

Chairman's Statement

The profit for 2000, at HK\$3,889 million, was 12.3% lower than in 1999. This reflects a further HK\$1,700 million provision against the residential property trading portfolio, a provision of HK\$250 million in respect of the property trading element of the Taikoo Shing arbitration and other non-recurring items of HK\$132 million. Profit excluding non-recurring items in both years rose from HK\$4,324 million in 1999 to HK\$5,971 million in 2000 – an increase of 38.1%. This underlying result demonstrates the strong pick up in demand for commercial property in Hong Kong, and for aviation services in the region. Our other businesses reported generally improved operating results. Net debt has decreased marginally to HK\$16,815 million, whilst gearing has fallen from 23% to 21% following an upward revaluation of our investment properties.

DIVIDENDS

Interim dividends of HK\$36.0 per 'A' share and HK\$7.2 per 'B' share were declared on 10th August 2000. Directors have recommended final dividends for 2000 of HK\$76.0 per 'A' share and HK\$15.2 per 'B' share. The total distribution per share paid and proposed for 2000 is 1.8% higher than that for 1999. Subject to approval by shareholders, dividend payments will be made on 1st June 2001.

MARKETS AND OPERATIONS

2000 was a year in which Swire Pacific saw significant improvements in most of its core activities, though difficult trading conditions persisted in some. The continuing challenge, as for any conglomerate, is to capitalise on our strength, in terms of industry-specific expertise and of our knowledge and experience of the Greater China region. We continue to evaluate the group's contribution to the businesses in which we are engaged, increasing our investment in those where we believe we add significant value and rationalising investment in those businesses where we believe we are unable to see a return commensurate with our costs of capital and management time. This process has led to the disposal of several business interests in the Trading & Industrial Division and to expansion in several other businesses, most notably commercial property investment, aviation and offshore marine services.

In January 2001, Government's claim for land premium in respect of various buildings in Taikoo Shing was upheld in an arbitration award. Although an appeal has been submitted, certain provisions have been made in the 2000 financial statements. These are explained further in the review of operations.

The Hong Kong property market has seen a significant upturn in achieved rentals for office and retail space, and this is reflected in the encouraging results from our investment property portfolio, both in terms of profit and balance sheet valuations. The residential sales market has been weak, and therefore we have made a further provision of HK\$1,700 million against the Ocean Shores development in Tseung Kwan O. However, a welcome recent clarification by Government of its long-term intentions as regards new residential supply, together with a lower interest rate environment, should help improve the tone of the market. While the provision we have made has had a negative impact on profit in 2000, future cash flow will remain strong as the development is sold. We continue to look for additional property investment and trading opportunities that will enable us to earn an adequate return.

The upturn in regional economies has led to an increase in demand for aviation services. In 2000, Cathay Pacific set new records for profits, for the number of passengers carried and for cargo tonnage. Both passenger and cargo yields improved slightly, but still remain well below the levels seen in the mid 1990s. The result reflects the airline's success in carefully controlling costs, even though fuel prices increased sharply. Cathay Pacific and Dragonair have announced plans to expand their fleets with the addition of 11 and 4 aircraft respectively. These aircraft will enable both airlines to open new routes and add more frequencies to both regional and long-haul destinations, thus reinforcing Hong Kong's position as Asia's leading aviation hub.

The Beverages Division achieved good overall volume growth at 9%. The strongest volume growth, 12%, was seen in Mainland China. We have continued to improve and deepen our distribution network in order to achieve better control over pricing and market penetration. The established businesses in Hong Kong and the USA continue to deliver stable and satisfactory returns, whilst Taiwan had a difficult year. The operations in Mainland China already generate strong cash flow and we are confident of further volume growth and of our ability to generate profits through better control over both prices and costs.

In the Marine Services Division, Swire Pacific Offshore has benefited from the increase in oil prices, with an improvement in both charter rates and vessel utilisation. Orders have been placed for six new vessels to be delivered in 2002 and 2003, and the company has taken a 50% stake in a joint venture to supply and operate an early production facility offshore Iran on behalf of Shell Exploration BV. Our container handling interests in both Hong Kong and Shekou achieved good profit growth on the back of higher volumes and operating efficiencies.

