

Interim Report 2000



# Six Months' Operating Statistics

## Completed Investment Property

		Office & Industrial	Retail	Residential
Gross floor area	<i>sq.ft.</i>	7,688,113	3,354,967	868,332
Average occupancy	<i>%</i>	95	99	88

## Cathay Pacific Airways

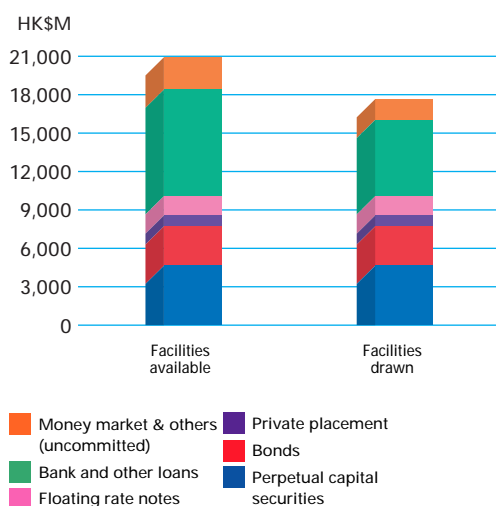
Available tonne Kilometres ("ATK")	<i>5,483 million</i>
Passenger load factor	<i>75.7%</i>
Average aircraft utilisation	<i>13.0 hours per day</i>
Cost per ATK	<i>HK\$2.33</i>

## Beverages Division

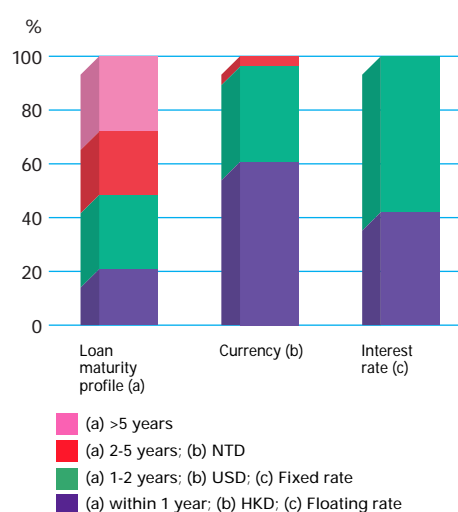
		Mainland China	Hong Kong	Taiwan	USA
Sales volume	<i>(Million unit cases)</i>	81.5	19.4	19.5	35.5
Franchise population	<i>(Million)</i>	367.3	6.9	22.0	5.4
Number of plants		10	1	2	2
Number of sales offices		114	1	16	29

# Key Financial Data

Source of finance



Analysis of Gross Borrowings



The available undrawn committed and uncommitted facilities at 30th June 2000 amounted to HK\$2,364 million and HK\$908 million respectively.

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# Financial Highlights

	Note	Six month ended 30th June		Year ended 31st December
		2000 HK\$M	1999 HK\$M	1999 HK\$M
Turnover		<b>7,619</b>	9,057	16,862
Operating profit		<b>1,923</b>	2,041	3,884
Profit attributable to shareholders		<b>2,590</b>	1,817	4,435
Net cash inflow from operating activities		<b>2,745</b>	2,954	5,635
Shareholders' funds and minority interests		<b>74,725</b>	67,665	72,789
Consolidated net borrowings		<b>17,041</b>	16,657	16,882
		HK¢	HK¢	HK¢
Earnings per share:	1			
'A' shares		<b>166.9</b>	117.1	285.8
'B' shares		<b>33.4</b>	23.4	57.2
		HK¢	HK¢	HK¢
Dividends per share:				
'A' shares		<b>36.0</b>	34.0	110.0
'B' shares		<b>7.2</b>	6.8	22.0
		HK\$	HK\$	HK\$
Shareholders' funds per share:				
'A' shares		<b>45.45</b>	41.13	44.14
'B' shares		<b>9.09</b>	8.23	8.83
Gearing ratio	2	<b>0.23/1</b>	0.25/1	0.23/1
Interest cover – times	3	<b>8.25</b>	11.60	8.01
Cash interest cover – times	4	<b>3.02</b>	3.08	2.93
Dividend cover – times	5	<b>4.63</b>	3.44	2.60

## Notes:

1. Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during the period.
2. Gearing represents the ratio of net borrowings to shareholders' funds and minority interests.
3. Interest cover is calculated by dividing operating profit by net finance charges.
4. Cash interest cover is calculated by dividing operating profit by net finance charges and capitalised interest.
5. Dividend cover is calculated by dividing profit attributable to shareholders by total dividends paid and proposed for the period.

