

PROPERTY AVIATION BEVERAGES MARINE SERVICES TRADING & INDUSTRIAL

# 2010 Interim Results Analyst Briefing

5th August 2010 Hong Kong



## 2010 Interim Highlights

- Gross rental income in the Property Division increased by 9% year-on-year, reflecting strong demand in Hong Kong as the office market continued to recover. Retail sales were also robust
- Investment properties valuation gain at 30th June of HK\$5,205m, principally reflecting improved rentals in the Hong Kong portfolio
- The proposed listing of Swire Properties on the SEHK did not proceed
- The Cathay Pacific group experienced a significant recovery in its passenger and cargo businesses, with strong demand from premium class travellers and a record high cargo load factor
- The Group's interest in Hactl was sold in May, generating a profit on sale attributable to the Group of HK\$825m
- An additional 15% interest in HAECO was acquired from Cathay Pacific. The Group recognised a gain of HK\$2,547m on the remeasurement of its previous interest in HAECO to fair value, reflecting the new accounting treatment for business combinations

## 2010 Interim Highlights (continued)

- Following the close of the mandatory general offer, the Group's interest in HAECO stands at 75.85%. Agreement has been reached with a single investor to sell sufficient shares to restore a 25% public float
- Results from the Beverages Division were adversely affected by increased competition, weaker sales mix and cooler than normal weather
- Charter hire rates and utilisation rates for SPO fell as market conditions remained poor and the large influx of newly built vessels resulted in surplus capacity
- Increased sales by Swire Resources and Taikoo Motors, reflecting improved customer sentiment in Hong Kong and Taiwan
- HK\$16.2bn of financing was raised during the first-half (of which HK\$9.4bn was arranged to finance the acquisition of shares in HAECO)

## Financial Summary

	HY2009 HK\$M	<b>HY2010</b> <b>HK\$M</b>	% Change
Attributable profit	3,231	<b>13,947</b>	+332%
Underlying profit	3,798	<b>8,909</b>	+135%
Cash generated from operations	3,900	<b>2,701</b>	-31%
Interim dividend per 'A' share (HK\$)	\$0.60	<b>\$1.00</b>	+67%
	31st Dec 2009	<b>30th Jun 2010</b>	
Equity attributable to the Company's shareholders	152,503	<b>163,854</b>	+7%
Net debt	31,681	<b>37,348</b>	+18%
Gearing ratio	20.7%	<b>22.0%</b>	+1.3%pt

Property

Aviation

Beverages

Marine Services

Trading &amp; Industrial

## Earnings Analysis

	HY2009 HK\$M	<b>HY2010 HK\$M</b>
Attributable profit	3,231	<b>13,947</b>
Net investment properties adjustments	567	<b>(5,038)</b>
Underlying profit	3,798	<b>8,909</b>
Other significant items:		
- Gain on remeasurement of previously held interest in HAECO	-	<b>(2,547)</b>
- Capital profits:		
Interest in Hactl	-	<b>(825)</b>
Other investments	-	<b>(40)</b>
Investment properties	-	<b>(577)</b>
Properties previously occupied by the Group	(110)	-
- Impairment of land and stand-alone hotels	75	-
	(35)	<b>(3,989)</b>
Adjusted profit	3,763	<b>4,920</b>

Property

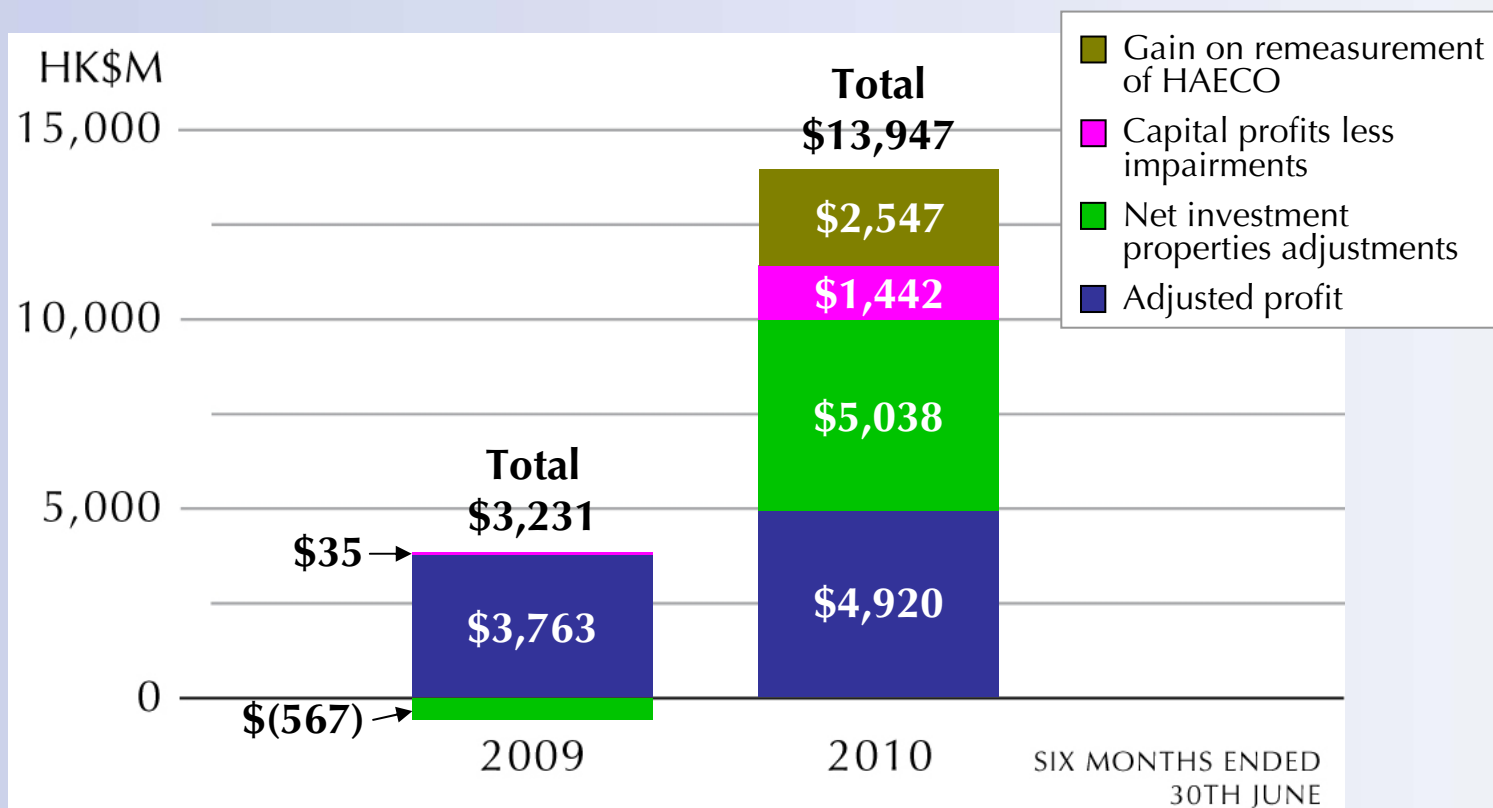
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## Attributable Profit



