to the Company's shareholders	11.13%	11.84%	-2.45%	0.99%	3.21%	26.68%	21.63%	21.57%	21.01%	4.36%
Return on average equity attributable to the Company's shareholders (historic cost)	11.15%	9.53%	10.17%	11.76%	10.30%	12.80%	15.46%	14.24%	15.42%	7.68%
Gearing ratio	25.23%	22.73%	23.90%	20.93%	15.04%	9.77%	5.41%	10.37%	16.46%	22.25%
Interest cover – times	14.87	22.28	(4.57)	(1.96)	4.45	21.72	34.09	46.65	53.91	10.04
Dividend cover – times	3.88	4.48	(0.95)	0.32	0.98	6.15	5.95	5.22	5.36	1.65
Underlying										
Profit (HK\$M)	4,235	3,792	4,307	5,389	4,942	6,538	8,742	8,716	10,283	5,293
Equity attributable to Company's shareholders (HK\$M)	69,541	76,985	72,540	68,957	68,107	87,020	105,300	128,496	153,341	152,303
Return on average equity attributable to Company's shareholders	6.37%	5.18%	5.76%	7.62%	7.21%	8.43%	9.09%	7.46%	7.30%	3.46%
Earnings per 'A' share (HK\$)	2.73	2.45	2.77	3.49	3.23	4.27	5.71	5.69	6.76	3.50
Earnings per 'B' share (HK\$)	0.55	0.49	0.55	0.70	0.65	0.85	1.14	1.14	1.35	0.70
Equity attributable to 'A' shareholders per share (HK\$)	44.81	49.60	46.74	44.98	44.50	56.84	68.77	83.93	101.13	101.22
Equity attributable to 'B' shareholders per share (HK\$)	8.96	9.92	9.35	9.00	8.90	11.37	13.75	16.79	20.23	20.24
Gearing ratio	22.78%	20.43%	21.66%	19.18%	13.82%	8.84%	4.87%	9.24%	14.56%	19.79%
Interest cover – times	7.62	8.23	8.30	7.63	9.47	5.34	12.82	13.44	14.73	9.86
Dividend cover – times	2.48	2.18	2.48	2.70	2.41	2.14	2.77	2.02	2.10	1.47

Notes:

- The information for all years is shown in accordance with the Group's current accounting policies and disclosure practices. Consequently years prior to 2007 may be different from those originally presented.
- The equity attributable to the Company's shareholders and the return by division for 2006-2008 are shown in the Financial Review – Investment Appraisal and Performance Review on page 53.
- Underlying profit and equity are discussed on page 47.
- Refer to Glossary on page 180 for definitions and ratios.

Chairman's Statement

The profit attributable to shareholders for 2008 was HK\$5,908 million, compared to HK\$26,260 million in 2007. Underlying profit attributable to shareholders, which primarily adjusts for net property revaluation gains and the associated deferred tax, fell by HK\$4,990 million to HK\$5,293 million. The reduction in underlying profit principally reflects a very difficult year for the Aviation Division, which was faced with significant fluctuations in the oil price and, in the latter part of the year, significant weakness in passenger and cargo demand. This over-shadowed strong performances from the Group's property, marine services and beverages interests. The underlying profit for 2008 included a gain of HK\$1,721 million on disposal of the Group's interest in the Swire SITA waste management business, for further information on which see note 3(d) on page 105. The underlying profit for 2007 included a gain of HK\$1,078 million on the disposal of the Group's interest in Shekou Container Terminals.

Apart from aviation, 2008 was largely a year of sound organic growth in the face of increasingly difficult market conditions. Swire Properties and Swire Pacific Offshore both reported significant increases in recurring profit, principally reflecting continued strong demand for office space and offshore support services. Swire Beverages benefited from strong volume growth in markets outside the USA.

The Group continued to invest in its core businesses in 2008. Cash used in investing activities totalled HK\$11,083 million. Committed investments at the year-end were HK\$17,092 million.

The resilience of the Group's non-aviation interests in 2008 does not mean that the Group will be immune in 2009 from the adverse effects of the prevailing economic conditions. While the Group will continue to invest in accordance with its existing long-term commitments, it will, given the considerable current fragility in the world economy, remain cautious in its approach to new investment plans.

Dividends

The Directors have recommended Final dividends of HK¢148.0 per 'A' share and HK¢29.6 per 'B' share, which, together with the Interim dividends paid in October 2008, amount to full year dividends of HK¢238.0 per 'A' share and HK¢47.6 per 'B' share, compared to full year dividends of HK¢323.0 per 'A' share and HK¢64.6 per 'B' share in respect of 2007. The reduction in dividends reflects the reduction in 2008 underlying profit attributable to shareholders and the uncertain outlook for 2009.

Key Developments

In February 2008 Swire Properties acquired a 50% joint-venture interest in a retail-led mixed-use development of 1.9 million square feet near Jiang Tai in the Chaoyang District of Beijing.

In March 2008 Swire Properties completed the construction of the 70-storey One Island East office building in Quarry Bay, Hong Kong, adding approximately 1.5 million square feet to Swire Properties' Island East investment property portfolio. The building is 94% leased and 76% physically occupied.

July 2008 saw the opening of the south site of The Village at Sanlitun retail and hotel development in Beijing, followed in August by that of The Opposite House hotel. This was the first of Swire Properties' Mainland China projects to open. It will be followed by others in Beijing, Shanghai and Guangzhou over the next four years.

In September 2008 the Group agreed to transfer its 50% interest in the Swire SITA waste management business to Suez Environnement, its joint-venture partner, for a consideration of HK\$1,888 million.

Operating Performance

Underlying profit in the Property Division rose by 11%, reflecting continued strong demand for, and positive rental reversions in, the Group's office portfolio in Hong Kong, and assisted by profits from closings at the Asia residential development in Miami. Gross rental income rose by 23%. On an attributable basis, the Property Division's net investment property valuation gain (before deferred tax) in 2008 of HK\$241 million compared to a net gain in 2007 of HK\$19,563 million. Values rose in the first half of 2008, but fell towards the end of the year, reflecting a deterioration in property market fundamentals.

The Cathay Pacific group contributed a loss for 2008 of HK\$3,552 million, reflecting high fuel costs in the first half of the year, and unrealised mark-to-market fuel hedging losses, weaker passenger and cargo demand and an attributable loss from its associated company, Air China, in the second-half. The fuel hedging losses were recognised in 2008 but relate to fuel hedging contracts covering the period 2009 to 2011. Cathay Pacific's results also reflect payment of a fine of US\$60 million (equivalent to HK\$468 million) under a plea agreement with the United States Department of Justice relating to its air cargo business in the USA.

Despite weakness in the aviation industry, demand for the HAECO group's services continued to be strong in 2008. The heavy airframe maintenance facilities in both Hong Kong and Xiamen were operating at near capacity for most of the year, with the profit attributable to Swire Pacific increasing by 8% to HK\$505 million.

In the Beverages Division, solid volume growth in Hong Kong, Mainland China and Taiwan more than compensated

for weakness in the US market and margin pressure from high raw material costs in all markets, resulting in a 15% increase in attributable profit.

The Marine Services Division recorded a 20% rise in attributable profit, excluding the effect of the HK\$1,078 million profit on sale of Shekou Container Terminals in 2007. Continued strong offshore oil exploration activity throughout 2008 helped Swire Pacific Offshore to another record year, with very high charter rates and strong vessel utilisation.

Attributable profit from the Trading & Industrial Division fell by 5% in 2008, excluding the effect of the gain on disposal of the Group's interest in Swire SITA. There was a small reduction in attributable profit at Swire Resources. The car business in Taiwan was adversely affected by weak consumer demand. Improved results were recorded by the beverage cans and paint manufacturing joint ventures.

Finance

Net debt increased by HK\$7,954 million during the year to HK\$30,446 million, primarily as a result of investments in property projects and new vessels. HK\$11,675 million of financing was arranged, including HK\$4,569 million during the second-half. Gearing rose during the year by 5.8 percentage points from 16.5% to 22.3%. Cash and undrawn committed facilities totalled HK\$10,595 million at 31st December 2008, compared with HK\$12,484 million at 31st December 2007.

Corporate Governance

Swire Pacific's governance principles and the processes adopted to safeguard the interests of shareholders are set out on pages 63 to 74.

Sustainable Development

Swire Pacific recognises the importance of acting responsibly towards its stakeholders (including employees and the communities in which it is involved) and towards the natural environment in which it operates. In July 2008, the Group issued its first Sustainable Development Report, detailing the progress made in implementing a Group-wide Sustainable Development Policy.

Prospects

The property market in Hong Kong is expected to weaken during 2009. However, the Group's completed office portfolio is virtually fully let, with approximately 12% of tenancies by floor area due to expire during 2009. Overall rental income will benefit from a full year's contribution from the One Island East office building.

The Group's completed retail portfolio is virtually fully let, with approximately 14% of tenancies by floor area due to expire during 2009. However, the trading environment for the Group's retail developments in both Hong Kong and Mainland China is likely to remain subdued in 2009.

The north site of The Village at Sanlitun is expected to open progressively during 2009, starting in April.

Construction of the superstructure is underway at the TaiKoo Hui mixed-use development in central Guangzhou, with a phased opening expected to commence in late 2010.

Work has commenced at the Jiang Tai development in the Chaoyang district of Beijing. This development, which will consist of office and retail space, as well as a hotel to be managed by Swire Hotels, is scheduled for phased opening in 2011.

Site clearance and resettlement works continue at the Dazhongli mixed-use development in the Jing An district of Shanghai, with opening expected in 2013.

In Hong Kong, Swire Properties expects to open two new hotels in the next twelve months, both of which will be managed by Swire Hotels. The 117-room luxury hotel, The Upper House, at Pacific Place, is due to open at the end of 2009, while the 345-room EAST hotel at Cityplaza is due to open in early 2010.

On completion of current developments, Swire Properties will have a portfolio of 15.5 million square feet in Hong Kong and 7.9 million square feet in Mainland China, as well as property interests in the USA and the UK.

The Cathay Pacific group expects an extremely challenging year in 2009. Passenger and cargo demand are expected to remain weak and, if fuel prices remain at their present levels, further losses on fuel hedging contracts will be incurred (although they will not be at the levels incurred in 2008 and the actual cost of fuel will be substantially

lower than in 2008). Up to the end of February, unrealised mark-to-market losses on fuel hedging of HK\$1.9 billion (of which the Group's share would be HK\$0.8 billion) have been incurred in 2009, compared with HK\$7.6 billion for the whole of 2008 (of which the Group's share was HK\$3.0 billion). The 2009 losses principally reflect reductions in the forward prices payable for fuel during the periods in which the relevant fuel hedging contracts will mature. Continued weakness in passenger yields and in air cargo demand will require careful management of resources. Measures being taken include the redeployment of capacity to routes where demand remains comparatively firm, the parking or disposal of a number of aircraft, and the deferral of completion of the new air cargo terminal at Hong Kong International Airport.

The HAECO group will not be immune from the sharp deterioration in aviation market conditions and a slowdown in demand for its maintenance, repair and overhaul business in 2009 is expected. The group will open its third hangar in Hong Kong in mid-2009.

The Beverages Division is expecting adverse conditions in the US market. It is hoped that this will be offset in part by continued volume growth and margin improvement in Mainland China.

After experiencing record high demand and charter rates in 2008, Swire Pacific Offshore expects a more challenging 2009 as additional fleet capacity enters a less buoyant offshore market.

The Trading & Industrial Division expects difficult trading conditions for Swire Resources and continued weakness in the Taiwan car market.

I believe that, notwithstanding the uncertain outlook for 2009, the Group's strategy of continued, measured investment for the long-term is the right course. This strategy positions the Group to withstand the effects of difficult economic times while enabling it to benefit from improved economic conditions in the future.

I am grateful for the commitment of our employees to the continued success of the Group and I take this opportunity to thank them.

Christopher Pratt

Chairman

Hong Kong, 12th March 2009

Financial Highlights

	2008 HK\$M	2007 HK\$M	Change %
Turnover	24,670	21,553	+14.5
Operating profit	9,153	26,579	-65.6
Profit attributable to the Company's shareholders	5,908	26,260	-77.5
Cash generated from operations	7,580	5,880	+28.9
Net cash outflow before financing	(2,303)	(4,924)	-53.2
Total equity (including minority interests)	136,834	136,678	+0.1
Net debt	30,446	22,492	+35.4
	HK\$	HK\$	
Earnings per share*			
'A' shares	3.90	17.26	
'B' shares	0.78	3.45	-77.4
Dividends per share			
'A' shares	2.380	3.230	
'B' shares	0.476	0.646	-26.3
Equity attributable to the Company's shareholders per share			
'A' shares	89.98	89.38	
'B' shares	18.00	17.88	+0.7

Underlying Profit and Equity**

	2008 HK\$M	2007 HK\$M	Change %
Underlying profit attributable to the Company's shareholders	5,293	10,283	-48.5
	HK\$	HK\$	
Underlying earnings per share*			
'A' shares	3.50	6.76	
'B' shares	0.70	1.35	-48.2
Underlying equity attributable to the Company's shareholders per share			
'A' shares	101.22	101.13	
'B' shares	20.24	20.23	+0.1

Notes:

* Refer to note 13 to the accounts for the weighted average number of shares.

** A reconciliation between the reported and underlying profit and equity attributable to the Company's shareholders is provided on page 47.

A modern interior space featuring a white leather sofa in the foreground. Large windows in the background offer a view of a lush green landscape with trees. A semi-transparent green grid pattern is overlaid on the image, with the title text centered within it.

Managing a Dynamic Portfolio



Swire Properties is undertaking significant commercial developments in Beijing, Shanghai and Guangzhou. The Opposite House at The Village at Sanlitun, which opened in August, is the first of a number of boutique hotels incorporated within these developments.

Property Division

Swire Properties' property investment portfolio in Hong Kong comprises office and retail premises in prime locations, as well as hotel interests, serviced apartments and other luxury residential accommodation. The completed portfolio in Hong Kong totals 14.7 million square feet of gross floor area. In Mainland China, Swire Properties has interests in major commercial mixed-use developments in Beijing, Shanghai and Guangzhou, which will total 7.9 million square feet on completion. In the United States, Swire Properties owns a 75% interest in the Mandarin Oriental Hotel in Miami, Florida. In the United Kingdom, Swire Properties owns four boutique hotels.

Swire Properties' trading portfolio comprises land and apartments under development in Hong Kong and Florida, as well as the remaining units for sale at the Island Lodge and Asia residential developments in Hong Kong and Miami respectively, both of which were completed during 2008.

Particulars of the Group's key properties are set out on pages 167 to 177.

	2008 HK\$M	2007 HK\$M
Turnover		
Gross rental income derived from		
Offices	3,632	2,700
Retail	2,910	2,616
Residential	291	261
Other revenue*	74	86
Property investment	6,907	5,663
Property trading	889	10
Sale of investment properties	–	283
Hotels	156	148
Total turnover	7,952	6,104
Operating profit derived from		
Property investment	5,012	4,040
Valuation gains on investment properties	184	19,377
Property trading	198	(33)
Sale of investment properties	–	90
Hotels	(86)	6
Total operating profit	5,308	23,480
Share of post-tax profits from jointly controlled and associated companies	183	333
Attributable profit	4,293	19,225

* Other revenue is mainly estate management fees.

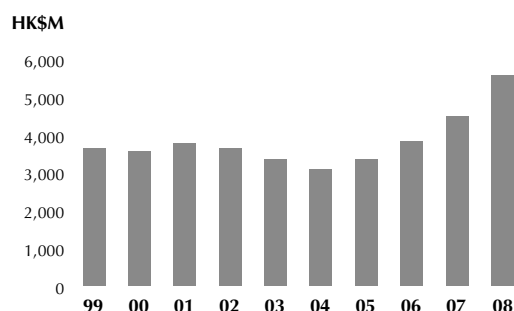
Additional information is provided below to reconcile reported and underlying profit attributable to the Company's shareholders. These reconciling items principally adjust for the impact of HKAS 40 and HKAS-Int 21 on investment properties and deferred taxation respectively.

	Note	2008 HK\$M	2007 HK\$M
Reported attributable profit		4,293	19,225
Adjustments re investment property:			
Revaluation of investment property	(a)	(241)	(19,563)
Deferred tax on revaluation movements	(b)	320	3,531
Deferred tax written back on change in tax rate		(947)	–
Realised profit on sale of investment properties	(c)	–	100
Depreciation of investment properties occupied by the Group	(d)	13	9
Minority interests' share of revaluation movements less deferred tax		237	–
Underlying attributable profit		3,675	3,302

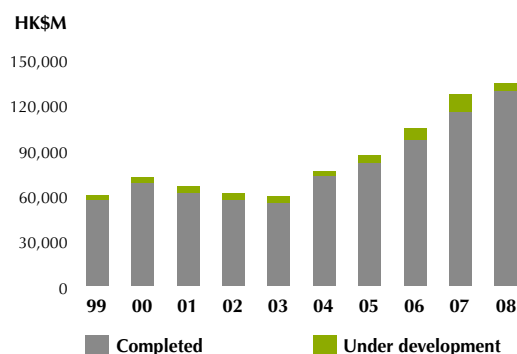
Notes:

- Represents the Group's net revaluation gains plus the Group's share of net revaluation gains of jointly controlled and associated companies.
- Represents deferred tax on the Group's net revaluation gains plus the Group's share of deferred tax on the net revaluation gains of jointly controlled and associated companies.
- Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the profit and loss account. On sale, the revaluation gains were transferred from the revaluation reserve to the profit and loss account.
- Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

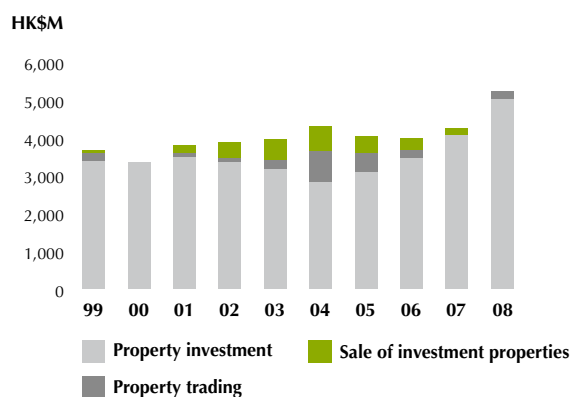
Net rental income



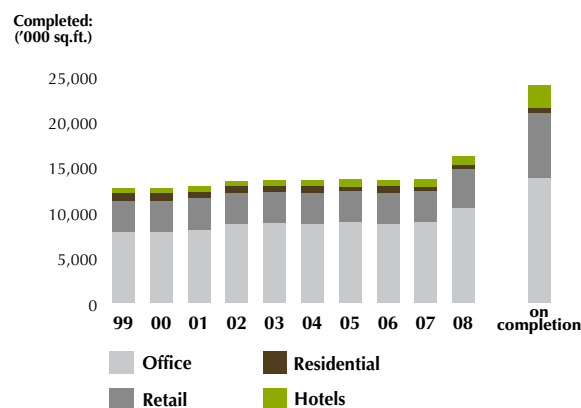
Valuation of investment properties



Underlying operating profit



Floor area of property portfolio



2008 OVERVIEW

- Attributable profit from the Property Division for the year totalled HK\$4,293 million compared with HK\$19,225 million in 2007. These figures include net property valuation gains (before deferred tax) of HK\$241 million and HK\$19,563 million in 2008 and 2007 respectively. The attributable profit in 2008 also includes a deferred tax credit of HK\$947 million resulting from the reduction in the Hong Kong profits tax rate from 17.5% to 16.5% in respect of valuation gains brought forward.
- Gross rental income from the investment portfolio amounted to HK\$6,833 million in 2008, compared with HK\$5,577 million in 2007, reflecting additional space and higher rents across the portfolio.
- A trading profit of HK\$198 million was recognised in 2008, principally on closings of the Asia residential development in Miami, Florida.

KEY CHANGES TO THE PROPERTY INVESTMENT PORTFOLIO DURING THE YEAR

Property investment portfolio – gross floor area ('000 square feet)

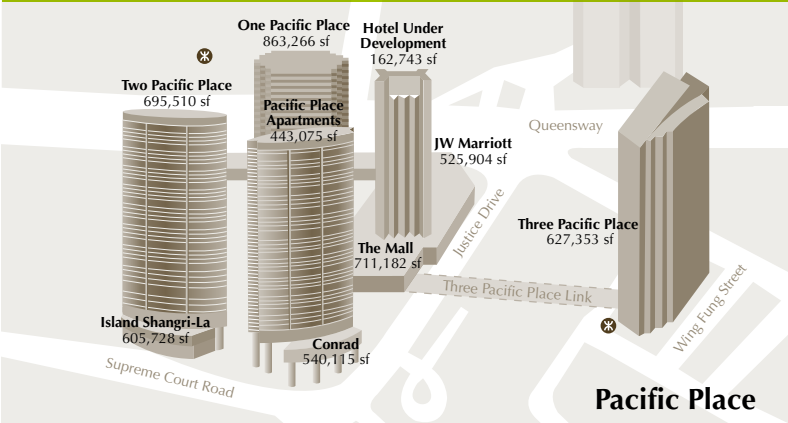
Location	At 31st December 2008					At 31st December 2007
	Office	Retail	Hotels	Residential	Total	Total
Completed						
Pacific Place	2,186	711	335	443	3,675	3,675
TaiKoo Place	5,992*	–	–	–	5,992	4,455
Cityplaza	1,633	1,105	–	–	2,738	2,738
Festival Walk	229	980	–	–	1,209	1,209
Others	368	603	47	38	1,056	1,056
– Hong Kong	10,408	3,399	382	481	14,670	13,133
– Mainland China	–	858	169	–	1,027	–
– United States	–	–	259	–	259	259
– United Kingdom	–	–	184	–	184	184
Total completed	10,408	4,257	994	481	16,140	13,576
Under and pending development						
– Hong Kong	446	–	362	68	876	2,408
– Mainland China	2,920	2,833	1,167	–	6,920	6,926
Total	13,774	7,090	2,523	549	23,936	22,910

Gross floor area represents 100% of space owned by Group companies and the Group's attributable share of space held through jointly controlled and associated companies. A schedule of the principal properties of the Group and its jointly controlled and associated companies is given on pages 167 to 177.

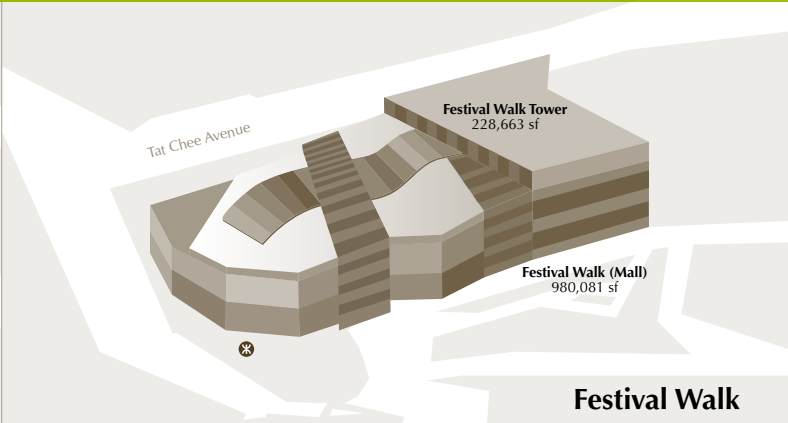
* Includes 1.8 million square feet of techno-centres.

- In February 2008, Swire Properties announced that it had entered into a 50:50 joint venture with Sino-Ocean Land Holdings Limited to develop a retail-led mixed-use project near Jiang Tai, in the Chaoyang district of Beijing. The site will consist of 1.9 million square feet of retail, office and hotel accommodation. Work has recently commenced on the development and it is scheduled to open in 2011.
- Swire Properties is currently undertaking a HK\$1.5 billion Pacific Place design improvement project, which involves considerable refinement to both the interior and exterior of the retail floors. The mall will remain open for business throughout the project period.
- Construction of the One Island East office building at TaiKoo Place was completed in March and has added approximately 1.5 million square feet to Swire Properties' Island East investment property portfolio. The building is 94% leased and 76% physically occupied.

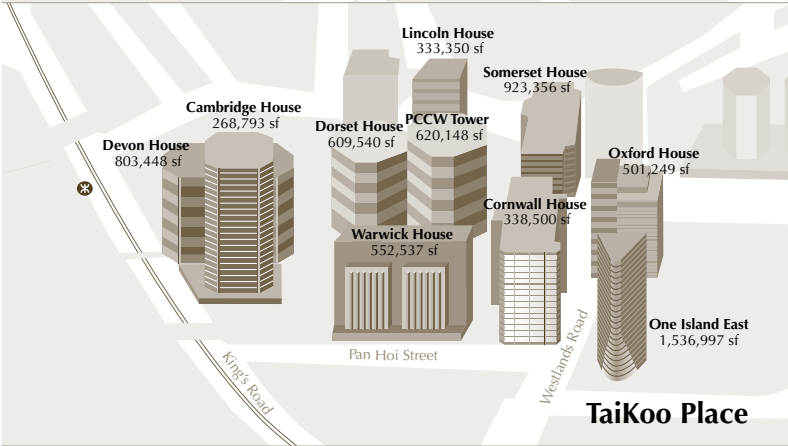
HONG KONG



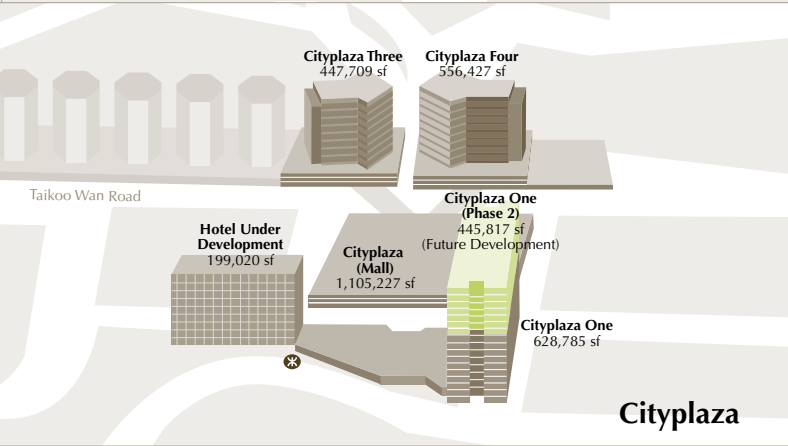
Pacific Place



Festival Walk

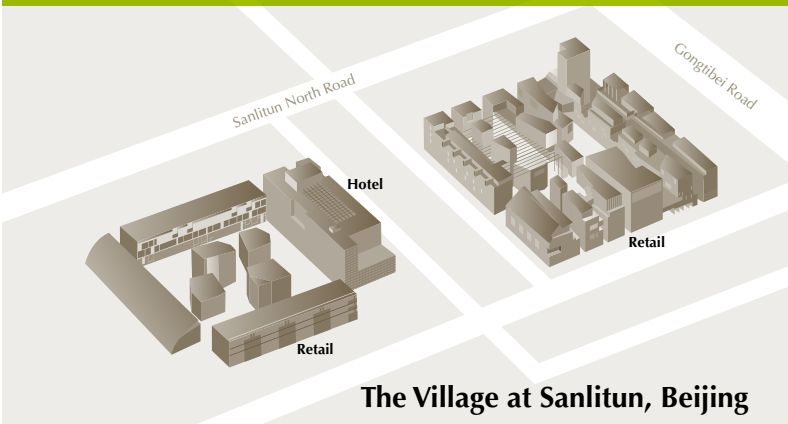


TaiKoo Place

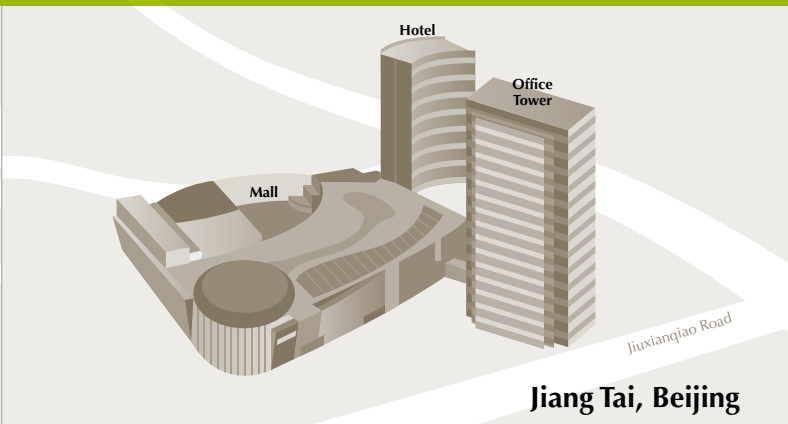


Cityplaza

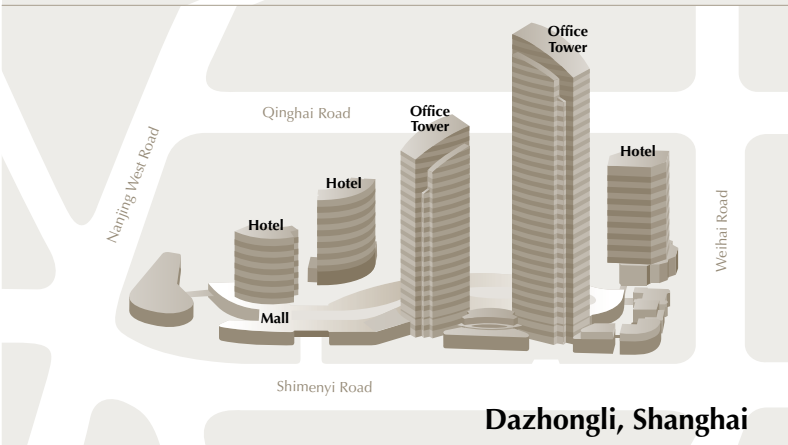
MAINLAND CHINA



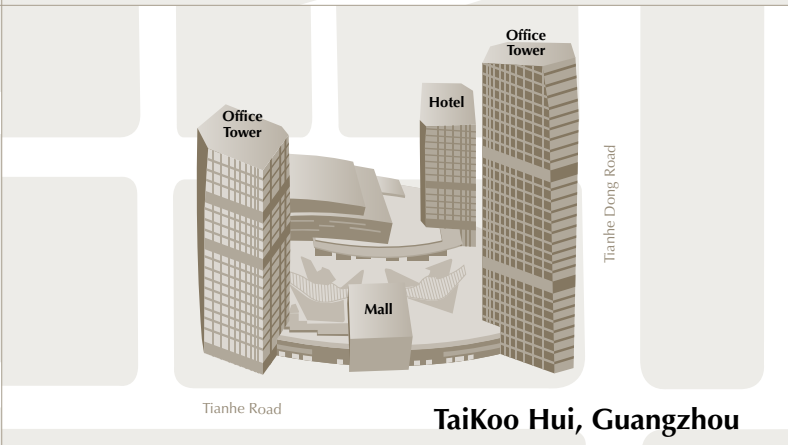
The Village at Sanlitun, Beijing



Jiang Tai, Beijing



Dazhongli, Shanghai



TaiKoo Hui, Guangzhou

- In Beijing, The Village South at Sanlitun retail development opened in July. The site consists of 767,000 square feet of gross retail space and 451 car parking spaces.
- The Opposite House, a 99-room hotel and the first hotel to be managed in Asia by Swire Hotels, opened in Beijing in August.

Completed Properties

OFFICES

- Swire Properties' completed office portfolio comprises over 10.4 million square feet of space in Hong Kong, including 2.2 million square feet at Pacific Place in Admiralty, 1.6 million square feet at Cityplaza, 6.0 million square feet at TaiKoo Place in Island East and 0.2 million square feet at Festival Walk in central Kowloon.

2008 Results

- The portfolio increased by 1.5 million square feet with the completion of One Island East in March 2008.
- Gross rental income for the year increased by 35% over 2007, to HK\$3,632 million.
- Office rental reversions during the year were positive.
- Office vacancy levels at year-end amounted to less than 2%, primarily representing the 3.5 uncommitted floors at One Island East.
- The Group has a broad mix of office tenants operating in different sectors. The top ten office tenants occupy approximately 16% of total space. Approximately one-third of office space is occupied by companies operating in the financial services sector.
- Demand in the office market remained robust for much of 2008, but softened in the fourth quarter as companies took stock of the impact on their plans of global economic conditions.

2009 Outlook

- The Group's office portfolio is virtually fully let. The Group has no new space coming to market during 2009.
- Tenancies accounting for approximately 12% and 17% (by floor area) of the Group's office inventory are due to expire in 2009 and 2010 respectively.
- Demand for office space is likely to be weak during 2009, which will have an adverse impact on rental reversions. Although there is a notable amount of recently completed vacant space in Kowloon East, the scale of new Grade A office supply in 2009 is expected to be relatively modest.

RETAIL

Hong Kong

- Swire Properties manages four retail malls in Hong Kong: The Mall at Pacific Place comprising 0.7 million square feet; Cityplaza in Island East comprising 1.1 million square feet; Festival Walk in central Kowloon comprising 1.0 million square feet; and the Citygate retail centre at Tung Chung. The malls are wholly-owned by Swire Properties, except for Citygate, in which Swire Properties has a 20% interest.

2008 Results

- Gross rental income from the retail portfolio was HK\$2,729 million in 2008, an increase of 4% over 2007.
- Retail rental reversions during the year were positive.
- Occupancy of the Group's retail malls was close to 100%.
- For the whole year, retail sales in the Group's retail malls were 8% higher in 2008 than in 2007. However, in the fourth quarter of 2008 sales were 3% lower than in the same period in 2007.
- The top ten retail tenants occupy approximately 20% of total space in aggregate.

2009 Outlook

- In the face of difficult economic conditions, retail sales are likely to remain subdued in 2009.
- Tenancies accounting for approximately 14% and 12% (by floor area) of the Group's wholly-owned retail space are due to expire in 2009 and 2010 respectively.

Mainland China

- Swire Properties currently owns and manages two retail malls in Mainland China.
- The Village South at Sanlitun, Beijing which opened in July 2008, consists of 767,000 square feet of gross retail space and 451 car parking spaces. Major retail tenants include the world's largest Adidas store and Apple's first store in Mainland China. Gateway China Fund I, a fund managed by Gaw Capital Partners, owns 20% of this development.
- The retail podium of the Beaumonde residential development at 75 Tianhe Dong Road, Guangzhou, adjacent to TaiKoo Hui, opened in November 2008 and consists of 91,000 square feet of space.

2008 Results

- Gross rental income since opening of the two retail malls was HK\$181 million.
- The Village South at Sanlitun is 90% leased. Approximately 71% of the shops are open. Trading during the first few months of operation has been satisfactory.
- Leasing for the retail podium at 75 Tianhe Dong Road, Guangzhou is in progress.

2009 Outlook

- The Village North at Sanlitun is expected to open progressively during 2009, starting in April. Gateway China Fund I has a 20% stake in this development.
- The Village North is approximately 46% leased, with tenants including Fendi, Miu Miu, I.T, and Montblanc.

- The trading environment is likely to be difficult during 2009 in the face of unfavourable economic conditions.

HOTELS

Hong Kong

- 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.
- Swire Properties is developing two hotels in Hong Kong, both of which are expected to open in the next 12 months and will be managed by Swire Hotels. The 117-room luxury hotel The Upper House, at Pacific Place, is due to open at the end of 2009, while the 345-room EAST at Cityplaza is due to open in early 2010.

2008 Results and 2009 Outlook

- The 2008 results of the hotels at Pacific Place and at Citygate were satisfactory, though a reduction in business and leisure traffic from the middle of 2008 as a consequence of the prevailing economic climate had some impact on results, and the market is expected to be weak in 2009.

Mainland China

- The Opposite House, the first Swire Properties wholly-owned and managed luxury hotel, opened at The Village at Sanlitun, Beijing, in August. The hotel has 99 rooms.

2008 Results and 2009 Outlook

- The Opposite House is gaining excellent press and travel trade coverage but has experienced low occupancy in its first few months of operation. This is attributable to a large supply of new luxury hotel rooms in Beijing having come on stream over the Olympic Games period, and to a fall in demand from business travellers towards the end of the year. These difficult market conditions are expected to persist in 2009.

USA

- Swire Properties has a 75% interest in the 329-room Mandarin Oriental Hotel in Miami.

2008 Results and 2009 Outlook

- Results for 2008 were worse than in 2007 as the poor economic climate adversely affected demand. The market is expected to remain difficult during 2009.

United Kingdom

- The Group owns 4 boutique hotels in Bristol, Exeter, Cheltenham and Brighton.
- The hotels in Exeter and Cheltenham closed in late 2008 for extensive refurbishment and are expected to re-open in 2010. A major renovation of the Bristol hotel is currently being planned.

2008 Results and 2009 Outlook

- Results at the UK hotels were poor, principally reflecting declining occupancy in the second half of the year. The market is expected to remain difficult in 2009.

RESIDENTIAL

- The completed residential portfolio comprises the Pacific Place Apartments (formerly known as Parkside) and a small number of houses.

2008 Results and 2009 Outlook

- Gross rental income for 2008 was HK\$291 million, an increase of 11% over 2007.
- Occupancy of the residential portfolio is currently approximately 80%.
- Demand for the serviced apartments remains reasonable.

Investment Properties and Hotels Under Development

Hong Kong

Pacific Place design improvement project

- The project is expected to be completed in approximately three years and to cost HK\$1.5 billion.

- Works are progressing well in accordance with the programme.

Tai Sang Commercial Building

- A number of refurbishment and redevelopment options are being considered for this building in Wanchai, which was acquired in November 2007.

53 Stubbs Road

- Site formation and foundation works are in progress for a 12-storey residential building of approximately 68,000 square feet, which is intended to be held for investment purposes.
- Completion of this development was originally scheduled for 2010, but the timing of construction will be reviewed in the light of prevailing market conditions.

EAST

- Construction work is on schedule at EAST, a 345-room hotel on the site formerly occupied by Mount Parker House, with opening scheduled in early 2010.

The Upper House

- The former serviced apartments at The Atrium, Pacific Place, are currently being converted to a luxury hotel of 117 rooms, with opening scheduled at the end of 2009.

Mainland China

The Village at Sanlitun

- The Village North at Sanlitun retail development, which comprises 519,000 square feet of gross space, is expected to open progressively during 2009, starting in April.

TaiKoo Hui

- Construction of the superstructure is underway at the TaiKoo Hui mixed-use development in central Guangzhou, with a phased opening expected to commence in late 2010. The development will comprise prime shopping space, office and hotel towers and a cultural centre, with total commercial space of approximately 3.7 million square feet.

Dazhongli

- Site clearance and resettlement works continue at the Dazhongli Project in the Jing An district of Shanghai. Phase 1 of the resettlement works has been completed, whilst Phase 2 is expected to be completed by the end of 2009. Construction work is expected to start shortly. Swire Properties and HKR International each hold a 50% interest in this development, which will consist of a major retail centre, offices and hotels, with total commercial space of approximately 3.5 million square feet. Opening is expected in 2013.

Jiang Tai

- Work has commenced at the Jiang Tai mixed use development in the Chaoyang district of Beijing. The site will consist of 1.9 million square feet of office, retail and hotel space and is scheduled for phased opening in 2011. Swire Hotels has been appointed to manage the hotel at this development.

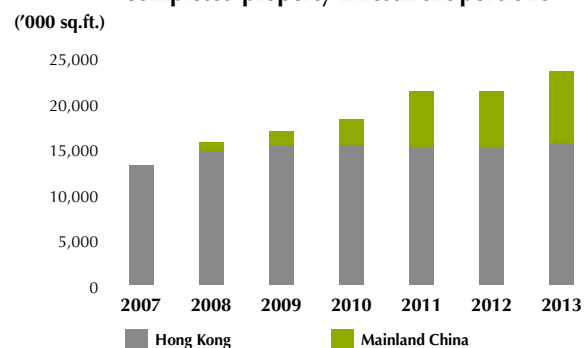
Property Investment Portfolio Growth

- Capital expenditure during 2008 on Hong Kong investment properties and hotels, including completed projects, amounted to HK\$4,171 million (2007: HK\$4,975 million). Outstanding capital commitments at 31st December 2008 totalled HK\$2,808 million (31st December 2007: HK\$3,929 million).
- Capital expenditure on Mainland China investment properties and hotels (both directly and in the form of loans to jointly controlled companies) during 2008 amounted to HK\$3,910 million (2007: HK\$6,800 million). Outstanding capital commitments at 31st December 2008 totalled HK\$10,389 million (31st December 2007: HK\$10,380 million).

Profile of Capital Commitments for Investment Properties and Hotels

(HK\$M)	Expenditure	Forecast year of expenditure				Commitments at 31st Dec 2008
		2008	2009	2010	2011	
Property project						
Hong Kong projects	4,171	1,320	939	412	137	2,808
Mainland China projects	3,910	4,505	3,771	1,031	1,082	10,389
UK hotels	36	228	184	72	22	506
USA hotels	–	38	–	–	–	38
Total	8,117	6,091	4,894	1,515	1,241	13,741

Hong Kong and Mainland China completed property investment portfolio



Valuation of Investment Properties

- The portfolio of investment properties comprises the completed office and retail developments in Hong Kong and Mainland China and the existing investment properties undergoing redevelopment.
- Under current Hong Kong Financial Reporting Standards, those investment properties and hotels under development, and completed hotels owned and managed by Swire Properties, are accounted for as property, plant and equipment rather than as investment properties.

- The portfolio of investment properties was valued at 31st December 2008 (97% by value having been valued by DTZ Debenham Tie Leung) on the basis of open market value. The amount of this valuation (before associated deferred tax) was HK\$134,539 million compared to HK\$128,109 million at 31st December 2007 and HK\$143,797 million at 30th June 2008.
- The completed portfolio has increased during the year with the addition of One Island East in Hong Kong, The Village South at Sanlitun in Beijing and the retail podium at 75 Tianhe Dong Road, Guangzhou.
- The valuation at 31st December 2008 largely reflects a reduction in reversionary rental levels and an increase in capitalisation rates for office properties since the 30th June valuation.

Audited Financial Information

Investment Properties

	Group			Company
	Completed HK\$M	Under redevelopment HK\$M	Total HK\$M	Total HK\$M
At 1st January 2008	115,284	12,825	128,109	1,274
Additions	624	2,280	2,904	80
Transfers between category	9,687	(9,687)	–	–
Net transfers from property, plant and equipment	3,584	–	3,584	–
Net transfers to leasehold land	(235)	–	(235)	–
Fair value (losses)/gains	(304)	481	177	(159)
	128,640	5,899	134,539	1,195
Add: Initial leasing costs	86	–	86	–
At 31st December 2008	128,726	5,899	134,625	1,195
At 1st January 2007	96,862	7,506	104,368	374
Additions	2,576	4,006	6,582	817
Disposals	(186)	(3)	(189)	–
Transfers between category	(563)	563	–	–
Net transfers to property, plant and equipment	(229)	–	(229)	–
Net transfers to leasehold land	(1,250)	–	(1,250)	–
Transfers to properties for sale	–	(619)	(619)	–
Fair value gains	18,074	1,372	19,446	83
At 31st December 2007	115,284	12,825	128,109	1,274

Geographical Analysis of Investment Properties

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Held in Hong Kong:				
On medium-term lease (10 to 50 years)	31,324	31,180	162	159
On long-term lease (over 50 years)	97,894	96,929	1,033	1,115
	129,218	128,109	1,195	1,274
Held in Mainland China:				
On medium-term lease (10 to 50 years)	5,321	–	–	–
	134,539	128,109	–	–

Note:

The Group figures in the table above include investment properties owned by the Property Division as well as a small number of properties owned by other Group companies which are managed by the Property Division. The Company figures represent those investment properties owned directly by Swire Pacific Limited.

