CHAIRMAN'S STATEMENT

The profit attributable to shareholders for 2010 was HK$38,252 million, compared to HK$21,893 million in 2009. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK$7,668 million to HK$16,143 million. Excluding the effect of non-recurring items, underlying profit attributable to shareholders increased by HK$2,743 million to HK$11,099 million.

The 2010 results benefited from a very strong performance from the Cathay Pacific group and continued growth in profits from the Property Division. Profits also increased in the Trading & Industrial Division. Profits fell in the Beverages and Marine Services Divisions and were little changed at Hong Kong Aircraft Engineering Company Limited ("HAECO").

Key Developments

In May, Swire Aviation Limited, a 66.7%-owned subsidiary of Swire Pacific, sold its 30% interest in Hong Kong Air Cargo Terminals Limited ("Hactl") for a consideration of HK$1,341 million. The sale generated a profit of HK$1,238 million, of which HK$825 million is attributable to the Group. At the same time, Cathay Pacific disposed of its 10% interest in Hactl. The sale of these interests followed an undertaking given by Cathay Pacific to the Airport Authority of Hong Kong in 2008 that it would dispose of its entire interest in Hactl following the award to it of a franchise to operate a new air cargo terminal at Hong Kong International Airport.

In June, the Group acquired Cathay Pacific's 15% interest in HAECO for a consideration of HK$2,620 million. The Group subsequently increased its interest in HAECO to 74.99% at a net cost of HK$2,452 million. The Group recognised a gain of HK$2,547 million on remeasurement of its previously held interest in HAECO to fair value.

In August, Cathay Pacific announced orders of 30 Airbus A350-900 aircraft and six Boeing 777-300ER aircraft. Together, these represent Cathay Pacific's largest single acquisition of aircraft. In December, a further two Airbus A350-900s were ordered. In March 2011, Cathay Pacific announced the acquisition of 15 new Airbus A330-300 aircraft and ten new Boeing 777-300ER aircraft. With these additional aircraft, Cathay Pacific has 91 aircraft on order. Cathay Pacific is also in discussions which, if successfully concluded, will result in the acquisition of 14 further aircraft.

In September, the Group sold its interest in CROWN Beverage Cans to CROWN Holdings Inc. for a consideration of HK$1,165 million. The sale resulted in a net gain of HK$771 million.

In September, Swire Properties acquired the 80% interest it did not already own in the PCCW Tower office development in TaiKoo Place. In November, a 50% interest in PCCW Tower was sold to Grosvenor Asia Pacific Limited, resulting in a net gain of HK$342 million, including a gain of HK$17 million on remeasurement of the previously held interest in PCCW Tower.

In November, the Group acquired an additional 1% interest in Cathay Pacific for a total cost of HK$826 million, increasing its stake to 42.97%.

In December, Swire Properties acquired an effective 50% interest in a 762,251 square foot site at Daci Temple in Chengdu, Mainland China. The acquisition was made in joint venture with Sino-Ocean Land Holdings Limited.

Since the year end Swire Pacific Offshore ("SPO") has agreed to acquire four anchor handling tug vessels for delivery in 2011 and 2012. SPO has also exercised an option to acquire a second wind farm turbine installation vessel for delivery in 2012. These vessels represent commitments aggregating approximately US$500 million to tonnage designed to operate in deeper water, where future growth in demand for offshore services is expected to be strongest, and to the development of alternative energy sources.

Operating Performance

Underlying profit from the Property Division was HK$4,862 million, a 23% increase from HK$3,966 million in 2009. Underlying profit included profits of HK$918 million arising primarily in connection with the disposal of two investment properties in Hong Kong. Excluding the effect of non-recurring items, underlying profit was HK$3,944 million, an increase of 1% over 2009. Gross rental income rose by 6%, reflecting strong demand in Hong Kong as the office and retail markets continued to recover. The hotel business benefited from the improvement in economic conditions and the first full year of operations at two Hong Kong hotels, EAST and The Upper House. There was also an improved performance from the trading portfolio, resulting in an increased profit on trading of HK$131 million from 2009. The positive effect of these favourable factors was offset in part by higher operating expenses and higher net finance charges on increased borrowings.

On an attributable basis, the Property Division's net investment property valuation gain, before deferred tax in Mainland China, in 2010 was HK$22,274 million, compared to a net gain in 2009 of HK$14,483 million.

The Group's share of the profit of the Cathay Pacific group was HK$5,079 million in 2010, compared to HK$1,349 million in 2009. The Cathay Pacific group's business began to recover from the global economic downturn in the latter part of 2009. Momentum was sustained throughout 2010. The passenger and cargo businesses both performed very well, with consistently strong loads and significant increases in revenues, particularly from traffic originating in Hong Kong. Cathay Pacific also benefited significantly from the very strong profits earned by its associated company, Air China. However, the 2010 results were adversely affected by exceptional charges relating to anti-trust investigations and proceedings and by increased fuel costs.

2010 was a mixed and challenging year for the HAECO group. The results of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") were adversely affected by reductions in demand for airframe heavy maintenance and for Boeing 747 passenger to freighter conversions. The new joint ventures in Mainland China suffered from start-up losses as expected. On the other hand, demand for line and heavy maintenance services in Hong Kong was strong, reflecting the general recovery in the aviation business. The results of the engine overhaul associates benefited from a stronger than expected recovery in demand, especially in the second half of the year.