Property

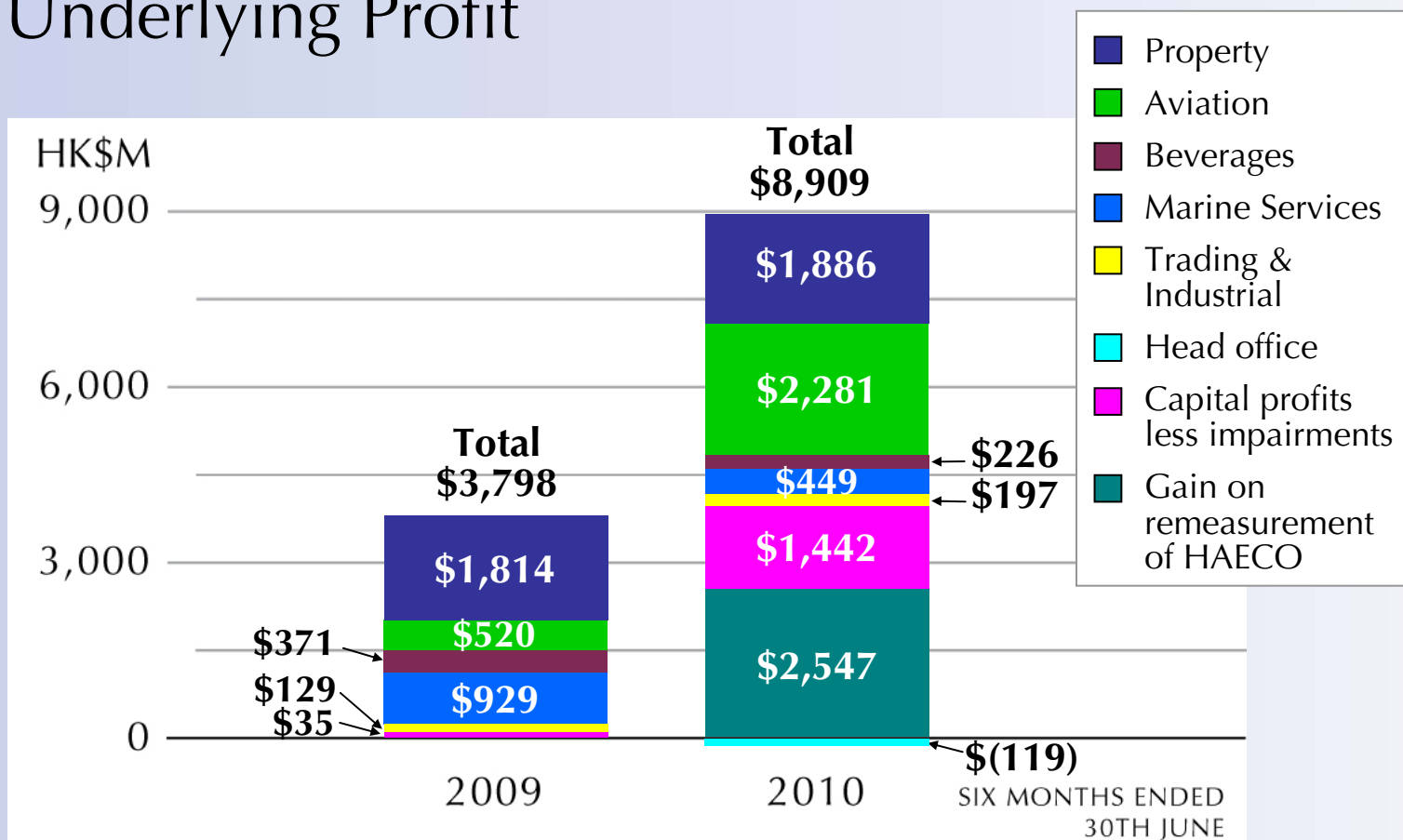
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## Underlying Profit



