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 on investment properties and the amended HKAS 12 on deferred tax. Further analysis compares the impact of other significant items in the current and prior years.

Underlying profit	Note	**2010** **HK$M**	2009 HK$M (Restated)
Profit attributable to the Company's shareholders per accounts		**38,252**	21,893
Adjustments re investment properties:			
Revaluation of investment properties	(a)	**(23,237)**	(14,506)
Deferred tax on revaluation movements	(b)	**852**	818
Realised profit on sale of investment properties	(c)	**211**	32
Depreciation of investment properties occupied by the Group	(d)	**23**	13
Non-controlling interests' share of revaluation movements less deferred tax		**42**	88
Impairment of hotels held as part of mixed-use developments less deferred tax	(e)	**–**	137
Underlying profit attributable to the Company's shareholders		**16,143**	8,475
Other significant items:			
Gain on remeasurement of previously held interest in HAECO		**(2,547)**	–
Profit on sale of interest in Hactl		**(825)**	–
Profit on sale of interest in CROWN Beverage Cans group		**(771)**	–
Gains on remeasurement and profit on sale of shareholdings in PCCW Tower		**(342)**	–
Profit on sale of shareholdings in other investments		**(40)**	(46)
Profit on sale of investment properties		**(576)**	(53)
Profit on sale of properties previously occupied by the Group		**–**	(110)
Impairment of vessels		**57**	–
Impairment of stand-alone hotels less deferred tax		**–**	61
Impairment of properties held for development		**–**	29
Adjusted profit		**11,099**	8,356

Underlying equity	Note	**2010**	2009
Equity attributable to the Company's shareholders per accounts		**204,452**	168,876
Deferred tax on revaluation of investment properties		**2,766**	1,927
Unrecognised valuation gains on hotels held as part of mixed-use developments	(e)	**535**	512
Revaluation of investment properties occupied by the Group		**833**	1,421
Cumulative depreciation of investment properties occupied by the Group		**63**	84
Underlying equity attributable to the Company's shareholders		**208,649**	172,820
Underlying non-controlling interests		**4,637**	877
Underlying equity		**213,286**	173,697

Notes:

(a) This represents the net revaluation movements as shown in the consolidated income statement plus the Group's share of net revaluation movements of jointly controlled and associated companies.

(b) This represents deferred tax on the Group's net revaluation movements plus the Group's share of deferred tax on the net revaluation movements of jointly controlled and associated companies. As a result of the early adoption of the amended HKAS 12, deferred tax is no longer provided on net revaluation movements in respect of investment properties in Hong Kong. However, deferred tax continues to be provided on net revaluation movements in respect of investment properties in Mainland China at the corporate income tax rate of 25%.

(c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the consolidated income statement. On sale, the revaluation gains were transferred from the revaluation reserve to the consolidated income statement.

(d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

(e) Under HKAS 40, hotel properties are stated in the accounts at cost less accumulated depreciation and any provision for impairment losses, rather than at fair value. If HKAS 40 did not apply, those wholly-owned or jointly controlled hotel properties held for the long-term as part of mixed-use property developments would be accounted for as investment properties. Accordingly, any increase or write-down in their value would be recorded in the revaluation reserve rather than the consolidated income statement.

FINANCIAL RESULTS REVIEW

Commentary on major balances and year on year variances in the Accounts

References are to "Notes to the Accounts" on pages 111 to 159.

Consolidated Income Statement

	2010 HK$M	2009 HK$M (Restated)	Reference
Turnover	**29,201**	24,909	Notes 4 and 8

The increase in turnover of HK$4,292 million compared to 2009 was principally due to the inclusion of the turnover of the HAECO group of HK$2,574 million (from its becoming a subsidiary company of the Group in June 2010). The increase also reflects increased turnover from the Property Division (HK$521 million), the Beverages Division (HK$154 million) and the Trading & Industrial Division (HK$1,892 million), which more than offset a decrease in turnover from the Marine Services Division of HK$846 million.