# Chairman's Statement

## Consolidated Results

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The profit attributable to shareholders for the first half of 2000 was HK\$2,590 million, compared with HK\$1,817 million in the same period in 1999: an increase of 42.5%.

Your directors have today declared interim dividends for 2000 of HK¢36.0 per 'A' share and HK¢7.2 per 'B' share, representing an increase of 5.9% on the interim dividends paid in 1999.

## Operations

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### Property Division

Gross rental income for the half year to 30th June 2000 amounted to HK\$2,279 million, lower than the HK\$2,331 million reported in the corresponding period in 1999, mainly due to rent reviews and relettings secured at lower rentals. However, the contraction in rental income, evident since the falls in Asian markets in the latter part of 1997, now appears to have run its course and it is expected that income for the second half of 2000 will show improvement over the first half year.

Further progress has been made in achieving fresh or renewed office lettings since the end of 1999, covering some 1.1 million square feet of lettable floor space, mainly in Island East. Lincoln House is now substantially let, and Oxford House is 92% let. There is a distinct recovery in effective market rents, both in Pacific Place and Island East. Retail sales in The Mall, Cityplaza and Festival Walk shopping centres continue to improve and at a faster pace than the Hong Kong average. This will further support rental levels.

In May 2000 a site adjacent to Devon House at 981 King's Road was acquired for HK\$435 million. It is intended to construct an office tower, to be known as Cambridge House, with a gross floor area of some 270,000 square feet, for completion in 2003. No firm decision has yet been taken to proceed with three other office schemes presently at the planning stage, namely Pacific Forum, Cityplaza Two and the Cityplaza One Phase 2 extension, although preliminary contracts may be awarded in the second half year.

Activity in the residential market in Hong Kong picked up in the early part of 2000 but fell back, mainly due to concerns over higher interest rates and the prospect of substantial supply in both the public and private sectors. Public sector supply will now be less than previously targeted and sentiment in the private sector has consequently improved. 1,649 units in Phase 1 of Ocean Shores have been sold so far this year, out of 1,920 on offer. A further 102 residential units in StarCrest and 176 units in Tung Chung have also been sold since the year end. A modification premium of HK\$799 million has recently been paid to Government for the Taikoo Valley Site V residential site on King's Road and work will start shortly, with completion expected in 2003.

### Aviation Division

Cathay Pacific's consolidated profit for the first six months of 2000 was HK\$2,183 million, compared with a profit of HK\$108 million in the same period in 1999. The much improved performance reflects the continuing recovery of most regional economies. Fuel prices are very high but are offset, to some extent, by a young and fuel-efficient fleet.

Traffic turnover increased by 22.7% to HK\$14,726 million as a result of strong performances from both passenger and cargo services. Passenger load factor and yield increased by 8.6 percentage points and 3.5% respectively. There was robust passenger growth in North Asian markets and encouraging growth on the European and North American services.

Performance in cargo services was encouraging as a result of strong exports to North America and Japan. Cargo load factor and yield improved by 3.1 percentage points and 16.7% respectively. In March, Cathay Pacific commenced joint services with DHL Worldwide Express by adding overnight passenger and cargo flights to Osaka, Seoul, Singapore and Taipei.

Reflecting the improved economic outlook, Cathay Pacific has ordered new aircraft and employed more staff in order to meet the anticipated demand. During the first half of the year, orders were placed to purchase four Airbus Industrie A330-300s, one Boeing 777-200 and one Boeing 747-400 freighter; these augment the orders of three A330s and two B747-400 freighters placed in 1999. The new aircraft will be deployed to strengthen the existing network and launch services to new destinations.

Cathay Pacific continues to devote substantial resources to e-business. The airline is determined to be the Asian industry leader and has implemented a range of projects to bring this about.

HAECO's profit attributable to shareholders for the first half of 2000 was HK\$267 million, compared with a profit of HK\$63 million for the same period in 1999. The improvement in core profitability is largely a result of the extensive programme of cost reductions implemented in late 1999. Revenues have decreased slightly as competition throughout the company's businesses remained intense. However, contributions from joint ventures have increased, with strong performances from Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) and Hong Kong Aero Engine Services Limited (HAESL). HAECO is now in a strong competitive position for the provision of line maintenance services at Hong Kong International Airport, where traffic volumes have started to rise as airlines increase capacity; airframe maintenance activity at the company's hangar facility has also been high. TAECO has announced that construction will commence shortly on a third hangar to be operational in mid-2002, at an estimated cost of US\$50 million. In March, SIA Engineering Company Pte. Limited became a 10% shareholder in HAESL with HAECO and Rolls-Royce plc each reducing its shareholding to 45%.