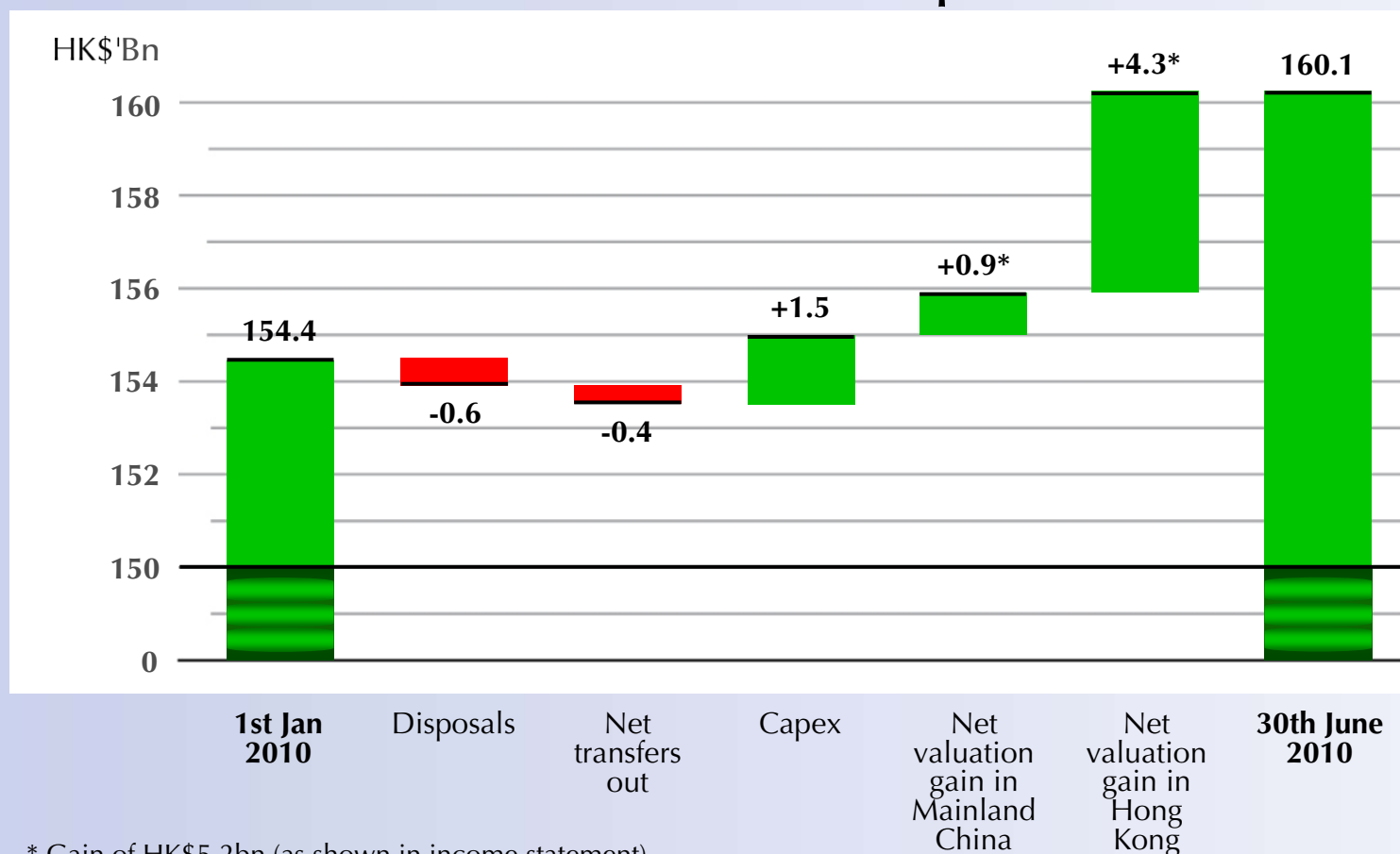
Underlying attributable profit principally adjusts for the impact of HKAS 40 and HKAS-Int 21 on investment properties and deferred tax respectively

## Highlights - Property Division

- Gross rental income increased by 9% to HK\$3,902m. Underlying profit increased by 33% to HK\$2,463m
- Strong demand in Hong Kong as the office market continued to recover. Rental reversions remained generally positive and the portfolio was virtually fully let
- Occupancy of the Group's malls in Hong Kong was almost 100%. Retail sales grew by 18%, reflecting the continued strong recovery in consumer demand
- Valuation gain on investment properties of HK\$5,205m
- The hotel business benefited from the improved economic conditions, with the new Hong Kong hotels recording very encouraging results.
- Underlying profit of HK\$577m was recorded on the sale of a small number of investment properties
- Trading profit of HK\$35m as development profit on 53 Stubbs Road and closings at Island Lodge more than offset losses in the USA