In the Property Division, gross rental income from property investment increased by HK$432 million, principally reflecting rental reversions in Hong Kong and higher retail turnover rent. Turnover from property trading, which comprised the sale of completed apartments at 5 Star Street, Island Lodge and at the ASIA development in Miami, Florida, decreased by HK$245 million compared to 2009. The hotels in Hong Kong and Mainland China increased turnover by HK$346 million in 2010. In the Beverages Division, turnover increased in Mainland China (HK$77 million), Taiwan (HK$72 million) and the USA (HK$27 million) as a result of growth in sales of still beverages. Turnover in Hong Kong decreased marginally (HK$21 million) principally due to depressed sales through supermarkets in the first half of the year. At the Swire Pacific Offshore group ("SPO"), the additional revenue from new vessels delivered in 2010 was more than offset by the effect of lower charter hire rates and lower average fleet utilisation during the year. In the Trading & Industrial Division, the overall turnover from the Swire Resources group increased by HK$300 million, with buoyant retail sales in Hong Kong benefiting from strong demand from Mainland China tourists. Turnover in Mainland China grew by 30% over 2009 because of strong sales of Columbia products. The Taikoo Motors group's turnover in Taiwan rose by HK$1,430 million, reflecting a general improvement in the Taiwanese economy.

Consolidated Income Statement (continued)

	2010 HK$M	2009 HK$M (Restated)	Reference
Operating Profit The increase in operating profit of HK$12,238 million compared to 2009 was principally derived from the Property Division (HK$7,351 million), the Aviation Division (HK$3,984 million) the Trading & Industrial Division (HK$944 million) and Head Office (HK$822 million), which more than offset a decrease in operating profit from the Marine Services Division (HK$862 million). In the Property Division, net valuation gains on investment properties were HK$5,998 million higher than in 2009. Income from property investment rose by HK$946 million, including profits of HK$544 million on the sale of investment properties. Property trading profit improved marginally. The hotel business incurred reduced losses in 2010 due to the absence of the previous year's pre-operating costs and impairment losses and an improved performance for the hotels in Hong Kong and Mainland China. The Aviation Division's operating profit in 2010 includes HAECO's operating profit since it became a subsidiary in June 2010, a remeasurement gain on the previously held interest in HAECO (HK$2,547 million) and the profit on the sale of the Group's interest in Hactl (HK$1,238 million). The operating profit of the Beverages Division was lower than 2009 by HK$17 million (disregarding profit on disposal of long-term investments), reflecting higher raw material costs especially of sugar. The fall in operating profit for SPO reflects the effect of lower charter hire rates and average fleet utilisation offset in part by the additional profit generated by the new vessels delivered during the year. The operating profit of the Trading & Industrial Division increased by HK$173 million, excluding the profit on disposal of its interests in CROWN Beverage Cans of HK$771 million in 2010. This increase reflected growth in turnover and margins at Swire Resources and Taikoo Motors. In the Head Office, valuation gains on investment properties were HK$940 million higher than in 2009. This was mainly attributable to the valuation gain on 53 Stubbs Road in Hong Kong.	**33,971**	21,733	Notes 5, 6 and 8
Net Finance Charges The increase reflects the higher borrowings. These were principally incurred to finance the acquisition of additional interests in HAECO and Cathay Pacific and capital expenditure in the Properties and Marine Services Divisions. The fair value gain on a put option in relation to the non-controlling interest in Sanlitun Village was HK$95 million lower than in 2009.	**1,259**	940	Notes 8 and 10
Share of Profits Less Losses of Jointly Controlled Companies In the Property Division, valuation gains recorded on investment properties held by jointly controlled companies increased by HK$1,415 million compared to 2009, there was a contribution of HK$63 million from the interest in PCCW Tower on its being reclassified as a jointly controlled company and there was a lower loss from the Mandarin Oriental Hotel in Miami. In the Aviation Division, the first year's contribution from jointly controlled companies of the HAECO group amounted to HK$243 million. Contributions from jointly controlled companies in the Beverages Division decreased due to a less favourable sales mix and higher raw material costs in Mainland China. In the Trading & Industrial Division, the share of profits from jointly controlled companies fell as a result of lower profit from Akzo Nobel Swire Paints and the absence of a contribution from the CROWN Beverage Cans group following the sale of the interests in this group in September 2010.	**2,263**	637	Notes 8 and 21

Consolidated Income Statement (continued)