Air Hong Kong achieved a satisfactory profit in the first half of 2000 as a result of strong exports from Hong Kong. The company operated more flights than in the same period of 1999, which led to a 13.8% growth in capacity.

Dragonair reported an improved interim profit over the same period last year as a result of the continued market recovery. In April, a twice-weekly service to Sanya was inaugurated. During the second quarter of 2000, the company took delivery of one A321 and one A320.

Cathay Pacific Catering Services benefited from the higher passenger traffic through Hong Kong International Airport.

Cargo movements through Hong Kong Air Cargo Terminals were well above those of the corresponding period in 1999. This contributed to a strong improvement in the company's results.

## **Beverages Division**

The Swire Beverages group reported a lower profit for the first half year than in the same period in 1999. Mainland China operations have been able to increase volumes by 7.1% over the same period in 1999 despite the strong competition from local and international brands. However, price reductions have been necessary, bringing a consequential loss of margin.

Hong Kong is experiencing difficult trading conditions as parallel imports and aggressive competitor pricing continue to put pressure on margins. Profitability in Taiwan has been held back by the poor performance of Minute Maid juice products where sales have been well down on expectations.

The acquisition of the Ogden franchise has added 6% to the size of the USA operations on a volume basis. Volumes have strengthened throughout the USA territory while prices have held firm leading to improved profitability which, together with a successful drive to save costs throughout operations, has largely offset the poor trading results in Mainland China, Hong Kong and Taiwan.

## **Industrial Division**

The depressed construction industry has continued to have an impact on the trading activities of Swire Engineering and Swire Duro. Swire Engineering Services performed in line with expectations, while Taikoo Sugar made a small loss in a very competitive retail environment. Overall the Industrial Division's subsidiary operations reported a small loss for the first half of the year.

The Carlsberg Brewery Hong Kong group overall reported a reduced loss as a result of cost savings arising from the consolidation of production facilities. Market conditions in Mainland China continue to be difficult, reflecting continued weak consumer spending and price competition and a provision for further restructuring costs of HK\$121 million has been taken. The new operating structure will allow Carlsberg to compete more effectively in the China market. The Crown Can Hong Kong group encountered very weak trading conditions and incurred a loss. Swire SITA Waste Services continued to perform steadily and in line with expectations. ICI Swire Paints and Schneider Swire reported improved results as a result of cost savings. The Company completed the sale of its shareholding in Tate & Lyle Swire; adverse trading conditions continue and the Company decided to withdraw from this non-core activity.

### **Trading Division**

The Taikoo Motors Group has shown significant improvement during the first half of 2000 as compared to last year, particularly in Taiwan and Mainland China. In Taiwan, additional profits have been generated from the new car brands of Kia and Volkswagen, with Commercial Vehicles also performing well. In Mainland China the modest attributable profit recorded in the first half of the year represents a significant turnaround from the losses reported last year. In Hong Kong, sales of Hyundai cars have increased with stronger marketing and sales efforts following the introduction of new models. The outlook for the motor car business for the remainder of the year is positive.

Sales of athletic shoes and sportswear in Hong Kong and Mainland China continue to improve with the gradual recovery of the market. Consumer sentiment towards the newly-added fashion athletic brands of Diesel, DKNY and Royal Elastic is strong. The outlook for the second half of 2000 remains positive.

During the first half of 2000, further businesses within the Trading Division were sold. With effect from 6th March 2000, Swire Loxley was sold to Dah Chong Hong Holdings, a subsidiary of the CITIC group, for a consideration of HK\$86 million. On 12th May 2000, the Taikoo Motors Group sold its 60% share in Taikoo Truck to the Volvo Truck Corporation.

### **Marine Services Division**

The weaker demand for offshore oil-field services seen during 1999 has, as expected, continued into 2000. Despite the increase in oil prices, there has been a time-lag in the pick-up of exploration work and Swire Pacific Offshore has experienced a fall in both fleet utilisation and charter rates as those vessels that were previously on long term charter came back onto the spot market. In recent weeks, rates have started to increase. "Pacific Searcher", the last of the series of four UT719 5,400 BHP anchor-handling tug supply vessels, was delivered in mid-January; orders have been placed for two UT719 MKII vessels for delivery in 2001.

Utilisation of Hongkong United Dockyards' ship repair facilities has risen during the period which, combined with efforts in recent years to rationalise costs, has resulted in an improvement in the company's profitability. The company's various new ventures, while still small, continue to increase their contributions to the company's results.