## Movement in Investment Properties

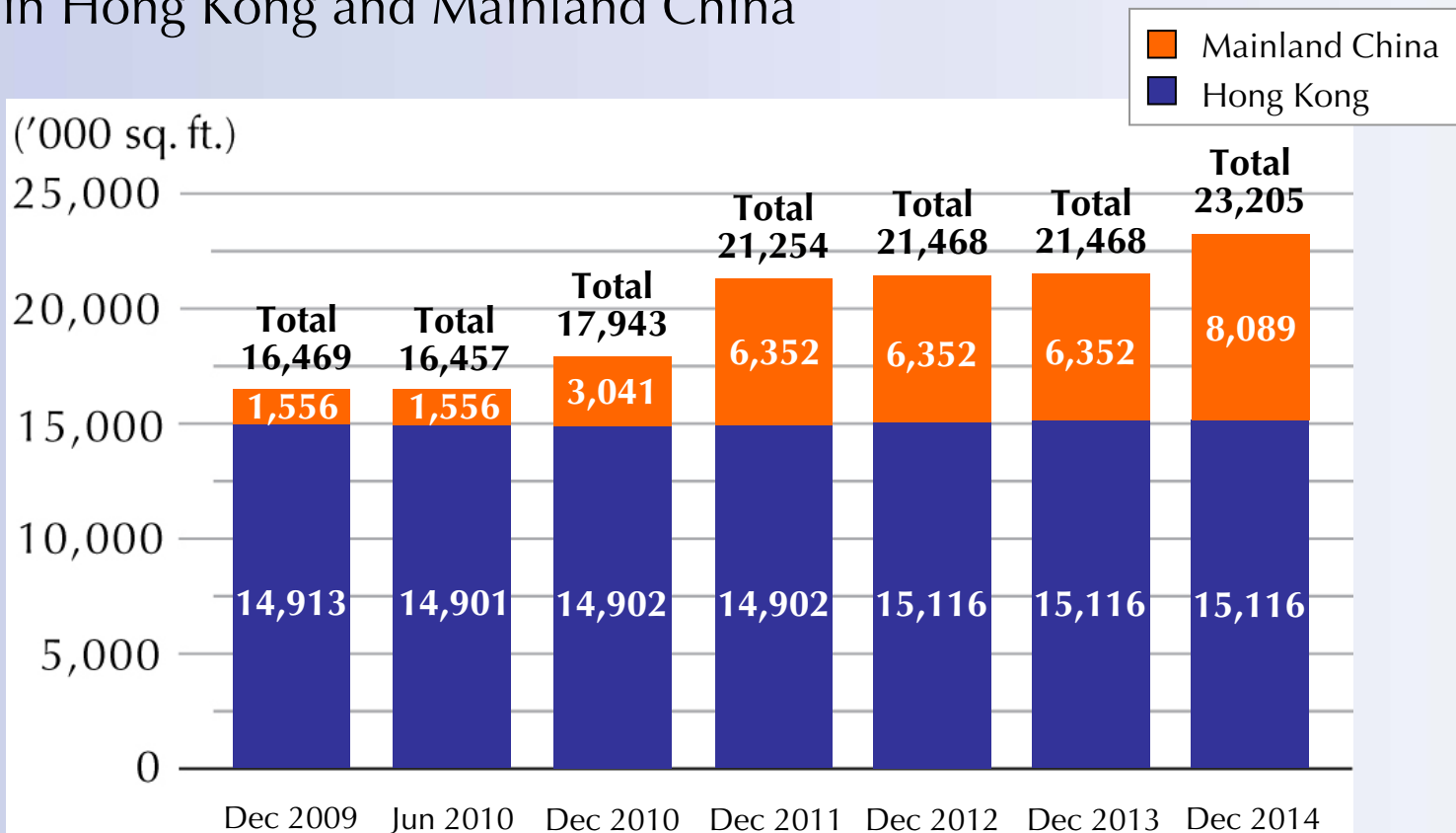


## Profile of Capital Commitments for Investment Properties and Hotels - at 30th June 2010

(HK\$M)	<u>Spend</u>	Forecast period of spend				<u>Commitments</u>
		2H10	2011	2012	2013 & beyond	
<u>Property project</u>	<b>1H10</b>					<b>at 30th Jun 2010</b>
Hong Kong projects	<b>644</b>	539	1,067	382	63	<b>2,051</b>
Mainland China projects	<b>1,320</b>	2,969	2,017	861	2,006	<b>7,853</b>
UK and USA hotels	<b>79</b>	126	59	-	-	<b>185</b>
<b>Total</b>	<b>2,043</b>	3,634	3,143	1,243	2,069	<b>10,089*</b>

\* Including the Group's share of the capex and capital commitments of its jointly controlled companies

## Completed Property Investment Portfolio in Hong Kong and Mainland China



## Swire Properties Update

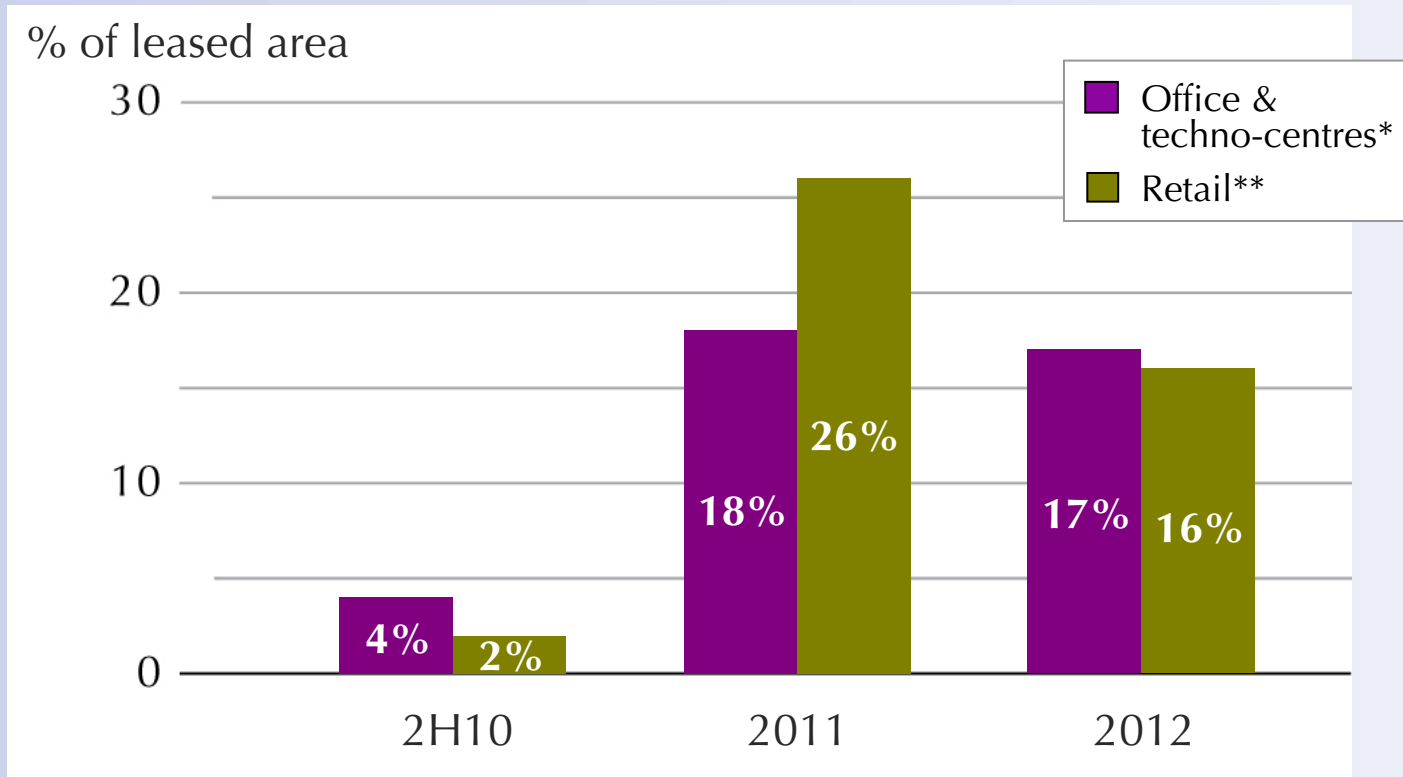
Vacancies at 30th June 2010	Vacancy (sq. ft.)*
Office and techno-centres	110,685** 1.6%
Retail (principally The Village North and South)	150,770 5.1%