Property Trading

- Swire Properties' trading portfolio comprises completed apartments for sale at the Asia development in Miami, Florida, and Island Lodge in Hong Kong, as well as properties and land under development in Hong Kong and Florida.

Audited Financial Information

Property Trading Portfolio at Cost

	2008 HK\$M	2007 HK\$M
Properties held for development		
Freehold land	471	–
Properties for sale		
Completed properties		
– development costs	421	–
Completed properties		
– freehold land	13	–
Properties under development		
– development costs	155	890
Freehold land under development for sale	–	257
Leasehold land under development for sale	1,253	1,266
	1,842	2,413

Hong Kong

- The occupation permit for Island Lodge, the development at Java Road in North Point, for which Swire Properties has been appointed as developer by China Motor Bus, was obtained in December 2008. Swire Properties is entitled to reimbursement of costs and a share of the net sales proceeds under the terms of this appointment. 97 apartments were sold prior to completion. The timing of the sale of the remaining apartments will be reviewed in the light of prevailing market conditions.
- Swire Properties has a controlling stake in 2A-2E Seymour Road in Mid-Levels with redevelopment potential of approximately 174,000 square feet. The final form of the development will be determined once outstanding approvals have been obtained.

- Redevelopment options are being explored at Sai Wan Terrace, a residential development in Quarry Bay in which Swire Properties has a controlling interest. The existing buildings on the site have been demolished.
- A former bus depot site on Wong Chuk Hang Road, Aberdeen, is owned 50:50 by Swire Properties and China Motor Bus. The site has an industrial development potential of 383,000 square feet. Alternative uses are being considered.

USA

- In the face of a difficult economic environment, with extremely tight credit availability for purchasers of real estate in South Florida, 40 buyers, representing 33% of those who agreed to purchase, failed to close on units at the Asia residential development, of whom the majority consequently forfeited their deposits.
- The defaulted units were taken back into inventory. Out of a total of 123 units at the Asia residential development, 69 have been closed since completion of construction in March 2008.
- In October 2008 the Group acquired Brickell Citicentre, a 5.6 acre plot in the commercial and residential Brickell district of Miami for US\$41.3 million. Redevelopment options are being considered.

Keith G Kerr

Spreading our Wings



Voted “Best Airline – China” for six consecutive years, Hong Kong-based airline Dragonair now flies to 35 Asian cities, including 20 in Mainland China. Through its relationships with Cathay Pacific and Air China, Dragonair connects passengers with more than 100 destinations worldwide.



Aviation Division

The Aviation Division principally comprises significant investments in the Cathay Pacific group, the Hong Kong Aircraft Engineering group and Hong Kong Air Cargo Terminals. The Cathay Pacific group includes Cathay Pacific Airways, its wholly-owned subsidiary Hong Kong Dragon Airlines (“Dragonair”), its 60% owned subsidiary AHK Air Hong Kong, and an associate interest in Air China. In addition, Cathay Pacific Airways has interests in a number of companies providing aviation-related services including flight catering, ramp and cargo handling and laundry services. Cathay Pacific Airways and HAECO are listed on the Hong Kong Stock Exchange.

	2008 HK\$M	2007 HK\$M
Share of post-tax (losses)/profits from associated companies		
Cathay Pacific group*	(3,552)	2,680
Hong Kong Aircraft Engineering group	505	469
Hong Kong Air Cargo Terminals	274	273
	(2,773)	3,422
Attributable (loss)/profit	(2,867)	3,330

Turnover of these associated companies at entity level is:

	2008 HK\$M	2007 HK\$M
Cathay Pacific group	86,578	75,358
Hong Kong Aircraft Engineering group	4,901	4,619
Hong Kong Air Cargo Terminals	2,886	3,018

Swire Pacific’s Aviation Division includes the following associated companies:

	Shareholding at 31st December 2008			Swire Pacific effective interest
	Direct or by Swire Aviation**	By Cathay Pacific group	Total	
Cathay Pacific group	40.0%	–	40.0%	40.0%
Hong Kong Aircraft Engineering Company	33.5%	27.5%	61.0%	44.5%
Hong Kong Air Cargo Terminals***	30.0%	10.0%	40.0%	20.0%

* Cathay Pacific group’s share of profit from Hong Kong Aircraft Engineering group has been included in the attributable figures for that company.

** Swire Aviation, which holds a 30% interest in Hong Kong Air Cargo Terminals, is a 66.7% held subsidiary company of Swire Pacific.

*** Cathay Pacific accounts for its shareholding in Hong Kong Air Cargo Terminals as an investment interest and consequently the Swire Pacific Group does not include this holding in the interest shown above.

Cathay Pacific and Dragonair

Key Operating Highlights		2008	2007	Change
Available tonne kilometres ("ATK")	Million	24,410	23,077	+5.8%
Available seat kilometres ("ASK")	Million	115,478	102,462	+12.7%
Revenue passenger kilometres ("RPK")	Million	90,975	81,801	+11.2%
Revenue passengers carried	'000	24,959	23,253	+7.3%
Passenger load factor*	%	78.8	79.8	-1.0%pt
Passenger yield*	HK¢	63.6	60.4 [#]	+5.3%
Cargo and mail carried	tonnes '000	1,645	1,672	-1.6%
Cargo and mail load factor*	%	65.9	66.7	-0.8%pt
Cargo and mail yield*	HK\$	2.54	2.26 [#]	+12.4%
Cost per ATK*	HK\$	3.79	2.87 [#]	+32.1%
Cost per ATK without fuel	HK\$	1.88	1.82 [#]	+3.3%
Aircraft utilisation	Hours per day	11.5	11.7	-1.7%
On-time performance	%	81.4	83.9	-2.5%pt

[#] Restated figures.

* Refer to Glossary on page 180 for definition.

Cathay Pacific group

2008 Results

- The Cathay Pacific group's attributable loss was HK\$8,558 million in 2008, compared to a profit of HK\$7,023 million in 2007. Turnover increased by 14.9% to HK\$86,578 million.
- Demand was generally strong in the first half of the year, but weakened substantially in the second-half as economic conditions worsened.
- Fuel prices reached new highs in mid-2008 and, although prices fell significantly towards the end of the year, the total fuel bill increased by 92.2% over 2007 to HK\$47,317 million. Fuel surcharges only partially offset the additional cost. The rapid fall in fuel prices in the second-half, though welcome, caused substantial unrealised mark-to-market losses to be incurred on fuel hedging contracts. The fuel hedging losses were recognised in 2008 but relate to fuel hedging contracts covering the period 2009 to 2011.

- In June, Cathay Pacific announced that it had entered into a plea agreement with the United States Department of Justice under which it pleaded guilty to a violation of the United States Sherman Act relating to its air cargo business and paid a fine of US\$60 million (equivalent to HK\$468 million).

PASSENGER SERVICES

Cathay Pacific and Dragonair

- Cathay Pacific and Dragonair carried a total of 25.0 million passengers in 2008, a rise of 7.3% over 2007 compared to a capacity increase (reflecting the delivery of new aircraft and an increase in services to certain destinations) of 12.7% for the same period. The load factor for the period was 78.8%, down 1.0 percentage point from 2007. Passenger turnover grew 17.2% to HK\$58,046 million. Yield for the year increased by 5.3% to HK¢63.6 due to strong first-half performance.

- Cathay Pacific expanded its services to and from India in the first half of the year. The airline added an extra ten flights a week to Delhi, an additional six flights a week to Mumbai, and launched a new destination, Chennai, with a four-times-weekly service.
- In July and August Cathay Pacific announced reductions in capacity on ultra-long-haul flights to North America and redeployment of capacity to routes where demand remains comparatively firm. As a result, flights to Auckland, Brisbane, Dubai, Perth and Sydney were increased.

CARGO

Cathay Pacific and Dragonair

- Cargo business in the first-half was stronger than expected, but there was a rapid decline in the last quarter as demand fell away in all key markets. Cargo tonnage carried by Cathay Pacific and Dragonair fell in 2008 by 1.6% to 1,644,785 tonnes compared to a capacity rise of 0.7%. The load factor fell by 0.8 percentage point to 65.9% while yield rose by 12.4% to HK\$2.54. The profitability of cargo operations was adversely affected by very high fuel prices in the first six months of 2008 and by weak demand in the second six months.
- The freighter network was strengthened with new services to Dhaka and Hanoi. Cathay Pacific reduced its European and transpacific services in order to mitigate the impact of high fuel prices and, latterly, the slowdown in exports from Hong Kong.

AHK Air Hong Kong (AHK)

- AHK, a 60% owned subsidiary of Cathay Pacific, which operates express cargo services for DHL Express (the remaining 40% shareholder), extended its network with the addition of Manila in January 2008 and now serves 11 Asian cities with a fleet of eight A300-600F freighters. Services to Nagoya, Seoul, Singapore and Taipei have been enhanced during the year.

- AHK recorded a higher profit in 2008 than in 2007 despite the adverse impact of high fuel prices in the first-half. Capacity increased by 10.3% while the load factor and yield increased by 1.5 percentage points and 17.7% respectively.

CATHAY PACIFIC AND DRAGONAIR FLEET SIZE

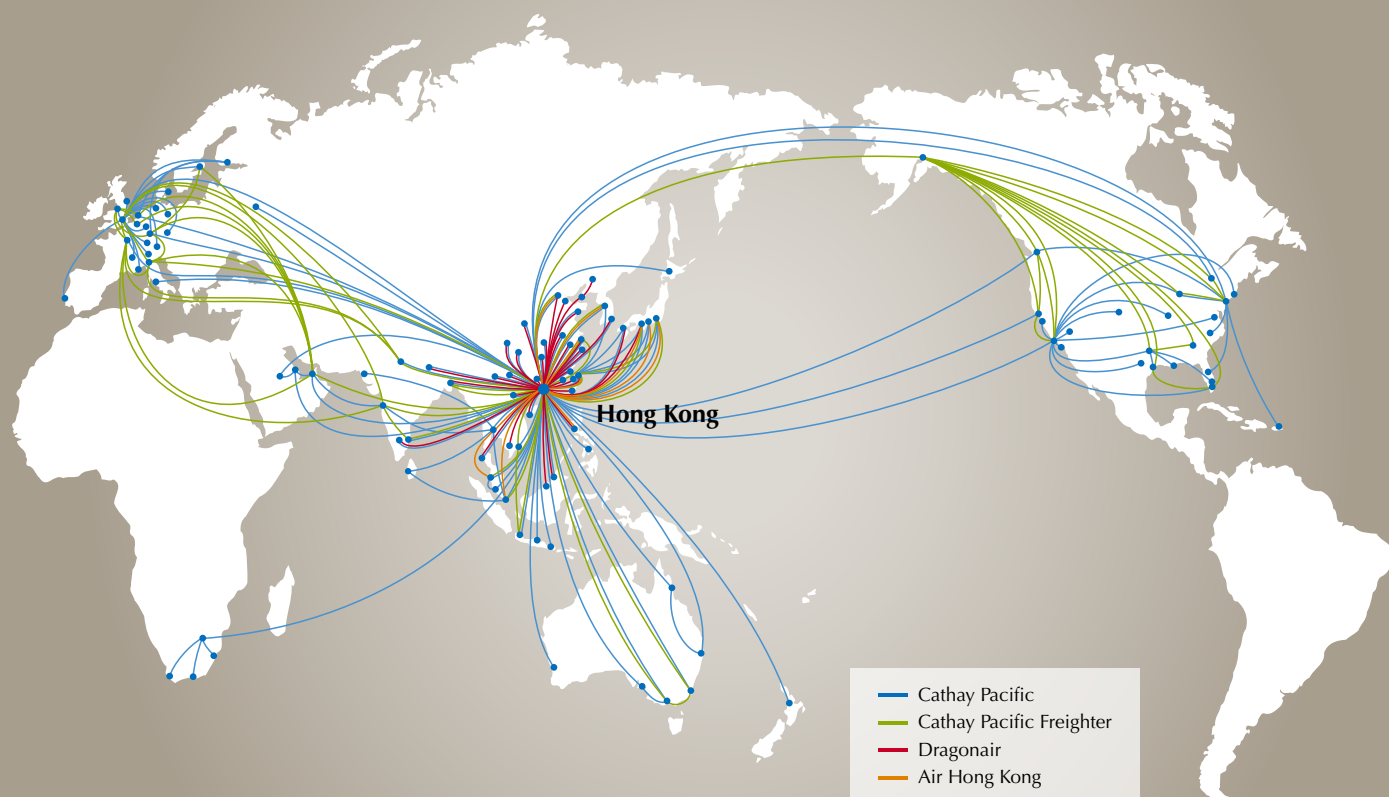
- In 2008, the two airlines took delivery of nine new aircraft, comprising four Boeing 777-300ER passenger aircraft, three Airbus A330-300 regional aircraft and their first two Boeing 747-400ERF freighters, bringing the total fleet size to 154. The Cathay Pacific group now has a total of 46 aircraft on firm order, ten of which will arrive in 2009.
- The transition from the Boeing 747-200F “Classic” freighters to a more fuel-efficient freighter fleet continued in May 2008 with the arrival of the first Boeing 747-400ERF freighter. The second arrived in August with four more due to arrive in 2009. The six remaining 747-200F “Classic” freighters are expected to have been retired from service by August 2009. Cathay Pacific has ten new-generation Boeing 747-8F freighters on firm order with delivery commencing in 2010.

2009 Outlook

Cathay Pacific and Dragonair

- Having made a painful adjustment to high fuel prices, the aviation industry now has to adjust to a severe economic downturn. Cathay Pacific expects an extremely challenging year in 2009. Passenger and cargo demand are expected to remain weak and, if fuel prices remain at their present levels, further losses on fuel hedging contracts will be incurred (although they will not be at the levels incurred in 2008 and the actual cost of fuel will be substantially lower than in 2008). Up to the end of February, unrealised mark-to-market losses on fuel hedging of HK\$1.9 billion (of which the Group’s share would be HK\$0.8 billion) have been incurred in 2009, compared with HK\$7.6 billion for the whole of 2008 (of which the Group’s share

Network Coverage



was HK\$3.0 billion). The 2009 losses principally reflect reductions in the forward prices payable for fuel during the periods in which the relevant fuel hedging contracts will mature. Cathay Pacific aims to manage resources in a responsible and prudent manner.

- In the fourth quarter of 2008, Cathay Pacific announced measures to reduce the impact on the business of the worsening economic environment. These included revising downwards the growth plans for the fleet in 2009. As a consequence, the group plans to dispose of five Boeing 777-200 aircraft and not renew the leases on two Airbus A330-300s and one Airbus A320-200 when they expire in 2009. Three Boeing 747-400BCF converted freighters have now been taken out of service.
- In January 2009, Cathay Pacific announced the deferral of completion of its new cargo terminal at Hong Kong International Airport from 2011 to 2013.

- Cross-straits charter flights between Taiwan and Mainland China were introduced in July and were significantly increased from December, to a greater number of destinations. The potential long-term impact on the business is still being assessed.

Air China

- Air China, in which Cathay Pacific holds an 18.1% interest, is Mainland China's national flag carrier and a leading provider of passenger, cargo and other airline related services, serving 86 domestic and 49 international (regional) destinations.
- Cathay Pacific's share of Air China's profit, on an equity accounting basis, is based on accounts drawn up three months in arrears and consequently the 2008 annual results include Air China's results for the 12 months ended 30th September 2008. The airline reported a loss for the period as a result of higher average fuel prices, fuel hedging losses and reduced demand.

- In an announcement made in January 2009, Air China referred to an increase in the fair value losses on its fuel hedging contracts to RMB6.8 billion at 31st December 2008 and made a preliminary estimate that it would incur a significant loss for the year ended 31st December 2008. Due to the materiality of Air China's fair value losses at 31st December 2008, Cathay Pacific has included its share of these losses (HK\$1 billion) in its 2008 annual results.

Hong Kong Aircraft Engineering Company ("HAECO")

- The HAECO group provides a range of aviation maintenance and repair services.
- The primary operations are aircraft maintenance and modification work, in Hong Kong by HAECO and in Xiamen by its subsidiary company Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO").
- Rolls-Royce engine overhaul work is performed by HAECO's jointly controlled company Hong Kong Aero Engine Services Limited ("HAESL") and by HAESL's jointly controlled company Singapore Aero Engine Services Limited ("SAESL").
- Despite weakness in the aviation industry, demand for the HAECO group's services continued to be strong in 2008. The heavy airframe maintenance facilities in both Hong Kong and Xiamen were at near capacity for most of the year.
- Line maintenance operations recorded moderate growth in line with the level of aircraft movements at Hong Kong International Airport.
- TAECO reported a slight reduction in profitability. Margins were eroded by Renminbi appreciation and cost inflation in Mainland China.
- HAESL recorded satisfactory profit growth from its engine overhaul business.
- The HAECO group's headcount increased by 9% to approximately 12,700 during 2008 to support business growth. The group will continue to recruit and train additional staff to cope with business demand.

2008 Results

- HAECO group's profit attributable to shareholders increased by 6% to HK\$1,138 million in 2008, primarily reflecting growth in airframe maintenance services and an increased contribution from HAESL. The attributable profit for 2008 and 2007 can be broken down as follows:

	2008 HK\$M	2007 HK\$M	Change
HAECO	420	391	+7%
TAECO	275	301	-9%
Share of profit of:			
HAESL and SAESL	397	338	+17%
Other interests	46	43	+7%
Total	1,138	1,073	+6%
Swire Pacific share	505	469	+8%

2009 Outlook

- The HAECO group will not be immune from the sharp deterioration in aviation market conditions and a slowdown in demand for its maintenance, repair and overhaul business in 2009 is expected.

SIGNIFICANT DEVELOPMENTS

- The HAECO group continues to invest in a number of projects designed to take advantage of expected long-term growth in demand. In Hong Kong, construction of HAECO's third hangar is progressing well and the opening is scheduled for the middle of 2009.
- TAECO opened a new training centre in December 2008 and is expected to open its sixth hangar in the first half of 2010.

- A landing gear overhaul facility in Xiamen was opened in June 2008, and a specialist advanced composite repair facility is expected to open in early 2010.
- HAESL is constructing an additional component repair extension which is due to open in 2010.
- In June 2008, the HAECO group acquired from General Electric an 85% shareholding in Taikoo Engine Services (Xiamen) Limited (“TEXL”), a Xiamen-based engine overhaul facility. TEXL has the right to service GE90 engines for a period of 22 years. TEXL’s facility is currently being upgraded. It is expected to recommence engine overhaul operations in 2010.
- In November 2008, the HAECO group acquired a 49% shareholding in Taikoo Sichuan Aircraft Engineering Services Company Limited, which will provide heavy maintenance services. The first hangar at Chengdu International Airport is scheduled to commence operations in 2010.

OTHER OPERATIONS

Cathay Pacific Catering Services group (“CPCS”)

- CPCS, a wholly-owned subsidiary of Cathay Pacific, operates six inflight catering facilities in Asia and North America. It produced a record 21.9 million meals in 2008 and accounts for 62.1% of the airline catering market in Hong Kong. Increased food, rent and fuel costs reduced profit margins in 2008.

Hong Kong Airport Services (“HAS”) and Hong Kong International Airport Services Limited (“HIAS”)

- HAS, a wholly-owned subsidiary of Cathay Pacific, is the largest franchised ramp handling company at Hong Kong International Airport, providing aircraft loading, air-bridge operation, baggage handling, and related services.
- Until October 2008, HIAS was a wholly-owned subsidiary of Cathay Pacific, providing airport ground handling services in Hong Kong to Dragonair and other airlines. In November, HAS was merged with HIAS so that the combined entity became an integrated ground handler offering both ramp and passenger handling services to 44 airlines including Cathay Pacific and Dragonair.
- The results for the year were adversely affected by the economic downturn in the second-half.

Hong Kong Air Cargo Terminals (“Hactl”)

- Hactl suffered from the global slowdown in trade and recorded a 4% drop in cargo throughput. Attributable profit to the Swire Pacific Group increased slightly from the 2007 level.

Tony Tyler
John R Slosar

Delivering to the Consumer



Swire Beverages operates nine Coca-Cola bottling plants in Mainland China. In 2008, it sold over 600 million cases of soft drinks in seven provinces. In addition to Coca-Cola, best selling brands include Sprite, Nestea and Nescafé.



Beverages Division

The Beverages Division has the right to manufacture, market and distribute the products of The Coca-Cola Company in Hong Kong, Taiwan, seven provinces in Mainland China and an extensive area of the western USA.

	2008 HK\$M	2007 HK\$M
Turnover	8,001	7,066
Operating profit	510	483
Share of post-tax profits from jointly controlled and associated companies	269	191
Attributable profit	585	507

Segment information

	Turnover		Attributable Profit	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Hong Kong	1,799	1,692	157	134
Taiwan	1,358	1,027	21	27
USA	3,512	3,294	256	272
Mainland China*	1,332	1,053	169	113
Central costs	–	–	(18)	(39)
Total	8,001	7,066	585	507

* Mainland China turnover is attributable mainly to the Fujian Coca-Cola franchise. All other interests in Mainland China are jointly controlled or associated companies, the total turnover of which in Mainland China (including sales between the interests) was HK\$14,749 million (2007: HK\$7,764 million).

2008 OVERVIEW

- Attributable profit reached HK\$585 million, a 15% increase over 2007, principally reflecting a strong performance from the Mainland China franchises.
- Overall sales volumes grew by 17% with Mainland China, Taiwan and Hong Kong all showing solid growth in difficult market conditions.

Hong Kong

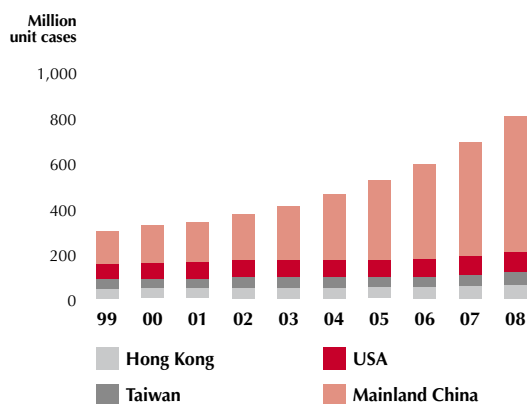
2008 Results

- Attributable profit totalled HK\$157 million, a 17% increase over 2007. In a market that declined 1%, overall sales volumes grew by 5% with both existing brands and line extensions contributing.
- Sparkling beverage sales volumes grew by 2%, with Coca-Cola remaining the leading brand in the sparkling market

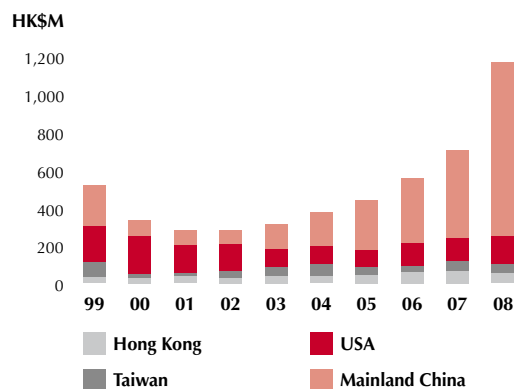
and Coke Zero building on its launch in 2007. New Schweppes flavours were successfully launched in the summer.

- Still beverage sales volumes (excluding water) grew by 11%, led by sustained growth in sales of Healthworks (a health-focused drinks brand) and strong sales of MinuteMaid orange and grapefruit juice drinks following a re-launch in October.
- Sales of Bonaqua mineralised water continued to grow. Bonaqua has become the market leader in the water category.
- Price increases were constrained in a competitive market, while raw material costs continued to rise for most of the year. An improved sales mix reduced pressure on margins.
- Better weather in the second-half helped to offset some early signs of weakness in consumer spending.

Sales volumes in million unit cases



Capital expenditure by operations



Taiwan

2008 Results

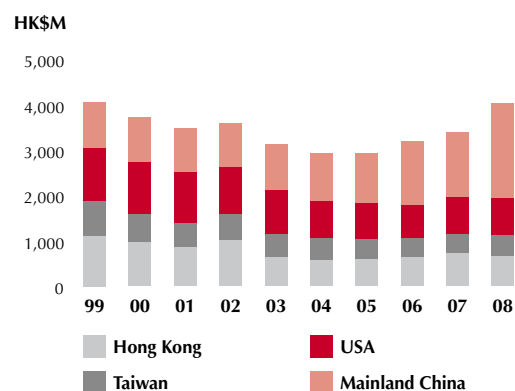
- Attributable profit totalled HK\$21 million, a 22% decline from 2007. Sales volumes grew by 26%, principally reflecting the successful mid-year re-launch of MinuteMaid orange and grapefruit juice drinks.
- Sparkling beverage sales volumes grew by 11%, mainly driven by Coca-Cola. Still beverage sales volumes grew by 64% principally as a result of the re-launch of MinuteMaid, which ended the year as the market leader in juices.
- Raw material costs, especially sweeteners, rose significantly and depressed margins.
- Pricing was constrained by the expansion of private label brands and a contraction in the total beverages market.
- Restructuring costs of HK\$10 million were incurred after a detailed review of options designed to improve operational efficiencies.

USA

2008 Results

- Attributable profits totalled HK\$256 million, a 6% decline from 2007. Overall sales volumes were steady, as growth in still beverage sales offset weakness in sparkling beverage sales.

Net assets employed at operations



- Sparkling beverage volumes declined by 1% despite strong growth in sales of Coke Zero, as consumer preference turned to still beverages.
- Still beverage (excluding Dasani water) sales volumes grew by 16%, reflecting the introduction of Glacéau (a leading vitamin-enhanced water brand) and a strong performance by energy brands for much of the year.
- Water sales under the Dasani brand grew marginally. The total market for packaged waters weakened in the economic downturn.

- Raw material costs and, for much of the year, fuel costs increased substantially but margins were maintained by improved pricing and a favourable product mix.
- Market conditions started to weaken in the first-half as high fuel prices began to affect consumer discretionary spending, especially in restaurants and convenience stores.
- The worsening US economy in the second-half led to a further decline in market conditions, with consumers starting to trade down from higher priced categories.

Mainland China

2008 Results

- Mainland China operations generated an attributable profit of HK\$169 million, a 50% increase over 2007. Overall sales volumes grew by 20% reflecting further expansion of the distribution network and a continued focus on cold drink availability through investment in coolers.
- Sparkling beverage sales volumes grew by 13%, with Sprite maintaining its position as the market leader in this category. Coke Zero was launched in selective markets and generated encouraging early results.
- Still beverage sales volumes (excluding water) grew by 38%, primarily reflecting 42% growth in sales of MinuteMaid and the successful launch of Yuan Ye, a mainstream tea brand.
- Water sales grew by 34% as a new brand of mineralised water, Ice Dew, was launched towards the end of the year.
- Margins remained under pressure from high material costs and competitive constraints on pricing.
- Better weather helped the second-half results. Those franchise provinces (Guangdong, Jiangsu, Fujian) most exposed to the weakening of export-orientated industries experienced some slowing of growth in the second half, but this was partially offset by strong growth in less developed provinces (Shaanxi, Henan, Anhui).

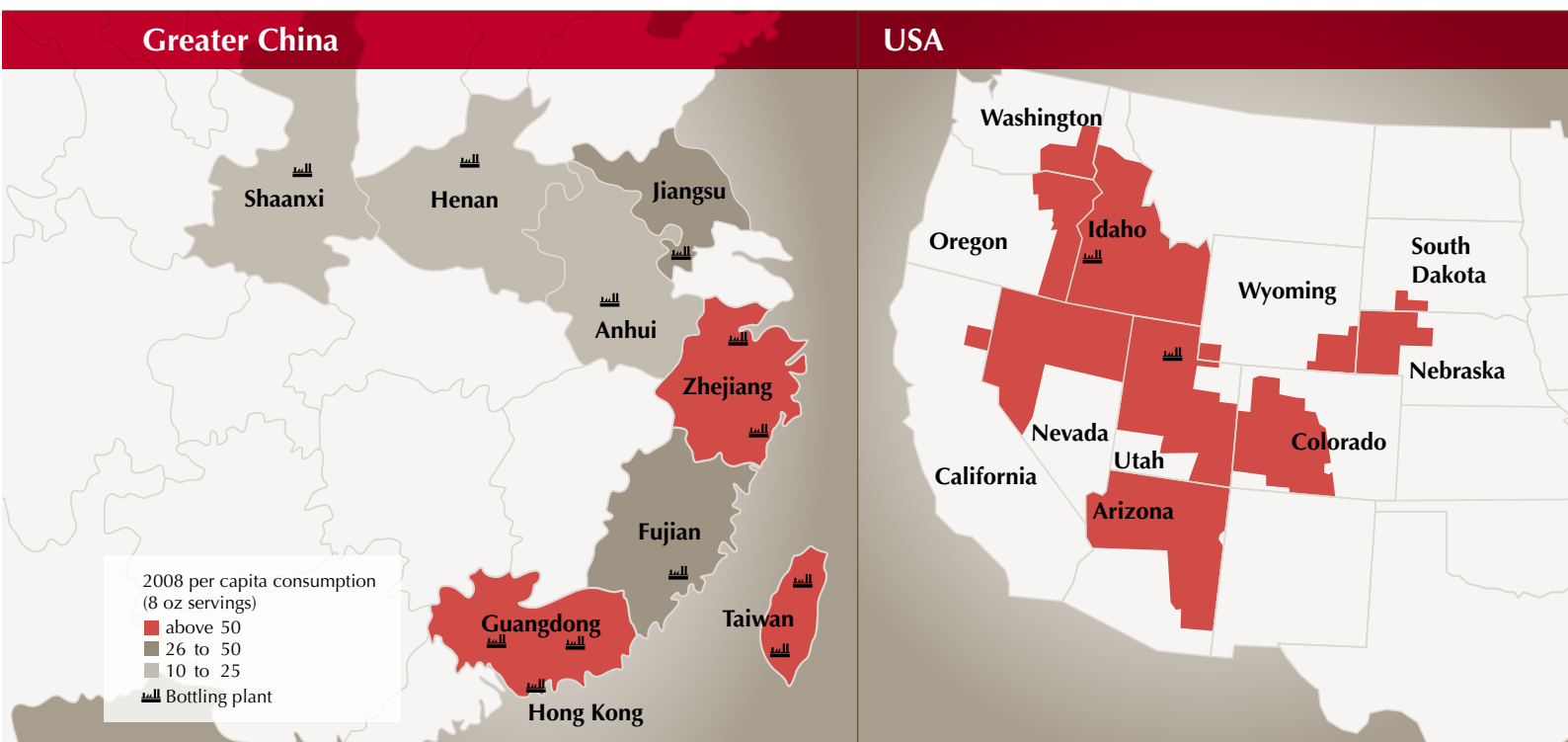
- The manufacture, sale and distribution of the Campbell's Soup Company's range of Swanson's soup broths commenced in Guangdong province in late 2007, and was extended to the Shanghai market towards the end of 2008. Encouraging sales were reported and prospects for further development are being explored.
- A 41% interest in Coca-Cola Bottlers Manufacturing Holdings Limited was acquired during the year. This company manufactures still beverages on behalf of all Coca-Cola franchisee bottlers in Mainland China.

2009 Outlook

- Economic conditions will be challenging in all markets, but especially so in the USA, where sales volumes are expected to be under significant pressure in 2009.
- The Mainland China market will face challenges but continued growth is expected as distribution continues to be expanded into less-developed rural regions. The Hong Kong and Taiwan markets will continue to be very competitive, but the successful re-launch of MinuteMaid in both markets will be built upon in 2009.
- The benefit of the recent reduction in the cost of certain raw materials will not be felt until contractual commitments extending into the second half of 2009 have been met.

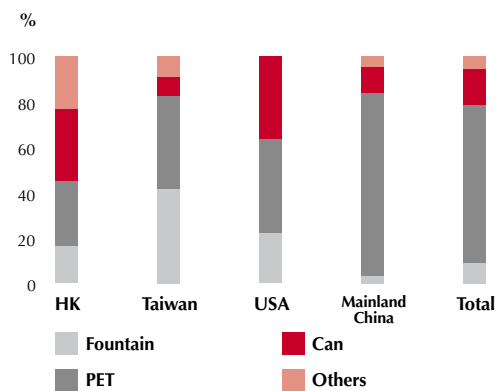
Geoff L Cundle

Coca-Cola Franchise Territories

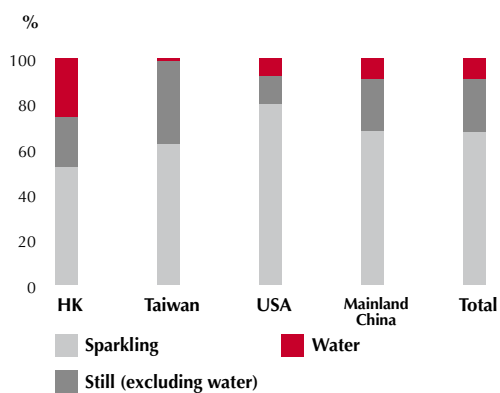


	Population (millions)	No. of employees	GDP per capita (US\$)	Per capita consumption (8 oz servings)
Mainland China				
Guangdong	65.6	4,258	6,289	64
Zhejiang	47.1	2,470	6,222	69
Anhui	67.2	1,187	1,995	13
Jiangsu	55.3	2,469	3,744	40
Fujian	36.7	1,663	4,103	40
Shaanxi	38.4	1,012	2,440	24
Henan	98.7	2,050	2,347	15
Hong Kong	7.0	1,378	30,800	197
Taiwan	23.0	965	16,848	60
USA	6.1	1,781	41,042	338

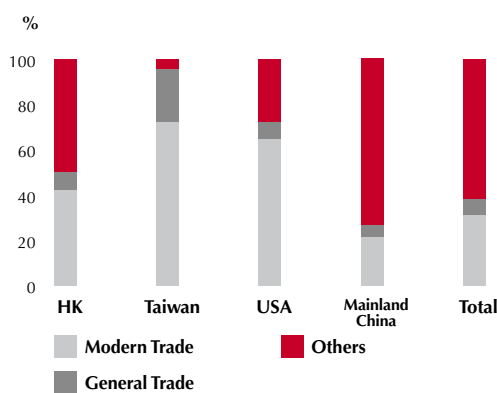
Breakdown of total volumes by package



Breakdown of total volumes by category



Breakdown of total volumes by channel



Building New Relationships



Swire Pacific Offshore, a leading international provider of support services to the offshore oil industry, placed its first order in Mainland China in 2008, for eight new anchor handling tug supply vessels. This order was placed with the Qingdao Qianjin Shipyard and is worth approximately HK\$780 million.



Marine Services Division

The Marine Services Division, through the Swire Pacific Offshore group (“SPO”), operates a fleet of specialist vessels supporting the offshore oil industry in every major offshore production and exploration region outside North America. The division also has jointly controlled interests, through the HUD group, in ship repair and harbour towage services in Hong Kong.

	2008 HK\$M	2007 HK\$M
Swire Pacific Offshore group		
Turnover	4,007	3,104
Operating profit	1,750	1,503
Attributable profit*	1,691	1,405

* Including post-tax profits from jointly controlled companies shown below

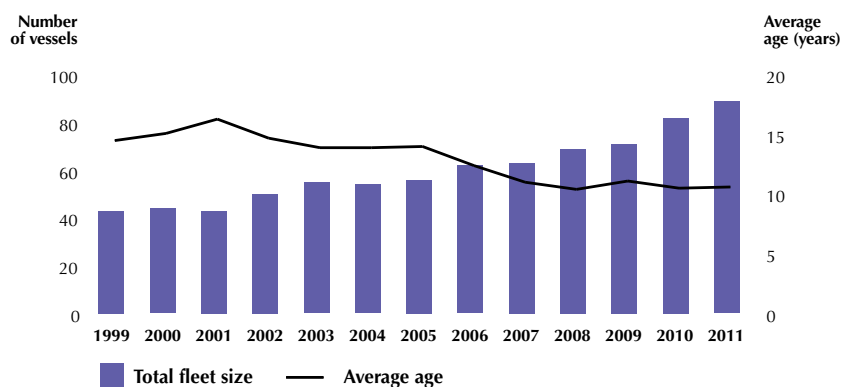
Share of post-tax profits from jointly controlled companies

Swire Pacific Offshore group	–	8
HUD group	76	59
Container terminal operations	–	8
	76	75
Profit from sale of container terminal operations	–	1,078

Attributable profit	1,767	2,550
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	2008	2007
Fleet size (number of vessels)		
Swire Pacific Offshore group	69	63
HUD group - Hongkong Salvage & Towage	19	21
Total	88	84

Swire Pacific Offshore — Fleet size and average age of vessels



Projected fleet size and average age based on current fleet and vessels on order at 31st December 2008.

SPO Fleet Size Growth

Vessel class	Brake horse power	Vessels in operation				Vessels on order		
		2007	Acquired	Disposed	Year-end	Expected to be received in:		
			2008			2009	2010	2011
Anchor Handling Tug Supply Vessels								
J-class	2,600-4,200	12	–	1	11	–	–	–
T-class	3,600	2	2	–	4	–	–	–
P-class	4,800	8	–	–	8	–	4	4
S-class	5,440	4	–	–	4	–	–	–
6000 series	6,000-6,500	3	–	1	2	–	–	–
UT704	7,040-9,000	3	–	1	2	–	–	–
R-class	7,200	8	–	–	8	–	–	–
V-class	8,810	1	4	–	5	2	3	–
W-class	10,800	8	–	–	8	–	–	–
B-class	12,240	7	–	–	7	–	–	–
D-class	18,250	–	–	–	–	–	1	3
Platform Supply Vessels								
A-class	6,310	3	2*	–	5	–	–	–
Ice Breaking Supply Vessels								
E-class	23,170	2	–	–	2	–	–	–
Seismic and Hydrographic Survey Vessels								
Survey	2,600-6,400	2	1*	–	3	–	1	–
Accommodation Barges								
I-class		–	–	–	–	–	2	–
		63	9	3	69	2	11	7

*One A-class vessel was converted into a seismic survey vessel during 2008.

2008 OVERVIEW

- Attributable profit from the Marine Division totalled HK\$1,767 million, a 20% increase over 2007, excluding the effect of the HK\$1,078 million profit on sale of Shekou Container Terminals in February 2007.

Swire Pacific Offshore group (“SPO”)

2008 Results

- SPO reported an attributable profit of HK\$1,691 million, an increase of 20% over 2007.
- Two vessels were sold during the year, resulting in capital profits of HK\$94 million. Capital profits in 2007 totalled HK\$259 million.
- The high oil price during the first half of 2008 sustained a high level of demand for offshore exploration activity throughout the year, significantly increasing the day rates for offshore support vessels.

- Fleet utilisation during the year was 91%, a slight decrease from the 2007 utilisation.
- Average charter hire rates increased by 18% over 2007 to new record highs.
- Vessel operating costs increased by 18%, reflecting higher manning costs, which in turn reflected the increased fleet size, a shortage of experienced crew in the industry and the weaker US dollar during much of 2008.
- At 31st December 2008, SPO operated a fleet of 69 vessels, a net increase of 6 since 31st December 2007.
- Four V-class 8,810 brake horse power anchor handling tug supply vessels were delivered.
- Three A-class platform supply vessels were delivered. One A-class vessel delivered in 2007 was converted into a seismic survey vessel in 2008.

- SPO took delivery of two vessels which had previously been deployed by the HUD group in the Middle East. These vessels continued their deployment with their existing charterer in the Middle East.
- Two older anchor handling tug supply vessels, Pacific Taipan and Pacific Sentinel, were sold in January and September respectively, realising a total profit on disposal of HK\$94 million.
- One leased J-class vessel was returned to the owner.
- The average age of the fleet was reduced to 10.4 years at the end of 2008 from 11.0 years at the end of 2007 as a result of the above changes.
- Total capital expenditure on new vessels and equipment amounted to HK\$1,396 million, compared to HK\$1,339 million in 2007.
- New vessels delivered during 2008 generated HK\$158 million of additional contribution to gross margin.

2009 Outlook

- With the significant reduction in the oil price it is expected that offshore oil exploration will slow somewhat. In addition, a significant number of new offshore support vessels are expected to enter the market in 2009. Both these factors are expected to put downward pressure on day rates and utilisation for the offshore sector.
- For SPO, 58% of the 2009 fleet capacity was pre-booked at 31st December 2008. Day rates fixed under these forward contracts are comparable to those achieved in 2008.
- SPO is expected to take delivery of two additional V-class vessels in 2009. Contributions from these two new vessels and full year contributions from the vessels delivered in 2008 should help mitigate the effect of the expected downturn in day rates and utilisation in 2009.

- In order to take advantage of the projected growth in demand for better quality offshore accommodation for the industry's workforce, an order was placed for two accommodation barges for delivery in 2010. An order was also placed for an additional survey class vessel for delivery in 2010.
- At 31st December 2008, 20 vessels were on order, with a total capital expenditure commitment of HK\$3,244 million (31st December 2007: HK\$3,310 million).

Profile of Capital Commitments – SPO

(HK\$M)	Forecast year of expenditure				Commitments at 31st Dec 2008
	Expenditure 2008	2009	2010	2011	
Vessels	1,332	1,042	1,481	641	3,164
Other equipment	64	66	14	–	80
Total	1,396	1,108	1,495	641	3,244

Hongkong United Dockyards (“HUD”) group

- The HUD group, jointly owned by Swire Pacific and Hutchison Whampoa, provides harbour and sea-going ship repair and general engineering services from its facilities on Tsing Yi Island, Hong Kong. In addition, the group's salvage and towage division, operating as Hongkong Salvage & Towage (“HKST”), is the largest towage operator in Hong Kong, deploying 13 tugs. HKST also manages six container vessels on long-term contracts to transport refuse for the Hong Kong Government.

2008 Results

- Attributable profit from the HUD group for 2008 totalled HK\$76 million, compared to HK\$59 million in 2007.
- The ship repair division had a successful year, mainly as a result of the strength of the shipping industry for much of 2008.

SPO Network Map



- For the salvage and towage division, charter rates were 3% higher than in 2007. Tug movements increased by 6% in the first nine months of the year, but declined in the final quarter. The salvage and towage division's offshore operations ceased with the sale of two tugs to SPO.
- Orders were placed for two 5,000 brake horse power tugs for delivery in 2011.

2009 Outlook

- Both the ship repair and salvage and towage divisions are expecting more difficult trading conditions. As there is typically a lag of around 18 months between changes in the wider economy and in the ship repair business, the impact of current adverse economic conditions on

the ship repair division is expected to be felt gradually during 2009. The salvage and towage division, however, is already seeing a decrease in tug movements, resulting from the general slowdown in the shipping industry.