Increased trade in the Asian region has resulted in more container vessel movements within Hong Kong harbour since last year and a consequent increase in harbour revenue. Thus, despite a reduction in revenue from The Hongkong Salvage & Towage Company's tugs operating overseas, its results for the period and those forecast for the year are in line with those for last year. Two 4,000 BHP harbour/sea-going tugs built by Imamura Shipbuilding Company were delivered during the period.

The container terminals have seen improved profitability compared to the same period last year. Modern Terminals is expecting full-year throughput growth in line with the total market growth. During the first half of 2000, the container volume handled by Shekou Container Terminals has increased considerably and throughput is expected to reach 750,000 TEU for the year.

## Finance and other activities

Shareholders' funds and minority interests at 30th June 2000 totalled HK\$74,725 million (31st December 1999: HK\$72,789 million). At 30th June 2000, net borrowings were HK\$17,041 million, compared with HK\$16,882 million at 31st December 1999.

The group's gearing ratio was 0.23/1, the same as at 31st December. The group's available undrawn bank facilities at 30th June 2000 amounted to HK\$3,272 million, of which HK\$2,364 million were committed facilities.

Cathay Pacific and the Swire Pacific group as a whole are continuing to invest, in different ways, in e-business opportunities. In the first half of the year, Swire Pacific invested in a B2B start-up company, Asia2B, which we believe has potential to bring the group savings in operating costs, while also bringing the prospect of wider rewards from successful external growth in its markets.

Otherwise the group's e-commerce strategy is clearly defined as a pursuit of competitive advantage and cost savings via the implementation of a range of e-business initiatives; the group's strong focus on logistic and transport process management provides exceptional opportunities for growth from the continuing revolution in business practice.

## Prospects

The completion of refurbishments, later in the year, at both Cityplaza and Pacific Place will continue to help support the retail property portfolio, whilst the growing shortage of high-quality office space will result in an increase in effective office rental and occupancy levels; both of these factors will deliver an improvement in the core investment property income of Swire Properties. The outlook for residential development and sales, however, remains uncertain in the short term since, although market sentiment is likely to be helped by the announcement of more flexible Government housing policies aimed at maintaining stability in the property market, there is no evidence of this yet. The strong performance of the Aviation Division experienced in the first half is expected to continue. Cathay Pacific and HAECO are both in a strong position to benefit from the growing increase in air traffic through Hong Kong. The good results from Swire Beverages operations in the USA should continue to offset the difficulties in its other territories, where sales volume growth has yet to be translated into meaningful profit growth. The Trading Division is expected to see further profit growth from core businesses, whilst restructuring within the Industrial Division has already led to performance improvements. The Marine Services Division's results for the balance of the year are expected to be satisfactory.

The improvement in economic activity noted in our 1999 annual report has strengthened and should continue to underwrite growth in the group's aviation and property investment businesses in particular. Weakness in Hong Kong's residential development market suggests that a quick return to strong property trading profits is unlikely but, this aside, we remain confident that the group's profit growth is sustainable.

**J W J Hughes-Hallett**

*Chairman*

Hong Kong, 10th August 2000

# Review of Operating Results

The principal activities of the Swire Pacific group together with the contribution of each activity to group results are as follows:

## The Company and its subsidiaries:

	Turnover		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Property:			
Property investment	2,319	2,353	4,776
Property trading	786	1,516	1,749
Sale of investment properties	–	477	515
Beverages	2,217	2,154	4,590
Industrial	285	321	680
Trading	1,612	1,808	3,808
Marine services	412	448	812
Other net expenses and consolidation adjustments	(12)	(20)	(68)
	7,619	9,057	16,862

## The Company and its subsidiaries:

	Operating profit/(loss)		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Property:			
Property investment	1,601	1,766	3,384
Property trading	153	89	209
Sale of investment properties	–	70	54
Beverages	96	77	211
Industrial	(1)	(2)	24
Trading	63	3	48
Marine services	101	135	210
Other net expenses and consolidation adjustments	(90)	(97)	(256)
	1,923	2,041	3,884

## Jointly controlled companies:

		Share of profits/(losses) before taxation		
		Six months ended 30th June		Year ended 31st December
		2000 HK\$M	1999 HK\$M	1999 HK\$M
Property:				
Property investment and trading		14	26	51
Beverages		36	56	81
Industrial		(113)	48	70
Trading		(1)	(6)	(8)
Marine services:				
Ship repairing and harbour towage		31	29	58
Container handling		8	6	13
Shipowning and operating		–	(2)	(4)
Others		(1)	(1)	(5)
		(26)	156	256