Latest rentals	HK\$ per sq. ft.
One & Two Pacific Place	mid 90s
Three Pacific Place	mid 70s
Island East	low 30s
Techno-centres	20
One Island East	mid 40s

\* Based on lettable area

\*\* Wholly-owned properties

## Lease Expiry Profile - at 30th June 2010



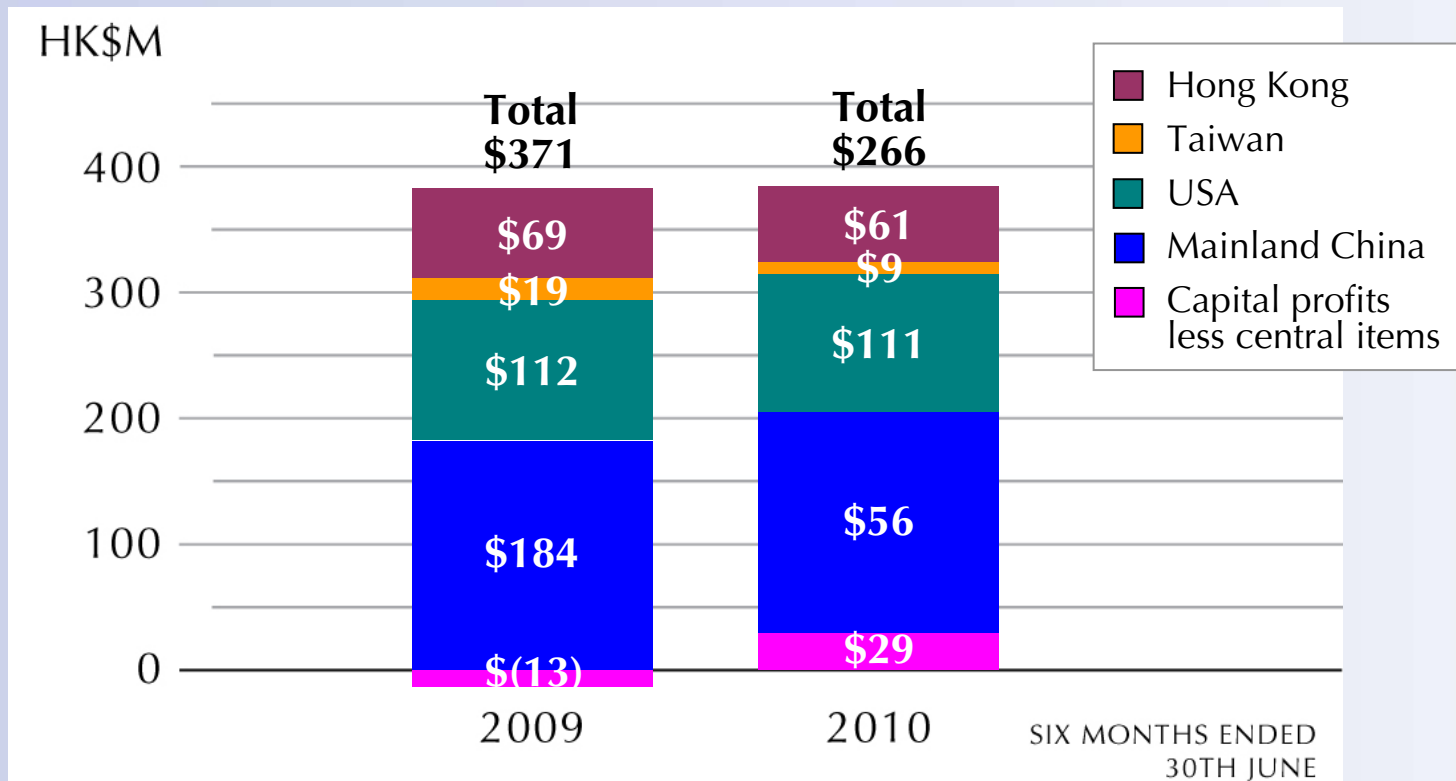
\* Wholly-owned properties

\*\* Retail excludes The Village North

## Highlights - Aviation Division

- Attributable profit of HK\$2,281m (excluding non-recurring items), compared to HK\$520m in the first half of 2009
- Cathay Pacific group experienced a continuing and significant recovery in its core business. Passenger revenue rose by 26%, mainly due to a significant increase in premium class demand. The cargo business also saw strong demand, with the load factor hitting a record high of 78%
- Fuel costs rose by 51%. Unrealised fuel hedging losses of HK\$32m were recorded, compared to gains of HK\$2,074m in the first half of 2009
- Contribution from the HAECO group profit fell by 6% despite the increase in ownership. Higher demand for maintenance in Hong Kong was more than offset by weak demand in Xiamen and lighter work scope per engine for HAESL

## Results - Beverages Division



## Highlights - Beverages Division

- Attributable profit fell by 28% to HK\$266m. Overall sales volume remained at 427 million unit cases
- Volume growth was lower than expected in Mainland China, due primarily to poor weather and increased competition
- Volume in Hong Kong fell by 3% as sales were adversely affected by cooler than normal weather
- Volume in Taiwan and the USA was consistent with the same period in 2009
- Margins declined due to competitive pricing pressure, a less favourable sales mix and increased sugar and sweetener costs, especially in Mainland China
- A profit of HK\$40m was recorded on the sale of long-term investments