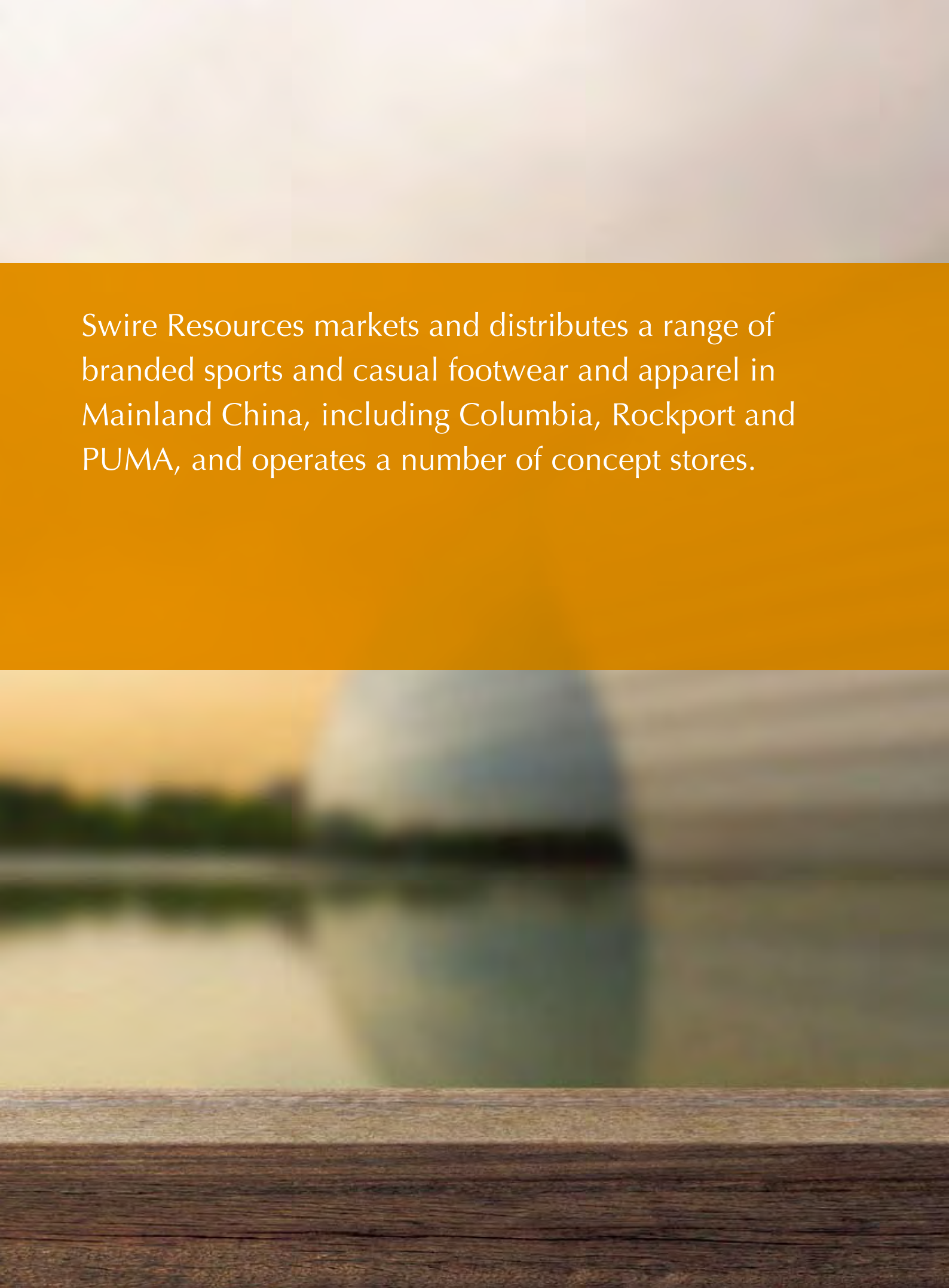
- Increased availability of ship repair capacity in Mainland China may lead to stiffer competition. However, while ship repair tariffs may be under pressure during 2009, at 31st December 2008 the HUD group's floating dock was approximately 40% pre-booked for ship repairs in 2009.

J B Rae-Smith

Davy Ho



Shaping a Contemporary Lifestyle



Swire Resources markets and distributes a range of branded sports and casual footwear and apparel in Mainland China, including Columbia, Rockport and PUMA, and operates a number of concept stores.

Trading & Industrial Division

The Trading & Industrial Division has interests in a number of wholly-owned and jointly controlled companies, comprising:

- Taikoo Motors group – distribution and retailing of motor vehicles in Taiwan
- Swire Resources group – distribution and retailing of sports and casual footwear and apparel in Hong Kong and Mainland China
- CROWN Beverage Cans group – aluminium can manufacture in Mainland China and Vietnam
- Akzo Nobel Swire Paints – manufacture and distribution of paint in Hong Kong and Mainland China
- Taikoo Sugar – packaging and selling sugar products in Hong Kong and Mainland China

	2008 HK\$M	2007 HK\$M
Turnover		
Taikoo Motors group	2,534	3,398
Swire Resources group	1,776	1,521
Taikoo Sugar	445	405
Other subsidiaries	58	56
	4,813	5,380
Operating profits/(losses)		
Taikoo Motors group	10	124
Swire Resources group	49	31
Taikoo Sugar	13	11
Other subsidiaries and head office costs	(34)	(31)
Valuation gain on investment property	14	19
	52	154
Attributable profits/(losses)		
Taikoo Motors group	4	97
Swire Resources group*	87	90
Taikoo Sugar	11	10
Other subsidiaries and head office costs	(31)	(30)
Net valuation gain on investment property**	23	15
	94	182

* Including the post-tax profits from jointly controlled and associated companies within the Swire Resources group shown below.

** Including the effect of changes in the associated deferred taxation.

Share of post-tax profits from jointly controlled and associated companies

Swire Resources group	50	67
CROWN Beverage Cans group	81	38
Akzo Nobel Swire Paints (formerly ICI Swire Paints)	132	95
Swire SITA group	72	84
	335	284
Profit on sale of interest in Swire SITA group	1,721	–
Attributable profit	2,100	399

	2008	2007
Vehicles sold	6,375	9,989
Shoes sold (millions of pairs)	3.2	2.9
Retail outlets in Hong Kong	124	118
Retail outlets in Mainland China	109	90
Brands managed	18	17
Sugar sold (millions of pounds)	26.7	23.7

2008 OVERVIEW

- Attributable profit from the Trading & Industrial Division, excluding the HK\$1,721 million gain on disposal of the interest in Swire SITA, fell by 5% to HK\$379 million. A fall in profits from Taikoo Motors and, reflecting its disposal during the year, Swire SITA, were partially offset by improved results from other units.

Taikoo Motors group

- The Taikoo Motors group imports and distributes vehicles under exclusive franchise agreements in Taiwan.

2008 Results

- Attributable profit for 2008 totalled HK\$4 million, against HK\$97 million in 2007.
- Taikoo Motors sold 6,375 cars in 2008, down 36% from 2007, as the economy and consumer demand in Taiwan remained weak.
- Volkswagen car sales fell by 33%, although the brand retained its leading position in its import segment.
- The group's franchise rights to import and sell Audi cars expired in February 2009. A small loss was made on Audi car sales in 2008.
- Sales of Kia cars, Volkswagen Light Commercial Vehicles and Volvo Trucks and Buses all fell in 2008.
- In April Taikoo Motors was appointed as the official importer and retailer in Taiwan of Harley-Davidson motorcycles and accessories. Performance to date has been encouraging, with 150 bikes sold in 2008.

2009 Outlook

- Taikoo Motors faces an extremely challenging trading environment, with decreasing demand in an increasingly competitive market.

- Volkswagen Cars has a number of new model launches in 2009, notably the Mark VI Golf, which should ensure that Volkswagen maintains its position as a leading imported brand.

Swire Resources group

- The Swire Resources group distributes and retails sports and casual footwear and apparel brands in Hong Kong and Mainland China. Currently it is a distributor for 13 brands in Hong Kong and five in Mainland China.

2008 Results

- Attributable profit from the group for 2008 totalled HK\$87 million, a 3% reduction on 2007.
- In Hong Kong the group operated 124 retail stores at the year-end. Sales grew by 9% compared to 2007, with strong performances from the Gigasports, Marathon and Catalogue multibrand chains.
- The Hong Kong wholesale division recorded mixed results. A good performance from the Columbia brand was partly offset by weaker performances from brands whose distribution agreements are nearing the ends of their terms, the costs of investing in the establishment of newly acquired distribution franchises and destocking by customers.
- Overall, margins in the Hong Kong market fell slightly.
- Turnover in Mainland China increased by more than 37%, primarily as result of expansion of the Columbia brand network into smaller cities.
- Attributable profit from the group's joint venture with PUMA fell by 22%, compared to 2007, to HK\$46 million as sales growth slowed significantly and margins were reduced as a result of increased discounting and stock provisions.

2009 Outlook

- The Hong Kong market is expected to be extremely challenging in 2009, with pressure on sales growth and on margins. The pace of growth in Mainland China is expected to slow.

Taikoo Sugar

- Taikoo Sugar reported a profit of HK\$11 million in 2008, compared to HK\$10 million in 2007, principally reflecting a 45% increase in turnover in Mainland China.
- The outlook for Taikoo Sugar is favourable as it continues to expand its network in Mainland China.

CROWN Beverage Cans group

- The CROWN Beverage Cans group consists of joint ventures with Crown Holdings Inc. which manufacture aluminium beverage cans in Mainland China and Vietnam.

2008 Results

- The CROWN Beverage Cans group contributed an attributable profit of HK\$81 million compared to HK\$38 million in 2007.
- Sales volumes in Mainland China fell slightly from 2007. However, a favourable customer mix, lower raw material costs and appreciation of the Renminbi improved profitability.
- Sales volumes in Vietnam were similar to 2007. Profit increased as a result of improved cost efficiencies.

2009 Outlook

- The CROWN Beverage Cans group is cautiously optimistic about its prospects in 2009.

**Akzo Nobel Swire Paints
(formerly ICI Swire Paints)**

- This joint venture with Akzo Nobel manufactures and distributes decorative paints, primarily under the Dulux brand, in Mainland China and Hong Kong.

2008 Results

- Attributable profit rose 39% from 2007, to HK\$132 million, principally reflecting turnover growth of 21%.
- The contribution from the mature Hong Kong business fell marginally. A 13% fall in volume was partially offset by an improved sales mix.
- Mainland China sales volume grew by 17%, although the rate of growth slowed during the year, reflecting a slowdown in the property market.
- Margins in Mainland China increased slightly as an improved product mix and production efficiencies were only partly offset by increased distribution and advertising and promotion costs.

2009 Outlook

- A difficult trading environment is expected in 2009. However, expansion into additional Mainland China cities should help to offset the impact of the economic slowdown.

Swire SITA group

- As more fully described in note 3(d) to the accounts on page 105, in October 2008 the division transferred full operational control of its 50% interest in Swire SITA to Suez Environnement (“Suez”), its joint venture partner, following the sale of that interest to Suez for a consideration of HK\$1,888 million. The sale resulted in a gain on disposal of HK\$1,721 million.
- The division recognised its share of attributable profit up to the date of transfer of operational control. Trading in the period up to the date of transfer was consistent with the prior year with no significant change in the scope of activities.

Other Activities

- Swire Duro, which ceased operations in July 2008, reported a loss of HK\$3 million for 2008.

J B Rae-Smith

Financial Review

Additional information is provided below to reconcile reported and underlying profit and equity attributable to the Company's shareholders. The reconciling items principally reverse the impact of HKAS 40 and HKAS-Int 21 on investment properties and deferred taxation respectively. Further analysis compares the impact of other significant items in the current and prior years.

Underlying profit	Note	2008 HK\$M	2007 HK\$M
Profit attributable to the Company's shareholders per accounts		5,908	26,260
Adjustments re investment property:			
Revaluation of investment property	(a)	(234)	(19,632)
Deferred tax on revaluation movements	(b)	318	3,546
Deferred tax written back on change in tax rate		(949)	–
Realised profit on sale of investment properties	(c)	–	100
Depreciation of investment properties occupied by the Group	(d)	13	9
Minority interests' share of revaluation movements less deferred tax		237	–
Underlying profit attributable to the Company's shareholders		5,293	10,283
Other significant items			
Trading items			
Impairment of land held for development		77	–
Capital items			
Profit on sale of Swire SITA		(1,721)	–
Profit on sale of Shekou Container Terminals		–	(1,078)
Profit on sale of investment properties		–	(211)
Profit on sale of vessels		(94)	(215)
Profit on sale of interests in subsidiary companies		(53)	–
Profit on sale of Ocean Marine Services		–	(44)
Adjusted profit		3,502	8,735

Underlying equity

Equity attributable to the Company's shareholders per accounts	135,387	135,517
Deferred tax on property revaluation	15,531	16,337
Revaluation of investment properties occupied by the Group	1,311	1,419
Cumulative depreciation of investment properties occupied by the Group	74	68
Underlying equity attributable to the Company's shareholders	152,303	153,341
Underlying minority interests	1,531	1,165
Underlying equity	153,834	154,506

Notes:

- (a) Represents the net revaluation gains as shown in the profit and loss account plus the Group's share of net revaluation gains of jointly controlled and associated companies.
- (b) Represents deferred tax on the Group's net revaluation gains plus the Group's share of deferred tax on the net revaluation gains of jointly controlled and associated companies.
- (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 profit and loss account. On sale, the revaluation gains were transferred from the revaluation reserve to the profit and loss account.
- (d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

Commentary on major balances and year on year variances in the Consolidated Profit and Loss Account, Balance Sheet and Cash Flow Statement

References are to “Notes to the Accounts” on pages 100 to 141.

Consolidated Profit and Loss Account

	2008 HK\$M	2007 HK\$M	Reference
Turnover	24,670	21,553	Notes 4 and 7
<p>In the Property Division, income from property investment increased by HK\$1,244 million, principally reflecting positive rental reversions and the impact of the opening of One Island East in March and The Village South at Sanlitun in July. Turnover from property trading primarily resulted from unit closings at the Asia residential development in Miami, Florida. In the Beverages Division, turnover in Hong Kong increased by HK\$107 million, driven by the sustained growth of Coke Zero and the re-launch of MinuteMaid juice drinks. In Taiwan, turnover increased by HK\$331 million, reflecting the re-launch of MinuteMaid juice drinks and strong sales of Coca-Cola. Turnover in the USA increased by HK\$218 million as the introduction of Glacéau and a strong performance by energy brands for much of the year offset weakness in sparkling beverage sales. Growth in sales of MinuteMaid and the successful launch of Yuan Ye helped turnover in Fujian province to rise by HK\$279 million. In the Marine Services Division, Swire Pacific Offshore’s turnover increased by HK\$903 million due to strong demand for offshore support services and high charter rates. In the Trading & Industrial Division, continued weak consumer sentiment in Taiwan resulted in a HK\$864 million reduction in Taikoo Motors’ turnover. Turnover in the Swire Resources group increased by HK\$255 million as retail sales in Hong Kong and Mainland China grew by 19% and 37% respectively.</p>			
Operating Profit	9,153	26,579	Notes 5 and 7
<p>In the Property Division, net valuation gains on investment properties were HK\$19,193 million lower than in 2007, reflecting the decline in property market fundamentals towards the end of the year. Net rental income grew by HK\$972 million while property trading profit increased by HK\$231 million, primarily from unit closings at the Asia residential development in Miami. Operating profit in the Beverages Division increased by HK\$27 million as high raw material and fuel costs continued for much of the year, partially offsetting the beneficial effect of volume gains in Hong Kong and Taiwan. In the Marine Services Division, Swire Pacific Offshore recorded a HK\$247 million increase in operating profit due to higher charter rates, which more than offset a HK\$165 million decline in capital profits. Excluding the HK\$1,721 million profit on sale of its interest in Swire SITA, the Trading & Industrial Division saw a decline in operating profit of HK\$102 million as reduced sales and margins in Taikoo Motors more than offset higher profits in Swire Resources.</p>			
Net Finance Charges	912	493	Note 9
<p>The HK\$419 million increase in net finance charges reflects the higher level of borrowings to finance property projects and new vessels, as well as the increased costs resulting from borrowed monies being retained as cash on the balance sheet.</p>			

Consolidated Profit and Loss Account (continued)

	2008 HK\$M	2007 HK\$M	Reference
Share of Profits Less Losses of Jointly Controlled Companies	638	621	Notes 7 and 20
Profit fell by HK\$87 million in the Property Division as a result of lower net valuation gains on investment properties held by jointly controlled companies. The division also recorded higher pre-operating expenses from property development joint ventures in Mainland China and a lower share of profit from the Mandarin Oriental Hotel in Miami. Strong volume growth in Mainland China by jointly controlled companies in the Beverages Division resulted in a HK\$42 million increase in their contribution. In the Trading & Industrial Division, the contribution from the CROWN Beverage Cans group increased by HK\$43 million on a favourable customer mix and appreciation of the Renminbi. Akzo Nobel Swire Paints' contribution increased by HK\$37 million due to volume growth in Mainland China. The share of profit from Swire SITA was recorded up to its disposal in October.			
Share of Profits Less Losses of Associated Companies	(2,551)	3,684	Notes 7 and 21
The loss in 2008 reflects the share of loss in the Cathay Pacific group of HK\$3,552 million, resulting from high fuel costs in the first half of the year, and unrealised mark-to-market fuel hedging losses, weaker passenger and cargo demand and an attributable loss from its associated company, Air China, in the second-half. The fuel hedging losses were recognised in 2008 but relate to fuel hedging contracts covering the period 2009 to 2011. The contribution from the HAECO group rose by HK\$36 million, primarily reflecting growth in airframe maintenance services and Rolls-Royce engine overhaul work. In the Property Division, the share of the valuation loss (after deferred tax) on PCCW Tower was HK\$21 million compared with a gain of HK\$53 million in 2007. The share of profit in the Beverages Division reflects the contribution from Coca-Cola Bottlers Manufacturing Holdings Limited, a 41% interest in which was acquired during the year. The share of profit from the PUMA business in the Trading & Industrial Division fell by HK\$13 million due to slower sales growth, increased discounting and stock provisions.			
Taxation	47	4,004	Notes 7 and 10
The decrease in taxation expense reflects the significant fall in deferred tax on valuation gains on investment properties as well as the 1% reduction in the Hong Kong profits tax rate from 17.5% to 16.5%.			
Profit Attributable to the Company's Shareholders	5,908	26,260	Note 7
The decrease in attributable profit is mainly due to the reduction in net valuation gains on investment properties together with the share of loss in the Cathay Pacific group, partially offset by the fact that the profit on disposal of the Group's interest in Swire SITA was higher than the profit on disposal of the Group's interest in Shekou Container Terminals in 2007 and better underlying results from the Property, Beverages and Marine Services Divisions.			

Consolidated Profit and Loss Account (continued)

	2008 HK\$M	2007 HK\$M	Reference
Minority Interests	373	127	Note 37

The increase for the year mainly reflects minority shareholders' interests in the valuation gain from The Village South at Sanlitun following its opening in July 2008 and in the increased profits of the Beverages Division in Mainland China.

Consolidated Balance Sheet

Property, Plant and Equipment	17,010	16,762	Note 14
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The increase is mainly due to development costs at the new hotels in Hong Kong and Beijing and at TaiKoo Hui in Guangzhou, as well as the acquisition of new vessels by Swire Pacific Offshore. Other additions include production, marketing and distribution equipment in the Beverages Division. The Village South at Sanlitun was transferred from property, plant and equipment to investment properties upon completion.

Investment Properties	134,625	128,109	Note 15
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The increase reflects net valuation gains (before deferred tax) of HK\$177 million and construction costs on investment properties under redevelopment or renovation, primarily One Island East and The Mall at Pacific Place. It also includes the transfer of The Village South at Sanlitun from property, plant and equipment upon completion.

Leasehold Land and Land Use Rights	2,586	2,349	Note 16
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The increase represents the land element of additional office and retail space rented by Group companies. This was transferred from the investment property portfolio.

Properties Held for Development	471	–	Note 18
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This represents land for development in Florida which is not intended to be sold during the next 12 months, including land acquired at Brickell Citicentre in Miami in October.

Investments in Jointly Controlled Companies	8,505	5,761	Note 20
----------------------------------------------------	--------------	-------	---------

The increase primarily reflects further capital injections into the joint venture projects at Dazhongli (Shanghai) and Jiang Tai (Beijing), partially offset by the sale of the Group's interest in Swire SITA and the repayment of shareholders' loans by the Mandarin Oriental Hotel in Miami.

Investments in Associated Companies	19,088	23,224	Note 21
--------------------------------------------	---------------	--------	---------

The decrease was largely attributable to the share of loss in the Cathay Pacific group, partially offset by profits retained by other associated companies.

Properties for Sale	1,842	2,413	Note 25
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The decrease was due to unit closings at the Asia residential development in Miami and the transfer of land to "Properties held for development".

Consolidated Balance Sheet (continued)

	2008 HK\$M	2007 HK\$M	Reference
Trade and Other Receivables	3,767	3,053	Note 27
The increase primarily represents the increased level of rental income accrued at year-end, principally on the newly completed One Island East and The Village South at Sanlitun.			
Available-for-sale Assets	2,188	365	Notes 3(d) and 23
The reduction in available-for-sale assets classified as non-current assets reflects the decline in the market value of listed investments. The available-for-sale assets classified as current assets reflect the monies in escrow in respect of the disposal of the Group's interest in Swire SITA.			
Trade and Other Payables	7,717	7,423	Note 29
The increase mainly represents the increase in trade creditors and other payables for the Beverages Division and Swire Pacific Offshore, reflecting the growth in their businesses during 2008.			
Bank Overdrafts and Short-term Loans	2,083	4,078	Note 32
Short-term bridging loans of HK\$2,563 million were drawn in 2007 to finance the property projects in Mainland China. These loans matured in March 2008 and were refinanced by a long-term syndicated loan.			
Long-term Loans and Bonds	29,196	20,486	Note 32
The increase represents additional borrowings to finance the Group's property developments and the acquisition of new vessels.			
Deferred Tax Liabilities	17,382	17,748	Note 33
The decrease in the year was principally due to the effect of the 1% reduction in the Hong Kong profits tax rate applied to the brought forward valuation gains on investment properties.			
Equity Attributable to the Company's Shareholders	135,387	135,517	Notes 35 and 36
The profit retained by the Group during the year, as well as net translation gains of HK\$587 million, principally from Renminbi-denominated investments, resulted in gains in shareholders' equity. These gains were offset by mark-to-market losses on available-for-sale assets (recognised in the investment revaluation reserve), the Group's share of derivative losses from the Cathay Pacific group (recognised in the cash flow hedge reserve), the premium paid on repurchase of the Company's shares and payment of HK\$4,896 million in dividends.			
Minority Interests	1,447	1,161	Note 37
The increase principally represents the minority shareholder's interest in the valuation gain on The Village South at Sanlitun.			

Consolidated Cash Flow Statement

	2008	2007	
	HK\$M	HK\$M	Reference
Cash Generated from Operations	7,580	5,880	Note 42(a)
The increase mainly represents higher net rental and charter hire income received during the year, as well as the proceeds from the closing of units at the Asia residential development in Miami.			
Interest Paid	1,389	942	
The increase in interest paid is attributable to the higher level of borrowings to finance capital expenditure.			
Dividends Received from Jointly Controlled and Associated Companies and Available-for-sale Assets	1,812	1,991	
The decrease is due to the absence of dividends from Shekou Container Terminals following its sale in February 2007.			
Purchase of Property, Plant and Equipment	3,686	7,907	Note 42(b)
2008 additions mainly represent the construction costs on The Village North and South at Sanlitun, The Opposite House at Sanlitun, TaiKoo Hui in Guangzhou and the two new hotels in Hong Kong. They also include the purchase of vessels by Swire Pacific Offshore and of plant and equipment by the Beverages Division. The significant decrease from 2007 was principally due to the acquisition of the Sanlitun property development in that year.			
Additions of Investment Properties	3,680	4,876	
The additions in 2008 include the construction costs of One Island East (completed in March) and the renovation costs at The Mall at Pacific Place. The category also includes the acquisition of miscellaneous properties in Hong Kong, including the settlement of the purchase consideration for the Tai Sang Commercial Building in Wanchai, which was acquired in November 2007.			
Loans to Jointly Controlled Companies	2,988	1,042	
The outflow represents further amounts advanced to the joint venture property projects at Dazhongli and Jiang Tai.			
Purchase of Shareholdings in Associated Companies	543	27	
The Group paid HK\$171 million to purchase additional shares in HAECO and HK\$372 million to acquire a 41% interest in Coca-Cola Bottlers Manufacturing Holdings Limited.			
Loans Drawn and Refinancing	12,161	14,374	
This represents additional financing raised during the year, including new bonds issued under the Medium-Term Note Programme and additional bank loans, and the draw-down of existing financing. Refer to the Financing section on page 55 for further details.			

Investment Appraisal and Performance Review

	Net assets employed			Capital commitments		
	2006 HK\$M	2007 HK\$M	2008 HK\$M	2006 HK\$M	2007 HK\$M	2008 HK\$M
Property investment						
– at cost	44,607	56,804	64,933	9,606	14,907	13,741
– valuation surplus	65,694	85,173	85,378			
– deferred taxation	(14,005)	(17,547)	(17,107)			
– other net liabilities	(834)	(2,457)	(547)			
	95,462	121,973	132,657	9,606	14,907	13,741
Property trading	790	2,223	1,974			
Property – overall	96,252	124,196	134,631			
Aviation	19,874	22,183	17,662	–	–	–
Beverages	3,201	3,403	4,040	32	37	85
Marine Services	6,026	6,496	7,430	2,392	3,310	3,244
Trading & Industrial	1,715	1,774	3,629	–	–	22
Head Office	(114)	1,118	(112)	–	–	–
Total net assets employed	126,954	159,170	167,280	12,030	18,254	17,092
Less net debt	(11,930)	(22,492)	(30,446)			
Less minority interests	(610)	(1,161)	(1,447)			
Equity attributable to the Company's shareholders	114,414	135,517	135,387			

	Equity attributable to the Company's shareholders*			Return on average equity attributable to the Company's shareholders*		
	2006 HK\$M	2007 HK\$M	2008 HK\$M	2006	2007	2008
Property investment	78,480	95,674	98,833	23.8%	22.1%	4.3%
Property trading	1,171	1,957	1,893	14.2%	-2.7%	4.8%
Property – overall	79,651	97,631	100,726	23.7%	21.7%	4.3%
Aviation	19,842	22,153	17,637	11.9%	15.9%	-14.4%
– including profit and change in equity on share realignment of Dragonair and Cathay Pacific	1,474	–	–	18.2%	–	–
Beverages	2,521	2,789	2,955	19.6%	19.1%	20.4%
Marine Services	4,249	6,727	7,572	21.9%	26.8%	24.7%
– including profit on sale of Shekou Container Terminals	–	1,078	–	–	42.3%	–
Trading & Industrial	1,810	1,933	1,887	24.7%	21.3%	19.8%
– including profit on sale of Swire SITA	–	–	1,721	–	–	75.8%
Head Office	4,867	3,206	2,889			
Total	114,414	135,517	135,387	21.6%	21.0%	4.4%

* Refer to Glossary on page 180 for definition.

Swire Pacific focuses on the long-term development of businesses where it can add value through its industry-specific expertise and particular knowledge of the Greater China region. The Group endeavours to create value for shareholders by making investments which exceed the target rate of return appropriate for each of its businesses.

The tables on page 53 show where the Group's assets are employed, capital commitments by division and changes in returns on equity attributable to the Company's shareholders.

Property Division

Net assets employed in property investment increased by HK\$10,684 million (8.8%) during the year, principally due to continued investment in property projects in Mainland China and the reduction in accruals following settlement of the purchase consideration for the Tai Sang Commercial Building.

Capital commitments at the year-end include amounts relating to the developments in Mainland China, as well as the Pacific Place design improvement project and the hotel projects in Hong Kong and the UK.

The decrease in the return on average equity from property investment to 4.3% in 2008 from 22.1% in 2007 reflects the substantial fall in attributable profit resulting from the reduced property valuation gains in 2008.

The reduction in net assets employed in property trading was primarily due to closings at the Asia residential development in Miami, Florida following its completion in March.

Aviation Division

Net assets employed in aviation decreased by HK\$4,521 million (20.4%) reflecting the fact that the Group's share of losses in the Cathay Pacific group exceeded the Group's share of profits from the HAECO group.

The return on average equity fell to -14.4% from 15.9% in 2007.

Beverages Division

Net assets employed increased by HK\$637 million (18.7%), principally as a result of the investment in Coca-Cola Bottlers Manufacturing Holdings Limited and additional retained profits in the jointly controlled and associated companies in Mainland China.

The return on average equity increased to 20.4% from 19.1% reflecting the 15% increase in attributable profit during the year.

Marine Services Division

Net assets employed increased by HK\$934 million (14.4%) following the delivery of new vessels to Swire Pacific Offshore.

The return on average equity, excluding the effect of the profit on disposal of Shekou Container Terminals, fell to 24.7% from 26.8%, as the vessels delivered during the year will not make a full-year contribution until 2009.

Trading & Industrial Division

Net assets employed increased by HK\$1,855 million (104.6%), reflecting the monies in escrow at year-end (HK\$1,888 million) in respect of the disposal of the Group's interest in Swire SITA.

The return on average equity, excluding the effect of the profit on disposal of Swire SITA, fell to 19.8% from 21.3%, as a fall in profit at Taikoo Motors offset improved results at the can and paint manufacturing joint ventures.

Financing

Financing

- Capital Structure
- Changes in Financing
- Sources of Finance
 - Loans and Bonds
 - Perpetual Capital Securities
- Maturity Profile and Refinancing
- Currency Profile
- Bank Balances and Short-Term Deposits
- Finance Charges
- Interest Cover and Gearing Ratios
- Covenants and Credit Triggers
- Capital Management
- Key Credit Ratios

- Attributable Net Debt
- Debt in Jointly Controlled and Associated Companies
- Attributable Profit Correlation

Capital Structure

The Group aims to maintain a capital structure that is appropriate for long-term credit ratings of A3 to A1 on Moody's scale, A- to A+ on Standard & Poor's scale, and A- to A+ on Fitch's scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances. At 31st December 2008 the Company's long-term credit ratings were A3 from Moody's, A- from Standard & Poor's, and A from Fitch.

Changes in Financing

Audited Financial Information

Analysis of Changes in Financing During the Year

	2008 HK\$M	2007 HK\$M
Loans, bonds and perpetual capital securities		
At 1st January	27,038	14,176
Loans drawn and refinancing	12,161	14,374
Repayment of loans and bonds	(3,914)	(1,559)
Other non-cash movements	(13)	47
At 31st December	35,272	27,038
Overdrafts	–	36
	35,272	27,074

During the year, the Group raised HK\$11,675 million. This included:

- the issue of five ten-year Hong Kong dollar medium-term notes totalling HK\$1,295 million
- the issue of a ten-year US dollar medium-term note of US\$500 million
- the issue of a three-year medium-term note of HK\$500 million
- a three-year RMB2,400 million syndicated loan
- three-year bilateral term loan facilities totalling HK\$1,400 million
- a three-year bilateral revolving credit facility of HK\$1,000 million
- a 364-day bilateral term loan facility of HK\$500 million

Significant debt repayments during the year included the repayments of a RMB2,400 million bridging loan facility and HK\$800 million of bilateral revolving credit facilities.

Sources of Finance

At 31st December 2008, committed loan facilities and debt securities amounted to HK\$40,239 million, of which HK\$6,356 million (16%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$3,961 million.

Audited Financial Information

Sources of funds at 31st December 2008 comprised:

	Available HK\$M	Drawn HK\$M	Undrawn Expiring within one year HK\$M	Undrawn Expiring beyond one year HK\$M
Committed facilities				
Loans and bonds				
Fixed/floating rate bonds	12,946	12,946	–	–
Bank loans, overdrafts and other loans	24,968	18,612	455	5,901
Perpetual capital securities	2,325	2,325	–	–
Total committed facilities	40,239	33,883	455	5,901
Uncommitted facilities				
Bank loans, overdrafts and other loans	5,430	1,469	3,750	211
Total	45,669	35,352	4,205	6,112

Loans and Bonds

For accounting purposes, the loans and bonds are classified as follows:

	2008			2007		
	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Balance sheet value HK\$M	Drawn, before unamortised loan fees HK\$M	Unamortised loan fees HK\$M	Balance sheet value HK\$M
Bank overdrafts and short-term loans						
– unsecured	2,083	–	2,083	4,078	–	4,078
Long-term loans and bonds						
at amortised cost	30,944	(80)	30,864	20,732	(76)	20,656
Less: amount due within one year included under current liabilities	(1,668)	–	(1,668)	(170)	–	(170)
	29,276	(80)	29,196	20,562	(76)	20,486

Perpetual Capital Securities

Perpetual capital securities, amounting to US\$300 million and bearing cumulative interest at 8.84% per annum, were issued by a wholly-owned subsidiary (the “Issuer”) on 13th May 1997. This issue has no scheduled maturity but is redeemable at the option of the Company or the Issuer either (i) at any time on or after 13th May 2017 or (ii) at any time upon amendment or imposition of certain taxes and, in any case, becomes due in the event of the Company’s or the Issuer’s winding up. The perpetual capital securities are unconditionally and irrevocably guaranteed, on a subordinated basis, by the Company.

The perpetual capital securities are carried on the balance sheet at amortised cost. At 31st December 2008 the fair value was HK\$1,907 million (2007: HK\$2,387 million). The perpetual capital securities are listed on the Luxembourg Stock Exchange.

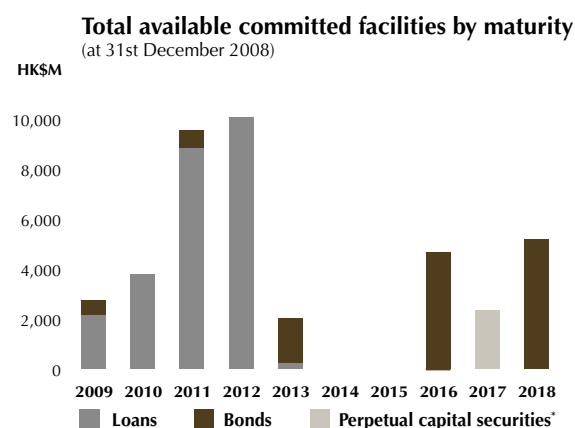
Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2018 (2007: up to 2016).

The Group's weighted average term and cost of debt is:

	2008	2007
Weighted average term of debt	4.5 years	4.3 years
Weighted average term of debt (excluding perpetuals)	4.3 years	4.0 years
Weighted average cost of debt	4.8%	5.4%
Weighted average cost of debt (excluding perpetuals)	4.4%	4.9%

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



* The perpetual capital securities have no fixed maturity date. In the above graph their maturity has been presented as their first call date, 13th May 2017.

Audited Financial Information

The maturity of long-term loans and bonds is as follows:

	2008 HK\$M	2007 HK\$M
Bank loans (secured):		
Repayable within one year	169	170
Repayable between one and two years	169	170
Repayable between two and five years	211	383
Bank loans (unsecured):		
Repayable within one year	899	–
Repayable between one and two years	1,798	797
Repayable between two and five years	14,706	11,879
Other borrowings (unsecured):		
Repayable within one year	600	–
Repayable between one and two years	–	600
Repayable between two and five years	2,521	199
Repayable after five years	9,791	6,458
	30,864	20,656
Amount due within one year included under current liabilities	(1,668)	(170)
	29,196	20,486

Currency Profile

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

	2008		2007	
	HK\$M	%	HK\$M	%
Currency				
Hong Kong dollar	29,633	84	20,311	75
United States dollar	1,385	4	3,428	13
Renminbi	3,631	10	2,830	10
New Taiwan dollar	600	2	505	2
Others	23	–	–	–
Total	35,272	100	27,074	100

Bank Balances and Short-Term Deposits

The Group had bank balances and short-term deposits of HK\$4,239 million at 31st December 2008, excluding security deposits, compared to HK\$3,811 million at 31st December 2007.

Finance Charges

At 31st December 2008, 57% of the Group's gross borrowings were on a fixed rate basis and 43% were on a floating rate basis (2007: 38% and 62% respectively).

Audited Financial Information

The exposure of the Group's loans and bonds to interest rate changes and the contractual repricing dates (after interest rate swaps) are as follows:

	Floating interest rate HK\$M	Fixed interest rate maturing in			Total HK\$M
		1 year or less HK\$M	1 to 5 years HK\$M	Over 5 years HK\$M	
At 31st December 2008	15,027	769	7,360	9,791	32,947
At 31st December 2007	16,731	193	1,352	6,458	24,734

Interest charged and earned during the year was as follows:

	2008		2007	
	HK\$M	HK\$M	HK\$M	HK\$M
Interest charged on:				
Bank loans and overdrafts		(679)		(389)
Other loans and bonds:				
Wholly repayable within five years	(188)		(68)	
Not wholly repayable within five years	(662)		(558)	
		(850)		(626)
Fair value gains/(losses) on derivative instruments:				
Interest rate swaps: cash flow hedges, transferred from equity	32		29	
Interest rate swaps: fair value hedges	27		6	
Interest rate swaps: not qualifying as hedges	(5)		(3)	
		54		32
Fair value losses on financial liabilities		-		(8)
Adjustments to financial liabilities – fair value hedges		(26)		-
Amortised loan fees – loans at amortised cost		(18)		(14)
Deferred into properties under development for sale		10		9
Capitalised on:				
Investment properties	80		156	
Properties	299		204	
Vessels	45		46	
		424		406
		(1,085)		(590)
Interest income on:				
Short-term deposits and bank balances	83		34	
Other loans	90		63	
		173		97
Net finance charges		(912)		(493)

The capitalisation rates applied to funds borrowed generally and used for the development of investment properties and properties for sale are between 3.91% and 8.32% per annum (2007: 3.50% and 7.22% per annum).

The total interest charged on borrowings held at amortised cost (after interest rate swaps) was HK\$1,501 million (2007: HK\$973 million).

Audited Financial Information

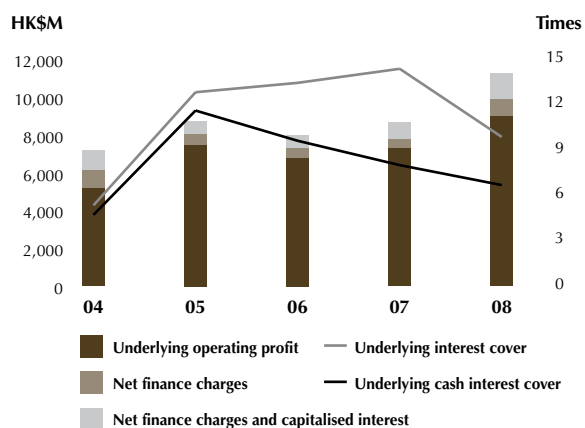
The effective interest rates per annum, before swaps, at the balance sheet date were as follows:

	2008				2007			
	HK\$ %	US\$ %	RMB %	Others %	HK\$ %	US\$ %	RMB %	Others %
Bank overdrafts and short-term loans	1.38	2.19-3.83	5.04-7.97	1.55-2.31	1.97-8.0	3.0-7.50	4.58-7.23	1.76-2.45
Long-term loans and bonds	2.39-5.05	3.83-6.37	6.72-8.32	3.24	2.75-4.93	3.83-5.63	6.72	–
Perpetual capital securities	–	8.84	–	–	–	8.84	–	–

Interest Cover and Gearing Ratios

The following graphs illustrate the underlying interest cover and the underlying gearing ratios for each of the last five years:

Interest cover

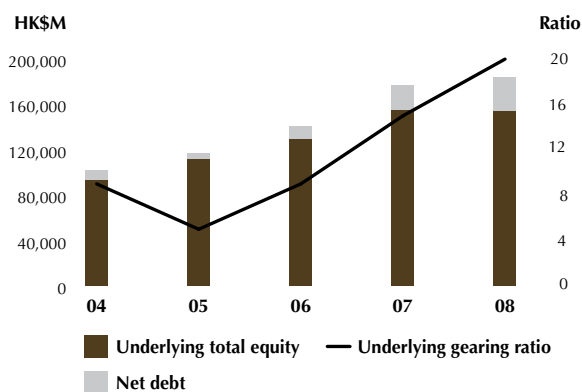


Notes:

1 The 2004 net finance charges include a one-off interest charge of HK\$500 million in respect of the Taikoo Shing land premium dispute.

2 The calculation of underlying operating profit and underlying total equity is shown in the Financial Review on page 47.

Gearing ratio



	2008	2007
Gearing ratio*		
Per accounts	22.3	16.5
Underlying	19.8	14.6
Interest cover – times*		
Per accounts	10.0	53.9
Underlying	9.9	14.7
Cash interest cover – times*		
Per accounts	6.8	29.3
Underlying	6.7	8.0

*Refer to Glossary on page 180 for definition.

Audited Financial Information

Covenants and Credit Triggers

There are no specific covenants given by the Group for its debt facilities which would require debt repayment or termination of a facility should its credit rating be revised by the credit rating agencies.

The Company has entered into financial covenants in respect of gearing limits and maintenance of minimum consolidated net worth, to secure funding for itself and its subsidiaries. These covenants are set out below:

	Covenant limits	2008	2007
Gearing			
Consolidated borrowed money*/ adjusted consolidated net worth*	≤ 200%	22.3%	16.5%
Secured consolidated borrowed money*/ adjusted consolidated net worth	≤ 100%	0.4%	0.5%
	HK\$M	HK\$M	HK\$M
Maintenance of minimum adjusted consolidated tangible net worth			
Adjusted consolidated tangible net worth*	≥ 20,000	135,967	135,818

*Refer to Glossary on page 180 for definition.

Audited Financial Information (continued)**Covenants and Credit Triggers (continued)**

These financial covenants, together with the long-term credit rating objective establish the framework within which the capital structure of the Group is determined.

To date, none of the covenants has been breached.

Capital Management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits to other stakeholders, and to secure access to finance at a reasonable cost.

The Group considers a number of metrics in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of

its various investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings (comprising borrowings net of security deposits plus perpetual capital securities issued by the Group) less short-term deposits and bank balances and certain available-for-sale investments. Capital comprises total equity, as shown in the consolidated balance sheet.

In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, issue or repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2008 and 31st December 2007 were as follows:

	2008 HK\$M	2007 HK\$M
Perpetual capital securities	2,325	2,340
Borrowings net of security deposits	32,398	24,011
Total borrowings	34,723	26,351
Less:		
Short-term deposits and bank balances (excluding security deposits)	(4,239)	(3,811)
Certain available-for-sale investments	(38)	(48)
	(4,277)	(3,859)
Net debt	30,446	22,492
Total equity	136,834	136,678
Gearing ratio	22.3%	16.5%

The increase in the gearing ratio during 2008 resulted primarily from borrowings issued to finance property developments and new vessels.