	2010 HK$M	2009 HK$M (Restated)	Reference
Share of Profits Less Losses of Associated Companies The Cathay Pacific group contributed a profit of HK$5,079 million in 2010 compared to a profit of HK$1,349 million in 2009. The increase reflected strong demand for its passenger and cargo services and a substantial increase in profits earned by Cathay Pacific's associated company, Air China, partially offset by exceptional charges related to anti-trust investigations and proceedings and by increased fuel costs. The share of profit from HAECO and Hactl fell by HK$370 million, reflecting HAECO's becoming a subsidiary of the Company in June 2010 and the disposal of the interest in Hactl in May 2010. In the Property Division, the three associate hotels at Pacific Place performed strongly in 2010 and contributed higher profits to the Group. There were small decreases in profits from associated companies in the Beverages and Trading & Industrial Divisions.	**5,552**	2,164	Notes 8 and 22
Taxation The increase in taxation primarily reflects the higher operating profits earned by the Property and Trading & Industrial Divisions and the inclusion of taxation payable by the HAECO group with effect from HAECO becoming a subsidiary of the Company in June 2010.	**1,638**	1,453	Notes 8 and 11
Profit Attributable to the Company's Shareholders The increase in profit attributable to the Company's shareholders is mainly due to increased valuation gains on investment properties, the gain on remeasurement of the previously held interest in HAECO and the significant increase in contribution from the Cathay Pacific group. The increase also reflects capital profits from the sale of interests in Hactl and the CROWN Beverage Cans group.	**38,252**	21,893	Notes 8

Consolidated Statement of Financial Position

	2010 HK$M	2009 HK$M (Restated)	Reference
Property, Plant and Equipment The increase in property, plant and equipment is mainly due to the inclusion of the property, plant and equipment of the HAECO group when HAECO became a subsidiary of the Company in June 2010.	**24,125**	16,731	Note 15
Investment Properties The increase in investment properties mainly reflects net valuation gains of HK$21,344 million during the year, the acquisition of new investment properties, construction costs incurred on new investment properties, renovation costs incurred on existing investment properties and the reclassification of certain property from owner occupied property to investment property, offset in part by the reclassification of certain investment properties as properties held for sale and the disposal of certain investment properties.	**180,418**	154,493	Note 16
Leasehold Land and Land Use Rights The increase in leasehold land and land use rights principally represents the inclusion of leasehold land and land use rights belonging to the HAECO group when HAECO became a subsidiary of the Company in June 2010.	**928**	52	Note 17

Consolidated Statement of Financial Position (continued)

	2010 HK$M	2009 HK$M (Restated)	Reference
Intangible Assets The increase in intangible assets principally represents the goodwill of HK$3,479 million which arose from the business combination which occurred when HAECO became a subsidiary of the Company in June 2010.	**4,435**	376	Note 18
Investments in Jointly Controlled Companies The increase in jointly controlled companies primarily reflects the inclusion of jointly controlled companies of the HAECO group when HAECO became a subsidiary of the Company in June 2010 (HK$3,860 million), and the reclassification of the interest in PCCW Tower as an investment in a jointly controlled company at its fair value (HK$1,353 million). It also reflects the acquisition of 50% interests in the Argyle Street (Hong Kong) and Daci Temple (Chengdu) property projects.	**16,567**	9,125	Note 21
Investment in Associated Companies The increase in investment in associated companies principally reflects the cost of acquiring an additional 1% interest in Cathay Pacific (HK$826 million) and an increase in the retained profits of the Cathay Pacific group, offset in part by the disposal of the Group's interest in Hactl and the effect of HAECO becoming a subsidiary of the Company instead of an associated company.	**25,486**	23,545	Note 22
Properties for Sale The increase in properties for sale is principally due to the reclassification of certain investment properties as properties for sale and the acquisition of certain properties for sale, offset in part by disposals of certain properties for sale.	**5,517**	3,272	Note 26
Cash and Cash Equivalents The increase in cash and cash equivalents is primarily attributable to the inclusion of the cash and cash equivalents of the HAECO group when HAECO became a subsidiary of the Company in June 2010.	**3,809**	2,322	Note 29
Trade and Other Payables The increase in trade and other payables is due to the inclusion of the trade and other payables of the HAECO group when HAECO became a subsidiary of the Company in June 2010 and to increases in rental deposits in the Property Division and in other accruals.	**10,156**	8,837	Note 30
Bank Overdrafts and Short-term Loans The increase in bank overdrafts and short-term loans principally reflects the incurring of a short-term loan in order to finance the acquisition of additional shares in HAECO. The original amount drawn of this loan was HK$5,218 million. Its amount, net of unamortised loan fees, was reduced to HK$3,893 million at the year end.	**5,283**	1,083	Note 33
Long-term Loans and Bonds (including due within one year) The increase in long-term loans and bonds reflects additional borrowings to finance the Group's property developments, the purchase of new vessels and other fixed assets and the acquisition of additional shares in Cathay Pacific.	**37,839**	31,093	Note 33
Deferred Tax Liabilities The increase in deferred tax liabilities is principally attributable to higher deferred tax calculated on the valuation gains on investment properties held by the Group in Mainland China and the inclusion of the deferred tax liabilities of the HAECO group when HAECO became a subsidiary of the Company in June 2010.	**4,605**	3,600	Note 34