## Highlights - Marine Services Division

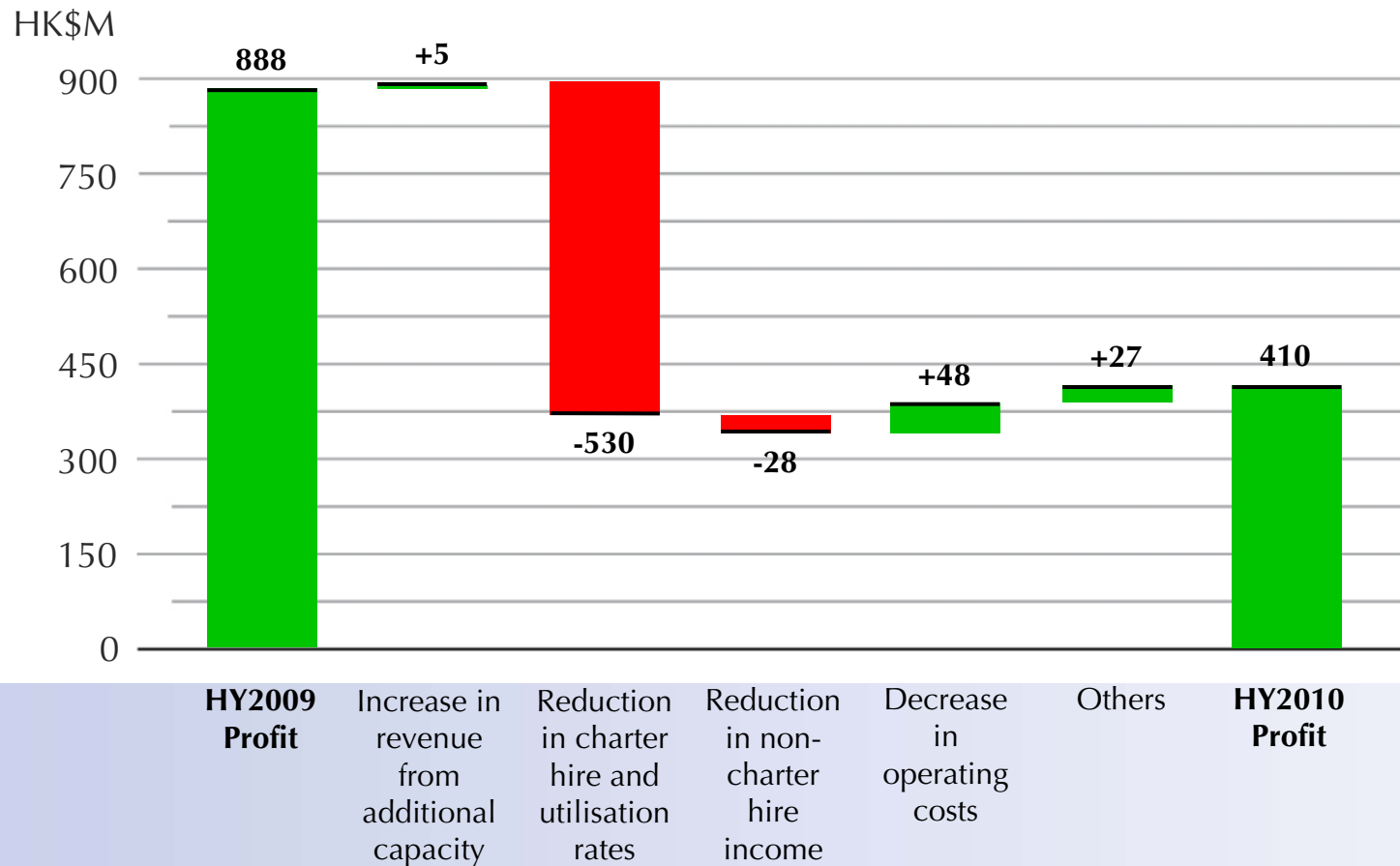
- SPO's attributable profit decreased by 54% to HK\$410m
- The offshore sector continued to be adversely affected by the deferral of project spending by oil companies and the large influx of newly built vessels which resulted in surplus capacity
- Overall fleet utilisation fell by 13%pt. Average charter hire rates decreased by 18%
- SPO took delivery of 1 vessel during the first-half. 18 new vessels are on order with 6 vessels expected to be delivered in the second-half
- Capital commitments at 30th June totalled HK\$4.8bn
- Results from HUD group were in line with the first half of 2009