**Associated companies:**

	Share of profits/(losses) before taxation		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Property:			
Hotels and restaurants	30	10	34
Aviation:			
Airline services and airline catering	991	74	1,110
Aircraft engineering	101	27	27
Cargo and passenger handling	44	(53)	(8)
Marine services:			
Container handling	132	125	276
Insurance	–	(7)	(7)
	<b>1,298</b>	<b>176</b>	<b>1,432</b>

**An analysis of group attributable profit/(loss) by division is as follows:**

	Attributable profit/(loss)		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Property	1,444	1,639	3,002
Aviation	1,109	48	1,038
Beverages	75	79	187
Industrial	(120)	43	81
Trading	53	1	114
Marine services	218	251	472
Other net expenses and consolidation adjustments	(189)	(244)	(459)
	<b>2,590</b>	<b>1,817</b>	<b>4,435</b>

The activities of the Swire Pacific group are mainly based in Hong Kong. An analysis of group turnover and contribution to group operating profit by principal markets is outlined below:

	Turnover		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Hong Kong	4,306	4,836	8,916
Asia (excluding Hong Kong)	1,625	1,214	2,596
North America	1,273	2,246	3,937
Europe	3	313	604
Shipowning and operating	412	448	809
	<b>7,619</b>	<b>9,057</b>	<b>16,862</b>

	Operating profit/(loss)		
	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Hong Kong	1,647	1,713	3,578
Asia	55	16	51
North America	120	176	121
Europe	–	–	(76)
Shipowning and operating	101	136	210
	<b>1,923</b>	<b>2,041</b>	<b>3,884</b>

Shipowning and operating activities are carried out internationally and cannot be attributed to specific geographical areas.

## Condensed consolidated profit and loss account for the six months ended 30th June 2000 – unaudited

	Note	Six-months ended 30th June		Year ended 31st December
		2000 HK\$M	1999 HK\$M	1999 HK\$M
Turnover		<b>7,619</b>	9,057	16,862
Cost of sales		<b>(3,960)</b>	(4,998)	(8,778)
Gross profit		<b>3,659</b>	4,059	8,084
Other revenue		<b>37</b>	41	92
Distribution costs		<b>(635)</b>	(564)	(1,439)
Administrative expenses		<b>(1,111)</b>	(1,456)	(2,834)
Other operating expenses		<b>(27)</b>	(39)	(19)
Operating profit	2	<b>1,923</b>	2,041	3,884
Finance costs				
Finance charges		<b>(320)</b>	(240)	(698)
Finance income		<b>87</b>	64	213
Net finance charges		<b>(233)</b>	(176)	(485)
Share of profits less losses of jointly controlled companies	3	<b>(26)</b>	156	256
Share of profits less losses of associated companies		<b>1,298</b>	176	1,432
Profit before taxation		<b>2,962</b>	2,197	5,087
Taxation	4	<b>263</b>	269	416
Profit after taxation		<b>2,699</b>	1,928	4,671
Minority interests		<b>109</b>	111	236
Profit attributable to shareholders		<b>2,590</b>	1,817	4,435
Dividends		<b>559</b>	528	1,707
Retained profit for the period		<b>2,031</b>	1,289	2,728

		HK¢	HK¢	HK¢
Earnings per share:	5			
'A' shares		<b>166.9</b>	117.1	285.8
'B' shares		<b>33.4</b>	23.4	57.2

	2000	1999		
	Interim HK¢	Interim HK¢	Final HK¢	Total HK¢
Dividends per share:				
'A' shares	<b>36.0</b>	34.0	76.0	110.0
'B' shares	<b>7.2</b>	6.8	15.2	22.0

## Condensed consolidated balance sheet – unaudited

		30th June 2000		31st December 1999	
	Note	HK\$M	HK\$M	HK\$M	HK\$M
ASSETS					
Non-current assets					
Fixed assets	6	66,312		65,393	
Jointly controlled companies		8,647		8,196	
Associated companies		16,360		15,307	
Investment securities and deferred receivables		514		502	
Deferred expenditure		269		416	
		92,102		89,814	
Current assets					
Properties for sale		1,244		1,625	
Stocks and work in progress		1,047		934	
Trade and other receivables		2,366		2,819	
Held-to-maturity securities – unlisted		189		116	
Short-term deposits and bank balances		372		544	
		5,218		6,038	
Current liabilities					
Trade and other payables		4,410		5,175	
Taxation		337		151	
Bank overdrafts and short-term loans		1,628		462	
Long-term loans and bonds due within one year		1,848		3,390	
		8,223		9,178	
Net current liabilities		(3,005)		(3,140)	
Total assets less current liabilities		89,097		86,674	
Non-current liabilities					
Long-term loans and bonds, and perpetual capital securities		14,177		13,690	
Deferred taxation		27		28	
Deferred liabilities		168		167	
		14,372		13,885	
Minority interests		4,190		4,280	
NET ASSETS		70,535		68,509	
CAPITAL AND RESERVES					
Share capital		931		931	
Reserves	7	69,604		67,578	
SHAREHOLDERS' FUNDS		70,535		68,509	