Key Credit Ratios

The table below sets out those credit ratios of the Group which credit agencies commonly assess when determining credit ratings:

	Note	2004	2005	2006	2007	2008
Operating margin	1					
– per accounts		117.6%	107.7%	126.2%	126.7%	40.4%
– underlying		31.2%	42.3%	38.6%	37.1%	39.7%
EBIT/net interest expenses	2, 4					
– per accounts		21.2	34.2	36.8	31.5	8.2
– underlying		6.7	15.0	13.1	10.2	8.1
FFO + net finance charges/net interest expenses	3, 4					
– per accounts		6.7	16.0	12.5	10.0	8.2
– underlying		6.2	14.7	12.5	10.0	8.2
FFO/net debt						
– per accounts		76.5%	177.9%	69.5%	38.3%	33.2%
– underlying		70.4%	162.3%	69.5%	38.3%	33.2%
Net debt/total equity plus net debt						
– per accounts		8.9%	5.1%	9.4%	14.1%	18.2%
– underlying		8.1%	4.6%	8.5%	12.7%	16.5%
Property rental income/net interest expenses	4	2.8	5.2	5.4	5.0	4.1

1 Operating margin = Operating profit before depreciation and amortisation/turnover.

2 EBIT = Operating profit plus dividends received from jointly controlled and associated companies.

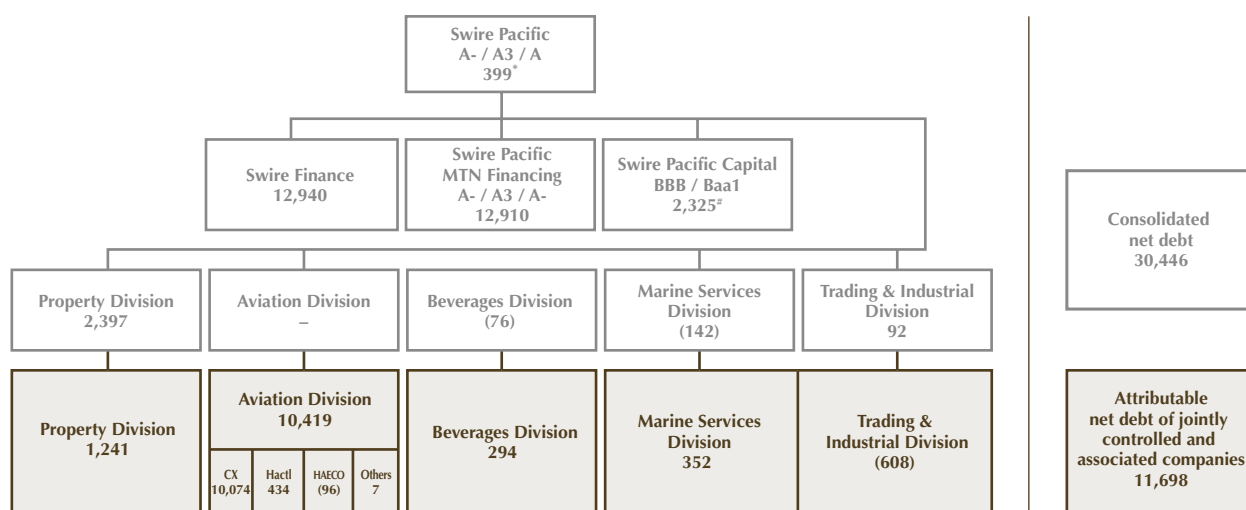
3 FFO (Funds from operations) = Operating profit (including profit or loss on sale of property, plant and equipment) less net finance charges less change in fair value of investment properties less tax paid plus depreciation and amortisation plus dividends from jointly controlled companies and associated companies plus non-cash items.

4 Net interest expenses include capitalised interest.

5 Underlying credit ratios are calculated by adjusting for the impact of HKAS 40 and HKAS-Int 21 on investment properties and deferred tax.

Attributable Net Debt

The chart below illustrates, by entity, the Group's attributable net debt and undertakings given to third parties (in HK\$M):



* Undertakings given to third parties.

Represents US\$300 million perpetual capital securities.

Debt in Jointly Controlled and Associated Companies

In accordance with Hong Kong Financial Reporting Standards, the net debt of Swire Pacific reported in the consolidated balance sheet does not include the net debt of its jointly controlled and associated companies. These companies had the following net debt positions at the end of 2008 and 2007. If the attributable portion of the net debt in jointly controlled and associated companies were to be added to the Group's net debt, gearing would rise to 31% and underlying gearing would rise to 27%.

	Total net debt/(cash)		Portion of net debt/ (cash) attributable to the Group		Debt guaranteed by Swire Pacific or its subsidiaries	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Property Division	4,406	3,859	1,241	986	491	292
Aviation Division						
Cathay Pacific group	25,198	14,731	10,074	5,879	–	–
HAECO group	(216)	(767)	(96)	(336)	–	–
Hactl	2,172	2,668	434	534	–	–
Other Aviation Division companies	14	15	7	7	–	–
Beverages Division	908	(155)	294	(90)	–	–
Marine Services Division	705	736	352	368	500	500
Trading & Industrial Division	(1,624)	(1,182)	(608)	(538)	–	–
	31,563	19,905	11,698	6,810	991	792

Attributable Profit Correlation

Swire Pacific's attributable profits comprise earnings from a diverse range of businesses. An analysis of the degree of correlation between these earnings streams over the last ten years has been carried out. The correlation table below illustrates that most of the attributable profits received from different business streams are not strongly correlated. This underpins the relative stability of the earnings stream for the Group as a whole.

	Property HK\$M	Aviation HK\$M	Marine Services HK\$M	Beverages and Trading & Industrial HK\$M	Other businesses combined excluding Property HK\$M
Underlying attributable profit/(loss) 2008*	3,626	(2,867)	1,767	937	(163)
Correlation coefficient:					
Property	1.000	-0.432	0.596	0.540	-0.213
Aviation	-0.432	1.000	-0.443	-0.080	0.929
Marine Services	0.596	-0.443	1.000	0.681	-0.096
Beverages and Trading & Industrial	0.540	-0.080	0.681	1.000	0.257
Other businesses combined excluding Property	-0.213	0.929	-0.096	0.257	1.000

* The underlying attributable profit has been adjusted to remove the impact of disposals of interests in subsidiary and jointly controlled companies.

Correlation key: 1 Highly correlated; 0 Uncorrelated; -1 Highly negatively correlated.

Corporate Governance

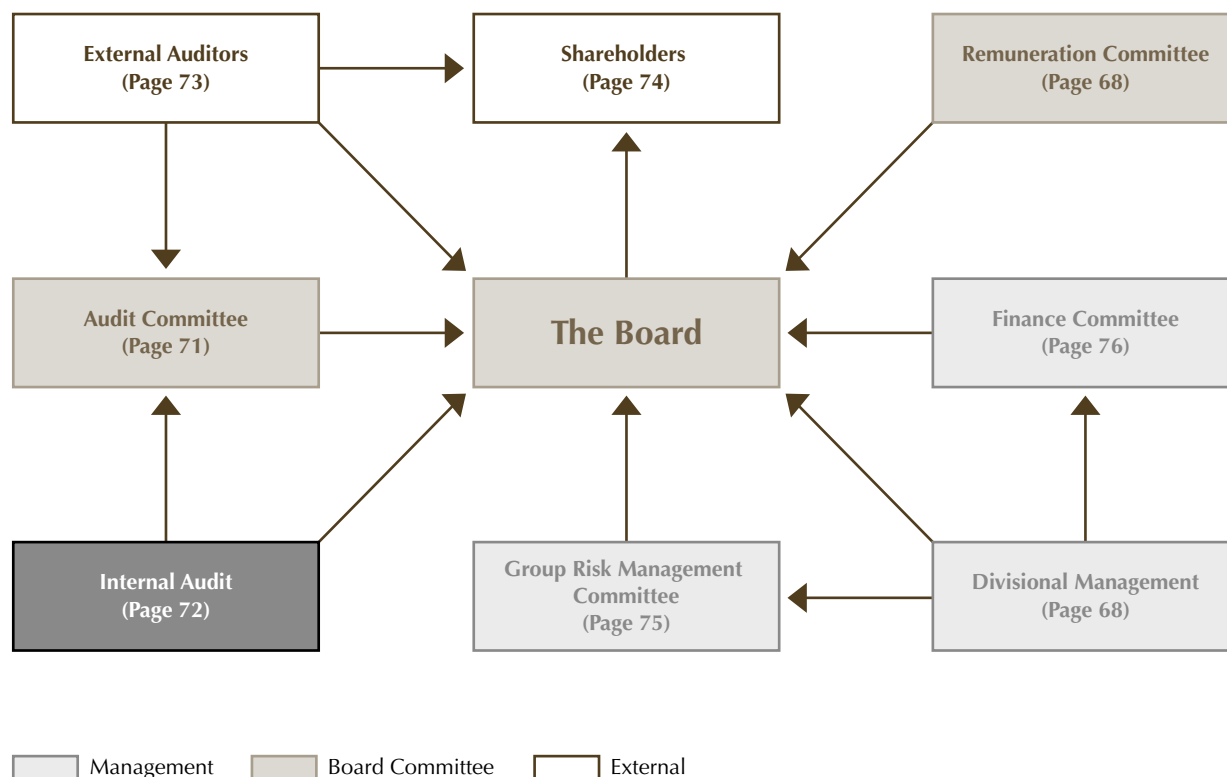
Governance Culture

Swire Pacific is committed to ensuring that its affairs are conducted in accordance with high ethical standards, reflecting a belief that in achieving its long-term objectives it is imperative that it acts with probity, transparency and accountability. By following this ethos Swire Pacific believes that shareholder wealth will be maximised in the long-term and that employees, business partners, and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs the Group to conduct its affairs with a view to ensuring that its strategies are fulfilled. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- the interests of stakeholders are safeguarded
- overall business risk is understood and managed appropriately
- delivery of high-quality products and services to the satisfaction of customers
- high standards of ethics are maintained

Governance Structure



Corporate Governance Statement

The Code on Corporate Governance Practices (“the CG Code”) as promulgated by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendations:

- Code Provisions, with which issuers are expected to comply, but may choose to deviate from, provided they give considered reasons for non-compliance
- Recommended Best Practices, with which issuers are encouraged to comply, but which are provided for guidance only

Swire Pacific supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies, provided that this is clearly explained. Swire Pacific has adopted its own code on corporate governance practices which is available on the Group website www.swirepacific.com.

Corporate governance does not stand still; it evolves with each business and its operating environment. Swire Pacific is always ready to learn and adopt best practices. As part of its commitment to enhance corporate governance standards within the region, Swire Pacific is a member of the Asian Corporate Governance Association.

Swire Pacific has complied throughout the year with all the code Provisions of the CG Code as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”). Additionally it has considered the Recommended Best Practices and complied with all of them with the following exceptions which it believes do not benefit stakeholders:

- **Section C.1.4 of the CG Code, recommending the production of quarterly statements.** The Company has chosen not to comply with this recommended reporting practice because it is its judgement that, as a matter of principle and practice, quarterly reports would not bring net overall benefits to shareholders

- **Section A.4.4 of the CG Code recommending the establishment of a nomination committee.** The Board has considered the merits of establishing a nomination committee as recommended 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 both the potential Director and the Board as to suitability for the role

The Board of Directors

Role of the Board

Swire Pacific is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the broad range of stakeholder interests.

Responsibility for delivering Swire Pacific’s objectives and running the business on a day-to-day basis is delegated to divisional management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements including accounts
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the general mandate
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving the annual budget and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of internal control and risk management including the adequacy of the resources, qualifications and experience of the staff of the Company’s accounting and financial reporting function, and their training programmes and budget

To assist it in fulfilling its duties, the Board has established two primary committees, the Audit Committee (see page 71) and the Remuneration Committee (see page 68).

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is clear division of responsibilities between the running of the Board and the executives who run the business.

The Chairman is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contribution and dialogue from all Directors and constructive relations between them
- ensuring all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

Each division of the Group has one or more Executive Directors or Officers who are responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's individual businesses (see page 68). These executives are: K G Kerr (Property), A N Tyler and J R Slosar (Aviation), G L Cundle (Beverages), D Ho (Marine Services), and J B Rae-Smith (Marine Services and Trading & Industrial).

Throughout the year there was a clear division of responsibilities between the Chairman and the management executives named above.

Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and precludes individuals or groups from dominating decision-making.

The Board currently comprises the Chairman, six Executive Directors and ten Non-Executive Directors. Their biographical details are set out on pages 79 and 80 of this report and are posted on the Group website.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board are comprised only of Non-Executives.

The Board considers that six of the ten Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. T G Freshwater is a director of a company which provided professional advice to Swire Pacific and one of its subsidiaries within one year prior to his appointment. The advice (which was given together with two other companies) related to a transaction which did not proceed. No fee was paid for the advice. T G Freshwater was not personally involved in giving the advice. In these circumstances, the Board does not consider the fact that T G Freshwater is a director of the company which provided this advice to be sufficiently material to affect his independence. C Lee has served as a Non-Executive Director for more than nine years. The Directors are of the opinion that he remains independent, notwithstanding his length of tenure. C Lee continues to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that his tenure has had any impact on his independence. The Board believes that his detailed knowledge and experience of the Group's business and his external experience continue to be of significant benefit to the Company, and that he maintains an independent view of its affairs.

Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. In his confirmation T G Freshwater has noted the directorship referred to above.

The Independent Non-Executive Directors:

- provide open and objective challenge of management and the Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management

Except during the period between the resignation of V H C Cheng on 31st January 2008 and the appointment of M Leung on 1st March 2008 as an Independent Non-Executive Director of the Company, the number of Independent Non-Executive Directors represented the recommended proportion (at least one-third) of the Board of Directors.

Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment and all Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

Full details of changes in the Board during the year and to the date of this report are provided in the Directors' Report on page 83.

Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management
- the latest financial information

Directors update their skills, knowledge and familiarity with the Group through their ongoing participation at meetings of the Board and its committees and through regular meetings with management at Head Office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training or advice should this be required.

Each Director ensures that he can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies on pages 79 and 80.

Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2008 Board meetings were determined in 2007 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met six times in 2008. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 67. Average attendance at Board meetings was 93%. All Directors attended Board meetings in person during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before the Board or committee meeting.

The Chairman takes the lead to ensure that the Board acts in the best interests of Swire Pacific, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are available to all Directors. These record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and record respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review of a report by each Executive Director or Officer on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan

- the raising of new initiatives and ideas
- presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for Directors' consideration
- any declarations of interest

The executive management of individual businesses within the Group provide the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2008.

The Chairman meets at least annually with the Non-Executive Directors without the Executive Directors being present.

Directors	Meetings Attended/Held			2008 Annual General Meeting
	Board	Audit Committee	Remuneration Committee	
Executive Directors				
C D Pratt – Chairman	6/6			✓
P N L Chen	5/6			✓
M Cubbon	6/6			✓
D Ho	6/6			✓
K G Kerr	6/6			✓
J R Slosar	6/6			✓
A N Tyler	6/6			✓
Non-Executive Directors				
Baroness Dunn	6/6			✓
J W J Hughes-Hallett	5/6			✓
P A Johansen	6/6	3/3	3/3	✓
Sir Adrian Swire	4/6			✓
Independent Non-Executive Directors				
V H C Cheng (resigned on 31st January 2008)	1/1			N/A
C K M Kwok	6/6	3/3	3/3	✓
C Lee	6/6	3/3	3/3	✓
M C C Sze	6/6			✓
M M T Yang	3/6			✓
M Leung (appointed on 1st March 2008)	4/5			x
T G Freshwater	6/6			✓
Average attendance	93%	100%	100%	94%

Directors' and Officers' Insurance

Swire Pacific has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

Conflict of Interest

If a Director has a conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting attended by Directors who have no material interest in the transaction.

Delegation by the Board

Responsibility for delivering Swire Pacific's strategies and objectives, as established by the Board, and for day-to-day management is delegated to the Executive Director or Officer at the head of each business unit. These individuals have been given clear guidelines and directions as to their powers and, in particular, the circumstances under which they should report back to, and obtain prior approval from, the Board before making any commitments on behalf of Swire Pacific.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of profit and loss, balance sheets and cash flows compared to budget and forecast
- the output of both internal and external audit reports
- significant controls breakdowns
- feedback from external parties such as customers, business partners, trade associations and other service providers

Securities Transactions

The Company has adopted a code of conduct ("the Securities Code") regarding securities transactions by Directors and Officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Group website.

A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2008 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 84 and 85. In addition, one of the Executive Officers of the Company, J B Rae-Smith, is interested personally in 10,000 'B' shares of the Company and 73,066 ordinary shares and 18,821 preference shares of John Swire & Sons Limited, an associated corporation of the Company, and is also interested as one of the beneficiaries of trusts which hold 5,000 'A' shares of the Company and 97,659 ordinary shares and 9,628 preference shares of John Swire & Sons Limited.

Remuneration Committee

Full details of Directors' and Executive Officers' remuneration are provided in note 8 to the accounts.

The Remuneration Committee comprises three Non-Executive Directors, two of whom – C K M Kwok and C Lee – are Independent Non-Executive Directors. The Committee is chaired by P A Johansen.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Group website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited ("Swire"), which has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of this agreement, staff at various levels, including Executive Directors and Officers, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. As a substantial shareholder of Swire Pacific, it is in the best interest of the Swire group to ensure that executives of high quality are seconded to and retained within the Group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement fund, leave-passages and education allowances and, after three years' service, a bonus related to the overall profit of Swire, of which the predominant element is derived from the Group.

Although the remuneration of these executives is not entirely linked to the profits of the business in which they are working, it is considered that, given the different profitability profiles of businesses within the Group, these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre senior management team within the Group.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors and Officers at its meeting in November 2008. At this meeting the Committee considered a report prepared

for it by Mercer Human Resource Consulting Limited ("Mercer"), an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors and Officers, as disclosed in note 8 to the accounts was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

On the recommendation of the Committee, the Board approved the following fee levels:

Fee	2008 HK\$	2009 HK\$
Director's Fee	600,000	600,000
Fee for Audit		
Committee Chairman	200,000	200,000
Fee for Audit		
Committee Member	150,000	150,000
Fee for Remuneration		
Committee Chairman	65,000	65,000
Fee for Remuneration		
Committee Member	50,000	50,000

Accountability and Audit

Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim accounts and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable
- ensuring that the application of the going concern assumption is appropriate

Internal Controls

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's system of internal controls with a view to ensuring that shareholders' investments and the Company's assets are safeguarded. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 71 and 72.

The foundation of a strong system of internal control is a solid control environment. This is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the purpose of internal controls is to help manage and control, rather than eliminate, risk. Consequently internal controls can only provide reasonable, and not absolute, assurance against misstatement or loss.

The key components of the Group's control structure are as follows:

Culture: The Board believes that good governance is fundamentally about the culture of an organisation. This is more significant than any written procedures.

Swire Pacific aims at all times to act ethically and with integrity and to instil this behaviour in all its employees by example from the Board down. Training courses on the Code of Conduct are provided to emphasise its importance across the Group.

Swire Pacific is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's philosophy.

Channels of communication are clearly established, allowing employees a means of communicating their

views upstream with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct employees are encouraged and instructed on how to report control deficiencies or suspicion of impropriety to those who are in a position to take necessary action.

Risk Assessment: The Board of Directors and the management each have responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine a basis for how such risks should be managed and mitigated.

There are two key management committees which monitor risk processes throughout the Group: the Group Risk Management Committee ("GRMC") and the Finance Committee. These are primarily made up of senior management and both are chaired by the Group Finance Director who reports to the Board on matters of significance that arise.

The GRMC, discussed further on pages 75 and 76, focuses on business, operational, safety, security and reputational risks. The Finance Committee, discussed further on page 76, focuses on broad financial and treasury risks.

Management Structure: The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and ongoing monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A Control Self Assessment process requires the management in each material business unit to assess, through use of detailed questionnaires, the adequacy and efficiency of controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by Internal Audit and form part of the Audit Committee's annual assessment of control effectiveness.

Controls and Review: The control environment comprises a diverse range of policies and procedures that help to ensure that the relevant management directives are carried out and any actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasions, be some overlap between them. The common control activities adopted by the Group are the following:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing a variety of controls to check the accuracy, completeness and authorisation of transactions, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary. By investigating unexpected results or unusual trends, management can identify circumstances where the underlying objectives are in danger of not being achieved
- segregation of duties: dividing and segregating duties amongst different people, to strengthen checks and minimise the risk of errors and abuse

Swire Pacific has in place effective processes and systems to identify, capture and report operational, financial, and compliance-related information in a form and time-frame designed to ensure staff carry out their designated responsibilities.

Internal Audit: Independent of management, the Internal Audit function reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting and financial procedures. The role of Internal Audit is discussed further on pages 72 and 73.

Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, C K M Kwok, C Lee and P A Johansen, assists the Board in discharging its responsibilities for corporate governance and financial reporting. Two of the Committee members are Independent Non-Executive Directors, one of whom, C K M Kwok, is Chairman. All the members served for the whole of 2008.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and comply with the CG Code and are available on the Group website.

The Audit Committee met three times in 2008. Regular attendees at the Audit Committee meetings are the Group Finance Director, the Head of Internal Audit and the external auditors. The Committee meets regularly with the external auditors without the presence of Company management. Each meeting receives written reports from the Group Risk Management Committee, the external auditors and Internal Audit. Other attendees during the year included the independent property valuers and the Deputy Finance Director.

The work of the Committee during 2008 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2007 annual and 2008 interim accounts and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements

- the Group's internal controls and risk management systems and its compliance with the CG Code
- the Group's risk management processes
- the approval of the 2009 annual Internal Audit programme and review of progress on the 2008 programme
- periodic reports from Internal Audit and progress in resolving any matters identified therein
- significant accounting and audit issues
- the Company's policy regarding connected party transactions and the nature of such transactions
- overseeing and managing the relationship with external auditors as discussed on page 73

In 2009, the Committee has reviewed, and recommended to the Board for approval, the 2008 accounts.

Assessing the Effectiveness of Internal Controls

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's systems of internal controls dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the systems of internal control, the work of Internal Audit and the assurances provided by the Group Finance Director
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed

- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit and the Group Risk Management Committee
- internal and external audit plans
- significant issues arising from internal and external audit reports
- the results of management's Control Self Assessment exercise

As a result of the above review, the Board confirms that the Group's internal control systems are adequate and effective and have complied with the CG Code provisions on internal control throughout the year and up to the date of this annual report.

Internal Audit Department

Swire Pacific has had an Internal Audit (IA) department in place for 13 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 16 audit professionals and conducts audits of the Group and certain associates. The 16 professionals include a team based in Mainland China which reports into IA in Hong Kong.

IA has primary reporting lines to the Chairman of the Board and, without the need to consult with management, to the Chairman of the Audit Committee and via him to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

Scope of Work

Business unit audits are designed to provide assurance that the internal control systems of Swire Pacific are designed and operating effectively, and that the risks associated with the achievement of business objectives are being identified, monitored and managed properly.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) framework, considering such factors as recognised risks, overall materiality of each unit, previous IA results, external auditors' comments, organisational change, output from the work of the Group Risk Management Committee and management's views. In any event each business would typically be audited at least every three years. Acquired businesses would normally be audited within six months. 29 assignments were conducted for Swire Pacific in 2008, with a further 13 audit visits and reviews conducted by the Mainland China team.

IA specifically assists the Audit Committee in assessing the effectiveness of the Group's internal controls through its review of the process by which management has completed the annual Control Self Assessment, and the results thereof.

The department also conducts ad hoc projects and investigative work as may be required by management or the Audit Committee.

Audit Conclusion and Response

Copies of IA reports are sent to the Chairman, the Group Finance Director, and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations. These are agreed by IA included in the reports and followed up with a view to ensuring that they are satisfactory resolved.

External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in regard to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation provided to the auditors in respect of the interim and annual accounts
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors.
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided to ensure their independence and objectivity would not be, or be seen to be, compromised
- approval of audit and non-audit fees

Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and stakeholders. The Audit Committee assesses the independence of the auditors through a series of questions including seeking confirmation of any matters known by the auditors which may impinge on this and obtaining confirmation that their proposed audit fee provides them with what they consider a fair return for this service, irrespective of any additional work that they may provide. The Board also receives from the auditors, in accordance with their professional ethics, formal confirmation that they consider themselves to be independent of Swire Pacific.

Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

Fees paid to the auditors are disclosed in note 6 to the accounts.

Shareholders

Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The principal methods used to communicate with shareholders include the following:

- The Group Finance Director makes himself available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at other select times during the year. In 2008 he held seven meetings with analysts and investors in Hong Kong, conducted two analyst briefings, one investor group briefing, five overseas roadshows and spoke at two investor conferences. In addition, the Group Deputy Finance Director met with investors and analysts on a number of other occasions
- Through the Group website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the final and interim results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- Through publication of annual and interim reports
- Through the AGM as discussed below

The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 8th May 2008. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 67.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. Detailed procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited accounts for the year ended 31st December 2007
- declaration of Final dividends
- re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share repurchases
- a general mandate authorising the Directors to allot and issue shares up to 20% of the then issued share capital, provided that the aggregate nominal amount of the shares of any class so allotted wholly for cash would not exceed 5% of the aggregate nominal amount of the shares then in issue

Minutes of the meeting together with voting results are available on the Group website.

Other Information for Shareholders

Key shareholder dates for 2009 are set out on the inside back cover of this report and in the Financial Calendar on the Group website.

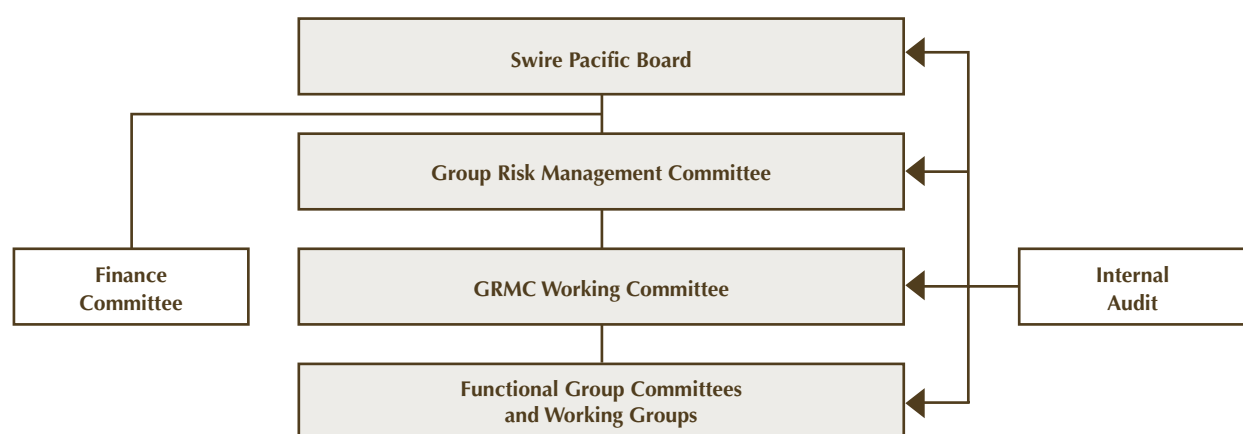
From information publicly available to the Company and within the knowledge of its Directors, at least 25% of each class of the Company's total issued share capital is held by the public. Details of the shareholder profile of the Company are included in the Directors' Report on pages 85 and 86.

Risk Management

The Board of Directors and the management of each division are responsible for identifying and analysing the risks underlying the achievement of business objectives, and for determining a basis for how such risks should be managed and mitigated.

There are two key management committees which seek to monitor the full spectrum of risks throughout the Group; the Group Risk Management Committee (“GRMC”) and the Finance Committee. These are made up of members of senior management and both are chaired by the Group Finance Director, who reports to the Board on matters of significance that arise.

Risk Governance Structure



Group Risk Management Committee

In line with the responsibility delegated by the Board the role of the GRMC is to provide oversight of all of the Group’s risks, except for those expressly covered by the Finance Committee, including setting risk management policies and strategies. This Committee was reconstituted in 2008 and now reports directly to the Board. It comprises the Executive Directors and Officers representing the operating divisions and is chaired by the Group Finance Director.

The Committee oversees eight functional group committees and working groups. These cover the following areas: Human Resources, Health & Safety, Insurance, Community Engagement, Information Technology, Environment, Supply Chain Sustainability and Enterprise Risk Management.

The GRMC’s oversight role includes those areas which can be collectively categorised as Sustainable Development.

In 2008, the GRMC met twice and its functional group committees and working groups met a total of 17 times. The GRMC will meet three times a year from 2009.

The members of the functional group committees and working groups are specialists in their respective areas and each committee is chaired by a member of the GRMC Working Committee. This working committee has been established to monitor the activities of each of the functional group committees and working groups and to submit consolidated proposals on key risk issues to the GRMC.

The role of the functional group committees and working groups is to identify risks and opportunities which fall within their respective functional areas and to draw up policy recommendations for GRMC review and approval. The policies approved by the GRMC will apply to all companies in which Swire Pacific has a controlling interest. The boards of these operating companies will be required to adopt these policies and to establish procedures to ensure compliance with them. Jointly controlled and associated companies will be encouraged to adopt Group policies.

The management of the full spectrum of risks is subject to audit by the Group's Internal Audit department, with support from specialist external consultants where necessary.

Finance Committee

The role of the Finance Committee is to provide oversight of the Group's financial risks, including setting the Group's financial risk management policies and procedures. These are implemented both within the Group's central financial reporting function as well as the divisional finance functions.

The Finance Committee consists of the Group Finance Director, the Group Deputy Finance Director, four Divisional Finance Directors, the General Manager Corporate Finance, the Treasurer, the Group Finance Manager and the Group Taxation Manager. In 2008, the Finance Committee met four times.

The Group's approach to financial risk management is discussed below.

Financial Risk Management

Audited Financial Information

Structure and Policies

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

The Finance Committee maintains and develops the Group's financial risk management policies and procedures. These policies and procedures are implemented by the Head Office Treasury department, within an agreed framework authorised by the Board.

The Treasury department manages the majority of the Group's funding needs, as well as resulting interest rate, currency, credit and liquidity risks. Operating subsidiaries manage currency and credit exposures that are specific to their trading transactions.

It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk and the Group has minimised its exposure to market risk since gains and losses on derivatives offset the losses and gains on the assets, liabilities or transactions being hedged. Accounting for derivative financial instruments and hedging activities is discussed on pages 147 and 148.

The Group's listed associated companies arrange their financial and treasury affairs on a stand-alone basis. The Group's non-listed jointly controlled and associated companies also arrange their financial and treasury affairs on a stand-alone basis. The Company may provide financial support by way of guarantees to its non-listed jointly controlled and associated companies in cases where significant cost savings are available and risks are acceptable.

Audited Financial Information (continued)

Interest Rate Exposure

The Group's interest rate risk arises primarily from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group earns interest income on cash deposits.

The Group maintains a significant proportion of debt on a fixed rate basis with a view to increasing certainty of funding costs. The level of fixed rate debt for the Group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the cash flow cycles of the Group's businesses and investments. In this regard the Group uses interest rate swaps to manage its long-term interest rate exposure. The Group Finance Director approves all interest rate hedges prior to implementation.

On a quarterly basis, the Treasury department calculates the effect of the Group's exposure to interest rate fluctuations on forecast earnings and cash flows by performing sensitivity testing which varies forecast interest rates. The Treasury department reports the results of this testing to the Finance Committee. Refer to page 102 for details of the sensitivity testing performed at year-end.

Currency Exposure

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group's policy is to fully hedge all highly probable transactions in each major currency where their value or time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or derivative contract is not prohibitively expensive in comparison to the underlying exposure.

Exposure to movements in exchange rates on transactions other than borrowings is minimised using forward foreign exchange contracts where active markets for the relevant currencies exist. At 31st December 2008, the Group had hedged all its significant foreign currency funding exposures.

Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency.

Foreign currency funding and deposit exposure is monitored by the Treasury department on a continuous basis and hedging proposals are presented to the Finance Committee. On a quarterly basis, the Treasury department performs sensitivity testing by varying forecast foreign exchange rates. The results of this testing are used to assess whether positions should remain unhedged. Refer to pages 102 and 103 for details of the sensitivity testing performed at year-end.

Credit Exposure

The Group's credit risk is primarily attributable to trade and other receivables with wholesale customers, derivative financial instruments and cash and deposits with banks and financial institutions. Individual operations are responsible for setting credit terms appropriate to their industry and assessing the credit profile of individual customers.

Standard settlement terms within the Beverages Division and Swire Pacific Offshore are 30 days from the date of invoice. In accordance with the provisions of the Property Division's standard tenancy agreements, rentals and other charges are due on the first day of each calendar month. Typically sales to retail customers within Swire Resources are made by cash or major credit cards. The Group has no significant credit risk with any one customer.

Audited Financial Information (continued)**Credit Exposure (continued)**

When depositing surplus funds or entering into derivative contracts, the Group controls its exposure to non-performance by counterparties by transacting with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are proposed by the Treasury department and approved by the Group Finance Director. The Treasury department monitors the counterparties' credit ratings and issues an approved list of counterparties with their limits on a quarterly basis to all subsidiaries. Group companies require prior approval from the Treasurer to transact with banks not on the approved list.

The Group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of a derivative. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

The maximum credit risk in respect of contingencies is disclosed in note 39 to the accounts.

Liquidity Risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their respective tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits to further reduce liquidity risk and allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its refinancing and capital commitments for the following 12 months on a rolling basis, excluding its onshore Renminbi debt funding where forward commitments are not readily available.

The Treasury department produces a forecast funding plan for the Group on a quarterly basis and a summary forecast on a monthly basis, in order to assess committed and probable funding requirements. The plan includes an analysis of debt refinancing by year and by source of funds. The Treasurer presents the forecast funding plan together with funding proposals to the Group Finance Director on a regular basis, and to the Finance Committee. Refer to page 103 for details of the Group's contractual obligations at year-end.

Price Risk

The Group is exposed to price risk in relation to listed equity securities held as available-for-sale investments. Management regularly reviews the expected returns from holding such investments, on an individual basis.

Directors and Officers

Executive Directors

- * **Pratt, Christopher Dale, CBE**, aged 52, has been Director and Chairman of the Company since February 2006. He is also Chairman of Cathay Pacific Airways Limited, Hong Kong Aircraft Engineering Company Limited and John Swire & Sons (H.K.) Limited, and a Director of Air China Limited and The Hongkong and Shanghai Banking Corporation Limited. He will become Chairman of Swire Properties Limited on 1st June 2009. He joined the Swire group in 1978 and has worked with the group in Hong Kong, Australia and Papua New Guinea.
- * **Chen, Nan Lok Philip**, aged 53, has been a Director of the Company since May 2005. He is also Chairman of John Swire & Sons (China) Limited, Deputy Chairman of Cathay Pacific Airways Limited, and a Director of Air China Limited, Swire Properties Limited and Swire Beverages Limited. He joined the Swire group in 1977 and in addition to Hong Kong has worked with the group in Mainland China and the Asia Pacific region.
- * **Cubbon, Martin**, aged 51, has been a Director of the Company since September 1998, with responsibility for Group Finance. He will relinquish this responsibility on 1st April 2009, will assume responsibility for the Property Division on 14th May 2009 and will become the chief executive officer of Swire Properties Limited on 1st June 2009. He is also a Director of Cathay Pacific Airways Limited, Hong Kong Aircraft Engineering Company Limited and Swire Properties Limited and Chairman of Swire Beverages Limited. He joined the Swire group in 1986.
- * **Ho, Cho Ying Davy**, aged 61, has been a Director of the Company since March 1997. He is Chairman of the Swire group's Taiwan operations and of a number of Swire group companies with shipping and travel interests. He is also a Director of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1970 and has worked with the group in Hong Kong and Taiwan.
- * **Kerr, Keith Graham**, aged 56, has been a Director of the Company since January 1991. He will retire as a director on 14th May 2009. He joined Swire Properties Limited in 1975 and was appointed

Managing Director in February 1989 and Chairman in January 2005.

- * **Kilgour, Peter Alan**, aged 53, will become the Finance Director of the Company on 1st April 2009. He is a Director of Swire Properties Limited and has been its Finance Director since 2001. He joined the Swire group in 1983.
- * **Slosar, John Robert**, aged 52, has been a Director of the Company since May 2006. He is also a Director and Chief Operating Officer of Cathay Pacific Airways Limited, and a Director of Hong Kong Dragon Airlines Limited. He joined the Swire group in 1980 and has worked with the group in Hong Kong, the United States and Thailand.
- * **Tyler, Antony Nigel**, aged 53, has been a Director of the Company since January 2008. He is also a Director and Chief Executive of Cathay Pacific Airways Limited and Chairman of Hong Kong Dragon Airlines Limited. He joined the Swire group in 1977 and has worked with the group in Hong Kong, Australia, the Philippines, Canada, Japan, Italy and the United Kingdom.

Non-Executive Directors

Baroness Dunn, Lydia Selina, DBE, aged 69, has been a Director of the Company since February 1981 and until January 1996 had responsibility for the Trading Division. She is also a director of John Swire & Sons Limited. She joined the Swire group in 1963.

Hughes-Hallett, James Wyndham John, SBS, aged 59, has been a Director of the Company since January 1994 and was appointed Deputy Chairman in March 1998 and Chairman in June 1999. He stepped down as Chairman in December 2004 to become Chairman of John Swire & Sons Limited. He is also a Director of Cathay Pacific Airways Limited, Swire Properties Limited and HSBC Holdings plc. He joined the Swire group in 1976 and has worked with the group in Hong Kong, Taiwan, Japan and Australia.

- +# **Johansen, Peter André**, aged 66, has been a Director of the Company since January 1983 and was Finance Director until April 1997. He joined the Swire group in 1973 and worked in Hong Kong, Japan and the United Kingdom before retiring from John Swire & Sons Limited on 31st December 2008. He is also

a Director of Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited.

Swire, Merlin Bingham, aged 35, has been a Director of the Company since January 2009. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia and Mainland China. He is a Director and shareholder of John Swire & Sons Limited and a Director of Hong Kong Aircraft Engineering Company Limited.

Independent Non-Executive Directors

Freshwater, Timothy George, aged 64, has been a Director of the Company since January 2008. He is Vice Chairman and a director of Goldman Sachs (Asia) L.L.C., a Non-Executive Director of Chong Hing Bank Limited and Grosvenor Asia Pacific Limited, and an Independent Non-Executive Director of Cosco Pacific Limited and Aquarius Platinum Limited. He is also a Director of the Community Chest of Hong Kong and a member of the Hong Kong Trade Development Council.

+ # **Kwok, King Man Clement**, aged 49, has been a Director of the Company since September 2002. He is Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited. He also serves as a Director of the Community Chest of Hong Kong.

+ # **Lee, Chien**, aged 55, has been a Director of the Company since January 1993. He is a Director of Hysan Development Company Limited and an Independent Non-Executive Director of Television Broadcasts Limited. He is also a member of the Council of the Chinese University of Hong Kong and the Hong Kong Institute of Education.

Leung, Margaret, aged 56, has been a Director of the Company since March 2008. She is Group General Manager and Global Co-Head Commercial Banking for the HSBC Group and a Director of HSBC Global Asset Management (Hong Kong) Ltd and Wells Fargo HSBC Trade Bank NA.

Notes:

* These Directors are also Directors of John Swire & Sons (H.K.) Limited. P A Kilgour will become a Director on 1st April 2009

+ These Directors are members of the Audit Committee

These Directors are members of the Remuneration Committee

All the Executive Directors and Executive Officers, Baroness Dunn, J W J Hughes-Hallett and M B Swire are employees of the John Swire & Sons Limited group.

Sze, Cho Cheung Michael, GBS, CBE, ISO, JP aged 63, has been a Director of the Company since November 2004. He was a former Executive Director of the Hong Kong Trade Development Council, a position he held for eight years prior to his retirement on 1st May 2004. Before that, he worked for 25 years in various capacities in the Hong Kong Government. He is also a Non-Executive Director of Lee Kum Kee Co., Ltd.

Yang, Mun Tak Marjorie, aged 56, has been a Director of the Company since October 2002. She is a member of the Executive Council of the Government of Hong Kong SAR. She is also Chairman of Esquel Group, and a Director of The Hongkong and Shanghai Banking Corporation Limited and Novartis AG. She sits on various advisory boards of educational institutions including Massachusetts Institute of Technology, Hong Kong University of Science and Technology and Tsinghua School of Economics and Management.

Executive Officers

Cundle, Geoffrey Leslie, aged 52, has been Executive Director of the Beverages Division since July 2007. He joined the Swire group in 1979 and has worked with the group in Hong Kong, Australia, Korea, Japan and Papua New Guinea.

Rae-Smith, John Bruce, aged 45, has been Executive Director of Swire Pacific Offshore since January 2008 and Executive Director of the Trading & Industrial Division since January 2009. He joined the Swire group in 1985 and has worked with the group in Australia, Papua New Guinea, Japan, Taiwan, Hong Kong, the United States and Singapore.

Secretary

Fu, Yat Hung David, aged 45, has been Company Secretary since January 2006. He joined the Swire group in 1988.

Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31st December 2008, which are set out on pages 95 to 163.

Principal Activities

The principal activity of Swire Pacific Limited (the "Company") is that of a holding company, and the principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 152 to 163. An analysis of the Group's performance for the year by business and geographical segments is set out in note 7 to the accounts.

Dividends

The Directors recommend the payment of Final dividends for 2008 of HK¢148.0 per 'A' share and HK¢29.6 per 'B' share which, together with the Interim dividends paid on 3rd October 2008 of HK¢90.0 per 'A' share and HK¢18.0 per 'B' share, make total dividends for the year of HK¢238.0 per 'A' share and HK¢47.6 per 'B' share: a reduction of 26.3% from those for 2007. This represents a total distribution for the year of HK\$3,591 million. Subject to the approval of the 2008 Final dividends by the shareholders at the Annual General Meeting on 14th May 2009, it is expected that those dividends will be paid on 2nd June 2009 to shareholders registered on the record date, being 14th May 2009. The share registers will be closed from 11th May 2009 to 14th May 2009, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement to the Final 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 Friday, 8th May 2009.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 36 to the accounts.

Share Capital

During the year under review and up to the date of this report, the Company purchased 9,986,000 'A' shares and 8,266,271 'B' shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). These purchases were made for the benefit of the Company and shareholders taking into account relevant factors and circumstances at the time. All the shares purchased were cancelled. Particulars of shares repurchased during the year under review and details of the Company's share capital are set out in note 35 to the accounts.

The Group did not, other than as stated above, purchase, sell or redeem any of its shares, and the Group has not adopted any share option scheme.

Accounting Policies

The principal accounting policies of the Group are set out on pages 142 to 151.

Auditors

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

Financial Review

A review of the results, balance sheet and cash flows is shown on pages 47 to 54. A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 4 and 5.

Corporate Governance

The Company has complied throughout the year with all the code provisions and most of the recommended best practices in the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Details of the Company's corporate governance practices are set out on pages 63 to 74.

Donations

During the year, the Group made donations for charitable purposes of HK\$33 million and donations towards various scholarships of HK\$1 million.

Fixed Assets

For details of movements in fixed assets refer to notes 14 and 15 to the accounts. An analysis of capital expenditure by division is shown in note 7 to the accounts.

The annual valuation of the Group's investment property portfolio, whether complete or in the course of development, was carried out by professionally qualified (and principally external) valuers on the basis of open market value at 31st December 2008 resulting in an increase of HK\$177 million in their carrying values.

A schedule of the principal properties of the Group and its jointly controlled and associated companies is given on pages 167 to 177.

Borrowings

For details of the Group's borrowings refer to pages 55 to 62.

Interest

Refer to page 58 for details of the amount of interest capitalised by the Group.

Major Customers and Suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and suppliers respectively.

Directors

The Directors of the Company as at the date of this report are listed on pages 79 and 80. With the exception of M Leung, who was appointed as an Independent Non-Executive Director on 1st March 2008, and M B Swire, who was appointed as a Non-Executive Director on 1st January 2009, all the Directors at the date of this report served throughout the calendar year 2008. V H C Cheng served as an Independent Non-Executive Director until he resigned on 31st January 2008. Sir Adrian Swire served as a Non-Executive Director until he resigned on 1st January 2009. K G Kerr served as Alternate Director to Sir Adrian Swire during the year until Sir Adrian Swire resigned. P A Kilgour will become an Executive Director on 1st April 2009. K G Kerr will cease to be an Executive Director on his retirement on 14th May 2009.

Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors listed on page 80 confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent. The confirmation from T G Freshwater refers to his directorship of Goldman Sachs (Asia) L.L.C. mentioned under "Directors and Officers – Independent Non-Executive Directors" on page 80.

Term of Appointment

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third Annual General Meeting following their election by ordinary resolution. In accordance therewith, C D Pratt, P N L Chen, D Ho, J W J Hughes-Hallett, K G Kerr, C K M Kwok and M M T Yang will retire this year and being eligible, all of them, except K G Kerr, will offer themselves for re-election. M B Swire and P A Kilgour, having been appointed to the Board under Article 91 since the last Annual General Meeting, will also retire and offer themselves for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees and Emoluments

Full details of Directors' fees and emoluments are set out in note 8 to the accounts.

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK\$4,000,000. They received no other emoluments from the Group.