## SPO - Fleet Growth

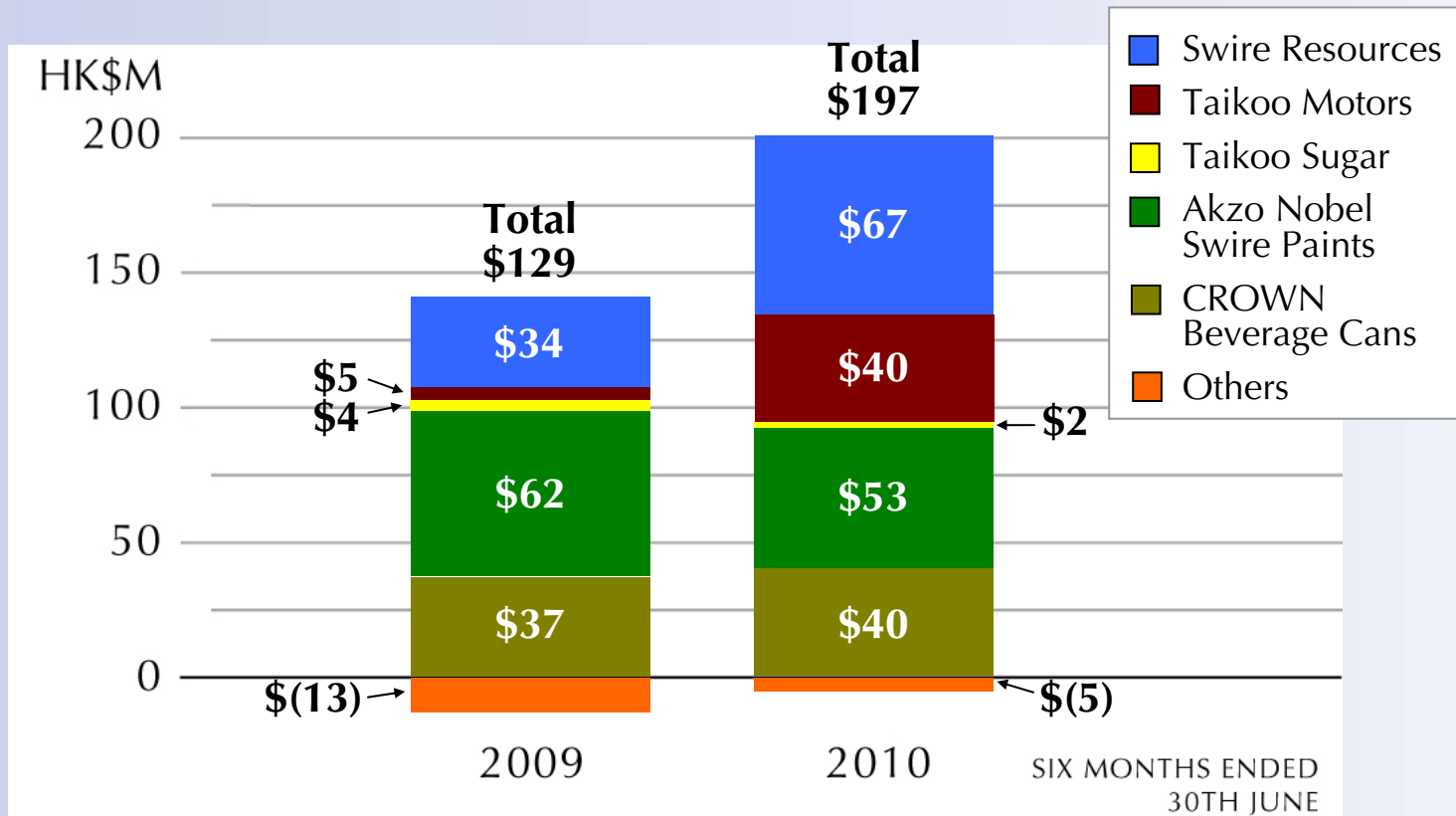
Vessel class	BHP	<b>Vessels in operation</b>	Vessels on order to be received in:		
		<b>30th Jun 2010</b>	2H10	2011	2012
Survey	2,500-6,500	<b>3</b>	-	1	-
AHTS	2,500-5,500	<b>27</b>	4	4	-
AHTS	6,000-12,250	<b>34</b>	2	-	-
AHTS	18,250	-	-	1	3
PSV	6,300	<b>5</b>	-	-	-
Ice-breaking	23,200	<b>2</b>	-	-	-
Accommodation barge		-	-	2	-
Wind farm turbine installation*		-	-	-	1
		<b>71</b>	<b>6</b>	<b>8</b>	<b>4</b>

\* Order placed in August 2010

## SPO - Movement in Attributable Profit



## Results - Trading & Industrial Division



## Highlights - Trading & Industrial Division

- Attributable profit rose by 53% to HK\$197m
- Swire Resources' profit nearly doubled, principally reflecting improved performance by the multibrand store chains in Hong Kong and continued strong growth by the Columbia brand
- Taikoo Motors sold 66% more vehicles than in the first half of 2009. Sales of VW cars and commercial vehicles recovered strongly from the difficult conditions of 2009
- Akzo Nobel Swire Paints recorded a 40% increase in volume growth in Mainland China, but profit fell due to higher advertising and selling costs
- Contribution from CROWN Beverage Cans rose by 8%, reflecting improved margins in Vietnam

## Financial Highlights - Liquidity

	31st Dec 2009	<b>30th Jun 2010</b>
	HK\$Bn	<b>HK\$Bn</b>
Bank balances and short-term deposits	2.4	<b>4.0</b>
Undrawn facilities		
- Committed	12.5	<b>22.1*</b>
- Uncommitted	4.4	<b>4.8**</b>
	16.9	<b>26.9</b>
	HY2009	<b>HY2010</b>
Interest cover (underlying)	7.7	<b>11.9</b>
Cash interest cover (underlying)	5.8	<b>9.9</b>
Cash interest cover (underlying, adjusted)	5.8	<b>4.3</b>

\* of which HK\$18.5bn is available at Head Office level; this includes HK\$6.8bn for the acquisition of shares in HAECO, of which HK\$4.2bn has now been cancelled

\*\* of which HK\$1.5bn is available at Head Office level

## Financing in First Half of 2010

Date	Amount	Transaction	Tenor
April	RMB650m	Term loan	Oct 2014
May	HK\$1,000m	RCL	2.5 years
May	HK\$500m	RCL	3 years
May	HK\$1,000m	RCL	3 years
May	HK\$500m	RCL	5 years
May	HK\$500m	RCL	5 years
May	HK\$700m	RCL	5 years
May	HK\$800m	RCL	5 years
Jun	HK\$500m	RCL	3 years
Jun	HK\$500m	RCL	3 years
Jun	HK\$9,437m	Term loan	1 year
<b>Total</b>	<b>HK\$16,182m</b>		