## Condensed consolidated cash flow statement for the six months ended 30th June 2000 – unaudited

	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
<b>Net cash inflow from operating activities</b>	<b>2,745</b>	<b>2,954</b>	<b>5,635</b>
<b>Returns on investments and servicing of finance</b>			
Interest received on deposits and other loans	<b>88</b>	66	213
Dividends received from jointly controlled and associated companies and other investments	<b>660</b>	324	723
Interest paid on bank loans, overdrafts and other loans and bonds	<b>(705)</b>	(738)	(1,561)
Dividends paid			
– to shareholders	<b>(1,179)</b>	(900)	(1,428)
– to minority interests	<b>(232)</b>	(117)	(118)
<b>Net cash outflow from returns on investments and servicing of finance</b>	<b>(1,368)</b>	(1,365)	(2,171)
<b>Taxation</b>			
Hong Kong profits tax paid	<b>(11)</b>	(30)	(263)
Overseas tax refund/(paid)	<b>1</b>	(9)	(71)
<b>Total tax paid</b>	<b>(10)</b>	(39)	(334)
<b>Investing activities</b>			
Purchase of fixed assets	<b>(1,038)</b>	(720)	(1,772)
Proceeds from fixed asset disposals	<b>4</b>	507	608
Purchase of shareholdings in subsidiary companies	<b>(263)</b>	(95)	(169)
Sale of shareholdings in subsidiary companies	<b>86</b>	–	83
Purchase of shareholdings in and loans to associated companies	<b>(26)</b>	(25)	(103)
Purchase of shareholdings in and loans to jointly controlled companies	<b>(353)</b>	(272)	(1,114)
Purchase of investment securities	<b>(51)</b>	–	–
Loans to long-term investments	<b>(9)</b>	(46)	(47)
Sales of shareholdings in and loans from associated companies	<b>10</b>	–	65
Sales of shareholdings in and loans from jointly controlled companies	<b>42</b>	150	196
Repayment of loans from long-term investments	<b>–</b>	298	302
Sale of investment securities	<b>38</b>	–	–
Decrease in deferred receivables	<b>20</b>	1	33
Deferred expenditure	<b>(31)</b>	(41)	(74)
<b>Net cash outflow from investing activities</b>	<b>(1,571)</b>	(243)	(1,992)
<i>(carried forward to page 11)</i>			

**Condensed consolidated cash flow statement for the six months ended  
30th June 2000 – unaudited (cont'd)**

	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
<i>(brought forward from page 10)</i>			
<b>Net cash (outflow)/inflow before financing</b>	<b>(204)</b>	1,307	1,138
<b>Financing</b>			
Loans drawn and refinancing	738	91	3,863
Repayment of loans	(1,801)	(757)	(3,587)
	(1,063)	(666)	276
Capital contributions from minority interests	1	–	1
<b>Net cash (outflow)/inflow from financing</b>	<b>(1,062)</b>	(666)	277
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(1,266)</b>	641	1,415
<b>Movement in cash and cash equivalents</b>			
At 1st January	198	(1,227)	(1,227)
(Decrease)/increase during the period	(1,266)	641	1,415
Currency adjustment	1	(1)	10
At end of the period	(1,067)	(587)	198
<b>Represented by:</b>			
Unlisted held-to-maturity securities maturing within three months	189	217	116
Bank balances and short-term deposits maturing within three months	372	289	544
Bank overdrafts and short-term loans maturing within three months	(1,628)	(1,093)	(462)
	(1,067)	(587)	198

## Condensed statement of recognised gains and losses for the six months ended 30th June 2000 – unaudited

	Note	Six months ended 30th June		Year ended 31st December
		2000 HK\$M	1999 HK\$M	1999 HK\$M
Increase in property valuation arising during the period		–	–	2,716
Realised surplus on disposal of investment properties transferred to operating profit		–	(94)	(40)
Exchange differences on cashflow hedges				
– recognised during the period	7	304	419	22
– transferred to the profit and loss account	7	38	24	32
Revaluation (deficit)/surpluses on investment securities				
– recognised during the period	7	(24)	165	190
– transferred to the profit and loss account		–	(145)	(217)
Exchange differences	7	31	6	31
Net gains not recognised in the profit and loss account		349	375	2,734
Profit for the period		2,590	1,817	4,435
Total recognised gains		2,939	2,192	7,169
Goodwill on acquisition of subsidiary, jointly controlled and associated companies	7	(386)	(105)	(178)
Goodwill reinstated on disposal of subsidiary companies	7	32	177	634
		2,585	2,264	7,625

## Notes to the condensed consolidated accounts

### 1. Basis of preparation

The interim report has been prepared on a basis consistent with the principal accounting policies adopted in the 1999 annual report. With the exception of the interim disclosure of related party transactions, we have complied with HK SSAP 25 “Interim Financial Reporting” which only becomes mandatory under the Listing Rules of the Stock Exchange of Hong Kong Limited for accounting periods ended on or after 1st July 2000.