Directors' Interests

At 31st December 2008, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Cathay Pacific Airways Limited and Hong Kong Aircraft Engineering Company Limited:

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Pacific Limited						
'A' shares						
P N L Chen	–	2,000	–	2,000	0.0002	–
P A Johansen	31,500	–	–	31,500	0.0035	–
C D Pratt	21,000	–	–	21,000	0.0023	–
Sir Adrian Swire	–	–	794,473	794,473	0.0877	1
M C C Sze	6,000	–	–	6,000	0.0007	–
'B' shares						
P N L Chen	65,000	10,142	–	75,142	0.0025	–
D Ho	100,000	–	–	100,000	0.0033	–
P A Johansen	200,000	–	–	200,000	0.0067	–
C Lee	750,000	–	21,605,000	22,355,000	0.7464	2
C D Pratt	50,000	–	–	50,000	0.0017	–
Sir Adrian Swire	4,813,169	–	15,741,913	20,555,082	0.6863	1

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
John Swire & Sons Limited						
Ordinary Shares of £1						
Baroness Dunn	8,000	–	–	8,000	0.01	3
Sir Adrian Swire	2,042,152	2,688,139	24,815,975	29,546,266	29.55	4
8% Cum. Preference Shares of £1						
Baroness Dunn	2,400	–	–	2,400	0.01	3
Sir Adrian Swire	1,642,491	–	7,332,727	8,975,218	29.92	4

	Capacity		Total no. of shares	Percentage of issued capital (%)	
	Beneficial interest				
	Personal	Family			
Cathay Pacific Airways Limited					
Ordinary Shares					
P N L Chen	–	9,000	–	9,000	0.00023
A N Tyler	–	5,000	–	5,000	0.00013

	Capacity		Total no. of shares	Percentage of issued capital (%)
	Beneficial interest			
	Personal	Family		
Hong Kong Aircraft Engineering Company Limited				
Ordinary Shares				
T G Freshwater	10,000	1,200	11,200	0.0067
J R Slosar	10,000	–	10,000	0.0060
M C C Sze	12,800	–	12,800	0.0077

Notes:

1. All the Swire Pacific Limited 'A' and 'B' shares held by Sir Adrian Swire under "Trust interest" are held by him as trustee only and he has no beneficial interest in those shares.
2. All the Swire Pacific Limited 'B' shares held by C Lee under "Trust interest" are held by him as beneficiary of trusts.
3. Sir Adrian Swire has a residual beneficial interest in 4,000 Ordinary Shares and 1,200 Preference Shares in John Swire & Sons Limited held by Baroness Dunn. These holdings are therefore duplicated in the personal interest of Sir Adrian Swire.
4. Neither Sir Adrian Swire nor his wife, who are trustees of trusts which hold the Ordinary and Preference Shares in John Swire & Sons Limited listed under "Trust interest", has 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).

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which the Company or any of its associated corporations was a party, being a contract which was of significance and in which the Director's interest was material.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Directors' Interests in Competing Businesses

None of the Directors or their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Substantial Shareholders' and Other Interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2008, the Company had been notified of the following interests and short position in the Company's shares:

Long position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
Substantial Shareholders					
John Swire & Sons Limited	166,427,138	18.38	2,038,165,765	68.05	1
Franklin Resources, Inc.	103,228,390	11.03	–	–	2
J.P. Morgan Chase & Company	73,357,142	8.01	–	–	3
Commonwealth Bank of Australia	64,100,000	7.07	–	–	4
The Northern Trust company (ALA)	46,672,200	5.10	–	–	5
Aberdeen Asset Management plc	–	–	330,292,362	11.00	6

Short position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
J.P. Morgan Chase & Company	985,550	0.11	–	–	7

Notes:

- John Swire & Sons Limited is deemed to be interested in a total of 166,427,138 'A' shares and 2,038,165,765 'B' shares of the Company as at 31st December 2008, comprising:
 - 12,632,302 'A' shares and 37,597,019 'B' shares held directly;
 - 39,580,336 'A' shares and 1,482,779,167 '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: 114,214,500 'A' shares and 95,272,500 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 321,240,444 'B' shares held by Shrewsbury Holdings Limited and 99,221,635 'B' shares held by Tai-Koo Limited.
- This notification was filed under the repealed Securities (Disclosure of Interests) Ordinance and the capacities in which they are held were not given.
- The shares held by J.P. Morgan Chase & Company are held in the following capacities:

Capacity	No. of shares
Beneficial owner	2,944,993
Investment manager	12,786,765
Custodian Corporation/Lending agent	57,625,384

- The interest in these shares was attributable to wholly-owned controlled corporations of Commonwealth Bank of Australia.
- This notification was filed as a notice under Section 5(4) of the Securities and Futures (Disclosure of Interests – Securities Borrowing and Lending) Rules. Details of the capacities in which the shares are held were not given.
- Aberdeen Asset Management plc is interested in these shares in its capacity as investment manager. These includes shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc are interested.
- This short position is held in the capacity as beneficial owner, and comprises holdings in the following categories of derivatives:

Categories of derivatives	No. of shares
Cash settled listed derivatives	68,050
Physically settled unlisted derivatives	917,500

At 31st December 2008, the Swire group owned interests in shares of the Company representing approximately 38.15% of the issued capital and approximately 56.52% of the voting rights.

Public Float

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of each class of the Company's issued share capital was held by the public at all times during the period under review.

Agreements for Services

There are agreements for services ("Agreements"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK"), a wholly-owned subsidiary of John Swire & Sons Limited ("Swire"), provided to the Company and some of its subsidiary and associated companies advice and expertise of the directors and senior officers of the Swire group, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may have been agreed from time to time, and procured for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire.

In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and jointly controlled companies of the Company, where there were 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 minority interests after certain adjustments. The fees for each year were payable in cash in arrears in two instalments; an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimbursed the Swire group at cost for all expenses incurred in the provision of the services.

The Agreements took effect from 1st January 2005 and were renewed on 1st October 2007 for a term of three years from 1st January 2008 to 31st December 2010. They are renewable for successive periods of three years thereafter unless either party to them gives to the other notice of termination of not less than three months expiring on any 31st December.

The Agreement between JSSHK and the Company was amended and restated on 18th September 2008 to the effect that JSSHK is obliged to procure for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procurement obligation or such use.

The Swire group owned approximately 38.15% of the issued capital of the Company and approximately 56.52% of its voting rights as at 31st December 2008. JSSHK, as a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the Agreements are continuing connected transactions in respect of which announcements dated 1st December 2004 and 1st October 2007 were published.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2008 are given in note 41 to the accounts.

As directors and employees of the Swire group, P N L Chen, M Cubbon, K G Kerr, D Ho, J W J Hughes-Hallett, P A Kilgour, C D Pratt, J R Slosar and A N Tyler are interested in the Agreements. Sir Adrian Swire was interested as a shareholder of Swire. P A Johansen was interested as a shareholder, director and employee of Swire. Baroness Dunn and M B Swire are interested as shareholders, directors and employees of Swire.

The Independent Non-Executive Directors of the Company, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the Group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed these transactions and confirmed to the Board that these transactions have been approved by the Board of the Company and have been entered into in accordance with the relevant agreements governing the transactions; and that they have not exceeded the relevant annual caps disclosed in previous announcements.

On behalf of the Board


Christopher Pratt

Chairman

Hong Kong, 12th March 2009

A young boy with short dark hair is sitting on the grass, reading a book. He is wearing a light-colored t-shirt. The background is a soft, hazy landscape. A dark horizontal band is overlaid across the middle of the image, containing the text "Sustaining the Future" in white serif font.

Sustaining the Future

A sepia-toned photograph of a field. On the left side, there is a large, dark haystack. In the foreground, several thin, dark plants with small seed heads are visible against the lighter background of the field. The sky is a uniform, light color, suggesting a bright or overcast day. The overall mood is quiet and rural.

Swire Pacific recognises that creating long-term value for our shareholders depends on the sustainable development of our businesses. Community and environmental considerations form an integral part of our business decision-making processes.

Sustainable Development

- The Group issues a separate Sustainable Development Report annually. Its 2008 Sustainable Development Report will be issued by the end of June 2009 detailing its progress on sustainable development issues. This report, together with the reports of its major operating companies, will be accessible on the Group website.
- The Group's approach to sustainable development reporting is explained on the Group website. It includes using the Global Reporting Initiative framework to facilitate systematic and consistent measurement of performance.
- Highlights of each of the areas to be covered by the Group's 2008 Sustainable Development Report are set out below.

Sustainable Development Issues

- While less immediate than the financial crisis and economic downturn, sustainable development issues faced by the world have become more challenging over the last year. They include climate change, availability of water, deforestation and conflicts caused by scarcity of resources.
- The long-term risk of dangerous climate change remains the most significant issue. There is now increased governmental recognition of the need for urgent, substantial action to reduce greenhouse gas emissions. The Hokkaido G8 meeting in July 2008 called for a 50% reduction in global emissions by 2050 and several OECD countries are working on plans for a reduction of at least 80%. The action required to achieve these reductions will substantially change the global economy.
- The technological and economic changes required to reduce greenhouse gas emissions and meet other challenges will significantly affect the Group's businesses in the medium and long-term.

Swire Pacific's Response

- In 2007 the Group adopted a Sustainable Development policy which:
 - Recognised the link between shareholder value and the sustainable development of its businesses and the communities in which they operate
 - Committed the Group to working on environmental, health & safety, employment, supply chain and community issues which its operations affect
 - Committed the Group to work with other parties to promote sustainable development in the industries in which it operates
- Given the diversity of the Group, implementation of the policy is handled on a company by company basis with a structure of committees and working groups at Group level to share best practice and provide co-ordination. These committees are overseen by the Group Risk Management Committee (refer to page 75 for further details).
- Each company determines its sustainable development issues through its assessment of enterprise risks and by stakeholder engagement. During the year major Group companies developed stakeholder maps setting out the stakeholders affected by their businesses and identifying the issues of concern to them. They then engaged with key stakeholders to clarify their concerns.

Environment

- The need to reduce greenhouse gas emissions as part of avoiding dangerous climate change is the key long-term environmental issue for most of the Group's companies. Actions taken include:
 - Swire Pacific, Cathay Pacific and HAECO respond publicly to the Carbon Disclosure Project questionnaire (www.cdproject.net) each year and significant non-listed Group companies complete it as an internal exercise

- Swire Pacific is a member of The Climate Group (www.theclimategroup.com) and was a strategic partner for its October 2008 conference in Hong Kong. It also sponsored the Business Environment Council's Green China Forum in Shenzhen and the Climate Change Business Forum "carbon grill", where two leading academics briefed Hong Kong businessmen on the science and economics of climate change
 - In December 2008, Swire Pacific and Cathay Pacific joined over 140 global companies in signing the Poznan Communiqué on Climate Change, supporting a comprehensive framework to tackle climate change
 - Group companies are asked to measure and reduce their carbon emissions per unit of activity. They are also asked to estimate recurrent carbon emissions associated with major investments as part of the process for approving these investments
 - The Property Division continues to enhance the energy efficiency of its buildings. In early 2008, it established a three-year Building Energy Efficiency programme with Tsinghua University, Beijing to research into improvements in managing energy consumption, using operating data from its Building Management System. Detailed energy studies were carried out during 2008 at the Festival Walk retail and office centre in Hong Kong, resulting in recommendations which will reduce Festival Walk's annual emissions of CO₂ by 20% to 4,000 tonnes
 - Cathay Pacific and Dragonair became the first airlines in Asia to provide a carbon offset option for passengers with the launch of the "FLY Greener" programme in December 2007. The two airlines are committed to offsetting the carbon emissions associated with the business travel of their staff via this programme
- Other actions taken by the operating companies on environmental protection include:

- Swire Beverages reduced its water usage per litre of beverages produced by 13% and landfill waste per litre of beverage produced by 8%, thus saving 826,000 litres of water and reducing waste sent to landfills by 420,000 kg per annum
- Swire Properties continues to research and implement the latest green building design and construction technologies and practices

Health & Safety

- The Group is committed to the principle that business objectives should never be allowed to compromise safety. All operations are conducted, as far as is reasonably practicable, in a manner which safeguards the health and safety of all stakeholders: employees, customers, visitors, contractors and the wider community. A Group Occupational Health & Safety policy is in place to reinforce this commitment.
- Occupational health and safety programmes supported by seminars and training are implemented by Group companies with a view to minimising hazards in the workplace and preventing accidents, injuries and occupational disease.
- The Group also tracks incidents and injuries with a view to ensuring a rapid and effective response. Regrettably there were eight work-related fatalities within the workforce during 2008, including those at jointly controlled and associated companies. The Group takes all such incidents very seriously and thorough post accident investigations are conducted with a view to minimising the risk of reoccurrence.

Employees

- Swire Pacific is an equal opportunities employer, offering its staff competitive remuneration and benefit packages. It provides training and development programmes to help staff realise their full potential and consults them with a view to confirming they are committed to and share the values of the Company. It strives to provide an environment that promotes diversity and respect, safeguards health and safety and encourages an appropriate work-life balance.

- The Group's medical benefit schemes cover the health needs of its staff and their family members. An Employee Assistance Programme assists staff in relation to work and personal problems.
- The Group uses an intranet as an interactive platform to communicate with staff in Hong Kong on corporate developments and areas of staff interest.
- A Human Resources Committee has been established to oversee the coordination of human resources policies and initiatives in Group companies with a view to ensuring that the Group continues to lead in being an employer of choice.

Business Partners

- Swire Pacific has long-term joint-venture partnerships with several global corporations, with whom it shares best practice on managing environmental and community impacts.
- The Group recognises the importance of engaging with its suppliers on issues associated with the sustainable development of their communities. Its Supply Chain Sustainability Working Group brings together its procurement professionals to share best practice on working with suppliers on sustainability issues.

Communities

- Swire Pacific is committed to enhancing the communities of which it is a part and to respecting their culture and heritage. It reaches out to the communities through dialogue with stakeholders intended to understand their needs better and through community investment and staff volunteering programmes.
- Through the Swire Group Charitable Trust (Swire Trust), to which Swire Pacific is the major contributor, the Group supports programmes in the following areas:

- Education – this is a key foundation of an enlightened society providing its young people with the skills to build a better future for all. Each year, the Group provides a variety of scholarships to support primary, secondary and tertiary education in Hong Kong and overseas. Through scholarships, material support to universities, the work of its staff on various school boards and mentoring programmes for students, the Group seeks to make a difference in this area
- Arts and culture in Hong Kong – the Group aspires to promote creativity and to enrich culturally the community that has helped us grow and prosper, including by sponsorship of the Hong Kong Philharmonic Orchestra and Shakespeare4All and by bringing world-class arts events to Hong Kong
- Environment – the Group is committed to supporting wider community initiatives that aim to improve the environment. Major programmes launched in 2008 were:

- Commissioning WWF Hong Kong to develop the Sustainable lifestyle Target Education Programme (STEP) to teach primary school children in Hong Kong about climate change through fun and games
- Sponsoring, and staff participation in, the Guangzhou to Xiamen section of the Green Long March, raising awareness among university students and the wider public of China's environmental challenges and promoting sustainable solutions
- The Group responded to the devastating earthquake in Sichuan, China by engaging its staff in a Group-wide fundraising appeal with staff donations (matched by donations from individual companies and the Swire Trust) raising more than HK\$31 million to aid emergency relief. Dragonair provided free transport for direct relief efforts by flying doctors, aid workers and over 54 tonnes of supplies. Some 800 staff and their families and friends knitted 3,900 scarves to donate through Red Cross Sichuan to students at Beichuan Middle School in Mian Yang and others in need.

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Independent Auditor's Report

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

We have audited the accounts of Swire Pacific Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 95 to 163, which comprise the consolidated and Company balance sheets as at 31st December 2008, and the consolidated profit and loss account, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Accounts

The Directors of the Company are responsible for the preparation and the true and fair presentation of these accounts in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants, and the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of accounts that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on these accounts based on our audit and to report our opinion solely to you, as a body, in accordance with section 141 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the accounts. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the accounts, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31st December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Certified Public Accountants
Hong Kong, 12th March 2009

Consolidated Profit and Loss Account

For the year ended 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
Turnover	4	24,670	21,553
Cost of sales		(12,627)	(11,479)
Gross profit		12,043	10,074
Distribution costs		(3,016)	(2,687)
Administrative expenses		(1,677)	(1,346)
Other operating expenses		(373)	(262)
Profit on sale of interests in jointly controlled companies		1,721	1,122
Other net gains	5	278	232
Change in fair value of investment properties		177	19,446
Operating profit		9,153	26,579
Finance charges		(1,085)	(590)
Finance income		173	97
Net finance charges	9	(912)	(493)
Share of profits less losses of jointly controlled companies		638	621
Share of profits less losses of associated companies		(2,551)	3,684
Profit before taxation		6,328	30,391
Taxation	10	(47)	(4,004)
Profit for the year		6,281	26,387
Attributable to:			
The Company's shareholders	36	5,908	26,260
Minority interests	37	373	127
		6,281	26,387
Dividends			
Interim – paid		1,364	1,366
Final – proposed/paid		2,227	3,532
	12	3,591	4,898
		HK\$	HK\$
Earnings per share for profit attributable to the Company's shareholders (basic and diluted)	13		
'A' shares		3.90	17.26
'B' shares		0.78	3.45

The notes on pages 100 to 141 and the principal accounting policies on pages 142 to 151 form part of these accounts.

Consolidated Balance Sheet

At 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	17,010	16,762
Investment properties	15	134,625	128,109
Leasehold land and land use rights	16	2,586	2,349
Intangible assets	17	867	860
Properties held for development	18	471	–
Jointly controlled companies	20	8,505	5,761
Associated companies	21	19,088	23,224
Available-for-sale assets	23	300	365
Long-term receivables		8	7
Long-term security deposits		380	553
Derivative financial instruments	24	103	37
Deferred expenditure		–	38
Deferred tax assets	33	295	148
Retirement benefit assets	34	197	181
		184,435	178,394
Current assets			
Properties for sale	25	1,842	2,413
Stocks and work in progress	26	1,733	1,575
Trade and other receivables	27	3,767	3,053
Available-for-sale assets	23	1,888	–
Derivative financial instruments	24	3	15
Cash and cash equivalents	28	4,146	3,684
Short-term deposits	28	262	297
		13,641	11,037
Current liabilities			
Trade and other payables	29	7,717	7,423
Provisions	30	8	8
Taxation payable		345	278
Derivative financial instruments	24	36	–
Bank overdrafts and short-term loans	32	2,083	4,078
Long-term loans and bonds due within one year	32	1,668	170
		11,857	11,957
Net current assets/(liabilities)		1,784	(920)
Total assets less current liabilities		186,219	177,474
Non-current liabilities			
Perpetual capital securities	31	2,325	2,340
Long-term loans and bonds	32	29,196	20,486
Derivative financial instruments	24	274	45
Deferred tax liabilities	33	17,382	17,748
Retirement benefit liabilities	34	208	177
		49,385	40,796
NET ASSETS		136,834	136,678
EQUITY			
Share capital	35	903	910
Reserves	36	134,484	134,607
Equity attributable to the Company's shareholders		135,387	135,517
Minority interests	37	1,447	1,161
TOTAL EQUITY		136,834	136,678

Christopher D Pratt

Clement K M Kwok

Directors

Hong Kong, 12th March 2009

The notes on pages 100 to 141 and the principal accounting policies on pages 142 to 151 form part of these accounts.

Company Balance Sheet

At 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	14	4	3
Investment properties	15	1,195	1,274
Subsidiary companies	19	11,632	14,459
Jointly controlled companies	20	127	124
Associated companies	21	2,045	1,877
Available-for-sale assets	23	61	83
Long-term receivables		1	1
Retirement benefit assets	34	109	103
		15,174	17,924
Current assets			
Trade and other receivables	27	224	239
Cash and cash equivalents	28	2,069	6
		2,293	245
Current liabilities			
Trade and other payables	29	2,888	2,341
Taxation payable		–	1
		2,888	2,342
Net current liabilities		(595)	(2,097)
Total assets less current liabilities		14,579	15,827
Non-current liabilities			
Deferred tax liabilities	33	34	62
NET ASSETS		14,545	15,765
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	35	903	910
Reserves	36	13,642	14,855
TOTAL EQUITY		14,545	15,765

Christopher D Pratt

Clement K M Kwok

Directors

Hong Kong, 12th March 2009

Consolidated Cash Flow Statement

For the year ended 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
Operating activities			
Cash generated from operations	42(a)	7,580	5,880
Interest paid		(1,389)	(942)
Interest received		177	95
Profits tax paid		(468)	(428)
		5,900	4,605
Dividends received from jointly controlled and associated companies and available-for-sale assets		1,812	1,991
Net cash from operating activities		7,712	6,596
Investing activities			
Purchase of property, plant and equipment	42(b)	(3,686)	(7,907)
Additions of investment properties		(3,680)	(4,876)
Proceeds from disposals of property, plant and equipment		140	261
Proceeds from disposals of interests in subsidiary companies		239	–
Purchase of available-for-sale assets		(65)	(37)
Proceeds from disposals of investment properties		–	283
Purchase of shareholdings in existing subsidiary companies		(27)	–
Purchase of shareholdings in jointly controlled companies		–	(2)
Loans to jointly controlled companies		(2,988)	(1,042)
Purchase of shareholdings in associated companies		(543)	(27)
Loans to associated companies		(3)	(3)
Purchase of intangible assets		(14)	(20)
Sale of shareholdings in jointly controlled companies		24	1,471
Repayment of loans from jointly controlled companies		535	271
Repayment of loans from associated companies		130	128
Deferred expenditure incurred		(77)	(20)
Net cash used in investing activities		(10,015)	(11,520)
Net cash outflow before financing		(2,303)	(4,924)
Financing activities			
Loans drawn and refinancing		12,161	14,374
Repayment of loans and bonds		(3,914)	(1,559)
	42(c)	8,247	12,815
Capital contribution from minority interests	42(c)	10	484
Repurchase of the Company's shares	36	(649)	(1,296)
Security deposits placed		–	(426)
Security deposits uplifted		170	128
Dividends paid to the Company's shareholders	36	(4,896)	(4,722)
Dividends paid to minority interests	42(c)	(84)	(104)
Net cash generated from financing activities		2,798	6,879
Increase in cash and cash equivalents		495	1,955
Cash and cash equivalents at 1st January		3,648	1,682
Currency adjustment		3	11
Cash and cash equivalents at 31st December		4,146	3,648
Represented by:			
Bank balances and short-term deposits maturing within three months	28	4,146	3,684
Bank overdrafts		–	(36)
		4,146	3,648

The notes on pages 100 to 141 and the principal accounting policies on pages 142 to 151 form part of these accounts.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2008

	Note	2008 HK\$M	2007 HK\$M
At 1st January		136,678	115,024
Changes in cash flow hedges			
– recognised during the year	36	(113)	102
– deferred tax recognised	33, 36	22	(12)
– transferred to net finance charges	9, 36	(32)	(29)
– transferred to operating profit – exchange differences	5, 36	29	–
– transferred to initial cost of non-financial assets	36	(74)	(6)
Net fair value (losses)/gains on available-for-sale assets recognised during the year	36, 37	(130)	160
Share of changes in reserves of jointly controlled and associated companies	36	(325)	221
Translation differences	36, 37	174	469
Others	37	(24)	–
Net (expenses)/income recognised directly in equity		(473)	905
Profit for the year		6,281	26,387
Total recognised income for the year		5,808	27,292
Repurchase of the Company's shares			
– nominal value of shares repurchased and cancelled	35	(7)	(9)
– premium paid on repurchases	36	(642)	(1,287)
Dividends paid			
– to the Company's shareholders	36	(4,896)	(4,722)
– to minority interests	37	(84)	(104)
Acquisitions of minority interests in subsidiary companies	37	(33)	–
Capital contribution from minority interests	37	10	484
At 31st December		136,834	136,678
Total recognised income for the year attributable to:			
The Company's shareholders		5,415	27,121
Minority interests		393	171
		5,808	27,292

Notes to the Accounts

1. Changes in Accounting Standards

- (a) The Group has adopted the following relevant new Hong Kong Financial Reporting Standards (“HKFRS”) interpretations effective from 1st January 2008:

HK(IFRIC)-Int 12	Service Concession Arrangements
HK(IFRIC)-Int 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

HK(IFRIC)-Int 12 gives guidance on accounting for contractual arrangements in which private sector operators participate in the development or operation of infrastructure for public sector services. HK(IFRIC)-Int 14 provides guidance on the recognition and funding of retirement benefit scheme assets and liabilities. The adoption of these new interpretations had no effect on the Group’s results or net assets.

- (b) The following new Hong Kong Financial Reporting Standards (“HKFRS”) interpretation and amendments are effective but not relevant to the Group’s operations:

HK(IFRIC)-Int 11	HKFRS 2 – Group and Treasury Share Transactions
Amendments to HKAS 39 and HKFRS 7	Reclassification of Financial Assets

- (c) The Group has not adopted early the following relevant new standards or interpretations that have been issued but are not yet effective:

HKFRSs (Amendments)	Improvements to HKFRSs ¹
HKAS 1 (Revised)	Presentation of Financial Statements ²
HKAS 23 (Revised)	Borrowing Costs ²
HKAS 27 (Revised)	Consolidated and Separate Financial Statements ³
HKAS 39 (Amendment)	Eligible Hedged Items ³
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate ²
HKFRS 3 (Revised)	Business Combinations ³
HKFRS 8	Operating Segments ²
HK(IFRIC)-Int 13	Customer Loyalty Programmes ²
HK(IFRIC)-Int 15	Agreements for the Construction of Real Estate ²
HK(IFRIC)-Int 16	Hedges of a Net Investment in a Foreign Operation ²
HK(IFRIC)-Int 17	Distributions of Non-cash Assets to Owners ³

¹ To be applied by the Group from 1st January 2009 except for the amendments to HKFRS 5 which will be applied from 1st January 2010

² To be applied by the Group from 1st January 2009

³ To be applied by the Group from 1st January 2010

The Improvements to HKFRSs were published in May 2008 by the International Accounting Standards Board following a review of existing accounting standards. They include amendments which consist of editorial changes only, as well as amendments that result in accounting changes. The main impact on the Group is expected to result from the amendment to HKAS 40 Investment Property/HKAS 16 Property, Plant and Equipment, which will require investment property under development to be held at fair value rather than at cost.

1. Changes in Accounting Standards (continued)

(c) (continued)

The revised HKAS 1 introduces a number of changes to the presentation of the accounts, including a requirement for those fair value gains and losses currently presented in the consolidated statement of changes in equity to be presented in a statement of comprehensive income.

The revised HKAS 23 requires borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset to be capitalised as part of the cost of that asset. This will have no impact on the Group as the Group's existing policy is to capitalise directly attributable borrowing costs.

The revised HKAS 27 will impact the accounting for future transactions with non-controlling interests. It requires changes in a parent company's interest in subsidiaries that do not result in changes of control to be accounted for within equity, with no gain or loss recognised and no remeasurement of goodwill. A gain or loss on disposal will be recognised in the profit and loss account only if the disposal results in a loss of control.

The amendment to HKAS 39 provides additional guidance on when a financial item can be designated as a hedged item and on assessing hedge effectiveness. It is not anticipated that this amendment will have a significant effect on the Group's results or net assets.

The amendments to HKFRS 1 and HKAS 27 require a parent company to recognise dividend income in the profit and loss account when the right to receive the dividend is established. Under the current HKAS 27, a parent company cannot recognise dividend income relating to pre-acquisition retained earnings. The amendments do not apply to the Group accounts.

The revised HKFRS 3 introduces a number of changes to the accounting for business combinations, including the requirement that where a business combination is achieved in stages, the existing interest in the acquiree should be re-measured at fair value at the acquisition date and any resulting gain or loss recognised in the profit and loss account. Under the current HKFRS 3, any gain or loss would be written off against goodwill.

HKFRS 8 requires segmental information to be disclosed on the same basis as that used for internal reporting purposes. No significant change to the current presentation of segmental information is expected.

HK(IFRIC)-Int 13 clarifies that, where goods or services are sold together with a customer loyalty incentive, a portion of the consideration received from the customer should be deferred until the customer loyalty incentive is redeemed. The adoption of HK(IFRIC)-Int 13 will affect the share of profit from Cathay Pacific as the airline will apply the new interpretation to the accounting for its airline loyalty scheme. Cathay Pacific currently estimates that the adoption of HK(IFRIC)-Int 13 would result in a reduction in its opening retained earnings at 1st January 2009 of approximately HK\$1.5 billion and a reduction in its full year result for 2009 of approximately HK\$150 million, of which the Group's share (based on the Group's interest in Cathay Pacific at 31st December 2008) would be approximately HK\$600 million and approximately HK\$60 million respectively. These estimates are arrived at after making assumptions on a number of key factors, including but not limited to the estimated fair value of awards, the future passenger travel demand, the future redemption demand and the estimated proportion of award miles which are expected to be redeemed.

HK(IFRIC)-Int 15 provides guidance on how to determine whether a sale of real estate can be accounted for as a construction contract, and the appropriate basis for revenue recognition. It is not anticipated that this interpretation will have a significant effect on the Group's results or net assets.

HK(IFRIC)-Int 16 clarifies the accounting treatment in respect of net investment hedging, including confirmation that net investment hedging relates to differences in functional currency not presentation currency. It is not anticipated that this interpretation will have a significant effect on the Group's results or net assets.

HK(IFRIC)-Int 17 requires a dividend payable to be recognised when it has been appropriately authorised and to be measured at fair value. It is not anticipated that this interpretation will have a significant effect on the accounts.

1. Changes in Accounting Standards (continued)

(d) The following amendment to standards, new standards or interpretations have been issued but are not yet effective and are not relevant for the Group's operations:

HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
HKFRS 2 (Amendment)	Vesting Conditions and Cancellations

2. Financial Risk Management

The Group's approach to financial risk management is discussed on pages 76 to 78.

Interest Rate Exposure

The impact on the Group's profit and loss account and equity of a 100 basis-points increase or decrease in market interest rates from the rates applicable at 31st December, with all other variables held constant, would have been:

	100 basis-points increase in interest rates HK\$M	100 basis-points decrease in interest rates HK\$M
At 31st December 2008		
Impact on profit and loss account: (loss)/gain	(110)	110
Impact on equity: gain/(loss)	166	(170)
At 31st December 2007		
Impact on profit and loss account: (loss)/gain	(122)	122
Impact on equity: gain/(loss)	21	(21)

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

- Changes in market interest rates affect the interest income or expense of floating rate financial instruments
- Changes in market interest rates only affect interest income or expense in relation to fixed rate financial instruments if these are recognised at fair value
- Changes in market interest rates affect the fair value of derivative financial instruments
- All other financial assets and liabilities are held constant

Currency Exposure

The impact on the Group's profit and loss account and equity of a strengthening or weakening in the Hong Kong dollar against the US dollar from the year-end rate of 7.75 (2007: 7.80), with all other variables held constant, would have been:

	Strengthening in HK\$ to lower peg limit (7.75) HK\$M	Weakening in HK\$ to upper peg limit (7.85) HK\$M
At 31st December 2008		
Impact on profit and loss account: gain/(loss)	Not applicable	3
Impact on equity: (loss)/gain	Not applicable	23
At 31st December 2007		
Impact on profit and loss account: gain/(loss)	23	(23)
Impact on equity: (loss)/gain	(45)	45

2. Financial Risk Management (continued)

This analysis is based on a hypothetical situation, as in practice market exchange rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

- All foreign currency cash flow hedges are expected to be highly effective
- Currency risk does not arise from financial assets or liabilities denominated in the functional currencies of the Company and its subsidiary companies

Liquidity Risk

The tables below analyse the contractual undiscounted cash flows of the Group's and the Company's financial liabilities by relevant maturity groupings based on the remaining period from the balance sheet date to the earliest date the Group and the Company can be required to pay:

Group

At 31st December 2008

	Note	Carrying amount HK\$M	Total contractual undiscounted cash flow HK\$M	Within 1 year or on demand HK\$M	More than 1 year but less than 2 years HK\$M	More than 2 years but less than 5 years HK\$M	More than 5 years HK\$M
Trade creditors	29	1,586	1,586	1,586	–	–	–
Amounts due to immediate holding company	29	210	210	210	–	–	–
Amounts due to jointly controlled companies	29	12	12	12	–	–	–
Amounts due to associated companies	29	46	46	46	–	–	–
Interest-bearing advances from jointly controlled companies	29	73	73	73	–	–	–
Interest-bearing advances from associated companies	29	151	151	151	–	–	–
Advances from minority interests	29	308	308	308	–	–	–
Rental deposits from tenants	29	1,547	1,643	324	383	719	217
Other payables	29	3,784	3,784	3,747	37	–	–
Borrowings (including interest obligations)	32	32,947	38,759	4,735	2,884	19,390	11,750
Derivative financial instruments	24	310	310	36	20	151	103
		40,974	46,882	11,228	3,324	20,260	12,070

At 31st December 2007

	Note	Carrying amount HK\$M	Total contractual undiscounted cash flow HK\$M	Within 1 year or on demand HK\$M	More than 1 year but less than 2 years HK\$M	More than 2 years but less than 5 years HK\$M	More than 5 years HK\$M
Trade creditors	29	1,105	1,105	1,105	–	–	–
Amounts due to immediate holding company	29	97	97	97	–	–	–
Amounts due to jointly controlled companies	29	1	1	1	–	–	–
Amounts due to associated companies	29	51	51	51	–	–	–
Interest-bearing advances from jointly controlled companies	29	134	134	134	–	–	–
Advances from minority interests	29	116	116	116	–	–	–
Rental deposits from tenants	29	1,801	1,801	765	225	619	192
Other payables	29	4,118	4,118	4,088	23	7	–
Borrowings (including interest obligations)	32	24,734	27,687	4,732	1,951	13,583	7,421
Derivative financial instruments	24	45	45	–	–	–	45
		32,202	35,155	11,089	2,199	14,209	7,658

2. Financial Risk Management (continued)

Company

At 31st December 2008

	Note	Carrying amount HK\$M	Total contractual undiscounted cash flow HK\$M	Within 1 year or on demand HK\$M	More than 1 year but less than 2 years HK\$M	More than 2 years but less than 5 years HK\$M	More than 5 years HK\$M
Amounts due to immediate holding company	29	33	33	33	–	–	–
Amounts due to subsidiary companies	29	2,766	2,766	2,766	–	–	–
Other payables	29	89	89	89	–	–	–
		2,888	2,888	2,888	–	–	–

At 31st December 2007

	Note	Carrying amount HK\$M	Total contractual undiscounted cash flow HK\$M	Within 1 year or on demand HK\$M	More than 1 year but less than 2 years HK\$M	More than 2 years but less than 5 years HK\$M	More than 5 years HK\$M
Amounts due to immediate holding company	29	18	18	18	–	–	–
Amounts due to subsidiary companies	29	2,259	2,259	2,259	–	–	–
Other payables	29	64	64	64	–	–	–
		2,341	2,341	2,341	–	–	–

3. Critical Accounting Estimates and Judgements

Estimates and judgements used in preparing the accounts are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, inevitably, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed below:

(a) Estimates of fair value of investment properties

DTZ Debenham Tie Leung (“DTZ”) was engaged to carry out an independent valuation of the major portion of the Group’s investment property portfolio as at 31st December 2008. This valuation was carried out in accordance with the Valuation Standards on Properties of the Hong Kong Institute of Surveyors which defines market value as “the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion”.

DTZ has derived the valuation of the Group’s investment property portfolio by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential. The assumptions are principally in respect of open market rents and yields.

Management has reviewed the DTZ valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the DTZ valuation of the Group’s investment property portfolio is reasonable.

3. Critical Accounting Estimates and Judgements (continued)

(b) Impairment of assets

The Group tests at least annually whether goodwill and other assets that have indefinite useful lives have suffered any impairment. Other assets, including land and properties not held at fair value, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset or a cash-generating unit has been determined based on value-in-use calculations. These calculations require the use of estimates. Refer to note 17 for details of goodwill impairment testing.

(c) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which such determination is made.

(d) Disposal of interest in Swire SITA

On 22nd September 2008 Swire Industrial Limited ("Swire Industrial"), a wholly-owned subsidiary of the Company, agreed to transfer to Suez Environnement all of Swire Industrial's shares in Swire SITA Waste Services Limited ("Swire SITA") for an aggregate cash consideration of HK\$1,888 million. In accordance with the terms of the Swire SITA shareholders agreement, full management control of Swire SITA passed to Suez Environnement on 23rd October 2008. Also in accordance with the terms of the Swire SITA shareholders agreement, the purchase monies were placed in escrow. Their release to Swire Industrial from escrow is subject to receipt of consent to the sale from the Government of Hong Kong SAR. The Directors are of the opinion that the consent of the Government of Hong Kong SAR to the sale to Suez Environnement will be forthcoming and that it is therefore appropriate to recognise the disposal on the date when management control passed. Accordingly, a gain on disposal of HK\$1,721 million has been recognised in the accounts. Refer to notes 20 and 23 to the accounts.

4. Turnover

The Company is a limited liability company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is that of a holding company. The principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 152 to 163.

Turnover represents sales by the Company and its subsidiary companies to external customers and comprises revenue from:

	Group	
	2008	2007
	HK\$M	HK\$M
Gross rental income from investment properties	6,791	5,551
Property trading	889	10
Hotels	156	148
Sales of investment properties	–	283
Charter hire income	4,007	3,104
Rendering of services	83	95
Sales of goods	12,744	12,362
	24,670	21,553

5. Other Net Gains

	Group	
	2008 HK\$M	2007 HK\$M
<i>Other net gains include the following:</i>		
Profit on share dilution in subsidiary companies	49	–
Profit on sale of a subsidiary company	4	–
Net profit on sale of property, plant and equipment	85	215
Net foreign exchange gains/(losses)	24	(45)
Fair value losses on derivative instruments		
– Cross-currency swaps: transferred from cash flow hedge reserve	(29)	–

6. Expenses by Nature

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

	Group	
	2008 HK\$M	2007 HK\$M
Direct operating expenses of investment properties that		
– generate rental income	1,141	976
– did not generate rental income	109	62
Cost of sales of investment properties	–	193
Cost of stocks sold	8,658	8,216
Write-down of stocks and work in progress	51	57
Impairment losses recognised on property held for development	77	–
Net impairment losses recognised on trade receivables	16	23
Depreciation of property, plant and equipment (note 14)	764	683
Amortisation of		
– leasehold land and land use rights (note 16)	7	5
– intangible assets (note 17)	14	13
– initial leasing costs and deferred expenditure	26	23
Staff costs	3,523	2,900
Operating lease rentals		
– properties	292	241
– other equipment	51	48
Auditors' remuneration		
– audit services	15	14
– tax services	8	9
– other services	4	2

7. Segment Information

(a) Primary reporting format – business segments by division:

	Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses of jointly controlled companies HK\$M	Share of profits less losses of associated companies HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to the Company's shareholders HK\$M
Year ended 31st December 2008								
Property								
Property investment	6,907	5,012	(1,091)	28	16	3,965	3,482	3,485
Property trading	889	198	4	(48)	–	154	104	104
Hotels	156	(86)	(11)	13	140	56	73	73
Change in fair value of investment properties	–	184	–	50	(16)	218	868	631
	7,952	5,308	(1,098)	43	140	4,393	4,527	4,293
Aviation								
Cathay Pacific group	–	–	–	–	(3,552)	(3,552)	(3,552)	(3,552)
HAECO group	–	–	–	–	505	505	505	505
Hactl	–	–	–	–	274	274	274	183
Others	–	–	–	(3)	–	(3)	(3)	(3)
	–	–	–	(3)	(2,773)	(2,776)	(2,776)	(2,867)
Beverages								
Hong Kong	1,799	183	(1)	–	–	182	173	157
Taiwan	1,358	31	(5)	1	–	27	26	21
USA	3,512	340	2	–	–	342	256	256
Mainland China	1,332	(26)	(28)	232	36	214	196	169
Central costs	–	(18)	–	–	–	(18)	(18)	(18)
	8,001	510	(32)	233	36	747	633	585
Marine Services								
Swire Pacific Offshore group	4,007	1,750	7	–	–	1,757	1,691	1,691
Hongkong United Dockyards group	–	–	–	76	–	76	76	76
	4,007	1,750	7	76	–	1,833	1,767	1,767
Trading & Industrial								
Taikoo Motors group	2,534	10	1	–	–	11	4	4
Swire Resources group	1,776	49	–	4	46	99	87	87
Swire SITA group	–	–	–	72	–	72	72	72
CROWN Beverage Cans group	–	–	–	81	–	81	81	81
Akzo Nobel Swire Paints	–	–	–	132	–	132	132	132
Other activities	503	(21)	3	–	–	(18)	(20)	(20)
Sale of interest in Swire SITA group	–	1,721	–	–	–	1,721	1,721	1,721
Change in fair value of investment properties	–	14	–	–	–	14	23	23
	4,813	1,773	4	289	46	2,112	2,100	2,100
Head Office								
Net income/expenses	162	(167)	207	–	–	40	56	56
Change in fair value of investment properties	–	(21)	–	–	–	(21)	(26)	(26)
	162	(188)	207	–	–	19	30	30
Inter-segment elimination	(265)	–	–	–	–	–	–	–
Total	24,670	9,153	(912)	638	(2,551)	6,328	6,281	5,908

7. Segment Information (continued)

(a) Primary reporting format – business segments by division (continued):

	Turnover HK\$M	Operating profit HK\$M	Net finance charges HK\$M	Share of profits less losses of jointly controlled companies HK\$M	Share of profits less losses of associated companies HK\$M	Profit before taxation HK\$M	Profit for the year HK\$M	Profit attributable to the Company's shareholders HK\$M
Year ended 31st December 2007								
Property								
Property investment	5,663	4,040	(802)	46	12	3,296	2,949	2,950
Property trading	10	(33)	9	(46)	–	(70)	(42)	(42)
Sales of investment properties	283	90	–	–	–	90	111	111
Hotels	148	6	–	32	136	174	174	174
Change in fair value of investment properties	–	19,377	–	98	55	19,530	16,032	16,032
	6,104	23,480	(793)	130	203	23,020	19,224	19,225
Aviation								
Cathay Pacific group	–	–	–	–	2,680	2,680	2,680	2,680
HAECO group	–	–	–	–	469	469	469	469
Hactl	–	–	–	–	273	273	273	181
	–	–	–	–	3,422	3,422	3,422	3,330
Beverages								
Hong Kong	1,692	166	(2)	–	–	164	148	134
Taiwan	1,027	36	(5)	1	–	32	32	27
USA	3,294	351	3	–	–	354	272	272
Mainland China	1,053	(32)	(19)	190	–	139	131	113
Central costs	–	(38)	–	–	–	(38)	(40)	(39)
	7,066	483	(23)	191	–	651	543	507
Marine Services								
Swire Pacific Offshore group	3,104	1,503	(44)	8	–	1,467	1,405	1,405
Hongkong United Dockyards group	–	–	–	59	–	59	59	59
Container terminal operations	–	–	–	8	–	8	8	8
Sale of container terminal operations	–	1,078	–	–	–	1,078	1,078	1,078
	3,104	2,581	(44)	75	–	2,612	2,550	2,550
Trading & Industrial								
Taikoo Motors group	3,398	124	3	–	–	127	97	97
Swire Resources group	1,521	31	(1)	8	59	97	90	90
Swire SITA group	–	–	–	84	–	84	84	84
CROWN Beverage Cans group	–	–	–	38	–	38	38	38
Akzo Nobel Swire Paints (formerly ICI Swire Paints)	–	–	–	95	–	95	95	95
Other activities	461	(20)	1	–	–	(19)	(20)	(20)
Change in fair value of investment properties	–	19	–	–	–	19	15	15
	5,380	154	3	225	59	441	399	399
Head Office								
Net income/expenses	158	(169)	364	–	–	195	210	210
Change in fair value of investment properties	–	50	–	–	–	50	39	39
	158	(119)	364	–	–	245	249	249
Inter-segment elimination	(259)	–	–	–	–	–	–	–
Total	21,553	26,579	(493)	621	3,684	30,391	26,387	26,260

7. Segment Information (continued)

(a) Primary reporting format – business segments by division (continued):

Analysis of total assets and total liabilities of the Group

	Property		Aviation		Beverages		Marine Services		Trading & Industrial		Head Office		Group	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Segment assets	148,362	141,050	–	–	4,371	4,059	8,459	7,217	3,653	1,861	517	1,529	165,362	155,716
Deferred tax assets (note 1)	142	44	–	–	80	74	–	–	30	22	43	8	295	148
Jointly controlled companies	6,670	4,071	22	39	1,168	1,030	(48)	(59)	693	680	–	–	8,505	5,761
Associated companies	820	913	17,640	22,144	409	–	35	33	184	134	–	–	19,088	23,224
Bank deposits and securities (note 1)	1,319	2,029	–	–	275	398	692	956	325	437	2,215	762	4,826	4,582
Total assets	157,313	148,107	17,662	22,183	6,303	5,561	9,138	8,147	4,885	3,134	2,775	2,299	198,076	189,431
Segment liabilities	4,011	4,229	–	–	1,733	1,513	926	627	927	911	646	373	8,243	7,653
Current and deferred tax liabilities (note 1)	17,352	17,653	–	–	255	247	90	68	4	12	26	46	17,727	18,026
Borrowings (note 1)	34,157	27,797	–	–	1,005	678	550	725	346	278	(786)	(2,404)	35,272	27,074
Total liabilities	55,520	49,679	–	–	2,993	2,438	1,566	1,420	1,277	1,201	(114)	(1,985)	61,242	52,753
Minority interests	1,067	797	25	30	355	334	–	–	–	–	–	–	1,447	1,161
Equity attributable to the Company's shareholders	100,726	97,631	17,637	22,153	2,955	2,789	7,572	6,727	3,608	1,933	2,889	4,284	135,387	135,517
Borrowings comprise:														
External borrowings	3,715	3,178	–	–	199	197	549	723	417	332	30,392	22,644	35,272	27,074
Inter-segment borrowings (note 2)	30,442	24,619	–	–	806	481	1	2	(71)	(54)	(31,178)	(25,048)	–	–
Total	34,157	27,797	–	–	1,005	678	550	725	346	278	(786)	(2,404)	35,272	27,074

Notes:

- (1) Current and deferred taxation, bank deposits and securities and borrowings are allocated on an actual basis.
(2) Excludes equity loans from Head Office.