Property

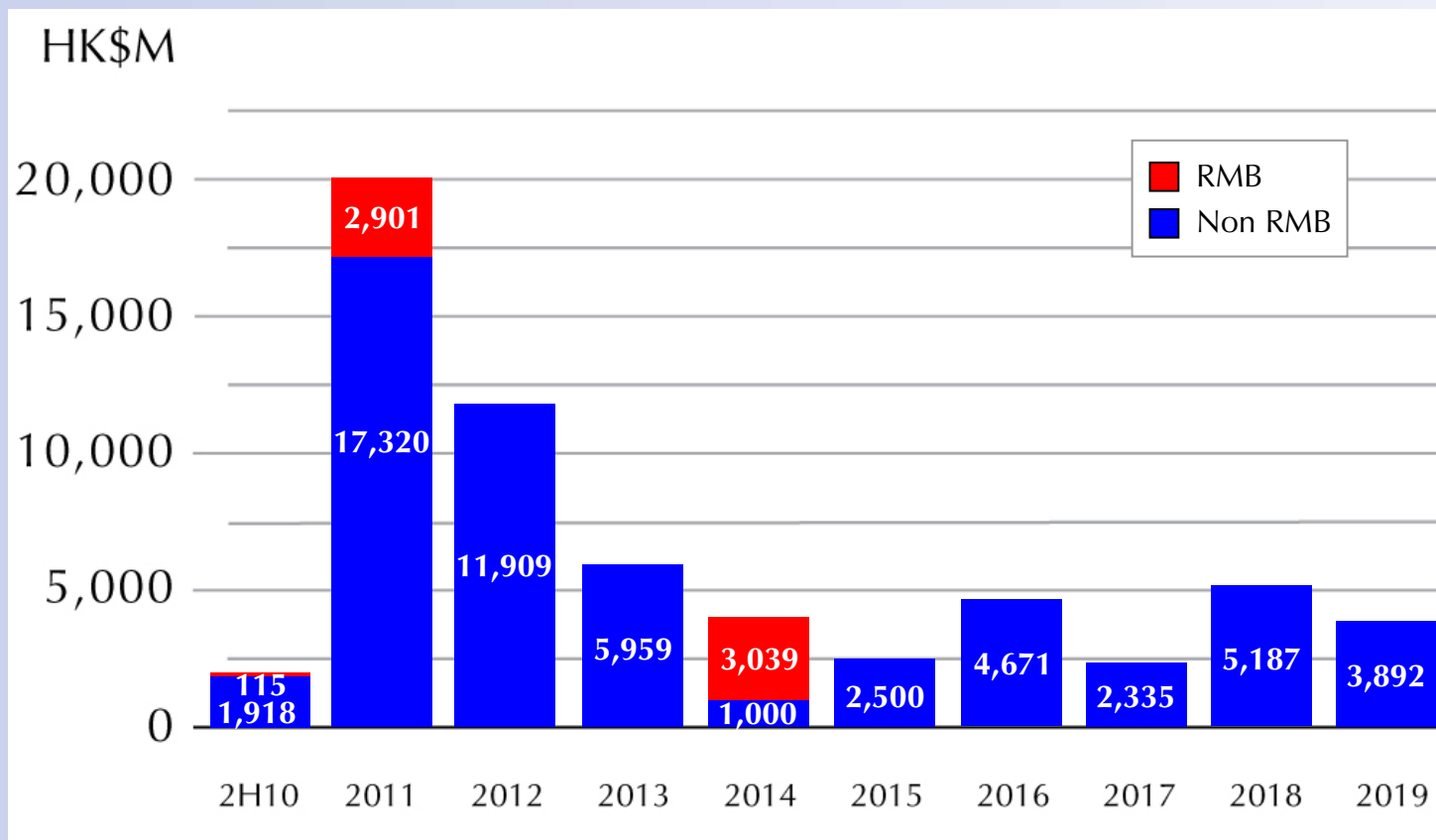
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## Refinancing Profile at 30th June 2010





## Net Debt Reconciliation

	HK\$Bn
Net debt at 1st January 2010	31.68
Cash from operations	(2.70)
Net dividend paid	3.05
Capex and investments less proceeds	3.08
Net interest paid	0.76
HAECO - loans less deposits acquired	1.20
Tax paid	0.28
Net debt at 30th June 2010	37.35

## Prospects

- The Property Division expects the Hong Kong office and retail markets to remain strong in the second-half
- In Mainland China, occupancy levels at Sanlitun Village are expected to increase. Pre-letting of TaiKoo Hui is going well and the retail portion is expected to be completed towards the end of 2010. Work is progressing at the INDIGO and Dazhongli developments, although the latter has been temporarily suspended due to the 2010 Expo in Shanghai
- The Cathay Pacific group expects its financial results to continue to be strong in the second-half
- Cathay Pacific has entered into a letter of intent with Airbus to acquire 30 aircraft and is in negotiation with Boeing to exercise existing purchase rights in respect of an additional 6 aircraft

## Prospects (continued)

- The HAECO group expects the second-half to continue to be challenging, with TAECO's business likely to remain weak and further start-up losses expected at the Mainland China JVs
- The Beverages Division expects strong promotional activity, new product launches and packaging innovations to improve volumes in the second-half. Sugar and sweetener costs in Mainland China are expected to remain high
- Charter hire and utilisation rates for SPO are expected to remain under pressure in the second-half as the offshore market continues to digest its surplus capacity
- The Trading & Industrial Division expects positive conditions for the Swire Resources and Taikoo Motors groups. A steady performance is expected from the industrial interests

## Dividends

	Six months ended 30th Jun		Year ended 31st Dec
	2009 HK\$	<b>2010</b> <b>HK\$</b>	2009 HK\$
'A' shares	0.60	<b>1.00</b>	2.80
'B' shares	0.12	<b>0.20</b>	0.56

### Policy

To pay out half of the sustainable earnings over the economic cycle

### Implications

1. Unrealised property revaluation gains are not eligible for distribution
2. Payout may be more or less than half of earnings by reference to the sustainability of any one year's earnings, the current level of net debt and opportunities to deploy significant new capital

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# Appendix

## Net Investment Properties Adjustments

	HY2009	<b>HY2010</b>
	HK\$M	<b>HK\$M</b>
Revaluation movement shown in income statement	(1,178)	<b>5,205</b>
Included in share of profits of JCEs and associates	1,130	<b>1,261</b>
Total revaluation movement	(48)	<b>6,466</b>
Deferred tax on revaluation movements*	(455)	<b>(1,269)</b>
Realised profit on sale of investment properties	-	<b>(130)</b>
Depreciation of investment properties occupied by the Group	(2)	<b>(10)</b>
Non-controlling interests' share of revaluation less deferred tax	66	<b>(19)</b>
Impairment of hotels held as part of mixed-use developments	(128)	-
Total effect on attributable profit	(567)	<b>5,038</b>

\* Includes share of deferred tax of jointly controlled and associated companies

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