The Beverages Division recorded a 7% decrease in attributable profit (to HK$699 million) from 2009. The decrease principally reflected a weaker performance in Mainland China. Overall sales volume grew by 2% to 923 million unit cases, compared with 13% growth in 2009. A significant increase in sugar prices, especially in Mainland China, adversely affected raw material costs. Competitive pressures resulted in more promotional activity and made it difficult to recover higher costs by raising prices.

The Marine Services Division recorded an attributable profit of HK$791 million, a 52% decrease from 2009. The offshore market in all regions where SPO operates was very challenging in 2010. Despite recovery in demand as oil prices and offshore activity increased, charter hire rates and vessel utilisation remained under pressure. This primarily reflected the large number of new vessels, ordered when demand was at its previous peak, which entered the market.

Disregarding non-recurring items, the attributable profit from the Trading & Industrial Division increased by 22% in 2010 to HK$427 million. Swire Resources and Taikoo Motors recorded significant increases in profits. The contribution from jointly controlled interests was lower. The principal non-recurring item in 2010 was a profit of HK$771 million on disposal of the interest in CROWN Beverage Cans.

Finance

Net debt at 31st December 2010 was HK$41,181 million, compared with HK$31,681 million at 31st December 2009. The increase principally reflects the acquisition of additional interests in HAECO and Cathay Pacific, and investments in property projects and new vessels. Gearing increased by one percentage point from 18.7% to 19.7%. Cash and undrawn committed facilities totalled HK$16,323 million at 31st December 2010, compared with HK$14,916 million at 31st December 2009.

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 2010, Swire Pacific and Cathay Pacific joined almost 400 global companies in signing the Cancun Communiqué on Climate Change, supporting an ambitious, robust and equitable global deal on climate change.

Further information about the Group's activities in this area is on pages 100 to 102.

Prospects

Against a background of continuing economic growth in Mainland China and Hong Kong, the trading environment for the Group's principal retail and office developments remains strong.

Two new mixed use developments will open in 2011, the TaiKoo Hui development in Guangzhou and the INDIGO development in Beijing. Pre-letting of space at both developments is encouraging.

The expected opening of the Dazhongli development in Shanghai has been deferred to 2015 due primarily to the construction of a metro station adjacent to the site. Further delays may occur if approval to start construction is not obtained before the start of the excavation works for the metro station.

Completion of the redevelopment of the recently acquired site at Daci Temple in Chengdu is expected from 2014.

On completion of current developments, Swire Properties will have a portfolio of 15.3 million square feet in Hong Kong and 8.6 million square feet in Mainland China, as well as property interests in the USA and the UK.

In the Cathay Pacific group, the rapid turnaround in the airlines' business from the lows of 2008 and much of 2009 to the record highs of 2010 is very welcome. It is also indicative of the volatile nature of the aviation business. The results of the airlines would be adversely affected, and very quickly so, by a return to recessionary economic conditions. Demand is at present expected to remain strong in 2011, but this expectation could be undermined if the current (or any higher) level of oil prices were to reduce global economic activity. Capacity will increase with the introduction of new destinations and increased frequencies. If Cathay Pacific's expectation as to demand is met, revenues will increase in line with capacity. Fuel costs are now higher than was expected at the beginning of 2011. Other operating costs are expected to increase, some at a faster rate than revenue. With regard specifically to fuel, increased oil prices can be expected to have a significant adverse effect on profitability if they are not recovered through higher tariffs or fuel surcharges or if the effect of their being so recovered is to reduce demand significantly.

Assuming continued strength in the aviation industry generally, demand for HAECO's heavy and line maintenance services in Hong Kong is expected to remain strong in 2011. The engine overhaul business is also expected to perform well. TAECO's base maintenance operations should recover modestly.

Swire Beverages' prospects in Mainland China may be affected by pressure on discretionary consumer spending caused by food price inflation. The US operations are likely to be little changed. The Hong Kong and Taiwan markets have potential for growth. Raw material costs are expected to be higher. It is intended to take pricing and other measures designed to enhance revenues.

2011 will be another challenging year for SPO, with the offshore supply vessel industry continuing to suffer from an over-supply of tonnage. Vessel utilisation is likely to improve but charter hire rates are expected to remain depressed. Conditions should improve in the medium-term due to an increase in exploration and production activity.

The Trading & Industrial Division expects continued growth in sales for Swire Resources and Taikoo Motors, with the effect of this at Swire Resources likely to be offset by the costs of expanding its distribution network and the portfolio of brands which it distributes. Taikoo Sugar and the paints business expect strong growth in sales in Mainland China, but the effect of this is likely to be offset by the costs of network expansion.

Dividends

The Directors have recommended final dividends of HK¢250.0 per 'A' share and HK¢50.0 per 'B' share, which, together with the interim dividends paid in October 2010, amount to full year dividends of HK¢350.0 per 'A' share and HK¢70.0 per 'B' share, compared to full year dividends of HK¢280.0 per 'A' share and HK¢56.0 per 'B' share in respect of 2009.

The commitment and hard work of employees across the Group and its jointly controlled and associated companies are central to our continuing success. I take this opportunity to thank them.

Christopher Pratt
Chairman
Hong Kong, 10th March 2011