Analysis of turnover

	Turnover					
	2008			2007		
	External HK\$M	Inter- segment HK\$M	Total HK\$M	External HK\$M	Inter- segment HK\$M	Total HK\$M
Property						
Property investment	6,858	49	6,907	5,619	44	5,663
Property trading	889	–	889	10	–	10
Hotels	156	–	156	148	–	148
Sales of investment properties	–	–	–	283	–	283
	7,903	49	7,952	6,060	44	6,104
Beverages	8,001	–	8,001	7,066	–	7,066
Marine Services	4,007	–	4,007	3,104	–	3,104
Trading & Industrial	4,746	67	4,813	5,306	74	5,380
Head Office	13	149	162	17	141	158
Inter-segment elimination	–	(265)	(265)	–	(259)	(259)
Segment revenue to external customers	24,670	–	24,670	21,553	–	21,553

Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services.

7. Segment Information (continued)

(a) Primary reporting format – business segments by division (continued):

Analysis of capital expenditure, depreciation and amortisation

	Capital expenditure		Depreciation		Amortisation	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Property	5,453	12,157	84	53	30	28
Beverages	374	316	294	300	13	11
Marine Services	1,412	1,385	346	297	1	–
Trading & Industrial	102	46	40	33	3	2
Head Office	2	831	–	–	–	–
	7,343	14,735	764	683	47	41

Capital expenditure comprises additions to property, plant and equipment (note 14), investment properties (note 15), leasehold land and land use rights (note 16) and intangible assets (note 17), including, in 2007, additions resulting from acquisitions through business combinations.

(b) Secondary reporting format – geographical segments:

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

An analysis of turnover, operating profit, segment assets and capital expenditure of the Group by principal markets is outlined below:

	Turnover		Operating profit	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Hong Kong	10,037	8,978	5,330	24,608
Asia (excluding Hong Kong)	6,087	6,024	1,601	129
United States of America	4,402	3,299	504	330
United Kingdom	137	148	(32)	9
Ship owning and operating	4,007	3,104	1,750	1,503
	24,670	21,553	9,153	26,579

	Segment assets		Capital expenditure	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Hong Kong	140,103	135,470	3,607	6,641
Asia (excluding Hong Kong)	14,103	9,851	2,133	6,326
United States of America	2,251	2,585	149	129
United Kingdom	446	593	42	254
Ship owning and operating	8,459	7,217	1,412	1,385
	165,362	155,716	7,343	14,735

8. Directors' and Executive Officers' Emoluments

The five highest paid individuals in the Group in both 2008 and 2007 were Directors or Executive Officers, whose total emoluments are shown below:

	Cash			Non cash			Total 2008 HK\$'000	Total 2007 HK\$'000
	Salary/fees (note a) HK\$'000	Bonus (note b) HK\$'000	Allowances and benefits HK\$'000	Retirement schemes contributions HK\$'000	Bonus paid into retirement schemes (note b) HK\$'000	Housing benefits HK\$'000		
Executive Directors								
C D Pratt	6,142	5,546	224	2,604	1,605	3,956	20,077	15,407
P N L Chen	5,082	7,690	2,156	127	–	–	15,055	5,965
M Cubbon	4,050	3,983	507	1,717	1,272	3,463	14,992	11,292
D Ho	1,592	2,792	1,104	40	–	37	5,565	5,755
K G Kerr	5,413	4,592	238	485	–	2,934	13,662	12,647
J R Slosar	224	235	16	60	77	127	739	5,581
A N Tyler (from 1st January 2008)	240	–	9	102	–	151	502	–
Non-Executive Directors								
Baroness Dunn	–	–	–	–	–	–	–	–
J W J Hughes-Hallett	–	–	–	–	–	–	–	–
P A Johansen	–	–	–	–	–	–	–	–
Sir Adrian Swire	–	–	–	–	–	–	–	–
Independent Non-Executive Directors								
V H C Cheng (until 31st January 2008)	50	–	–	–	–	–	50	200
T G Freshwater (from 1st January 2008)	600	–	–	–	–	–	600	–
C K M Kwok	850	–	–	–	–	–	850	450
C Lee	800	–	–	–	–	–	800	400
M Leung (from 1st March 2008)	500	–	–	–	–	–	500	–
M C C Sze	600	–	–	–	–	–	600	200
M M T Yang	600	–	–	–	–	–	600	200
Total 2008	26,743	24,838	4,254	5,135	2,954	10,668	74,592	–
Total 2007	20,027	18,219	2,729	2,137	2,720	12,265	–	58,097
Executive Officers								
H A S Crawford (until 31st October 2008)	1,500	1,330	567	636	991	2,295	7,319	3,950
G L Cundle	2,370	1,972	341	1,005	1,093	3,045	9,826	6,511
J B Rae-Smith (from 1st January 2008)	1,620	1,287	392	687	750	1,275	6,011	–
Total 2008	5,490	4,589	1,300	2,328	2,834	6,615	23,156	–
Total 2007	2,808	1,647	635	492	1,168	3,711	–	10,461

(a) Independent Non-Executive Directors receive fees as members of the Board and its committees. Executive Directors receive salaries.

(b) Bonuses are not yet approved for 2008 and consequently the amounts disclosed above are estimated amounts based on payments in respect of 2007. The estimated nil amount for A N Tyler reflects the fact that he was not an Executive Director or Officer during 2007 and accordingly received no bonus from the Company in respect of that year.

(c) Emoluments for the Executive Directors and Officers represent the amount charged to the Group.

9. Net Finance Charges

Refer to page 58 for details of the Group's net finance charges.

10. Taxation

	Group			
	2008		2007	
	HK\$M	HK\$M	HK\$M	HK\$M
Current taxation:				
Hong Kong profits tax	(364)		(310)	
Overseas taxation	(170)		(229)	
Over-provisions in prior years	4		21	
		(530)		(518)
Deferred taxation:				
Change in Hong Kong tax rate	1,008		–	
Changes in fair value of investment properties	(207)		(3,436)	
Origination and reversal of temporary differences	(318)		(50)	
		483		(3,486)
		(47)		(4,004)

Hong Kong profits tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year. In June 2008, the Government of Hong Kong SAR enacted a change in the profits tax rate from 17.5% to 16.5% commencing with the fiscal year 2008/2009. Overseas tax is calculated at tax rates applicable in countries in which the Group is assessable for tax.

The tax charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	2008 HK\$M	2007 HK\$M
Profit before taxation	6,328	30,391
Calculated at a tax rate of 16.5% (2007: 17.5%)	(1,044)	(5,318)
Share of profits less losses of jointly controlled and associated companies	(316)	753
Effect of change in Hong Kong tax rate	1,008	–
Effect of different tax rates in other countries	(218)	(42)
Income not subject to tax	632	496
Expenses not deductible for tax purposes	(113)	(24)
Unused tax losses not recognised	(22)	(13)
Utilisation of previously unrecognised tax losses	82	95
Recognition of previously unrecognised temporary difference	(82)	–
Over-provisions in prior years	4	21
Others	22	28
Tax charge	(47)	(4,004)

The Group's share of jointly controlled companies' tax charge of HK\$187 million (2007: HK\$181 million) and share of associated companies' tax credit of HK\$386 million (2007: tax charge of HK\$514 million) is included in the share of profits less losses of jointly controlled and associated companies shown in the consolidated profit and loss account.

11. Profit Attributable to the Company's Shareholders

Of the profit attributable to the Company's shareholders, HK\$4,411 million (2007: HK\$4,630 million) is dealt with in the accounts of the Company.

12. Dividends

	Company	
	2008 HK\$M	2007 HK\$M
Interim dividend paid on 3rd October 2008 of HK¢90.0 per 'A' share and HK¢18.0 per 'B' share (2007: HK¢90.0 and HK¢18.0)	1,364	1,366
Proposed Final dividend of HK¢148.0 per 'A' share and HK¢29.6 per 'B' share (2007 actual dividend paid: HK¢233.0 and HK¢46.6)	2,227	3,532
	3,591	4,898

The proposed Final dividend is not accounted for until it has been approved at the Annual General Meeting. The actual amount will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2009.

13. Earnings Per Share (Basic and Diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK\$5,908 million (2007: HK\$26,260 million) by the weighted average number of 913,214,691 'A' shares and 3,001,321,686 'B' shares in issue during the year (2007: 920,763,201 'A' shares and 3,003,486,271 'B' shares) in the proportion five to one.

14. Property, Plant and Equipment

	Group				Company
	Property HK\$M	Plant and machinery HK\$M	Vessels HK\$M	Total HK\$M	Plant and machinery HK\$M
Cost:					
At 1st January 2008	9,540	4,762	8,187	22,489	27
Translation differences	276	(44)	(51)	181	–
Change in composition of Group	(6)	(8)	–	(14)	–
Additions	2,417	663	1,345	4,425	2
Disposals	(1)	(180)	(195)	(376)	(7)
Net transfer to investment properties	(3,590)	–	–	(3,590)	–
Other transfers	–	(4)	–	(4)	–
Amortisation from leasehold land and land use rights capitalised (note 16)	20	–	–	20	–
At 31st December 2008	8,656	5,189	9,286	23,131	22
Accumulated depreciation and impairment:					
At 1st January 2008	654	3,309	1,764	5,727	24
Translation differences	(4)	(18)	(11)	(33)	–
Change in composition of Group	(3)	(5)	–	(8)	–
Charge for the year (note 6)	68	384	312	764	1
Disposals	–	(154)	(167)	(321)	(7)
Net transfer to investment properties	(6)	–	–	(6)	–
Other transfers	–	(2)	–	(2)	–
At 31st December 2008	709	3,514	1,898	6,121	18
Net book value:					
At 31st December 2008	7,947	1,675	7,388	17,010	4

14. Property, Plant and Equipment (continued)

	Group				Company
	Property HK\$M	Plant and machinery HK\$M	Vessels HK\$M	Total HK\$M	Plant and machinery HK\$M
Cost:					
At 1st January 2007	2,780	4,339	7,143	14,262	25
Translation differences	209	39	21	269	–
Additions	6,311	549	1,272	8,132	3
Disposals	–	(187)	(249)	(436)	(1)
Net transfer from investment properties	225	–	–	225	–
Transfer to leasehold land (note 16)	(1)	–	–	(1)	–
Net transfer from stocks	–	22	–	22	–
Amortisation from leasehold land and land use rights capitalised (note 16)	16	–	–	16	–
At 31st December 2007	9,540	4,762	8,187	22,489	27
Accumulated depreciation and impairment:					
At 1st January 2007	596	3,103	1,694	5,393	24
Translation differences	3	18	5	26	–
Charge for the year (note 6)	59	341	283	683	1
Disposals	–	(172)	(218)	(390)	(1)
Net transfer from stocks	–	19	–	19	–
Net transfer to investment properties	(4)	–	–	(4)	–
At 31st December 2007	654	3,309	1,764	5,727	24
Net book value:					
At 31st December 2007	8,886	1,453	6,423	16,762	3

At 31st December 2008 and 2007 none of the Group's property, plant and equipment was pledged as security for the Group's long-term loans.

Property and vessels include costs of HK\$5,879 million (2007: HK\$6,790 million) and HK\$1,089 million (2007: HK\$881 million) respectively, including advance payments and deposits under contracts with third parties, in respect of assets under construction. On completion, HK\$4,840 million (2007: HK\$5,758 million) of property assets under construction at year-end are expected to be transferred to investment properties.

15. Investment Properties

Refer to page 20 for details of the Group's and Company's investment properties.

16. Leasehold Land and Land Use Rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments, the net book value of which is analysed as follows:

	Group	
	2008 HK\$M	2007 HK\$M
At 1st January	2,349	1,084
Translation differences	29	35
Net transfer from investment properties	235	1,250
Transfer from property, plant and machinery (note 14)	–	1
Amortisation		
Charge for the year (note 6)	(7)	(5)
Capitalised on property under construction (note 14)	(20)	(16)
At 31st December	2,586	2,349
Held in Hong Kong:		
On medium-term lease (10 to 50 years)	185	185
On long-term lease (over 50 years)	1,898	1,677
Held outside Hong Kong:		
On medium-term lease (10 to 50 years)	503	487
	2,586	2,349

17. Intangible Assets

	Group		
	Goodwill HK\$M	Computer Software HK\$M	Total HK\$M
Cost:			
At 1st January 2008	825	75	900
Translation differences	7	–	7
Additions	–	14	14
At 31st December 2008	832	89	921
Accumulated amortisation and impairment:			
At 1st January 2008	–	40	40
Amortisation for the year (note 6)	–	14	14
At 31st December 2008	–	54	54
Net book value:			
At 31st December 2008	832	35	867

17. Intangible Assets (continued)

	Group		
	Goodwill HK\$M	Computer Software HK\$M	Total HK\$M
Cost:			
At 1st January 2007	816	54	870
Translation differences	9	–	9
Additions	–	21	21
At 31st December 2007	825	75	900
Accumulated amortisation and impairment:			
At 1st January 2007	–	27	27
Amortisation for the year (note 6)	–	13	13
At 31st December 2007	–	40	40
Net book value:			
At 31st December 2007	825	35	860

Amortisation of HK\$14 million (2007: HK\$13 million) is included in administrative expenses in the profit and loss account.

Impairment test of goodwill

Goodwill is allocated to the Group's cash-generating units ("CGUs") identified by divisional business segment and geographic location.

	2008 HK\$M	2007 HK\$M
Investment properties – Hong Kong	669	669
Beverage franchises – Mainland China	154	147
Hotel business – United Kingdom	9	9
	832	825

Goodwill attributable to investment properties in Hong Kong arose where the fair value of net assets acquired was below the fair value of consideration paid due to the recognition, required for accounting purposes, of deferred tax liabilities in regard to fair value gains on the investment properties purchased. In Hong Kong, these gains are not taxable and therefore this liability will never fall due. Consequently the related goodwill will only be impaired should the fair value of the investment property in future fall below its fair value at acquisition. The recoverable amount attributable to this CGU is therefore assessed on a post-tax basis using fair value less costs to sell. The recoverable amount attributable to other CGUs is determined based on value in use calculations. These calculations use financial budgets and plans covering periods between five and ten years. Cash flows beyond these periods are extrapolated using rates of growth and profitability not exceeding historic results. The discount rates used at 31st December 2008 and 2007 were between 7% and 10%. These discount rates are pre-tax and reflect the specific risks relating to the relevant CGU.

18. Properties Held for Development

Refer to page 21 for details of the Group's properties held for development.

19. Subsidiary Companies

	Company	
	2008 HK\$M	2007 HK\$M
Unlisted shares at cost less provisions	4,707	4,750
Loans and other amounts due from subsidiary companies less provisions		
– Interest-free	6,653	9,058
– Interest-bearing at 0.8% to 5.0% (2007: 3.9% to 7.0%)	272	651
	11,632	14,459

Loans and other amounts due are unsecured and have no fixed terms of repayment.

The principal subsidiary companies of Swire Pacific Limited which have materially affected the results or assets of the Group are shown on pages 152 to 163.

20. Jointly Controlled Companies

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Unlisted shares at cost			38	38
Share of net assets/(liabilities), unlisted	124	(171)		
Loans due from jointly controlled companies less provisions				
– Interest-free	7,681	5,821	3	–
– Interest-bearing at 5.0% to 6.57% (2007: 6.75% to 7.75%)	700	111	86	86
	8,505	5,761	127	124

The loans due from jointly controlled companies are unsecured and have no fixed terms of repayment.

20. Jointly Controlled Companies (continued)

The Group's share of assets and liabilities, results and capital commitments of jointly controlled companies is summarised below:

	Group	
	2008 HK\$M	2007 HK\$M
Non-current assets	7,871	6,291
Current assets	3,760	2,523
Current liabilities	(5,409)	(4,781)
Non-current liabilities	(6,061)	(4,129)
Minority interests	(37)	(75)
Net assets/(liabilities)	124	(171)
Revenue	8,742	7,287
Expenses	(7,917)	(6,485)
Profit before taxation	825	802
Taxation	(187)	(181)
Profit for the year	638	621
Capital commitments		
– Contracted for	304	292
– Authorised but not contracted for	5,268	4,876

The principal jointly controlled companies of Swire Pacific Limited which have materially affected the results or assets of the Group are shown on pages 152 to 163.

21. Associated Companies

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Shares at cost				
– Listed in Hong Kong			2,045	1,874
– Unlisted			–	3
			2,045	1,877
Share of net assets				
– Listed in Hong Kong	16,694	21,332		
– Unlisted	1,269	790		
	17,963	22,122		
Goodwill	315	164		
	18,278	22,286		
Loans due from associated companies less provisions				
– Interest-free	254	379	–	–
– Interest-bearing at 3.59% (2007: 4.96% to 5.54%)	556	559	–	–
	19,088	23,224	2,045	1,877

The loans due from associated companies are unsecured and have no fixed terms of repayment.

21. Associated Companies (continued)

The Group's share of the assets and liabilities and results of associated companies is summarised below:

	Group	
	2008 HK\$M	2007 HK\$M
Non-current assets	42,448	42,231
Current assets	10,007	10,101
Current liabilities	(13,474)	(10,404)
Non-current liabilities	(20,655)	(19,576)
Minority interests	(363)	(230)
Net assets	17,963	22,122
Revenue	40,352	33,579
(Loss)/profit for the year	(2,551)	3,684

The market value of the shares in the listed associated companies at 31st December 2008 was HK\$17,262 million (2007: HK\$43,600 million).

The principal associated companies of Swire Pacific Limited which have materially affected the results or assets of the Group are shown on pages 152 to 163. In addition, the abridged financial statements of Cathay Pacific Airways Limited are shown on pages 164 to 166.

Investment in Hactl

In the 2008 Interim Report, the Group's interest in Hactl was classified as a "held-for-sale investment" on the basis that the Group intended to dispose of its interest in Hactl within 12 months, following the decision by the Airport Authority of Hong Kong ("AA") on 18th March 2008 to award Cathay Pacific a franchise to construct and operate a new air cargo terminal at Hong Kong International Airport. At the year-end, Cathay Pacific had applied to the AA to defer the completion of the new air cargo terminal by two years to mid-2013. As a result, at 31st December 2008 management no longer expected to dispose of the Group's interest in Hactl during 2009. An agreement to defer completion was signed by Cathay Pacific and the AA on 15th January 2009. At 31st December 2008, the Group's interest in Hactl has been reclassified back to associated company and the equity method of accounting has been applied for the entire twelve months ended 31st December 2008.

22. Financial Instruments by Category

The accounting policies for financial instruments have been applied to the line items below:

Group	At fair value through profit or loss HK\$M	Derivatives used for hedging HK\$M	Available- for-sale HK\$M	Loans and receivables HK\$M	Amortised cost HK\$M	Total carrying amount HK\$M	Fair value HK\$M
Assets as per consolidated balance sheet							
At 31st December 2008							
Available-for-sale assets (note 23)	-	-	2,188	-	-	2,188	2,188
Long-term receivables	-	-	-	8	-	8	8
Long-term security deposits	-	-	-	380	-	380	380
Derivative financial assets (note 24)	-	106	-	-	-	106	106
Trade and other receivables (note 27)	-	-	-	3,767	-	3,767	3,767
Bank balances and short-term deposits (note 28)	-	-	-	4,408	-	4,408	4,408
Total	-	106	2,188	8,563	-	10,857	10,857
At 31st December 2007							
Available-for-sale assets (note 23)	-	-	365	-	-	365	365
Long-term receivables	-	-	-	7	-	7	7
Long-term security deposits	-	-	-	553	-	553	553
Derivative financial assets (note 24)	-	52	-	-	-	52	52
Trade and other receivables (note 27)	-	-	-	3,053	-	3,053	3,053
Bank balances and short-term deposits (note 28)	-	-	-	3,981	-	3,981	3,981
Total	-	52	365	7,594	-	8,011	8,011
Liabilities as per consolidated balance sheet							
At 31st December 2008							
Trade and other payables (note 29)	-	-	-	-	7,717	7,717	7,717
Provisions (note 30)	-	-	-	-	8	8	8
Derivative financial liabilities (note 24)	6	304	-	-	-	310	310
Bank overdrafts and short-term loans	-	-	-	-	2,083	2,083	2,080
Long-term loans and bonds due within one year	-	-	-	-	1,668	1,668	1,657
Perpetual capital securities	-	-	-	-	2,325	2,325	1,907
Long-term loans and bonds due after one year	-	-	-	-	29,196	29,196	28,426
Total	6	304	-	-	42,997	43,307	42,105
At 31st December 2007							
Trade and other payables (note 29)	-	-	-	-	7,423	7,423	7,423
Provisions (note 30)	-	-	-	-	8	8	8
Derivative financial liabilities (note 24)	-	45	-	-	-	45	45
Bank overdrafts and short-term loans	-	-	-	-	4,078	4,078	4,078
Long-term loans and bonds due within one year	-	-	-	-	170	170	170
Perpetual capital securities	-	-	-	-	2,340	2,340	2,387
Long-term loans and bonds due after one year	-	-	-	-	20,486	20,486	20,547
Total	-	45	-	-	34,505	34,550	34,658

22. Financial Instruments by Category (continued)

The accounting policies for financial instruments have been applied to the line items below:

Company	At fair value through profit or loss HK\$M	Derivatives used for hedging HK\$M	Available- for-sale HK\$M	Loans and receivables HK\$M	Amortised cost HK\$M	Total carrying amount HK\$M	Fair value HK\$M
Assets as per balance sheet							
At 31st December 2008							
Available-for-sale assets (note 23)	-	-	61	-	-	61	61
Long-term receivables	-	-	-	1	-	1	1
Trade and other receivables (note 27)	-	-	-	224	-	224	224
Short-term deposits and bank balances (note 28)	-	-	-	2,069	-	2,069	2,069
Total	-	-	61	2,294	-	2,355	2,355
At 31st December 2007							
Available-for-sale assets (note 23)	-	-	83	-	-	83	83
Long-term receivables	-	-	-	1	-	1	1
Trade and other receivables (note 27)	-	-	-	239	-	239	239
Short-term deposits and bank balances (note 28)	-	-	-	6	-	6	6
Total	-	-	83	246	-	329	329
Liabilities as per balance sheet							
At 31st December 2008							
Trade and other payables (note 29)	-	-	-	-	2,888	2,888	2,888
At 31st December 2007							
Trade and other payables (note 29)	-	-	-	-	2,341	2,341	2,341

The fair values of financial instruments traded in active markets are based on quoted market prices at the balance sheet date. The quoted market prices used for financial assets held by the Group are the current bid prices.

The fair values of financial instruments that are not traded in active markets are determined by using valuation techniques such as estimated discounted cash flows which use assumptions that are based on market conditions existing at each balance sheet date.

The book values of trade and other receivables, trade and other payables and provisions approximate their fair values.

The fair values of short-term and non-current borrowings are determined by using valuation techniques such as estimated discounted cash flows which use assumptions sourced from the relevant financial institutions.

23. Available-for-sale Assets

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Non-current assets				
Shares listed in Hong Kong	127	146	61	83
Securities listed overseas	163	209	-	-
Unlisted investments	10	10	-	-
	300	365	61	83
Current assets				
Amount related to disposal of Swire SITA group (note 3d)	1,888	-	-	-

24. Derivative Financial Instruments

	Group			
	2008		2007	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cross-currency swaps – cash flow hedges (a)	74	103	39	45
Interest rate swaps – cash flow hedges (b)	–	147	3	–
Interest rate swaps – fair value hedges (c)	26	–	–	–
Forward rate agreements – cash flow hedges (d)	–	2	–	–
Forward rate agreements – non qualifying as hedges (e)	–	5	–	–
Forward foreign exchange contracts				
– cash flow hedges (f)	6	52	10	–
Interest rate swaps – not qualifying as hedges	–	1	–	–
Total	106	310	52	45
<i>Less non-current portion:</i>				
Cross-currency swaps – cash flow hedges (a)	74	103	35	45
Interest rate swaps – cash flow hedges (b)	–	142	2	–
Interest rate swaps – fair value hedges (c)	26	–	–	–
Forward foreign exchange contracts				
– cash flow hedges (f)	3	29	–	–
	103	274	37	45
Current portion	3	36	15	–

- (a) The cross-currency swaps hedge the foreign currency risk relating to US\$ note issues. Gains and losses recognised in equity on cross-currency swaps at 31st December 2008 are expected to affect the profit and loss account in the years to redemption of the notes (up to and including 2018).
- (b) The interest rate swaps hedge the interest rate risk associated with floating rate notes. Gains and losses recognised in equity on interest swaps at 31st December 2008 are expected to affect the profit and loss account in the years to redemption of the notes (up to and including 2012).
- (c) The interest rate swap hedges the fair value risk of a fixed rate HK\$ note that was swapped into floating rate. The note matures in July 2011.
- (d) The forward rate agreements hedge the short-term interest rate risk associated with floating rate revolving credit facilities. They were entered into in October and November 2008, and will expire in the months of February to April 2009.
- (e) Two of the forward rate agreements, originally qualifying as effective hedges, were subsequently re-classified as non qualifying hedges due to the early repayment of the matching revolving credit facilities.
- (f) The forward foreign exchange contracts hedge the foreign currency exposure relating to contractual obligations. Gains and losses recognised in equity on foreign exchange contracts at 31st December 2008 are expected to affect the profit and loss account up to 2011.

Interest rate swaps

The notional principal amounts of the outstanding interest rate swap contracts at 31st December 2008 were HK\$6,100 million (2007: HK\$600 million).

At 31st December 2008, the fixed interest rates varied from 2.67% to 5.35% (2007: 3.15% to 3.38%) and the main floating rates were HIBOR and LIBOR (2007: same).

24. Derivative Financial Instruments (continued)

Cash flow hedges

For the years ended 31st December 2008 and 31st December 2007 all cash flow hedges were effective.

25. Properties for Sale

Refer to page 21 for details of the Group's properties for sale.

26. Stocks and Work in Progress

	Group	
	2008 HK\$M	2007 HK\$M
Goods for sale	1,264	1,199
Manufacturing materials	221	178
Production supplies	215	163
Work in progress	33	35
	1,733	1,575

27. Trade and Other Receivables

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Trade debtors	1,916	1,730	–	–
Amounts due from fellow subsidiary companies	5	5	–	–
Amounts due from subsidiary companies	–	–	138	130
Amounts due from jointly controlled companies	35	14	–	–
Amounts due from associated companies	9	9	–	–
Other receivables	1,802	1,295	86	109
	3,767	3,053	224	239

The amounts due from fellow subsidiary, subsidiary, jointly controlled and associated companies are unsecured and interest free. Except for amounts due from subsidiary companies which have no fixed terms of repayment, the balances are on normal trade credit terms.

The aged analysis of trade debtors at year-end was as follows:

	Group	
	2008 HK\$M	2007 HK\$M
Under three months	1,767	1,622
Between three and six months	35	78
Over six months	114	30
	1,916	1,730

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

27. Trade and Other Receivables (continued)

At 31st December 2008, trade debtors of HK\$677 million (2007: HK\$532 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The period of time since the due date of these trade debtors is as follows:

	Group	
	2008 HK\$M	2007 HK\$M
Up to three months	538	440
Between three and six months	29	68
Over six months	110	24
	677	532

At 31st December 2008, trade debtors of HK\$78 million (2007: HK\$56 million) were impaired. The amount of the provision was HK\$66 million at 31st December 2008 (2007: HK\$50 million). It was assessed that a portion of the trade debtors is expected to be recovered. The ageing of the impaired trade debtors is as follows:

	Group	
	2008 HK\$M	2007 HK\$M
Up to three months	17	19
Between three and six months	20	20
Over six months	41	17
	78	56

The maximum exposure to credit risk at 31st December 2008 and 31st December 2007 is the carrying value of trade debtors disclosed above. The value of rental deposits from tenants held as security against trade debtors at 31st December 2008 was HK\$1,547 million (2007: HK\$1,801 million).

28. Bank Balances and Short-term Deposits

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Cash and cash equivalents	4,146	3,684	2,069	6
Short-term deposits maturing after more than three months	93	127	–	–
Security deposits on loans repayable within one year	169	170	–	–
	262	297	–	–
	4,408	3,981	2,069	6

The effective interest rates on short-term deposits of the Group ranged from 0.05% to 4.58% (2007: 0.10% to 6.05%); these deposits have a maturity from 30 to 120 days (2007: 30 to 180 days).

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2008 and 31st December 2007 is the carrying value of the bank balances and short-term deposits disclosed above.

29. Trade and Other Payables

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Trade creditors	1,586	1,105	–	–
Amounts due to immediate holding company	210	97	33	18
Amounts due to subsidiary companies	–	–	2,766	2,259
Amounts due to jointly controlled companies	12	1	–	–
Amounts due to associated companies	46	51	–	–
Interest-bearing advances from jointly controlled companies at 0.24% (2007: 1.80% to 7.60%)	73	134	–	–
Interest-bearing advances from associated companies at 0.54%	151	–	–	–
Advances from minority interests	308	116	–	–
Rental deposits from tenants	1,547	1,801	–	–
Other payables	3,784	4,118	89	64
	7,717	7,423	2,888	2,341

The amounts due to and advances from immediate holding, subsidiary, jointly controlled and associated companies, and minority interests are unsecured and have no fixed terms of repayment. Apart from certain amounts due to jointly controlled and associated companies which are interest-bearing as specified above, the balances are interest free.

The aged analysis of trade creditors at year-end was as follows:

	Group	
	2008 HK\$M	2007 HK\$M
Under three months	1,450	946
Between three and six months	102	81
Over six months	34	78
	1,586	1,105

30. Provisions

	Group	
	2008 HK\$M	2007 HK\$M
At 1st January	8	45
Additional provisions	–	5
Utilised during the year	–	(42)
At 31st December	8	8

31. Perpetual Capital Securities

Refer to page 56 for details of the Group's perpetual capital securities.

32. Borrowings

Refer to pages 55 to 62 for details of the Group's borrowings.

33. Deferred Taxation

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

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	17,600	14,109	62	64
Translation differences	(8)	(1)	–	–
Change in composition of Group (Credited)/charged to profit and loss account	–	(6)	–	–
(Credited)/charged to equity	(22)	12	–	–
At 31st December	17,087	17,600	34	62

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK\$211 million (2007: HK\$264 million) to carry forward against future taxable income. These tax losses have no expiry date (2007: same).

The movement in deferred tax assets and liabilities (prior to offsetting balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Group							
	Accelerated tax depreciation		Investment property valuation		Others		Total	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	1,851	1,744	15,861	12,425	189	257	17,901	14,426
Translation differences	(1)	1	–	–	–	(2)	(1)	(1)
Change in composition of Group Charged/(credited) to profit and loss account	–	–	–	–	–	(2)	–	(2)
	204	106	(700)	3,436	173	(64)	(323)	3,478
At 31st December	2,054	1,851	15,161	15,861	362	189	17,577	17,901

	Company							
	Accelerated tax depreciation		Investment property valuation		Defined benefit retirement plans		Total	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	14	13	48	34	–	17	62	64
Charged/(credited) to profit and loss account	1	1	(29)	14	–	(17)	(28)	(2)
At 31st December	15	14	19	48	–	–	34	62

33. Deferred Taxation (continued)

Deferred tax assets

	Group							
	Provisions		Tax losses		Others		Total	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	74	77	44	60	183	180	301	317
Translation differences	3	1	–	–	4	(1)	7	–
Change in composition of Group	–	4	–	–	–	–	–	4
Credited/(charged) to profit and loss account	3	(8)	103	(16)	54	16	160	(8)
Credited/(charged) to equity	–	–	–	–	22	(12)	22	(12)
At 31st December	80	74	147	44	263	183	490	301

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the balance sheet.

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Deferred tax assets:				
– To be recovered after more than 12 months	(226)	(68)	–	–
– To be recovered within 12 months	(69)	(80)	–	–
	(295)	(148)	–	–
Deferred tax liabilities:				
– To be settled after more than 12 months	17,381	17,745	34	62
– To be settled within 12 months	1	3	–	–
	17,382	17,748	34	62
	17,087	17,600	34	62

34. Retirement Benefits

The Group operates various retirement benefit plans providing resignation and retirement benefits to staff on both a contributory and non-contributory basis. The assets of the plans are administered by independent trustees and are maintained independently of the Group's finances. The majority of the plans are of the defined benefit type and contributions to such plans are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past services liabilities, on an on-going basis, as computed by actuarial valuations.

All new employees are offered the choice of joining the retirement benefit plans or the mandatory provident fund ("MPF") scheme. Where staff elect to join the MPF scheme, both the Company and staff are required to contribute 5% of the employees' relevant monthly income (capped at HK\$20,000). Staff may elect to contribute more than the minimum as a voluntary contribution. Employees engaged outside Hong Kong are covered by appropriate local arrangements.

Total retirement benefit costs recognised in the profit and loss account for the year ended 31st December 2008 amounted to HK\$85 million (2007: HK\$94 million), including HK\$16 million (2007: HK\$19 million) in respect of defined contribution plans.

34. Retirement Benefits (continued)

Defined benefit plans are valued using the projected unit credit method in accordance with HKAS 19. Principal plans in Hong Kong are valued annually by qualified actuaries, Watson Wyatt Hong Kong Limited, for funding purposes. Calculations and financial assumptions provided by Watson Wyatt Hong Kong Limited at 31st December 2006 form the basis of the HKAS 19 disclosures shown in the accounts. Those calculations and financial assumptions were updated at 31st December 2008 and 31st December 2007 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit plans. Plans in the United States and Taiwan are valued by independent qualified actuaries in those countries. In addition, the Group operates a post-employment health care and life insurance benefit plan for certain retired employees in the United States, with accounting and frequency of valuations similar to those used for defined benefit plans.

(a) The amounts recognised in the consolidated balance sheet are as follows:

	2008			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
Present value of funded obligations	1,531	–	1,531	56
Fair value of plan assets	(1,143)	–	(1,143)	(121)
	388	–	388	(65)
Present value of unfunded obligations	–	43	43	–
Net unrecognised actuarial (losses)/gains	(425)	5	(420)	(44)
Net retirement benefit (assets)/liabilities	(37)	48	11	(109)
Represented by:				
Retirement benefit assets	(197)	–	(197)	(109)
Retirement benefit liabilities	160	48	208	–
	(37)	48	11	(109)
	2007			
	Group			Company
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M
Present value of funded obligations	1,671	–	1,671	55
Fair value of plan assets	(1,770)	–	(1,770)	(187)
	(99)	–	(99)	(132)
Present value of unfunded obligations	–	44	44	–
Net unrecognised actuarial gains	48	3	51	29
Net retirement benefit (assets)/liabilities	(51)	47	(4)	(103)
Represented by:				
Retirement benefit assets	(181)	–	(181)	(103)
Retirement benefit liabilities	130	47	177	–
	(51)	47	(4)	(103)

34. Retirement Benefits (continued)

(b) Changes in the present value of the defined benefit obligation are as follows:

	Group				Company	
	Defined benefit plans		Other post-employment benefits		Defined benefit plans	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	1,671	1,512	44	44	55	51
Translation differences	27	3	–	–	–	–
Service cost	126	115	1	1	6	5
Interest cost	67	64	2	2	2	2
Actuarial (gains)/losses	(253)	46	(4)	(3)	(9)	4
Liabilities extinguished on settlements	(9)	(3)	–	–	7	(4)
Benefits paid	(98)	(66)	–	–	(5)	(3)
At 31st December	1,531	1,671	43	44	56	55

Changes in the fair value of plan assets are as follows:

	Group		Company	
	Defined benefit plans		Defined benefit plans	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	1,770	1,555	187	158
Translation differences	23	1	–	–
Expected return	124	113	13	11
Actuarial (losses)/gains	(719)	113	(82)	25
Assets distributed on settlements	(16)	(3)	8	(4)
Contributions by employer	51	46	–	–
Contributions by employees	8	9	–	–
Benefits paid	(98)	(64)	(5)	(3)
At 31st December	1,143	1,770	121	187

34. Retirement Benefits (continued)

(c) Net expenses recognised in the consolidated profit and loss account are as follows:

	Group					
	2008			2007		
	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M	Defined benefit plans HK\$M	Other post-employment benefits HK\$M	Total HK\$M
Current service cost	126	1	127	115	1	116
Interest cost	67	2	69	64	2	66
Expected return on plan assets	(124)	–	(124)	(113)	–	(113)
Past service costs recognised	3	–	3	3	–	3
Net actuarial losses/(gains) recognised	3	(1)	2	4	(1)	3
Gains on curtailments and settlements	(8)	–	(8)	–	–	–
	67	2	69	73	2	75

The above net expenses were mainly included in administrative expenses in the consolidated profit and loss account.

The actual return on defined benefit plan assets was a loss of HK\$595 million (2007: gain of HK\$226 million).

(d) Plan assets comprise the following:

	Group			
	Defined benefit plans			
	2008		2007	
	HK\$M	%	HK\$M	%
Equities	749	66	1,265	72
Bonds	337	29	437	24
Deposits and cash	57	5	68	4
	1,143	100	1,770	100

34. Retirement Benefits (continued)

(e) Amounts for the current and previous four periods are as follows:

	Group				
	2008 HK\$M	2007 HK\$M	2006 HK\$M	2005 HK\$M	2004 HK\$M
Defined benefit plans					
– Defined benefit obligations	1,531	1,671	1,512	1,418	1,300
– Plan assets	(1,143)	(1,770)	(1,555)	(1,454)	(1,304)
– Deficit/(surplus)	388	(99)	(43)	(36)	(4)
– Experience adjustments on plan liabilities	(52)	44	14	40	132
– Experience adjustments on plan assets	719	(113)	(93)	(37)	(80)
Other post-employment benefits					
– Defined benefit obligations	43	44	44	41	62
– Experience adjustments on plan liabilities	(4)	(3)	1	1	(23)

(f) The principal actuarial assumptions used are as follows:

	Group					
	Defined benefit plans				Other post-employment benefits	
	2008		2007		2008	2007
	HK %	Others %	HK %	Others %	USA %	USA %
Discount rate	5.3	3.0-6.25	3.85	3.5-5.5	6.25	5.5
Expected rate of return on plan assets	7.0	2.25-8.25	7.0	2.75-8.25	N/A	N/A
Expected rate of future salary increases	2.0-4.0	2.5-5.5	4.0	2.5-5.0	N/A	N/A
Expected rate of increase in cost of covered health care benefits	N/A	N/A	N/A	N/A	10.0	10.0

The expected return on plan assets reflects the expected returns available on the assets underlying the current investment policy. Expected yields on bonds are based on gross redemption yields at the balance sheet date. Expected returns on equities reflect long-term real rates of return experienced in the respective markets.