Consolidated Statement of Financial Position (continued)

	2010 HK$M	2009 HK$M (Restated)	Reference
Equity Attributable to the Company's Shareholders In each year, the increase in equity attributable to the Company's shareholders represents the total comprehensive income for the year attributable to the Company's shareholders (HK$40,431 million in 2010) less the dividends paid to shareholders.	**204,452**	168,876	Notes 36 and 37
Non-controlling Interests The increase in non-controlling interests principally reflects the inclusion of the non-controlling interests in the HAECO group when HAECO became a subsidiary of the Company in June 2010.	**4,599**	849	Note 38

Consolidated Statement of Cash Flows

	2010 HK$M	2009 HK$M	Reference
Cash Generated from Operations The decrease in cash generated from operations mainly reflects purchases of property for sale close to current development projects (HK$1.1 billion), reduced sales of properties held for sale and reduced operating cash flows from SPO, offset in part by increased net rental income from the Property Division.	**7,627**	8,740	Note 44(a)
Interest Paid The increase in interest paid is attributable to the borrowings incurred to finance the acquisition of additional shares in HAECO and Cathay Pacific and capital expenditure. The effect of this was partially offset by the proceeds received during the year from the disposal of interests in Hactl and CROWN Beverage Cans.	**1,491**	1,449	
Dividends Received from Jointly Controlled and Associated Companies and Available-for-sale Assets The increase in dividends received from jointly controlled and associated companies principally reflects the receipt of dividends from Cathay Pacific in 2010. No dividends were received from Cathay Pacific in 2009.	**1,705**	890	
Purchase of Property, Plant and Equipment The purchases of property, plant and equipment in 2010 mainly represent the construction costs of the hotel at the TaiKoo Hui project in Guangzhou, the costs of renovating hotels in the UK and the acquisition of vessels by SPO and of plant and equipment by the Beverages Division.	**2,586**	2,228	Note 44(b)
Additions of Investment Properties The additions of investment properties in 2010 include the construction costs of the non-hotel elements of the TaiKoo Hui project, and of The Village North at Sanlitun in Beijing and 53 Stubbs Road in Hong Kong and the renovation costs incurred at The Mall at Pacific Place. They also include the costs of acquiring miscellaneous investment properties for future development.	**4,366**	2,300	
Proceeds from Disposals of Investment Properties In 2010, these proceeds represent the cash inflows from the disposal of investment properties in Hong Kong.	**1,194**	80	
Purchase of Shares in Jointly Controlled Companies In 2010, these purchases were of interests in the Argyle Street (Hong Kong) and Daci Temple (Chengdu) property projects and of additional interests in the Akzo Nobel paint joint venture.	**306**	282	

Consolidated Statement of Cash Flows (continued)

	2010 HK$M	2009 HK$M	Reference
Purchase of Shares in Associated Companies In 2010, these purchases were of an additional 1% interest in Cathay Pacific (for HK$826 million) and of an additional interest in a beverage manufacturing plant in Mainland China (for HK$168 million).	**994**	1,161	
Loans to Jointly Controlled Companies In 2010, these loans were principally advanced for the purposes of financing the Property Division's joint venture projects at Daci Temple (Chengdu) and Dazhongli (Shanghai). The amounts advanced for the purposes of the Dazhongli project were higher in 2010 than in 2009.	**1,055**	741	
Proceeds from Disposal of Interests in Jointly Controlled Companies These proceeds are primarily from the sale of the Group's interest in the CROWN Beverage Cans group.	**1,175**	–	
Repayment of Loans by Jointly Controlled Companies In 2010, the repayment was mainly from jointly controlled companies in the Property Division. In 2009, HK$3,475 million of the repayment was of a loan to a jointly controlled company in relation to a completed property for sale in Hong Kong. Also in 2009 a shareholder loan of HK$500 million to the HUD group was repaid.	**431**	4,184	
Loans Drawn and Refinancing In 2010, loans drawn and refinancing comprised new financing under the Medium-Term Note Programme and from banks by way of new loans and the drawdowns of existing financing. Refer to the Financing section on page 71 for further details.	**13,302**	8,263	