### 2. Operating profit

	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Operating profit has been arrived at after charging:			
Cost of stocks sold	2,611	2,634	5,697
Depreciation of fixed assets	257	247	502
Operating lease charges:			
Land and buildings	33	57	103
Equipment	10	11	23
Amortisation of deferred expenditure	63	73	140
and after crediting:			
Gross rental income	2,283	2,343	4,684
Less: Outgoings	554	459	1,026
Net rental income	1,729	1,884	3,658
Profit on sale of development properties	153	89	209

### 3. Share of profits less losses of jointly controlled companies

The share of profit less losses of jointly controlled companies for the six months ended 30th June 2000 includes an attributable loss of HK\$121 million relating to provision for investment in a jointly controlled company.

### 4. Taxation

	Six months ended 30th June		Year ended 31st December
	2000 HK\$M	1999 HK\$M	1999 HK\$M
Hong Kong	165	111	201
Overseas	31	97	15
Tax on profits of jointly controlled companies	14	18	42
Tax on profits of associated companies	53	43	158
	263	269	416

Hong Kong profits tax is calculated at 16.0% (1999: 16.0%) on the estimated assessable profits for the period. Overseas taxation is calculated at rates of tax applicable in countries in which the group is assessed for tax.

### 5. Earnings per share

Earnings per share are calculated by dividing the profit attributable to shareholders for the period ended 30th June 2000 of HK\$2,590 million (1999: HK\$1,817 million) by the weighted average number of 940,111,885 'A' shares and 3,059,301,271 'B' shares in issue during the period and throughout 1999.

### 6. Fixed assets (Group)

For the six months ended 30th June 2000, the group acquired fixed assets (comprising properties, plant and equipment, and vessels) of HK\$1,145 million (1999: HK\$892 million) and disposed fixed assets of HK\$4 million (1999: HK\$506 million).

### 7. Reserves (Group)

	Revenue Reserve	Property valuation reserve	Share premium account	Capital redemption reserve	Investment revaluation reserve	Cash flow hedge reserve	Total
	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M	HK\$M
At 31st December 1999	35,937	30,755	342	21	439	84	67,578
Retained profit for the period	2,031	–	–	–	–	–	2,031
Goodwill on acquisition of subsidiary, jointly controlled and associated companies	(386)	–	–	–	–	–	(386)
Goodwill reinstated on disposal of subsidiary companies	32	–	–	–	–	–	32
Exchange differences on cash flow hedges							
– recognised during the period	–	–	–	–	–	304	304
– transferred to profit for the period	–	–	–	–	–	38	38
Revaluation deficit on investment securities recognised during the period	–	–	–	–	(24)	–	(24)
Exchange differences	31	–	–	–	–	–	31
At 30th June 2000	37,645	30,755	342	21	415	426	69,604

## 8. Contingencies and commitments (Group)

	30th June 2000 HK\$M	31st December 1999 HK\$M
(a) Outstanding commitments for capital expenditure at the end of the period:		
Contracted for but not provided for in the accounts	<b>139</b>	179
Authorised by Directors but not contracted for	<b>796</b>	739
(b) Guarantees have been given in respect of bank loans and other liabilities outstanding at the end of the period amounting to:		
Jointly controlled companies	<b>4,013</b>	4,325
Associated companies	<b>1,050</b>	1,204
	<b>5,063</b>	5,529



## Supplementary Information

### Corporate governance

None of the Directors of the Company is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the accounting period covered by the interim report, in compliance with the Code of Best Practice as set out in the Listing Rules of The Stock Exchange of Hong Kong Limited ("the Listing Rules").

In compliance with the Code of Best Practice in the Listing Rules, the Company has established an Audit Committee comprising D G Eldon as Chairman and C Lee and P A Johansen as members with written terms of reference.