35. Share Capital

	Company				Total HK\$M
	'A' shares of HK\$0.60 each	'B' shares of HK\$0.12 each	'A' shares HK\$M	'B' shares HK\$M	
Authorised:					
At 31st December 2008 and 2007	1,140,000,000	3,600,000,000	684	432	1,116
Issued and fully paid:					
At 1st January 2008	915,564,500	3,003,486,271	549	361	910
Repurchased during the year	(9,986,000)	(8,266,271)	(6)	(1)	(7)
At 31st December 2008	905,578,500	2,995,220,000	543	360	903
At 1st January 2007	930,375,385	3,003,486,271	558	361	919
Repurchased during the year	(14,810,885)	–	(9)	–	(9)
At 31st December 2007	915,564,500	3,003,486,271	549	361	910

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

During the year under review and up to the date of this report, the Company purchased 9,986,000 'A' shares and 8,266,271 'B' shares on the Hong Kong Stock Exchange. The Company did not issue any shares during the year. Details of shares acquired by month, excluding transaction costs of HK\$1 million, are as follows:

'A' shares Month	Number purchased	Highest price paid HK\$	Lowest price paid HK\$	Total cost HK\$M
July	989,500	76.00	74.55	74
October	8,796,500	60.00	47.50	480
November	200,000	45.10	43.10	9
	9,986,000			563

'B' shares Month	Number purchased	Highest price paid HK\$	Lowest price paid HK\$	Total cost HK\$M
March	1,000,000	17.50	17.20	17
October	7,266,271	10.00	8.82	68
	8,266,271			85

36. Reserves

Group	Revenue reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Cash flow hedge reserve HK\$M	Translation reserve HK\$M	Total HK\$M
At 1st January 2007	112,751	342	33	484	(337)	222	113,495
Profit for the year	26,260	–	–	–	–	–	26,260
2006 Final dividend	(3,356)	–	–	–	–	–	(3,356)
2007 Interim dividend (note 12)	(1,366)	–	–	–	–	–	(1,366)
Repurchase of the Company's shares							
– premium paid on repurchases	(1,287)	–	–	–	–	–	(1,287)
– transferred between reserves	(9)	–	9	–	–	–	–
Net fair value gains on available-for-sale assets recognised during the year	–	–	–	159	–	–	159
Changes in cash flow hedges							
– recognised during the year	–	–	–	–	102	–	102
– deferred tax recognised	–	–	–	–	(12)	–	(12)
– transferred to net finance charges	–	–	–	–	(29)	–	(29)
– transferred to initial cost of non- financial assets	–	–	–	–	(6)	–	(6)
Share of changes in reserves of jointly controlled and associated companies	(120)	–	–	65	14	262	221
Translation differences	–	–	–	–	–	426	426
At 31st December 2007	132,873	342	42	708	(268)	910	134,607
At 1st January 2008	132,873	342	42	708	(268)	910	134,607
Profit for the year	5,908	–	–	–	–	–	5,908
2007 Final dividend (note 12)	(3,532)	–	–	–	–	–	(3,532)
2008 Interim dividend (note 12)	(1,364)	–	–	–	–	–	(1,364)
Repurchase of the Company's shares							
– premium paid on repurchases	(642)	–	–	–	–	–	(642)
– transferred between reserves	(7)	–	7	–	–	–	–
Net fair value losses on available-for- sale assets recognised during the year	–	–	–	(130)	–	–	(130)
Changes in cash flow hedges							
– recognised during the year	–	–	–	–	(113)	–	(113)
– deferred tax recognised	–	–	–	–	22	–	22
– transferred to net finance charges	–	–	–	–	(32)	–	(32)
– transferred to operating profit – exchange differences	–	–	–	–	29	–	29
– transferred to initial cost of non- financial assets	–	–	–	–	(74)	–	(74)
Share of changes in reserves of jointly controlled and associated companies	(157)	–	–	(172)	(453)	457	(325)
Translation differences	–	–	–	–	–	130	130
At 31st December 2008	133,079	342	49	406	(889)	1,497	134,484

36. Reserves (continued)

Company	Revenue reserve HK\$M	Share premium account HK\$M	Capital redemption reserve HK\$M	Investment revaluation reserve HK\$M	Total HK\$M
At 1st January 2007	15,814	342	33	28	16,217
Profit for the year (note 11)	4,630	–	–	–	4,630
2006 Final dividend	(3,356)	–	–	–	(3,356)
2007 Interim dividend (note 12)	(1,366)	–	–	–	(1,366)
Repurchase of Company's shares					
– premium paid on reserves	(1,287)	–	–	–	(1,287)
– transferred between reserves	(9)	–	9	–	–
Net fair value gains on available-for-sale assets recognised during the year	–	–	–	17	17
At 31st December 2007	14,426	342	42	45	14,855
At 1st January 2008	14,426	342	42	45	14,855
Profit for the year (note 11)	4,411	–	–	–	4,411
2007 Final dividend (note 12)	(3,532)	–	–	–	(3,532)
2008 Interim dividend (note 12)	(1,364)	–	–	–	(1,364)
Repurchase of Company's shares					
– premium paid on repurchase	(642)	–	–	–	(642)
– transferred between reserves	(7)	–	7	–	–
Net fair value losses on available-for-sale assets recognised during the year	–	–	–	(86)	(86)
At 31st December 2008	13,292	342	49	(41)	13,642

- (a) The Group revenue reserve includes accumulated losses from jointly controlled companies amounting to HK\$2,018 million (2007: HK\$1,837 million) and retained revenue reserves from associated companies amounting to HK\$15,857 million (2007: HK\$20,151 million).
- (b) Distributable reserves of the Company at 31st December 2008 amounted to HK\$13,173 million (2007: HK\$14,148 million).
- (c) The Group and Company revenue reserves include HK\$2,227 million (2007: HK\$3,532 million) representing the proposed Final dividend for the year (note 12).

37. Minority Interests

	Group	
	2008 HK\$M	2007 HK\$M
At 1st January	1,161	610
Translation differences	44	43
Change in composition of Group	(33)	–
Capital contribution from minority interests	10	484
Share of fair value gains on available-for-sale assets	–	1
Share of profits less losses for the year	373	127
Dividends paid and payable	(84)	(104)
Others	(24)	–
At 31st December	1,447	1,161

38. Capital Commitments

	Group	
	2008 HK\$M	2007 HK\$M
Outstanding capital commitments at the year-end in respect of:		
(a) Property, plant and equipment		
Contracted for	7,691	7,969
Authorised by Directors but not contracted for	1,892	2,650
(b) Investment properties		
Contracted for	1,217	888
Authorised by Directors but not contracted for	904	1,859
(c) The Group's interests in jointly controlled companies		
Contracted for	255	203
Authorised by Directors but not contracted for	5,133	4,685

The Company had no commitments in respect of the above items at 31st December 2008 (2007: same).

At 31st December 2008, the Group had unprovided contractual obligations for future repairs and maintenance on investment properties of HK\$184 million (2007: HK\$134 million).

39. Contingencies

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
(a) Guarantees provided in respect of bank loans and other liabilities of:				
Subsidiary companies	–	–	30,541	23,101
Jointly controlled companies	1,390	1,172	1,390	1,171
	1,390	1,172	31,931	24,272

39. Contingencies (continued)

(b) Contingent tax liability

Certain wholly-owned Group companies have been unable to finalise their liability to profits tax in respect of the years 1997/98 to 2003/04 inclusive as a consequence of queries raised by the Hong Kong Inland Revenue Department (“IRD”). These queries relate to the deductibility, in the assessment of profits tax, of interest on borrowings of those companies during the periods under review.

A number of discussions have taken place between the companies and the IRD to understand the precise nature of the IRD queries. However, at this stage there is insufficient information available to determine reliably the ultimate outcome of the IRD’s review with an acceptable degree of certainty. Consequently no provision has been recognised in these accounts for any amounts that may fall due in regard to these queries.

The IRD has issued Notices of Assessment totalling HK\$440 million, the estimated contingent liability, in respect of their queries for the years under review. The companies involved have objected to these assessments and the IRD has agreed to unconditional holdover of the assessments.

(c) Cathay Pacific Airways

Cathay Pacific Airways is the subject of investigations and proceedings in respect of its air cargo operations by the competition authorities of various jurisdictions, including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. Cathay Pacific Airways has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations and proceedings are focused on issues relating to pricing and competition. Cathay Pacific Airways is represented by legal counsel in connection with these matters.

Cathay Pacific Airways announced on 24th December 2007 that it had received a Statement of Objections from the European Commission with regard to its air cargo operations. Cathay Pacific Airways has responded to the Statement of Objections.

On 15th December 2008, Cathay Pacific Airways received a Statement of Claim from the New Zealand Commerce Commission with regard to its air cargo operations. Cathay Pacific Airways, with the assistance of counsel, is evaluating the allegations and will respond to it.

Cathay Pacific Airways has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia alleging violations of applicable competition laws arising from its conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States alleging violations of applicable competition laws arising from Cathay Pacific Airways’ conduct relating to certain of its passenger operations. Cathay Pacific Airways is represented by legal counsel in the actions filed in the United States, Canada and Australia and is defending those actions.

The investigations, proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. Cathay Pacific Airways is not in a position at the present time to make a sufficiently reliable estimate of the amount of any potential liability. Accordingly no provision has been made in the accounts of Cathay Pacific Airways. The information usually required by HKAS 37 “Provisions, Contingent Liabilities and Contingent Assets” is not disclosed on the grounds that it can be expected to prejudice seriously the outcomes.

40. Operating Lease Arrangements

The Group acts as both lessor and lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out land and buildings and vessels under operating leases. The leases for land and buildings typically run for a period of three to six years. The turnover-related rental income received during the year amounted to HK\$223 million (2007: HK\$218 million). The leases for vessels typically run for an initial period of six months to five years with an option to renew the lease after that date, at which time all terms are renegotiated.

At 31st December, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the Group were as follows:

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Land and buildings:				
Not later than one year	5,306	4,167	6	2
Later than one year but not later than five years	10,935	8,858	2	–
Later than five years	1,604	1,421	–	–
	17,845	14,446	8	2
Vessels:				
Not later than one year	2,334	2,204		
Later than one year but not later than five years	2,482	2,101		
Later than five years	1,835	2,184		
	6,651	6,489		
	24,496	20,935		

Assets held for deployment on operating leases at 31st December were as follows:

	Group				Company	
	2008		2007		2008	2007
	Investment properties HK\$M	Vessels HK\$M	Investment properties HK\$M	Vessels HK\$M	Investment properties HK\$M	Investment properties HK\$M
Cost or fair value	128,640	8,002	115,284	7,146	236	1,274
Less: accumulated depreciation	–	(1,898)	–	(1,764)	–	–
Net book value	128,640	6,104	115,284	5,382	236	1,274
Depreciation for the year	–	312	–	283	–	–

40. Operating Lease Arrangements (continued)

(b) Lessee

The Group leases land and buildings, vessels and other equipment under operating leases. These leases typically run for an initial period of one to nine years with an option to renew the lease after that date, at which time all terms are renegotiated. The turnover-related rentals paid during the year amounted to HK\$16 million (2007: HK\$13 million).

At 31st December, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group were as follows:

	Group		Company	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
Land and buildings:				
Not later than one year	213	213	8	8
Later than one year but not later than five years	272	269	24	29
Later than five years	32	54	–	3
	517	536	32	40
Vessels:				
Not later than one year	75	83		
Later than one year but not later than five years	281	282		
Later than five years	539	613		
	895	978		
Other equipment:				
Not later than one year	16	18		
Later than one year but not later than five years	72	4		
	88	22		
	1,500	1,536		

41. Related Party Transactions

There are agreements for services (“Agreements”), in respect of which John Swire & Sons (H.K.) Limited (“JSSHK”) provided services to various companies in the Group and under which costs were reimbursed and fees payable. In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from jointly controlled and associated companies of the Company, where there were 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 minority interests after certain adjustments. The current Agreements commenced on 1st January 2008 and will last for three years until 31st December 2010. The preceding Agreements, with the same terms and conditions, were from 1st January 2005 to 31st December 2007. For the year ended 31st December 2008, service fees payable amounted to HK\$215 million (2007: HK\$155 million). Expenses of HK\$125 million (2007: HK\$87 million) were reimbursed at cost; in addition, HK\$178 million (2007: HK\$140 million) in respect of shared administrative services was reimbursed.

The above transactions (except shared administrative services) are continuing connected transactions which give rise to disclosure obligations under Chapter 14A of the Listing Rules.

41. Related Party Transactions (continued)

The following is a summary of other significant transactions between the Group and related parties, in addition to those disclosed elsewhere in the accounts, which were carried out in the normal course of the Group's business. These transactions were not connected transactions or continuing connected transactions under the Listing Rules.

	Notes	Jointly controlled companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
		2008	2007	2008	2007	2008	2007	2008	2007
		HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
Revenue from	(a)								
– Sales of beverage drinks		–	–	17	15	–	–	–	–
– Rendering of services		24	29	7	7	–	–	–	–
Purchases of beverage drinks	(a)	–	–	346	–	–	–	–	–
Purchases of beverage cans	(a)	208	203	–	–	–	–	–	–
Purchases of other goods	(a)	4	11	92	111	–	–	–	–
Purchases of services	(a)	–	–	2	2	7	7	–	–
Rental revenue	(b)	–	–	8	7	13	7	43	40
Interest income	(c)	5	8	23	30	–	–	–	–
Interest charges	(c)	3	8	–	–	–	–	–	–

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 jointly controlled and associated companies at 31st December 2008 are disclosed in notes 20 and 21 respectively. Advances from jointly controlled and associated companies are disclosed in note 29.

The Company's subsidiary, Swire Coca-Cola Beverages Xiamen Ltd. ("SCCXM") has extended a loan facility of not exceeding RMB40 million to each of Hangzhou BC Foods Co., Ltd. and Nanjing BC Foods Co., Ltd., both being subsidiaries of the Company. As security for these loans, another subsidiary of the Company, Swire Beverages Limited, entered into a Pledge Agreement with SCCXM on 4th January 2006 to pledge the dividends receivable from SCCXM. These loans and the transaction under the pledge agreement were not connected transactions which give rise to any disclosure or other obligations under Chapter 14A of the Listing Rules.

Amounts due to the immediate holding company at 31st December 2008 are disclosed in note 29. These balances arise in the normal course of business, are non-interest-bearing and have no fixed settlement dates.

Remuneration of key management is disclosed in note 8.

42. Notes to the Consolidated Cash Flow Statement

(a) Reconciliation of operating profit to cash generated from operations

	Group	
	2008 HK\$M	2007 HK\$M
Operating profit	9,153	26,579
Profit on disposal of investment properties	–	(90)
Change in fair value of investment properties	(177)	(19,446)
Depreciation	764	683
Profit on disposal of property, plant and equipment	(85)	(215)
Amortisation of deferred expenditure	26	23
Amortisation of leasehold land and land use rights	7	5
Amortisation of intangible assets	14	13
Impairment losses recognised on property held for development	77	–
Profit on share dilution in subsidiary companies	(49)	–
Profit on sale of a subsidiary company	(4)	–
Profit on sale of jointly controlled companies	(1,721)	(1,122)
Other items	(11)	(2)
Operating profit before working capital changes	7,994	6,428
(Increase)/decrease in long-term receivables	(1)	3
Decrease/(increase) in properties for sale	42	(566)
Increase in stocks and work in progress	(234)	(190)
Increase in trade and other receivables	(651)	(354)
Increase in trade and other payables	430	559
Cash generated from operations	7,580	5,880

(b) Purchase of property, plant and equipment

	Group	
	2008 HK\$M	2007 HK\$M
Properties	1,748	6,133
Plant and machinery	606	548
Vessels	1,332	1,226
Total	3,686	7,907

The above figures do not include interest capitalised on property, plant and equipment.

42. Notes to the Consolidated Cash Flow Statement (continued)

(c) Analysis of changes in financing during the year

	Group			
	Loans, bonds and perpetual capital securities (excluding security deposits)		Minority interests	
	2008 HK\$M	2007 HK\$M	2008 HK\$M	2007 HK\$M
At 1st January	27,038	14,176	1,161	610
Net cash inflow from financing	8,247	12,815	10	484
Acquisition of subsidiaries	–	–	(33)	–
Minority interests' share of profits less losses	–	–	373	127
Dividends paid to minority interests	–	–	(84)	(104)
Other non-cash movements	(13)	47	20	44
At 31st December	35,272	27,038	1,447	1,161

43. Immediate and Ultimate Holding Company

The immediate holding company is John Swire & Sons (H.K.) Limited, a company incorporated in Hong Kong. The ultimate holding company is John Swire & Sons Limited, a company incorporated in England.

Principal Accounting Policies

1. Basis of Accounting

The accounts have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”). The accounts have been prepared under the historical cost convention as modified by the revaluation of certain investment properties, available-for-sale investments and financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

2. Basis of Consolidation

The consolidated accounts incorporate the accounts of Swire Pacific Limited, its subsidiary companies (together referred to as the “Group”) and the Group’s interest in jointly controlled and associated companies.

3. Subsidiary Companies

Subsidiary companies are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

The results of subsidiary companies are included in the consolidated profit and loss account and minority interests therein are disclosed separately as a component of the consolidated profit after tax. Results attributable to subsidiary company interests acquired or disposed of during the year are included from the date on which control is transferred to the Group or to the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiary companies by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interests. The excess of the cost of acquisition over the fair value of the Group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary company acquired, the difference is recognised directly in the profit and loss account.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiary companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Minority interests in the balance sheet comprise the outside shareholders’ proportion of the net assets of subsidiary companies. The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the profit and loss account. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company.

In the Company’s balance sheet its investments in subsidiary companies are stated at cost less provision for any impairment losses. Income from subsidiary companies is accounted for by the Company on the basis of dividends received and receivable.

4. Jointly Controlled and Associated Companies

Jointly controlled companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where none of the participating parties has unilateral control over the economic activity of the joint venture.

Associated companies are those companies over which the Group has significant influence but not control or joint control, over its management including participation in the financial and operating policy decisions generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in jointly controlled and associated companies are accounted for by the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in jointly controlled and associated companies over the fair value of the Group's share of the identifiable net assets acquired represents goodwill. The Group's investments in jointly controlled and associated companies include goodwill (net of any accumulated impairment losses) arising on acquisitions.

The Group's share of its jointly controlled and associated companies' post-acquisition profits or losses is recognised in the consolidated profit and loss account, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's interest, including any other unsecured receivables in a jointly controlled or an associated company is reduced to nil, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the jointly controlled or associated company.

The Group recognises the disposal of an interest in a jointly controlled company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

Unrealised gains on transactions between the Group and its jointly controlled and associated companies are eliminated to the extent of the Group's interest in these companies. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of jointly controlled and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, its investments in jointly controlled and associated companies are stated at cost less provision for any impairment losses. Income from jointly controlled and associated companies is recognised by the Company on the basis of dividends received and receivable.

Long-term, non-interest bearing loans to jointly controlled companies are considered to be quasi-equity in nature.

5. Foreign Currency Translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated accounts are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

When a gain or loss on a non-monetary item is recognised directly in equity, any translation difference on that gain or loss is recognised directly in equity. When a gain or loss on a non-monetary item is recognised in the profit and loss account, any translation difference on that gain or loss is recognised in the profit and loss account.

(c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each profit and loss account are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) All resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to equity. When a foreign operation is sold, such exchange differences are recognised in the profit and loss account as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

6. Investment Properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property. Investment property comprises land held under operating leases and buildings held under finance leases. Land held under operating leases is classified and accounted for as investment property when the rest of the definition of investment property is met.

Investment properties are carried at fair values and are valued at least annually. The majority of investment properties are valued by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. Investment property that is being redeveloped for continuing use as investment property continues to be measured at fair value. Changes in fair values are recognised in the profit and loss account.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the profit and loss account during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property, plant and equipment and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

7. Property, Plant and Equipment

Property, plant and equipment are carried at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

With the exception of freehold land, all other assets under this category are depreciated at rates sufficient to write off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Properties	2% to 5% per annum
Plant and machinery	7% to 34% per annum
Vessels	4% to 7% per annum

The assets' expected useful lives and residual values are regularly reviewed and adjusted, if appropriate, at each balance sheet date to take into account operational experience and changing circumstances.

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

8. Intangible Assets

(a) Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary, jointly controlled and associated companies at the date of acquisition. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the closing rate.

Goodwill on acquisition of a subsidiary company is included in intangible assets. Goodwill on acquisitions of associated and jointly controlled companies is included in investments in associated and jointly controlled companies respectively.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is performed annually. Impairment losses recognised on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software costs recognised as assets are amortised over their estimated useful lives.

9. Impairment of Assets

Assets that have an indefinite useful life are not subject to amortisation. These assets are tested at least annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

10. Financial Assets

The Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and financial assets designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date where these are classified as non-current assets.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale assets

Available-for-sale assets are non-derivative investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale investments are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of financial assets are recognised on their trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category are included in the profit and loss account in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity. When available-for-sale investments are sold or impaired, the accumulated fair value adjustments are included in the profit and loss account as gains and losses from investments.

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale investments) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The nominal value less estimated credit adjustments of trade receivables is assumed to approximate their fair value.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the investment below its cost is considered in determining whether the investments are impaired. If any such evidence exists for available-for-sale investments, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account. Impairment losses recognised in the profit and loss account on equity instruments are not reversed through the profit and loss account.

11. Derivative Financial Instruments and Hedging Activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (2) hedges of highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedges

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings and foreign exchange risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the profit and loss account within finance income or finance costs. The gain or loss relating to forward foreign exchange contracts, whether effective or ineffective, is recognised in the profit and loss account within other net gains.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the profit and loss account over the period to maturity.

(b) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are recycled in the profit and loss account in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the profit and loss account within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the profit and loss account within cost of sales. The gain or loss relating to the ineffective portion of interest rate swaps or forward foreign exchange contracts is recognised in the profit and loss account within other net gains. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the profit and loss account. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit and loss account.

(c) Net investment hedges

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Gains and losses accumulated in equity are included in the profit and loss account when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date.

12. Deferred Expenditure

Expenditure incurred in leasing the Group's property during construction is deferred and amortised on a straight-line basis to the profit and loss account upon occupation of the property over a period not exceeding the terms of the lease.

13. Stocks and Work in Progress

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost represents average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The costs of finished goods and work in progress comprise direct material and labour costs and an appropriate proportion of production overhead expenses less provisions for foreseeable losses. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchase of raw materials or stocks.

14. Properties Held for Development and Properties for Sale

Properties held for development and properties for sale comprise freehold and leasehold land, construction costs and interest costs capitalised, less provisions for possible losses. Properties held for development are not expected to be sold within the Group's normal operating cycle and are classified as non-current assets. Properties for sale are available for immediate sale and are classified as current assets.

15. Accounts Receivable

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Accounts receivable in the balance sheet are stated net of such provision.

16. Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term highly liquid investments which were within three months of maturity when acquired, less bank overdrafts.

17. Borrowings and Perpetual Capital Securities

Borrowings are recognised initially at fair value, net of transaction costs incurred for those not held at fair value through profit or loss. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commission paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated either at amortised cost with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the profit and loss account over the period of the borrowings using the effective interest method or at fair value through profit or loss.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

For disclosure purposes, the fair value of borrowings stated at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

18. Borrowing Costs

Interest costs incurred are charged to the profit and loss account except for those interest charges attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale.

19. Operating Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessors) are recognised as income or expense in the profit and loss account on a straight-line basis over the period of the lease.

20. Deferred Taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantially enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary, jointly controlled and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

21. Revenue Recognition

Provided the collectibility of the related receivable is reasonably assured, revenue is recognised as follows:

- (a) Rental income is recognised on a straight-line basis over the period of the lease.
- (b) Sales of properties are recognised when effective control of ownership of the properties is transferred to the buyers, for example on issue of the completion certificate/occupancy permit.
- (c) Sales of services, including services provided by hotel operations, are recognised when the services are rendered.
- (d) Charter hire income is recognised over the period of the expected utilisation of the vessels.
- (e) Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risks and rewards of ownership, for example insurance and service costs.
- (f) Interest income is recognised on a time-proportion basis using the effective interest method.

22. Related Parties

Related parties are individuals and companies, including subsidiary, fellow subsidiary, jointly controlled and associated companies and key management (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

23. Retirement Benefits

The Group operates a number of defined benefit and defined contribution retirement benefit schemes for its employees, the assets of which are generally held in separate trustee-administered funds. The schemes are generally funded by payments from the relevant Group companies and, in some cases, employees themselves, taking account of the recommendations of independent qualified actuaries.

A defined benefit plan is a retirement plan that defines an amount of benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a retirement plan under which the Group pays fixed contributions into a separate entity which are invested in a manner determined by the employee, in a designated range of funds. The Group has no legal or constructive obligations to pay further contributions.

The Group's contributions to the defined contribution schemes are charged to the profit and loss account in the period to which the contributions relate.

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the profit and loss account so as to spread the regular cost over the service lives of employees. The retirement benefit obligation is measured as the present value of the estimated future cash outflows. Plan assets are measured at fair value. Cumulative unrecognised net actuarial gains and losses at the previous financial year-end, to the extent that the amount is in excess of 10% of the greater of the present value of the defined benefit obligations and the fair value of the plan assets, are recognised over the expected average remaining working lives of the employees participating in the plan. Past service costs are recognised as an expense on a straight-line basis over the average period until the benefits become vested.

24. Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

25. Guarantees

Financial guarantees are initially recognised in the accounts at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise in the profit and loss account the fee income earned on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the balance sheet date. Any increase in the liability relating to guarantees is taken to the profit and loss account.

26. Dividend Distribution

Final dividend distribution to the Company's shareholders is recognised as a liability in the Group's accounts in the period in which the dividends are approved by the Company's shareholders.

27. Segment Reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments be presented as the primary reporting format and geographical segments as the secondary reporting format.

Principal Subsidiary, Jointly Controlled and Associated Companies and Investments

Showing proportion of capital owned at 31st December 2008

	Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
PROPERTY DIVISION					
<i>Subsidiary companies:</i>					
Incorporated in Hong Kong:					
Cathay Limited	100	–	100	807 shares of HK\$10 each	Property investment
Cityplaza Holdings Limited	100	–	100	100 shares of HK\$10 each	Property investment
Coventry Estates Limited	100	–	100	4 shares of HK\$10 each	Property investment
Festival Walk Holdings Limited	100	–	100	100,000 shares of HK\$10 each	Property investment
Golden Tent Limited	100	–	100	1 share of HK\$1 each	Hotel investment
Island Delight Limited	87.5	–	100	1 share of HK\$1 each	Property trading
One Queen's Road East Limited	100	–	100	2 shares of HK\$1 each	Property investment
Oriental Landscapes Limited	100	–	100	50,000 shares of HK\$10 each	Landscaping services
Pacific Place Holdings Limited	100	–	100	2 shares of HK\$1 each	Property investment
Redhill Properties Limited	100	–	100	250,000 shares of HK\$1 each	Property investment
Swire Properties Limited	100	100	–	612,036,542 shares of HK\$1 each	Holding company
Swire Properties Projects Limited	100	–	100	2 shares of HK\$1 each	Project management
Swire Properties Real Estate Agency Limited	100	–	100	2 shares of HK\$10 each	Real estate agency
Swire Properties Management Limited	100	–	100	2 shares of HK\$10 each	Property management
Taikoo Place Holdings Limited	100	–	100	2 shares of HK\$1 each	Property investment
One Island East Limited	100	–	100	2 shares of HK\$1 each	Property investment
Keen Well Holdings Limited	80	–	100	1 share of HK\$1 each	Property trading

Notes:

- (1) This table lists the principal subsidiary, jointly controlled and associated companies of the Group including those which, in the opinion of the Directors, materially contribute to the net income of the Group or hold a material portion of the assets or liabilities of the Group. To give full details of these companies would, in the opinion of the Directors, result in particulars of excessive length.
- (2) Unless otherwise stated, the principal country of operation of each subsidiary is the same as its country of incorporation. The activities of ship owning and operating are international, and are not attributable to a principal country of operation.
- (3) * Group interest held through jointly controlled or associated companies.
- (4) • Companies not audited by PricewaterhouseCoopers. These companies account for approximately 16.2% of attributable net assets at 31st December 2008.
- (5) ^ Translated name.

	Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
PROPERTY DIVISION (continued)					
<i>Subsidiary companies(continued):</i>					
Incorporated in Mainland China:					
<i>(Sino-foreign joint venture)</i>					
TaiKoo Hui (Guangzhou) Development Co. Ltd. ^	97	–	97	Registered capital of RMB2,000,000,000	Property investment
<i>(Wholly foreign owned enterprises)</i>					
Beijing Sanlitun North Property Management Co. Ltd.	80	–	80	Registered capital of RMB1,042,000,000	Property investment
Beijing Sanlitun South Property Management Co. Ltd.	80	–	80	Registered capital of RMB1,248,000,000	Property investment
Beijing Sanlitun Hotel Management Co. Ltd. ^	100	–	100	Registered capital of RMB260,000,000	Hotel investment
Sunshine Melody (Guangzhou) Properties Management Ltd.	100	–	100	Registered capital of RMB195,000,000	Property investment
Incorporated in the United States:					
Brickell CitiCentre East LLC	100	–	100	Limited Liability Company	Property trading
Brickell CitiCentre West LLC	100	–	100	Limited Liability Company	Property trading
Swire Development Sales Inc.	100	–	100	1,000 shares of US\$0.01 each	Real estate agency
Swire Pacific Holdings Inc. <i>(see also Beverages Division)</i>	100	–	100	8,950.28 shares of US\$1 each	Property development and manufacture and sale of non-alcoholic beverages
Swire Realty Inc.	100	–	100	1,000 shares of US\$0.01 each	Real estate agency
Swire Properties One Inc.	100	–	100	100 shares of US\$0.01 each	Property trading
FTL/AD Limited	75	–	75	Florida Partnership	Property trading
Incorporated in the British Virgin Islands:					
Charming Grace Limited	100	–	100	1 share of US\$1 each	Property development
Endeavour Technology Limited	87.5	–	87.5	1,000 shares of US\$1 each	Holding company
Peragore Limited	80	–	80	1,000 shares of US\$1 each	Holding company
Swire and Island Communication Developments Limited	60	–	60	100 shares of HK\$10 each and 1 non-voting dividend share of HK\$10 each	Property investment
Boom View Holdings Limited	100	–	100	2 shares of US\$1 each	Property investment
Incorporated in the United Kingdom:					
New Light Hotels Limited	100	–	100	100 shares of GBP1 each	Hotel investment

Principal Subsidiary, Jointly Controlled and Associated Companies and Investments
Showing proportion of capital owned at 31st December 2008

	Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
PROPERTY DIVISION (continued)					
<i>Jointly controlled companies:</i>					
Incorporated in Hong Kong:					
Hareton Limited	50	–	50	100 shares of HK\$10 each	Property trading
Newfoundworld Investment Holdings Limited	20	–	*	5 shares of US\$1 each	Holding company
Incorporated in the United States:					
Swire Brickell Key Hotel Limited	75	–	75	Florida Partnership	Hotel investment
Incorporated in the British Virgin Islands:					
Dazhongli Properties Limited	50	–	50	1,000 shares of US\$1 each	Holding company
Island Land Development Limited	50	–	50	100 shares of HK\$10 each	Property investment
Incorporated in Mainland China					
<i>(Domestic company)</i>					
Beijing Linlian Real Estate Co. Ltd. ^ <i>(Wholly foreign owned enterprises)</i>	50	–	50	Registered capital of RMB50,000,000	Property investment
Guan Feng (Shanghai) Real Estate Development Company Limited ^	50	–	*	Registered capital of US\$500,000,000	Property investment
Pei Feng (Shanghai) Real Estate Development Company Limited ^	50	–	*	Registered capital of US\$60,000,000	Property investment
Ying Feng (Shanghai) Real Estate Development Company Limited ^	50	–	*	Registered capital of US\$336,500,000	Property investment
<i>Associated companies:</i>					
Incorporated in Hong Kong:					
Queensway Hotel Limited	20	–	*	100,000 shares of HK\$10 each	Hotel investment
Shangri-La International Hotels (Pacific Place) Limited	20	–	20	5,000 shares of HK\$1 each and 10,000,000 non-voting shares of HK\$1 each	Hotel investment
Greenroll Limited •	20	–	20	45,441,000 shares of HK\$10 each	Hotel investment
Richly Leader Limited	20	–	20	1,000,000,000 shares of HK\$1 each	Property investment

				Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
AVIATION DIVISION								
<i>Subsidiary company:</i>								
Incorporated in Hong Kong:								
Swire Aviation Limited	66.67	66.67	–	5,000 shares of HK\$10 each				Holding company
<i>Associated companies:</i>								
Incorporated in Hong Kong:								
Abacus Distribution Systems (Hong Kong) Limited •	21.36	–	*	15,600,000 shares of HK\$1 each				Computerised reservation systems and related services
AHK Air Hong Kong Limited •	23.99	–	*	54,402,000 'A' shares of HK\$1 each 36,268,000 'B' shares of HK\$1 each				Cargo airline
Airline Property Limited •	39.98	–	*	2 shares of HK\$10 each				Property investment
Airline Stores Property Limited •	39.98	–	*	2 shares of HK\$10 each				Property investment
Airline Training Property Limited •	39.98	–	*	2 shares of HK\$10 each				Property investment
Cathay Holidays Limited •	39.98	–	*	40,000 shares of HK\$100 each				Travel tour operator
Cathay Pacific Airways Limited •	39.98	39.98	–	3,932,746,072 shares of HK\$0.20 each				Operation of scheduled airline services
Cathay Pacific Catering Services (H.K.) Limited •	39.98	–	*	600 shares of HK\$1,000 each				Airline catering
Cathay Pacific Loyalty Programmes Limited •	39.98	–	*	2 shares of HK\$1 each				Travel reward programme
Cathay Pacific Services Limited	39.98	–	*	1 share of HK\$1 each				Operation of air cargo terminal
Global Logistics System (H.K.) Company Limited •	38.64	–	*	100 shares of HK\$10 each				Computer network for interchange of air cargo related information
Goodrich Asia-Pacific Limited	21.80	–	*	9,200,000 shares of HK\$1 each				Carbon brake machining and wheel hub overhaul
Hong Kong Aero Engine Services Limited •	20.02	–	*	20 shares of HK\$10 each				Commercial aero engine overhaul services
Hong Kong Air Cargo Terminals Limited	24.00	–	30&*	600,000 shares of HK\$100 each				Air cargo handling service
Hong Kong Aircraft Engineering Company Limited	44.49	33.52	*	166,324,850 shares of HK\$1 each				Aircraft overhaul and maintenance
Hong Kong Airport Services Limited •	39.98	–	*	100 shares of HK\$1 each				Provision of ground and ramp handling services
Hong Kong Dragon Airlines Limited •	39.98	–	*	500,000,000 shares of HK\$1 each				Operation of scheduled airline services

Principal Subsidiary, Jointly Controlled and Associated Companies and Investments
Showing proportion of capital owned at 31st December 2008

		Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
AVIATION DIVISION (continued)						
<i>Associated companies (continued):</i>						
Incorporated in Hong Kong (continued):						
South China Aero Technology Limited	26.70	–	*	500,000 shares of HK\$1 each		Aircraft product trading
HAECO ATE Component Service Limited	44.49	–	*	2,000,000 shares of HK\$1 each		Aircraft component repairs services
Vogue Laundry Service Limited •	39.98	–	*	3,700 shares of HK\$500 each		Laundry and dry cleaning
Ground Support Engineering Limited	19.99	–	*	2 shares of HK\$1 each		Airport ground engineering support & equipment maintenance
LSG Lufthansa Service Hong Kong Limited	12.77	–	*	501 shares of HK\$1 each		Airline catering
Incorporated in Mainland China:						
Air China Limited •	7.24	–	*	4,405,683,364 'H' shares of RMB1 each 7,845,678,909 'A' shares of RMB1 each		Operation of scheduled airline services
<i>(Sino-foreign joint ventures)</i>						
Dunlop Taikoo (Jinjiang) Aircraft Tyres Company Limited	15.05	–	*	Registered capital of US\$5,000,000		Tyre services for commercial aircraft
Goodrich TAECO Aeronautical Systems (Xiamen) Company Limited •	10.08	–	*	Registered capital of US\$5,000,000		Aircraft fuel control, flight control and electrical component repairs
Honeywell TAECO Aerospace (Xiamen) Company Limited	14.00	–	*	Registered capital of US\$5,000,000		Aircraft hydraulic, pneumatic, avionic component and other aviation equipment repairs
Taikoo Engine Services (Xiamen) Company Limited	40.25	–	*	Registered capital of US\$63,000,000		Commercial aero engine overhaul services
Taikoo (Shandong) Aircraft Engineering Company Limited •	16.23	–	*	Registered capital of RMB200,000,000		Heavy maintenance services for narrow-bodied aircraft
Taikoo Spirit AeroSystems (Jinjiang) Composite Company Limited •	20.54	–	*	Registered capital of US\$8,480,000		Composite material aeronautic parts/systems repair, manufacturing and sales
Taikoo (Xiamen) Aircraft Engineering Company Limited ^	28.80	–	*	Registered capital of US\$41,500,000		Aircraft overhaul and maintenance
Taikoo (Xiamen) Landing Gear Services Company Limited	28.33	–	*	Registered capital of US\$13,890,000		Landing gear repairs and overhaul
<i>(Wholly foreign owned enterprise)</i>						
Guangzhou Guo Tai Information Processing Company Limited •	39.98	–	*	Registered capital of HK\$8,000,000		Information processing

		Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
AVIATION DIVISION (continued)						
<i>Associated companies (continued):</i>						
Incorporated in Canada:						
CLS Catering Services Limited •	11.99	–	*	330,081 shares of no par value		Airline catering
Incorporated in Bermuda:						
Tron Limited •	39.98	–	*	12,000 shares of US\$1 each		Financial services
Incorporated in the Isle of Man:						
Cathay Pacific Aircraft Services Limited •	39.98	–	*	10,000 shares of US\$1 each		Aircraft acquisition facilitator
Snowdon Limited •	39.98	–	*	2 shares of GBP1 each		Financial services
Incorporated in Japan:						
Cathay Kansai Terminal Services Company Limited •	19.39	–	*	10,574 shares of JPY50,000 each		Ground handling
Incorporated in the Philippines:						
Cebu Pacific Catering Services Inc. •	15.99	–	*	12,500,000 shares of PHP1 each		Airline catering
Incorporated in Taiwan:						
China Pacific Catering Services Limited	19.59	–	*	860,000,000 shares of NTD10 each		Airline catering
Incorporated in Singapore:						
Singapore Aero Engine Services Private Limited •	4.00	–	*	54,000,000 shares of US\$1 each		Trent engine overhaul services
Incorporated in Vietnam:						
VN/CX Catering Services Limited	15.99	–	*	4,062,000 shares of no par value		Airline catering

Principal Subsidiary, Jointly Controlled and Associated Companies and Investments
Showing proportion of capital owned at 31st December 2008

	Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
BEVERAGES DIVISION					
<i>Subsidiary companies:</i>					
Incorporated in Hong Kong:					
Mount Limited	87.50	–	100	1 share of HK\$1 each	Holding company
Swire Beverages Holdings Limited	100	100	–	10,002 shares of HK\$100 each	Holding company
Swire Beverages Limited	87.50	–	87.50	14,600 shares of US\$500 each	Holding company and sale of non-alcoholic beverages
Swire Coca-Cola HK Limited	87.50	–	100	2,400,000 shares of HK\$10 each	Manufacture of non-alcoholic beverages
Swire Linx Trading (Hong Kong) Co., Limited	100	100	–	1 share of HK\$1 each	Holding company
Top Noble Limited	100	–	100	1 share of HK\$1 each	Holding company
Incorporated in Mainland China:					
<i>(Sino-foreign joint venture)</i>					
Swire Coca-Cola Beverages Xiamen Ltd.	93.63	–	100	Registered capital of US\$52,737,000	Manufacture and sale of non-alcoholic beverages
<i>(Wholly foreign owned enterprises)</i>					
Xiamen Luquan Industries Company Limited	100	–	100	Registered capital of RMB63,370,000	Manufacture and sale of non-alcoholic beverages
Swire Linx Trading (Shenzhen) Co., Ltd. ^	100	–	100	Registered capital of RMB2,500,000	Sale and distribution of packaged foods and general household items
Incorporated in Bermuda:					
Swire Pacific Industries Limited <i>(operating principally in Taiwan)</i>	100	–	100	12,000 shares of US\$1 each	Holding company
Incorporated in the British Virgin Islands:					
SPHI Holdings Limited	100	–	100	2 shares of US\$1 each	Holding company
Swire Coca-Cola Beverages Limited <i>(operating principally in Taiwan)</i>	80	–	80	1,800,000,000 shares of US\$0.01 each	Manufacture of non-alcoholic beverages
Swire Coca-Cola (S&D) Limited <i>(operating principally in Taiwan)</i>	80	–	80	2,000,000 shares of US\$0.01 each	Sale of non-alcoholic beverages
Incorporated in the United States:					
Swire Pacific Holdings Inc. <i>(see also Property Division)</i>	100	–	100	8,950.28 shares of US\$1 each	Manufacture and sale of non-alcoholic beverages and property development

		Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
BEVERAGES DIVISION (continued)						
<i>Jointly controlled companies:</i>						
Incorporated in the British Virgin Islands:						
Swire Coca-Cola Vending Limited (operating principally in Taiwan)	43.75	–	50	100 shares of US\$1 each		Sale of non-alcoholic beverages
Incorporated in Mainland China:						
<i>(Sino-foreign joint ventures)</i>						
Hangzhou BC Foods Co., Ltd.	44.63	–	*	Registered capital of US\$20,000,000		Manufacture and sale of non-alcoholic beverages
Nanjing BC Foods Co., Ltd.	44.63	–	*	Registered capital of US\$19,000,000		Manufacture and sale of non-alcoholic beverages
Swire Coca-Cola Beverages Hefei Ltd.	59.50	–	*	Registered capital of US\$12,000,000		Manufacture and sale of non-alcoholic beverages
Swire Coca-Cola Beverages Wenzhou Limited ^	44.63	–	*	Registered capital of RMB49,800,000		Manufacture and sale of non-alcoholic beverages
Swire Coca-Cola Beverages Zhengzhou Ltd.	60.68	–	*	Registered capital of US\$18,000,000		Manufacture and sale of non-alcoholic beverages
Swire Guangdong Coca-Cola (Huizhou) Limited	44.63	–	20.4 & *	Registered capital of US\$5,000,000		Manufacture and sale of non-alcoholic beverages
Swire Guangdong Coca-Cola Limited	44.63	–	51	Registered capital of RMB510,669,100		Manufacture and sale of non-alcoholic beverages
<i>(Wholly foreign owned enterprises)</i>						
Swire BCD Co. Ltd.	74.38	–	85	Registered capital of US\$60,000,000		Holding company
Xian BC Coca-Cola Beverages Limited ^	74.38	–	*	Registered capital of US\$20,000,000		Manufacture and sale of non-alcoholic beverages
<i>Associated companies:</i>						
Incorporated in Hong Kong:						
Coca-Cola Bottlers Manufacturing Holdings Limited	41	–	41	20,000 shares of HK\$1 each		Holding company
Incorporated in Mainland China:						
<i>(Sino-foreign joint venture)</i>						
Coca-Cola Bottlers Manufacturing (Wuhan) Company Limited ^	35.88	–	*	Registered capital of US\$13,333,300		Manufacture and sale of non-carbonated beverages
<i>(Wholly foreign owned enterprise)</i>						
Coca-Cola Bottlers Manufacturing (Dongguan) Company Limited ^	35.88	–	*	Registered capital of US\$97,222,600		Manufacture and sale of non-carbonated beverages

	Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
MARINE SERVICES DIVISION					
<i>Subsidiary companies:</i>					
Incorporated in Hong Kong:					
Swire Pacific Ship Management Limited •	100	–	100	1,000 shares of HK\$100 each	Ship personnel management
Incorporated in Azerbaijan:					
Swire Pacific Offshore (Caspian) LLC	100	–	100	US\$5,000	Chartering and operating vessels
Incorporated in Australia:					
Swire Pacific Ship Management (Australia) Pty. Ltd.	100	–	100	20,000 shares of AUD1 each	Ship personnel management
Swire Pacific Offshore Pty Limited	100	–	100	40,000 shares of AUD1 each	Ship owning and operating
Incorporated in Bermuda:					
Swire Pacific Offshore Holdings Limited	100	–	100	500,000 shares of US\$100 each	Holding company
Swire Pacific Offshore Limited	100	–	100	120 shares of US\$100 each	Management services
Incorporated in the United Kingdom:					
Swire Pacific Offshore (North Sea) Limited	100	–	100	2 shares of GBP1 each	Management services
Incorporated in Singapore:					
Lamor Swire Environmental Solution Pte Limited	50	–	50	2 shares of SGD1 each	Pollution prevention and containment response services
Prisco Swire Offshore Pte Limited	50	–	50	10,001 shares of SGD1 each	Ship management services and other related activities
Swire Pacific Offshore Services (Pte) Limited	100	–	100	500,000 shares of SGD1 each	Administrative services to related companies
Swire Pacific Offshore Operations (Pte) Limited	100	–	100	500,000 shares of SGD1 each	Ship owning and operating
Swire Salvage (Pte) Limited	100	–	100	2 shares of SGD1 each	Salvage and maritime emergency response services
Incorporated in New Zealand:					
Swire Pacific Offshore NZ Limited	100	–	100	1 share of NZD100 each	Supply services to offshore oil and gas exploration and development activities
Incorporated in Cameroon:					
Swire Pacific Offshore Africa S.A.	100	–	100	10,000,000 shares of XAF1 each	Vessel operator