Investment Appraisal and Performance Review

	Net assets employed 2010 HK$M	Net assets employed 2009 HK$M (Restated)	Capital commitments* 2010 HK$M	Capital commitments* 2009 HK$M
Property investment				
– at cost	**73,506**	65,761	**10,995**	10,326
– valuation surplus	**118,006**	96,001	**–**	–
– deferred taxation	**(4,273)**	(3,246)	**–**	–
– other net liabilities	**(4,679)**	(2,393)	**–**	–
	182,560	156,123	**10,995**	10,326
Property trading	**6,295**	3,808	**–**	–
Hotels	**5,797**	5,471	**1,005**	1,044
Property – overall	**194,652**	165,402	**12,000**	11,370
Aviation	**38,003**	21,654	**1,006**	–
Beverages	**4,978**	4,570	**507**	251
Marine Services	**8,901**	7,882	**3,727**	2,803
Trading & Industrial	**1,034**	1,527	**–**	48
Head Office	**2,664**	371	**–**	–
Total net assets employed	**250,232**	201,406	**17,240**	14,472
Less net debt	**(41,181)**	(31,681)		
Less non-controlling interests	**(4,599)**	(849)		
Equity attributable to the Company's shareholders	**204,452**	168,876		

	Equity attributable to the Company's shareholders** 2010 HK$M	Equity attributable to the Company's shareholders** 2009 HK$M (Restated)	Return on average equity attributable to the Company's shareholders** 2010	Return on average equity attributable to the Company's shareholders** 2009 (Restated)
Property investment	**150,415**	124,960	**18.9%**	15.0%
Property trading	**1,783**	1,420	**9.7%**	1.5%
Hotels	**5,268**	4,131	**-2.3%**	-9.8%
Property – overall	**157,466**	130,511	**18.1%**	14.1%
Aviation	**31,549**	21,617	**20.8%#**	9.4%
– including gain on remeasurement of previously held interest in HAECO on acquiring control	**2,547**	–		
Beverages	**3,798**	3,511	**19.1%**	23.3%
Marine Services	**9,073**	8,421	**9.0%**	21.5%
Trading & Industrial	**1,690**	1,948	**23.5%#**	18.3%
Head Office	**(1,671)**	2,868		
Total	**204,452**	168,876	**20.5%**	13.8%

* The capital commitments represent the Group's capital commitments plus the Group's share of the capital commitments of jointly controlled companies.

** Refer to Glossary on page 196 for definition.

Excluding the gain on remeasurement of previously held interest in HAECO and the profit on sale of Hactl in the Aviation Division and the profit on sale of CROWN Beverage Cans in the Trading & Industrial Division.

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 69 show where the Group's net 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$26,437 million (16.9%) during the year, principally due to continued investment in property projects in Mainland China and capital expenditure on the Sincere Insurance Building, and the Pacific Place design improvement project in Hong Kong.

Capital commitments at the year-end include the Group's share of the capital commitments of the property projects in Mainland China.

The increase in the return on average equity from property investment from 15.0% in 2009 to 18.9% in 2010 principally reflects the fact that the property revaluation gains included in attributable profit were higher in 2010 than in 2009.

The increase in net assets employed in property trading was principally due to the reclassification of certain investment properties as properties for sale, the effect of which was partly offset by unit closings, mostly at 5 Star Street in Hong Kong.

Aviation Division

Net assets employed in the aviation division increased by HK$16,349 million. The increase principally reflected the inclusion of the net assets of the HAECO group when HAECO became a subsidiary of the Company in June 2010, the acquisition of an additional 1% interest in Cathay Pacific and an increase in the retained profit of the Cathay Pacific group.

Excluding the gain on remeasurement of the previously held interest in HAECO and the profit on disposal of Hactl, the return on average equity increased from 9.4% in 2009 to 20.8% in 2010. The increase reflected the higher profits of the Cathay Pacific group.

Beverages Division

Net assets employed increased by HK$408 million (8.9%), principally as a result of an investment in Coca-Cola Bottlers Manufacturing Holdings.

The return on average equity decreased from 23.3% to 19.1%, reflecting the 7% decrease in attributable profit.

Marine Services Division

Net assets employed increased by HK$1,019 million (12.9%) following the net increase in 2010 of five new vessels to SPO.

The return on average equity fell from 21.5% in 2009 to 9.0% in 2010 reflecting the 52% reduction in attributable profit during the year.

Trading & Industrial Division

Net assets employed fell by HK$493 million primarily as a result of the sale of the Group's interests in the CROWN Beverage Cans group in September 2010.

The return on average equity, excluding the effect of the profit on disposal of CROWN Beverage Cans, increased from 18.3% in 2009 to 23.5% in 2010 as a result of the 22% increase in attributable profit.