### Directors' interests

At 30th June 2000, the interests of the Directors in the shares of Swire Pacific Limited and in its associated corporations [within the meaning of the Securities (Disclosure of Interests) Ordinance ("SDI")], as recorded in the register maintained under section 29 of the SDI were as follows:

	Personal Interests	Family Interests	Corporate Interests	Other Interests	Total	Remarks
<b>Swire Pacific Limited – 'A' shares</b>						
J W J Hughes-Hallett	4,500	–	–	–	4,500	–
P A Johansen	10,000	–	–	–	10,000	–
T S Lo	8,774	–	–	–	8,774	–
P D A Sutch	10,000	–	–	–	10,000	–
Sir Adrian Swire	–	–	–	1,365,473	1,365,473	See Note 1
D M Turnbull	1,266	–	–	–	1,266	–
<b>Swire Pacific Limited – 'B' shares</b>						
M J Bell	30,000	–	–	–	30,000	–
D Ho	100,000	–	–	–	100,000	–
J W J Hughes-Hallett	118,000	–	–	–	118,000	–
P A Johansen	–	–	–	200,000	200,000	See Note 2
K G Kerr	–	2,500	–	–	2,500	–
T S Lo	3,948	–	–	–	3,948	–
C Lee	750,000	–	–	–	750,000	–
P D A Sutch	5,000	–	–	–	5,000	–
Sir Adrian Swire	4,813,169	–	–	20,810,916	25,624,085	See Note 1
<b>Cathay Pacific Airways Limited – Ordinary shares</b>						
J W J Hughes-Hallett	12,000	–	–	–	12,000	–
C Lee	30,000	–	–	–	30,000	–
P D A Sutch	20,000	–	–	–	20,000	–

#### Notes:

1. All the Swire Pacific Limited 'A' and 'B' shares held by Sir Adrian Swire under "Other Interests" are held by him as trustee only and he has no beneficial interest in those shares.
2. P A Johansen is a beneficiary of trusts which hold the 200,000 Swire Pacific Limited 'B' shares listed under "Other Interests".

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

Other than as stated above, the Directors of Swire Pacific Limited held no interests, whether beneficial or non-beneficial, in the shares or warrants of Swire Pacific Limited or its associated corporations.

## Substantial shareholders

The register of substantial shareholders maintained under Section 16(1) of the SDI shows that at 30th June 2000 the Company had been notified of the following interests, being 10% or more of the Company's issued capital. These interests are in addition to those disclosed above in respect of the Directors:

	'A' shares	'B' shares	Remarks
John Swire & Sons Limited	40,765,128	1,977,875,765	–
Shrewsbury Holdings Limited	–	321,240,444	) Duplication of John Swire
John Swire & Sons (H.K.) Limited	40,661,326	1,940,278,746	) & Sons Limited's holding
Brandes Investment Partners, L.P.	143,671,090	–	–
Franklin Resources, Inc.	113,063,684	–	–
Templeton Worldwide, Inc.	113,063,684	–	Duplication of Franklin Resources, Inc's holding

In addition, on 28th January 2000 the Company received a notice from Exchange Fund Investment Limited, in its capacity as investment manager of the Hong Kong equity portfolio of the Exchange Fund of the Hong Kong Special Administrative Region Government (the "Portfolio"), that the Portfolio contained 103,275,576 Swire Pacific Limited 'A' shares.

At 30th June 2000, the John Swire & Sons Limited group owned directly or indirectly interests in shares of Swire Pacific Limited representing 28.07% of the issued capital and 50.50% of the voting rights.

## Share capital

During the period under review, the Swire Pacific group did not purchase, sell or redeem any shares in Swire Pacific Limited.

## Interim dividends

Interim dividends of HK\$36.0 (1999: HK\$34.0) per 'A' share and HK\$7.2 (1999: HK\$6.8) per 'B' share have today been declared payable on 3rd October 2000 to shareholders registered at the close of business on 22nd September 2000; the share registers will be closed from 18th September 2000 to 22nd September 2000, both dates inclusive.

## Corporate Information

### Registered office

35th Floor, Two Pacific Place  
88 Queensway, Hong Kong

### Registrars

Central Registration Hong Kong Limited  
19th Floor Hopewell Centre  
183 Queen's Road East, Hong Kong

### Depository

The Bank of New York  
American Depositary Receipts  
22nd Floor West  
101 Barclay Street  
New York, NY 10286  
USA  
Website: <http://www.bankofny.com/adr>  
(Toll free): 1-888-BNY-ADRS

For further information about  
Swire Pacific Limited, please contact:

Manager  
Group Public Affairs  
Swire Pacific Limited  
35th Floor, Two Pacific Place  
88 Queensway, Hong Kong

Tel: (852) 2840-8098  
Fax: (852) 2526-9365  
Website: <http://www.swirepacific.com>