	Attributable to the Group %		Owned directly %		Owned by subsidiaries %		Issued share capital		Principal activities
MARINE SERVICES DIVISION (continued)									
<i>Jointly controlled companies:</i>									
Incorporated in Hong Kong:									
Hongkong United Dockyards Limited	50	50	–	7,600,000 shares of HK\$10 each	Ship repairing, marine towage and general engineering				
HUD General Engineering Services Limited	50	–	*	4,120,000 shares of HK\$10 each	General engineering services				
The Hongkong Salvage & Towage Company Limited	50	50	–	2,000,000 shares of HK\$10 each	Tug owning and leasing				
<i>Associated companies:</i>									
Incorporated in Malaysia:									
Wira-Swire Sendirian Berhad	20	–	20	250,000 shares of MYR1 each	Ship operating				
Incorporated in the Philippines:									
Anscor Swire Ship Management Corporation •	25	–	25	20,000 shares of PHP100 each	Ship personnel management				
Incorporated in the United Arab Emirates:									
Swire Pacific Offshore (Dubai) LLC	49	–	49	300 shares of AED1,000 each	Management services				
TRADING & INDUSTRIAL DIVISION – INDUSTRIAL									
<i>Subsidiary companies:</i>									
Incorporated in Hong Kong:									
Swire Industrial Limited	100	100	–	2 shares of HK\$1 each	Holding company				
Taikoo Sugar Limited	100	–	100	300,000 shares of HK\$10 each	Packing and trading of branded food products				
<i>Jointly controlled companies:</i>									
Incorporated in Hong Kong:									
CROWN Beverage Cans Hong Kong Limited	44.57	–	44.57	17,300,000 shares of HK\$10 each	Beverage can trading and distribution				
Akzo Nobel Swire Paints Limited (formerly known as ICI Swire Paints Limited) •	40	–	40	10,000 shares of HK\$1 each	Sale of paints and provision of related services				

Principal Subsidiary, Jointly Controlled and Associated Companies and Investments
Showing proportion of capital owned at 31st December 2008

		Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
TRADING & INDUSTRIAL DIVISION						
(continued)						
Incorporated in Mainland China:						
<i>(Sino-foreign joint ventures)</i>						
CROWN Beverage Cans Beijing Limited	41.30	–	*	Registered capital of US\$31,600,000	Beverage can manufacturing	
CROWN Beverage Cans Huizhou Limited •	44.12	–	*	Registered capital of US\$24,887,000	Beverage can manufacturing	
CROWN Beverage Cans Shanghai Limited	26.74	–	*	Registered capital of US\$14,000,000	Beverage can manufacturing	
Foshan Continental Can Company Limited •	22.29	–	*	Registered capital of US\$9,900,000	Beverage can manufacturing	
Foshan Crown Easy-Opening End Company Limited •	22.29	–	*	Registered capital of US\$6,000,000	Beverage can manufacturing	
ICI Swire Paints (China) Limited •	36	–	36	Registered capital of HK\$180,000,000	Paint manufacturing	
<i>(Wholly foreign owned enterprise)</i>						
AkzoNobel Swire Paints (Shanghai) Company Limited ^ (formerly known as ICI Swire Paints (Shanghai) Company Limited) •	30	–	30	Registered capital of US\$25,640,000	Paint manufacturing	
Incorporated in Vietnam:						
CROWN Beverage Cans Hanoi Limited	37.37	–	*	US\$24,910,000	Beverage can manufacturing	
– TRADING						
<i>Subsidiary companies:</i>						
Incorporated in Hong Kong:						
Bel Air Motors Limited	100	–	100	1 share of HK\$1 each	Automobile distribution	
Beldare Motors Limited	100	–	100	10,000 shares of HK\$100 each	Automobile distribution	
Liberty Motors Limited	100	–	100	2 shares of HK\$10 each	Automobile distribution	
Swire Resources Limited	100	–	100	4,010,000 shares of HK\$10 each	Marketing, distribution and retailing of branded sports and casual footwear, apparel and accessories	
Taikoo Commercial Vehicles Limited	100	–	100	2,000 shares of HK\$1 each	Automobile distribution	
Yuntung Motors Limited	100	–	100	2 shares of HK\$1 each	Automobile distribution	
Incorporated in Mainland China:						
<i>(Wholly foreign owned enterprise)</i>						
Swire Resources (Shanghai) Trading Company Limited	100	–	100	Registered capital of US\$6,040,000	Marketing, distribution and retailing of branded sports and casual footwear, apparel and accessories	
Incorporated in Bermuda:						
Taikoo Motors Offshore Limited	100	–	100	12,000 shares of US\$1 each	Holding company	

				Attributable to the Group %	Owned directly %	Owned by subsidiaries %	Issued share capital	Principal activities
TRADING & INDUSTRIAL DIVISION								
(continued)								
<i>Subsidiary companies (continued):</i>								
Incorporated in the British Virgin Islands:								
Taikoo Motorcycle Limited	100	–	100	1 share of US\$1 each				Automobile distribution
Taikoo Motors Limited	100	–	100	1 share of US\$1 each				Automobile distribution
Incorporated in Macau:								
Swire Resources (Macau) Limited	100	–	100	MOP25,000				Marketing, distribution and retailing of branded sports and casual footwear, apparel and accessories
<i>Jointly controlled company:</i>								
Incorporated in Hong Kong:								
Intermarket Agencies (Far East) Limited	70	–	70	10 shares of HK\$10 each				Marketing, distribution and retailing of branded sports and casual footwear, apparel and accessories
<i>Associated companies:</i>								
Incorporated in Hong Kong:								
PUMA Hong Kong Limited (formerly known as Liberty Sports Marketing Limited)	49	–	*	500,000 shares of HK\$10 each				Marketing, distribution and retailing of branded sports and casual footwear, apparel and accessories
Incorporated in Mainland China:								
<i>(wholly foreign owned enterprise)</i>								
Liberty Shanghai Limited	49	–	*	Registered capital of US\$6,040,000 each				Marketing and distribution of branded sports and casual footwear, apparel and accessories
OTHERS								
<i>Subsidiary companies:</i>								
Incorporated in Hong Kong:								
Swire Finance Limited	100	100	–	1,000 shares of HK\$10 each				Financial services
Incorporated in the Cayman Islands:								
Swire Pacific Capital Limited	100	100	–	10 shares of US\$1 each				Financial services
Swire Pacific MTN Financing Limited	100	100	–	1 share of US\$1 each				Financial services
Incorporated in the Isle of Man:								
Spaciom Limited	100	100	–	650,000 shares of HK\$1 each and 3,800,000 redeemable preference shares of HK\$0.01 each				Insurance underwriting
<i>Jointly controlled company:</i>								
Incorporated in Taiwan:								
China Pacific Laundry Services Limited •	45	–	45	25,000,000 shares of NT\$10 each				Laundry services

Cathay Pacific Airways Limited – Abridged Financial Statements

To provide shareholders with information on the results and financial position of the Group's significant listed associated company, Cathay Pacific Airways Limited, the following is a summary of its audited consolidated profit and loss account for the year ended 31st December 2008 and consolidated balance sheet at 31st December 2008, modified to conform to the Group's accounts presentation.

CATHAY PACIFIC AIRWAYS LIMITED

Consolidated Profit and Loss Account

For the year ended 31st December 2008

	2008 HK\$M	2007 HK\$M
Turnover	86,578	75,358
Operating expenses	(94,039)	(67,619)
Settlement of the US Department of Justice cargo investigations	(468)	–
Operating (loss)/profit	(7,929)	7,739
Finance charges	(2,428)	(2,451)
Finance income	1,416	1,664
Net finance charges	(1,012)	(787)
Share of profits less losses of associated companies	(730)	1,057
(Loss)/profit before taxation	(9,671)	8,009
Taxation	1,337	(799)
(Loss)/profit for the year	(8,334)	7,210
Attributable to:		
Cathay Pacific shareholders	(8,558)	7,023
Minority interests	224	187
	(8,334)	7,210
Dividends		
Interim – paid	118	985
Final – proposed/paid	–	2,320
	118	3,305
	HK¢	HK¢
(Loss)/earnings per share		
Basic	(217.5)	178.3
Diluted	(217.5)	178.1

Consolidated Balance Sheet

At 31st December 2008

	2008 HK\$M	2007 HK\$M
ASSETS AND LIABILITIES		
Non-current assets		
Fixed assets	66,039	62,388
Intangible assets	7,782	7,782
Investments in associated companies	9,773	10,054
Other long-term receivables and investments	3,087	3,519
	86,681	83,743
Current assets		
Stock	960	882
Trade and other receivables	12,010	11,376
Liquid funds	15,088	21,649
	28,058	33,907
Current liabilities		
Current portion of long-term liabilities	4,556	4,788
Related pledged security deposits	(301)	(910)
Net current portion of long-term liabilities	4,255	3,878
Trade and other payables	22,749	14,787
Unearned transportation revenue	5,878	6,254
Taxation	2,129	2,475
	35,011	27,394
Net current (liabilities)/assets	(6,953)	6,513
Total assets less current liabilities	79,728	90,256
Non-current liabilities		
Long-term liabilities	43,221	40,323
Related pledged security deposits	(7,196)	(7,833)
Net long-term liabilities	36,025	32,490
Retirement benefit obligations	281	268
Deferred taxation	4,977	6,771
	41,283	39,529
NET ASSETS	38,445	50,727
CAPITAL AND RESERVES		
Share capital	787	788
Reserves	37,538	49,761
Funds attributable to Cathay Pacific shareholders	38,325	50,549
Minority interests	120	178
TOTAL EQUITY	38,445	50,727

Notes to the Accounts

At 31st December 2008

Contingencies

- (a) Cathay Pacific Airways has under certain circumstances undertaken to maintain specified rates of return within the Cathay Pacific group's leasing arrangements. The Directors of Cathay Pacific Airways do not consider that an estimate of the potential financial effect of these contingencies can practically be made.
- (b) At 31st December 2008, contingent liabilities existed in respect of guarantees given by the Cathay Pacific group on behalf of associated companies and staff relating to lease obligations, bank loans and other liabilities of up to HK\$270 million (2007: HK\$219 million).
- (c) Cathay Pacific Airways operates in many jurisdictions and in certain of these there are disputes with the tax authorities. Provisions have been made to cover the expected outcome of the disputes to the extent that outcomes are likely and reliable estimates can be made. However, the final outcomes are subject to uncertainties and resulting liabilities may exceed provisions.
- (d) Cathay Pacific Airways is the subject of investigations and proceedings in respect of its air cargo operations by the competition authorities of various jurisdictions including the European Union, Canada, Australia, Switzerland, Korea and New Zealand. Cathay Pacific Airways has been cooperating with the authorities in their investigations and, where applicable, vigorously defending itself. The investigations and proceedings are focused on issues relating to pricing and competition. Cathay Pacific Airways is represented by legal counsel in connection with these matters.

As noted in Cathay Pacific Airways' press release on 24th December 2007, Cathay Pacific Airways received a Statement of Objections from the European Commission with regard to its air cargo operations and has responded to it.

On 15th December 2008, Cathay Pacific Airways received a Statement of Claim from the New Zealand Commerce Commission with regard to its air cargo operations. Cathay Pacific Airways, with the assistance of counsel, is evaluating the allegations and will respond to it.

Cathay Pacific Airways has been named as a defendant in a number of civil class action complaints in the United States, Canada and Australia alleging violations of applicable competition laws arising from its conduct relating to its air cargo operations. In addition, civil class action claims have been filed in the United States alleging violations of applicable competition laws arising from Cathay Pacific Airways' conduct relating to certain of its passenger operations. Cathay Pacific Airways is represented by legal counsel in the actions filed in the United States, Canada and Australia and is defending those actions.

The investigations, proceedings and civil actions are ongoing and the outcomes are subject to uncertainties. Cathay Pacific Airways is not in a position at the present time to make a sufficiently reliable estimate of the amount of any potential liability. Accordingly no provision has been made in the accounts. The information usually required by HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets" is not disclosed on the grounds that it can be expected to prejudice seriously the outcomes.

Schedule of Principal Group Properties

At 31st December 2008

	Gross floor areas in square feet								
	Hong Kong		Mainland China		USA		UK	Totals	
	Held through subsidiaries	Held through other companies	Held through subsidiaries	Held through other companies	Held through subsidiaries	Held through other companies	Held through subsidiaries	Held through subsidiaries	Held through subsidiaries and other companies
Completed properties for investment									
Retail	3,299,800	99,566	858,456	–	–	–	–	4,158,256	4,257,822
Office	8,286,537	306,850	–	–	–	–	–	8,286,537	8,593,387
Techno-centres	1,814,393	–	–	–	–	–	–	1,814,393	1,814,393
Residential	481,399	–	–	–	–	–	–	481,399	481,399
Hotels	–	381,680	169,000	–	–	258,750	183,556	352,556	992,986
	13,882,129	788,096	1,027,456	–	–	258,750	183,556	15,093,141	16,139,987
Property developments for investment									
Retail	–	–	1,822,448	1,010,719	–	–	–	1,822,448	2,833,167
Office	445,817	–	1,760,825	1,158,820	–	–	–	2,206,642	3,365,462
Hotels	361,763	–	649,667	517,006	–	–	–	1,011,430	1,528,436
Residential	68,242	–	–	–	–	–	–	68,242	68,242
	875,822	–	4,232,940	2,686,545	–	–	–	5,108,762	7,795,307
Property developments for sale									
Retail	–	5,367	–	–	–	–	–	–	5,367
Industrial	–	191,250	–	–	–	–	–	–	191,250
Residential	338,407	45,388	–	–	567,400	–	–	905,807	951,195
Mixed Use	–	–	–	–	2,550,000	–	–	2,550,000	2,550,000
	338,407	242,005	–	–	3,117,400	–	–	3,455,807	3,697,812
	15,096,358	1,030,101	5,260,396	2,686,545	3,117,400	258,750	183,556	23,657,710	27,633,106

Notes:

1. All properties held through subsidiary companies are wholly-owned except for Island Place (60%), TaiKoo Hui (97%), The Village at Sanlitun (Retail: 80%, Hotel: 100%), the development site in Fort Lauderdale (75%) and the development sites in Mid Levels (87.5%) and Sai Wan Terrace (80%). The above summary table includes the floor areas of these six properties in total.
2. "Other companies" comprise jointly controlled or associated companies and other investments. The floor areas of properties held through such companies are shown on an attributable basis.
3. Gross floor areas exclude car parking spaces; over 8,200 completed car parking spaces are held by subsidiaries for investment.
4. When a Hong Kong property is held under a renewable lease, the expiry date of the renewal period is shown.
5. All properties in the United States are freehold.

Schedule of Principal Group Properties
At 31st December 2008

Completed properties for investment in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
Retail and Office							
1. Pacific Place, 88 Queensway, Central							
One Pacific Place	IL 8571 (part)	2135	115,066 (part)	863,266	–	1988	Office building.
Two Pacific Place	IL 8582 & Ext. (part)	2047	203,223 (part)	695,510	–	1990	Office building.
The Mall at Pacific Place	IL 8571/IL 8582 & Ext. (part)	2135/ 2047	318,289 (part)	711,182	508	1988/ 90	Shopping centre with restaurants and a cinema. Access to Admiralty MTR station. Pacific Place also comprises serviced apartments and hotels, details of which are given in the Residential and Hotel categories below.
2. Three Pacific Place, One Queen's Road East	IL 47A sA RP IL 47A sB RP IL 47A sC RP IL 47B sC RP IL 47A RP IL 47C sA ss1 RP IL 47C sA RP IL 47B sA RP IL 47B sB RP IL 47B RP IL 47A sB ss2 IL 47A sD IL 47B sD IL 47C RP IL 47D RP IL 47D sA RP IL 47 sA ss1 IL 47 sA RP IL 47 sB ss1 & RP IL 47 sC ss1 & ss2 sA & ss2 RP & ss3 sA & ss3 RP & ss4 & ss5 & ss6 sA & ss6 RP & ss7 RP & RP IL 47 sP IL 47 RP IL 47 sC ss5 Ext. IL 47 sC ss1 Ext.	2050- 2852	40,236	627,353	111	2004/ 07	Office building linked to The Mall and Admiralty MTR Station.
3. Tai Sang Commercial Building, Wanchai	ML 23 IL 2244 RP IL 2245 RP	2843	9,623	185,447	–	1977	Office building with ancillary retail.

Completed properties for investment in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
4. Festival Walk, Yau Yat Tsuen	NKIL 6181	2047	222,382	Retail: 980,081 Office: 228,663	830	1998	Comprises a 980,081 square foot shopping centre, including ice skating rink and cinema, 228,663 square feet of office space and a transport terminus linked to Kowloon Tong MTR station.
5. Cityplaza, Taikoo Shing	QBML 2 & Ext. sK ss5 QBML 2 & Ext. sR RP QBML 2 & Ext. sR ss1 sA QBML 2 & Ext. sQ RP QBML 2 & Ext. sQ ss7 sA QBML 2 & Ext. sQ ss7 RP QBML 2 & Ext. sQ ss2 sB QBML 2 & Ext. sQ ss2 sA ss1 QBML 2 & Ext. sQ ss2 sA RP QBML 2 & Ext. sJ RP	2899	334,475 (part)	1,105,227	834	1982/ 87/ 97/ 2000	Shopping centre with restaurants, ice-skating rink, cinema and access to Tai Koo MTR station.
6. Cityplaza One, Taikoo Shing	QBML 2 & Ext. sR RP QBML 2 & Ext. sR ss1 sA QBML 2 & Ext. sQ RP QBML 2 & Ext. sQ ss7 sA QBML 2 & Ext. sQ ss7 RP QBML 2 & Ext. sQ ss2 sB QBML 2 & Ext. sQ ss2 sA ss1 QBML 2 & Ext. sQ ss2 sA RP QBML 2 & Ext. sJ RP	2899	146,184 (part)	628,785	-	1997	Office building over part of Cityplaza shopping centre.
7. Cityplaza Three, Taikoo Shing	QBML 2 & Ext. sK RP (part)	2899	33,730	447,709	10	1992	Office building linked by a footbridge to Cityplaza.
8. Cityplaza Four, Taikoo Shing	QBML 2 & Ext. sK RP (part)	2899	41,864	556,427	-	1991	Office building linked by a footbridge to Cityplaza.
9. Commercial areas in Stages I-X of Taikoo Shing	SML 1 sA ss1, SML 1 sA RP SML 1 sB, SML 2 sC RP SML 2 sC ss2 SML 2 sD, SML 2 RP QBML 2 & Ext. sJ ss1 QBML 2 & Ext. sJ ss3 QBML 2 & Ext. sL QBML 2 & Ext. sN QBML 2 & Ext. sQ ss4 & ss5 QBML 2 & Ext. sQ ss2 sC QBML 2 & Ext. sS ss1 QBML 2 & Ext. sH ss1 QBML 2 & Ext. sH ss3 sA QBML 2 & Ext. sK ss3 sA QBML 2 & Ext. sU ss1 QBML 2 & Ext. sK ss3 RP QBML 2 & Ext. sK ss4sA&RP QBML 2 & Ext. sT ss1 & RP QBML 2 & Ext. sU RP QBML 2 & Ext. sK ss9 & ss10 & ss11 & ss13 & ss16 (part)	2081/ 2899	-	331,079	3,826	1976- 85	Neighbourhood shops, schools and car parking spaces.

Schedule of Principal Group Properties
At 31st December 2008

Completed properties for investment in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
10. Devon House, TaiKoo Place	QBML 1 sF ss1 QBML 1 sF RP ML 703 sN QBML 1 sE ss2 (part)	2881	70,414 (part)	803,448	311	1993	Office building linked to Quarry Bay MTR station by a footbridge.
11. Dorset House, TaiKoo Place	QBML 1 sQ, QBML 1 sR RP QBML 1 sS, QBML 1 sT ss1 QBML 1 sT ss2 QBML 1 sT RP QBML 1 sU, QBML 1 sW QBML 1 RP (part)	2881	238,582 (part)	609,540	215	1994	Office building linked to Devon House.
12. Lincoln House, TaiKoo Place	QBML 1 sQ, QBML 1 sR RP QBML 1 sS, QBML 1 sT ss1 QBML 1 sT ss2 QBML 1 sT RP QBML 1 sU, QBML 1 sW QBML 1 RP (part)	2881	238,582 (part)	333,350	164	1998	Office building linked to Dorset House.
13. Oxford House, TaiKoo Place	QBML 1 sC ss4 QBML 1 sC ss7 (part) QBML 2 & Ext. sD	2881	33,434	501,249	182	1999	Office building linked to Somerset House.
14. Cambridge House, TaiKoo Place	QBML 1 sE ss2 QBML 1 sF ss1 QBML 1 sF RP ML 703 sN (part)	2881	70,414	268,793	–	2003	Office building linked to Devon House.
15. One Island East, TaiKoo Place	QBML 1 sC ss5 QBML 1 sC ss6 QBML 2 & Ext. sF QBML 2 & Ext. sG QBML 2 & Ext. sH ss6 sB RP QBML 2 & Ext. sH RP QBML 2 & Ext. RP QBIL 15 sD	2881/ 2899	109,929	1,536,997	–	2008	Office building linked to Cornwall House.
16. Island Place, 500 King's Road, North Point	IL 8849	2047	106,498 (part)	150,167	288	1996	Floor area shown represents the whole shopping centre podium of which the Group owns 60%.
17. StarCrest, 9 Star Street, Wanchai	IL 8853	2047	40,871	10,758	83	1999	Floor area shown represents the whole of the retail area including 83 car parking spaces retained by the Group.
18. 23-29 Wing Fung Street, Wanchai	IL 526 sA ss1 sB RP IL 526 sA ss1 sB ss1 IL 526 sA ss2 IL 526 sA ss3	2856	2,397	11,306	–	2006	Floor area shown represents a 3-storey retail podium.
Total held through subsidiaries				11,586,337	7,362		
19. PCCW Tower, TaiKoo Place	QBML 1 sQ, QBML 1 sR RP QBML 1 sS, QBML 1 sT ss1 QBML 1 sT ss2 QBML 1 sT RP QBML 1 sU, QBML 1 sW QBML 1 RP (part)	2881	238,582 (part)	620,148	217	1994	Office building linked to Dorset House. Floor area shown represents the whole development of which the Group owns 20%.
Held through associates				620,148	217		
– of which attributable to the Group				124,030			

Completed properties for investment in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
20. 625 King's Road, North Point	IL 7550	2108	20,000	301,062	84	1998	Office building. Floor area shown represents the whole development of which the Group owns 50%.
21. Tung Chung Crescent (Site 1), Tung Chung, Lantau	TCTL 1	2047	331,658	34,983	–	1998/1999	Floor area shown represents the retail space of which the Group owns 20%.
22. Citygate (Site 2), Tung Chung, Lantau	TCTL 2	2047	358,557 (part)	Retail: 462,848 Office: 161,446	1,156	1999/2000	A 161,446 square foot office tower above a 462,848 square foot shopping centre of which the Group owns 20%. (Part of Site 1, Site 2 North and Site 3 included on pages 172 and 174)
Held through jointly controlled companies				960,339	1,240		
– of which attributable to the Group				282,386			

Techno-centres							
23. TaiKoo Place		2881	238,582 (part)		292		Data centres/offices/logistics warehousing.
Warwick House	QBML 1 sQ, QBML 1 sR RP QBML 1 sS, QBML 1 sT ss1			552,537		1979	
Cornwall House	QBML 1 sT ss2, QBML 1 sT RP QBML 1 sU, QBML 1 sW			338,500		1984	Floor area excludes eight floors owned by Government.
Somerset House	QBML 1 RP (part)			923,356		1988	
Total held through subsidiaries				1,814,393	292		

Residential							
24. Pacific Place Apartments, 88 Queensway	IL 8582 & Ext. (part)	2047	203,223 (part)	443,075	–	1990	270 service suites within the Conrad Hong Kong Hotel tower.
25. Rocky Bank, 6 Deep Water Bay Road	RBL 613 RP	2099	28,197	14,768	–	1981	Three pairs of semi-detached houses.
26. 36 Island Road, Deep Water Bay	RBL 507 & Ext.	2097	20,733	5,773	–	1980	Two detached houses.
27. 6 Peel Rise, The Peak	RBL 730	2032	35,580	17,783	–	1988	Six semi-detached houses.
Total held through subsidiaries				481,399	–		

Schedule of Principal Group Properties
At 31st December 2008

Completed properties for investment in Hong Kong							
	Lot number	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
Hotels							
Pacific Place, 88 Queensway, Central							
1. JW Marriott Hotel	IL 8571 (part)	2135	115,066 (part)	525,904	–	1989	602-room hotel, in which the Group owns a 20% interest.
2. Conrad Hong Kong Hotel	IL 8582 & Ext. (part)	2047	203,223 (part)	540,115	–	1990	513-room hotel, in which the Group owns a 20% interest.
3. Island Shangri-La Hotel	IL 8582 & Ext. (part)	2047	203,223 (part)	605,728	–	1991	565-room hotel, in which the Group owns a 20% interest.
Total held through associates				1,671,747			
– of which attributable to the Group				334,349			
Citygate (Site 2 North), Tung Chung, Lantau							
4. Novotel Citygate Hong Kong Hotel	TCTL 2	2047	358,557 (part)	236,653	4	2005	440-room hotel, in which the Group owns a 20% interest.
Held through jointly controlled companies				236,653	4		
– of which attributable to the Group				47,331			
Completed properties for investment in Mainland China							
	Address	Leasehold expiry	Site area in square feet	Gross floor area in square feet	Number of car parks	Year of completion	Remarks
Retail							
1. The Village at Sanlitun (The South site)	North of Gongtibe Road and west of Sanlitun North Road, Chaoyang District, Beijing	2044	566,332 (Part)	767,609	451	2008	Floor area shown represents the whole development of which the Group owns 80%.
2. Beaumonde Retail Podium	75 Tianhe Dong Road, Tianhe District, Guangzhou	2044	174,380 (Part)	90,847	100	2008	Shopping centre with restaurants and car parking spaces.
Total held through subsidiaries				858,456	551		
Hotel							
1. The Opposite House	North of Gongtibe Road and west of Sanlitun North Road, Chaoyang District, Beijing	2044	566,332 (Part)	169,000	26	2008	99-room hotel.
Total held through subsidiaries				169,000	26		

Property developments for investment in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet	Number of car parks	Stage of completion	Expected completion date	Remarks
1. EAST, Taikoo Shing	QBML 2 & Ext. sR RP QBML 2 & Ext. sR ss1 sA QBML 2 & Ext. sQ RP QBML 2 & Ext. sQ ss7 sA QBML 2 & Ext. sQ ss7 RP QBML 2 & Ext. sQ ss2 sB QBML 2 & Ext. sQ ss2 sA ss1 QBML 2 & Ext. sQ ss2 sA RP QBML 2 & Ext. sJ RP	2899	146,184 (part)	Hotel	199,020	–	Internal fitting out in progress	2009	Floor area shown represents a hotel building of 345 rooms. Target to open in Q1 2010.
2. Cityplaza One (Phase 2), Taikoo Shing	QBML 2 & Ext. sR RP QBML 2 & Ext. sR ss1 sA QBML 2 & Ext. sQ RP QBML 2 & Ext. sQ ss7 sA QBML 2 & Ext. sQ ss7 RP QBML 2 & Ext. sQ ss2 sB QBML 2 & Ext. sQ ss2 sA ss1 QBML 2 & Ext. sQ ss2 sA RP QBML 2 & Ext. sJ RP	2899	146,184 (part)	Office	445,817	–	–	On Hold	16-storey vertical extension to the existing Cityplaza One office building, subject to payment of land premium and relaxation of height limit in the relevant Outline Zoning Plan.
3. The Upper House (formerly called The Atrium), Pacific Place	IL 8571 (part)	2135	115,066 (part)	Hotel	162,743	–	Conversion in progress	2009	Conversion to a boutique hotel with 117 rooms above the JW Marriott Hotel. Target to open end of 2009.
4. 53 Stubbs Road, The Peak	RBL 224	2074	32,496	Residential	68,242	–	Site formation in progress	2011	Floor area shown represents a proposed residential tower with 12 storeys above a carport.
Total held through subsidiaries					875,822	–			

Schedule of Principal Group Properties
At 31st December 2008

Property developments for sale in Hong Kong	Lot number	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet	Number of car parks	Stage of completion	Expected completion date	Remarks
1. 4, 4A, 6, 6A Castle Steps 2A – E Seymour Road 23, 25, 27, 29 Castle Road, Mid Levels	IL 577 sC IL 577 sD IL 577 sE IL 577 sF IL 577 sG IL 577 sH IL 577 sI IL 577 sJ IL 577 sL ss1 IL 577 sL ss2 IL 577 sL ss3 IL 577 sL RP IL 577 sM	2857	22,957	Residential	173,638	22	Site formation completed	2010	Floor area shown represents the whole development of which the Group owns 87.5%.
2. Sai Wan Terrace, No. 1 Sai Wan Terrace, Taikoo Shing	SIL 761	2057	28,490	Residential	164,769	58	Demolition Completed	2013	Seeking to change height limit via a lease modification. Floor area shown represents the whole development of which the Group owns 80%.
Total held through subsidiaries					338,407	80			
3. MTRC Tung Chung (Package 1), Lantau – Tung Chung Crescent (Site 1)	TCTL 1	2047	331,658	Car parks	-	405	Completed in 1998/1999		405 unsold car parking spaces of which the Group owns 20%.
– Seaview Crescent (Site 3)	TCTL 3	2047	230,348	Car parks	-	194	Completed in 2002		194 unsold car parking spaces of which the Group owns 20%.
4. 8-10 Wong Chuk Hang Road, Aberdeen	AIL 338 AIL 339	2119 2120	25,500	Industrial	382,500	39	Foundation completed	On hold	Floor area shown represents the whole development of which the Group owns 50%.
Total held through jointly controlled companies					382,500	638			
– of which attributable to the Group					191,250				

Property developments for sale in Hong Kong		Lot number	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet	Number of car parks	Stage of completion	Expected completion date	Remarks
Other holdings										
5.	Belair Monte, Fanling	FSSTL 126	2047	223,674	Retail	67,083	17	Completed in 1998		Floor area shown represents the whole of the retail area including 17 car parking spaces of which the Group owns 8%.
6.	Island Lodge, 180 Java Road, North Point	IL 7105	2104	17,868	Residential/ Retail	181,552	50	Completed in 2008	2009	Comprises 184 residential units and retail space of which 97 residential units have been sold. Group appointed to develop the site and subsequently sell all units.
						248,635	67			
– Attributable holding						50,755				

Property developments for investment in Mainland China		Address	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet	Number of car parks	Stage of completion	Expected completion date	Remarks
1.	TaiKoo Hui	North of Tianhe Road and west of Tianhe Dong Road, Tianhe District, Guangzhou	2051	526,936	Retail Office Hotel	1,303,057 1,760,825 649,667 3,713,549	867 867	Superstructure work in progress	2010	A cultural centre of 658,924 square feet is to be built and handed over to Guangzhou Government upon completion. Floor areas shown represent the whole development of which the Group owns 97%. Phased opening from 2010.
2.	The Village at Sanlitun (The North site)	North of Gongtibe Road and west of Sanlitun North Road, Chaoyang District, Beijing	2044	566,332 (Part)	Retail	519,391	410	Fitting out works in progress	2009	Floor area shown represents the whole development of which the Group owns 80%.
Total held through subsidiaries						4,232,940	1,277			

Schedule of Principal Group Properties
At 31st December 2008

Property developments for investment in Mainland China	Address	Leasehold expiry	Site area in square feet	Use	Gross floor area in square feet		Number of car parks	Stage of completion	Expected completion date	Remarks
3. Dazhongli	South of Nanjing West Road and east of Shimenyi Road, Jing An District, Shanghai	2056	676,220	Retail Office Hotel	1,100,415	1,602	Resettlement work in progress	2013	Phase 1 resettlement completed (75% of site). Floor areas shown represent the whole development of which the Group owns 50%.	
					1,713,936					
					3,479,883	1,602				
4. Jiang Tai	South of Jiang Tai Road and east of Jiuxianqiao Road, Chaoyang District, Beijing	2044 (Office and car parks: 2054)	631,070	Retail Office Hotel	921,024	1,245	Excavation and site formation in progress	2011	Floor areas shown represent the whole development of which the Group owns 50%.	
					603,704					
					1,893,209	1,245				
Total held through jointly controlled companies					5,373,092	2,847				
– of which attributable to the Group					2,686,546					

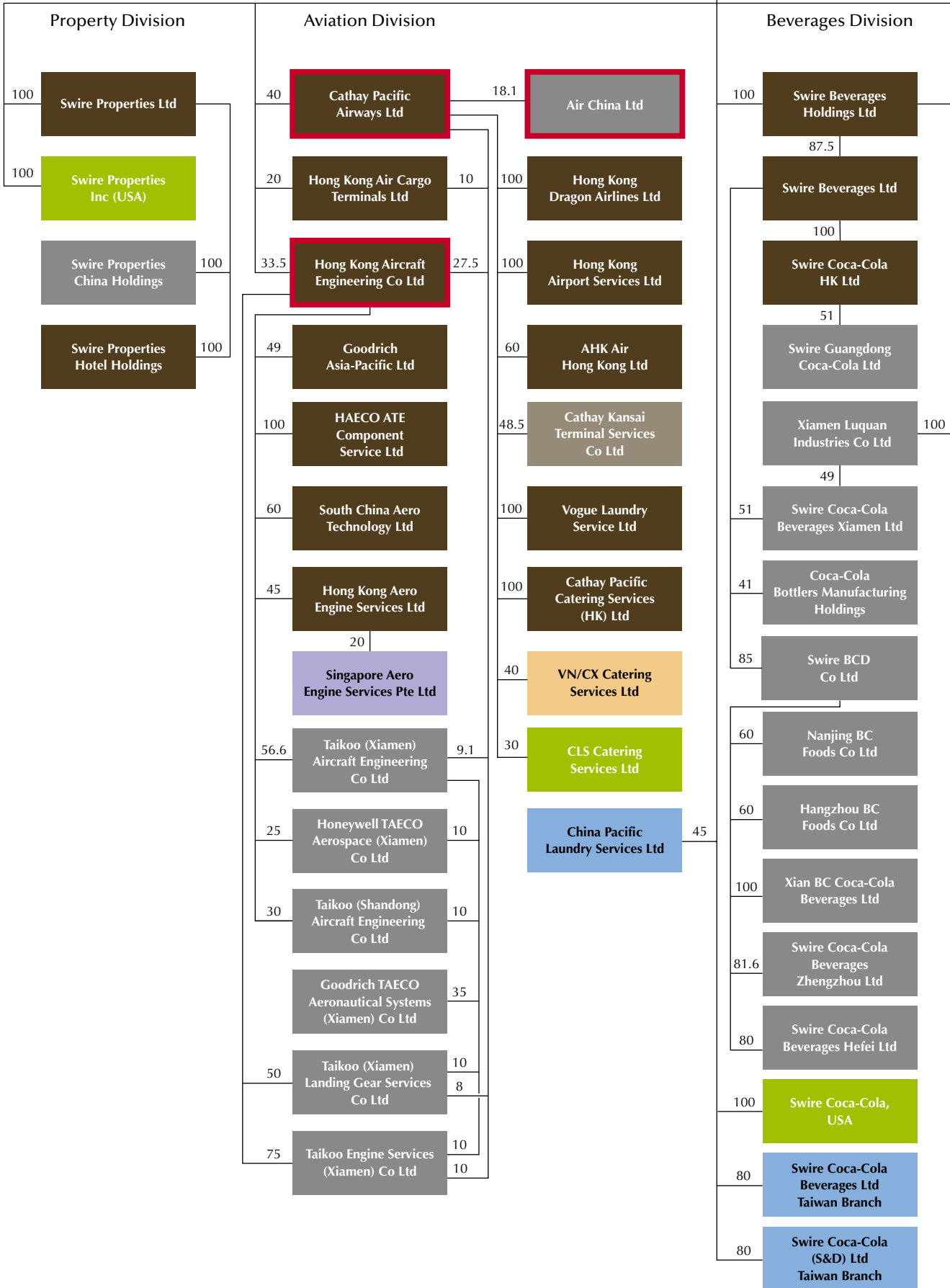
Completed properties for investment in the United States	Site area in square feet	Use	Gross floor area in square feet	Year of completion	Remarks
1. Mandarin Oriental, South Brickell Key, Miami, Florida	124,000	Hotel	345,000	2000	329-room hotel in central Miami, in which the Group has a 75% interest.
Held through jointly controlled company			345,000		
– of which attributable to the Group			258,750		

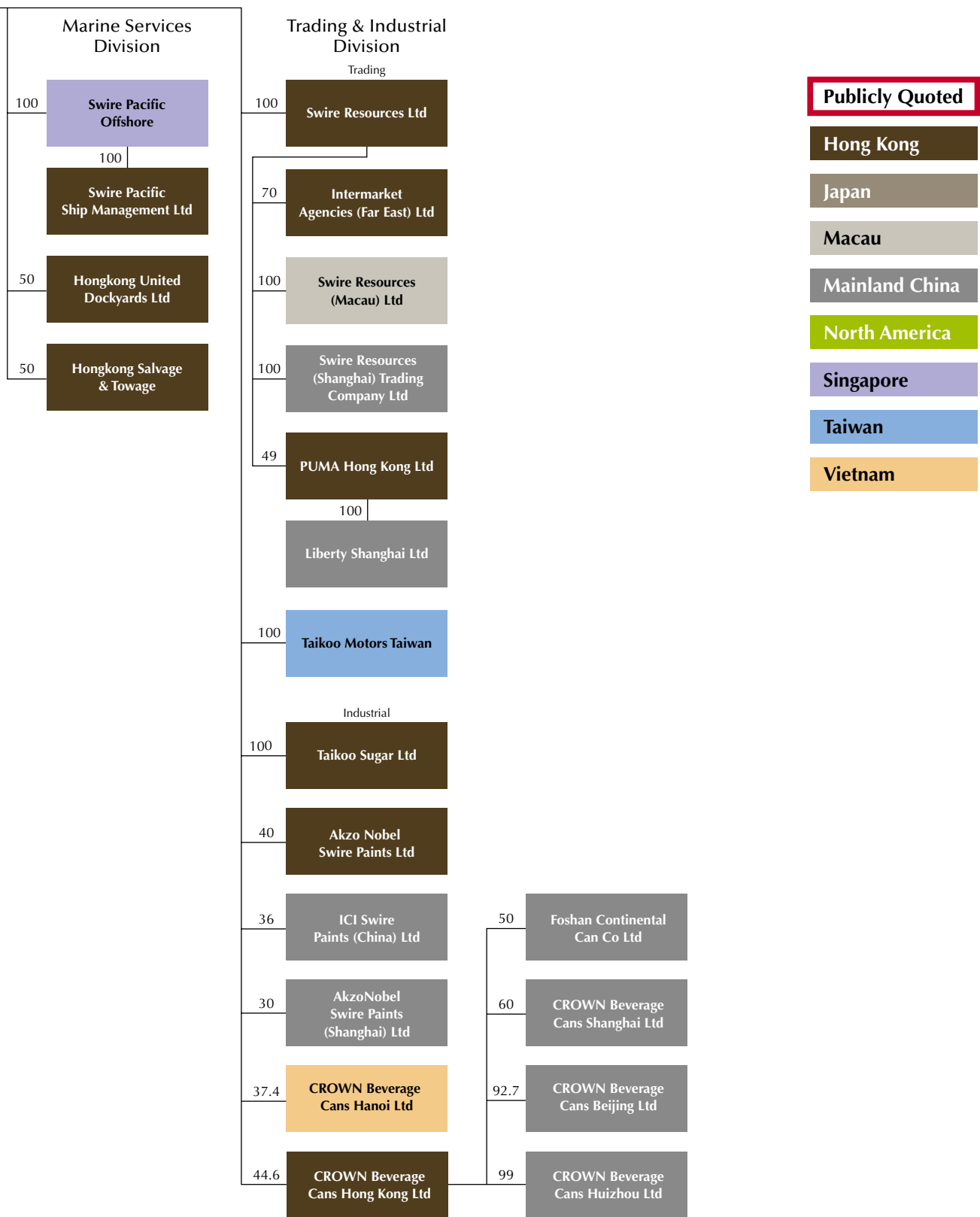
Property developments for sale in the United States	Site area in square feet	Use	Gross floor area in square feet	Year of completion	Remarks
1. Asia, 900 Brickell Key, Miami, Florida	173,531	Residential	145,600	2008	32-storey residential condominium tower comprising 123 units with 5-storey parking garage. 69 units have been closed to date.
2. South Brickell Key, Miami, Florida	106,868	Residential	421,800	–	Development site in central Miami acquired in January 1997 along with the Mandarin Oriental site. Plans for the condominium tower currently on hold.
3. Development Site, Fort Lauderdale, Florida	204,305	Residential/Office/Hotel	800,000	–	Development site in Fort Lauderdale acquired in October 2006, in which the Group has a 75% interest.
4. Brickell Citicentre Miami, Florida	246,114	Mixed Use	1,750,000	–	Development site in Central Miami acquired in October 2008.
Total held through subsidiaries			3,117,400		

Completed properties for investment in the United Kingdom	Site area in square feet	Use	Gross floor area in square feet	Year of completion	Remarks
Hotels					
1. Hotel Kandinsky, Cheltenham	34,875	Hotel	24,502	2000	48-room freehold hotel in Cheltenham.
2. Hotel Barcelona, Exeter	46,888	Hotel	23,030	2001	46-room freehold hotel in Exeter.
3. Hotel Seattle, Brighton	22,755	Hotel	48,416	2003	71-room hotel in Brighton. 35-year leasehold commenced in November 2002.
4. Avon Gorge Hotel, Bristol	71,547	Hotel	87,608	1855	76-room freehold hotel in Bristol. Floor area includes an external terrace.
Total held through subsidiaries			183,556		

Group Structure Chart

SWIRE PACIFIC LIMITED





Glossary

Terms

Financial

Gross borrowings or consolidated borrowed money

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

Net debt Total of loans, bonds, overdrafts and perpetual capital securities net of bank deposits, bank balances and certain available-for-sale investments.

Adjusted consolidated net worth Total of share capital, reserves and minority interests.

Adjusted consolidated tangible net worth Adjusted consolidated net worth less goodwill and other intangible assets.

Equity attributable to the Company's shareholders Equity before minority interests.

Underlying equity attributable to the Company's shareholders Reported equity before minority interests, adjusted for the impact of deferred tax on fair value changes in investment property.

Underlying profit Reported profit adjusted for the impact of fair value changes in investment property and the associated deferred tax.

Net assets employed Total equity plus net debt.

Aviation

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

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

Revenue passenger kilometres ("RPK") Number of passengers carried on each sector multiplied by the sector distance.

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

Ratios

Financial

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

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

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

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

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

$$\text{Dividend cover} = \frac{\text{Profit/(loss) attributable to the Company's shareholders}}{\text{Dividends paid and proposed}}$$

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

Aviation

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

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

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

Financial Calendar and Information For Investors

Financial Calendar 2009

Annual Report sent to shareholders	9th April
'A' and 'B' shares trade ex-dividend	7th May
Share registers closed	11th – 14th May
Annual General Meeting	14th May
Payment of 2008 Final dividend	2nd June
Interim results announcement	August 2009
Interim dividend payable	October 2009

Registered Office

Swire Pacific Limited
35th Floor, Two Pacific Place
88 Queensway
Hong Kong

Registrars

Computershare Hong Kong Investor Services Limited
Room 1806-1807
18th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong
Website: www.computershare.com

Depository

The Bank of New York Mellon
BNY Mellon Shareowner Services
P.O. Box 358516
Pittsburgh, PA 15252-8516
USA

Website: www.adrbny.com/shareowner
E-mail: shrrelations@bnymellon.com
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

Investor Relations

E-mail: ir@swirepacific.com

Public Affairs

E-mail: publicaffairs@swirepacific.com
Tel: (852) 2840 8098
Fax: (852) 2526 9365
Website: www.swirepacific.com

Request for Feedback

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