The Trading & Industrial Division had a mixed year, with good profits earned from the car businesses in Taiwan and, for the first time, in Mainland China, and from the sports apparel and waste management businesses. Other businesses continued to suffer from difficult market conditions, although the beneficial effects of restructuring are now being seen.

FINANCE

The group's financial position remains strong, with committed loan facilities and other financing amounting to HK\$18,356 million, of which 13% remained undrawn at 31st December 2000. In addition, there were uncommitted facilities undrawn at the year end of HK\$3,512 million.

During 2000, our credit ratings from Moody's and Standard & Poor's were upgraded from A3/A- negative outlook to stable, reflecting the strength of our recurrent cash flows. Both agencies reaffirmed these ratings after the announcement of the initial award in the Taikoo Shing arbitration.

At 31st December 2000, consolidated net borrowings amounted to HK\$16,815 million, which, when related to shareholders' funds and minority interests of HK\$81,267 million, resulted in a gearing ratio of 0.21. The decrease in the gearing ratio from that of 31st December 1999 reflects an increase in shareholders' funds, principally attributable to retained profit for the year and an increase in the property valuation reserve.

E-BUSINESS

The group views e-business initiatives as an integral part of existing operations. Our strategy is to use e-business internally to reduce purchasing and administration costs and externally to

provide enhanced service capabilities to our customers. Cathay Pacific's award-winning flagship website, www.cathaypacific.com, now offers a wide variety of services, including on-line booking and internet check-in.

In March 2000, Swire Pacific, together with five other Hong Kong conglomerates, invested in a new business-to-business (B2B) exchange venture, Asia2B. This company has recently merged with a similar venture, based in Singapore, to form SESAMi Inc.

CORPORATE GOVERNANCE

Swire Pacific is committed to excellence in its corporate governance. In addition to encouraging fair and ethical dealing with stakeholders and business partners, we have an active programme of briefings for analysts and investors to ensure that, as far as is possible, the market is kept apprised of the plans and prospects for the group.

Swire Pacific has an Audit Committee which meets three times a year to review financial statements and to receive reports on financial matters and risk management from the internal and external auditors of the group. The Internal Audit department has a structured programme of risk-based audits for all of the group's businesses. It reports directly to the Group Finance Director, with other reporting lines to the Chairman and the Audit Committee.

The group also has a Risk Management Committee which includes representatives from each of the divisions. This committee meets quarterly to review the group's risk management initiatives and to promote an awareness throughout the group of good corporate governance principles and practices.

COMMUNITY RELATIONS

The Swire group has been part of the Hong Kong community for over 130 years and is firmly committed to its future. The Swire Pacific group has a continuing programme of charitable activities to benefit less-advantaged members of society. Organisations that we have supported include the Community Chest, the Hong Kong Association for the Mentally Handicapped, Befrienders International, the Society for the Promotion of Hospice Care and the Sunnyside Club. The group is also the major sponsor of the Life Education Activity Programme (LEAP), which teaches young children about healthy living and the dangers of substance abuse. Swire Pacific funds a number of university scholarships in Hong Kong and overseas for students from a number of Asian countries, and locally funds scholarships at the Taikoo Primary School, which was founded by the group in 1923. Also in Hong Kong, Swire Pacific supports the Community English Language Laboratory (CELL), a free facility for those wishing to improve their spoken English, and we have invested in the future of the environment by funding research facilities at the Swire Institute of Marine Science.

ENVIRONMENT

As a major business group, Swire Pacific is very conscious of the potential impact of its activities on the environment. The group takes active measures across all its businesses to measure and minimise any negative effects and to ensure that we meet or exceed standards for environmental best practice wherever possible. Swire Properties was the driving force behind the inception of the Hong Kong Building Environmental Assessment Method, which sets standards for efficiency and the impact on the environment of new buildings. Cathay Pacific has won a number of awards for environmental initiatives. All group companies are encouraged

to implement annual environmental audits and to undertake environmental impact assessments before committing to projects. The Swire group is a member of the Hong Kong Business Coalition for the Environment and was elected to the United Nations Global 500 Roll of Honour in recognition of its contributions in this field.

STAFF

The group employs more than 60,000 people, whose efforts are a major contributor to the continuing success of Swire Pacific. On behalf of the shareholders, I would like to thank all our staff for their achievements during the past year.

PROSPECTS

Prospects for the Hong Kong economy remain good, with the most recent forecasts projecting GDP growth in a range of 3 to 4% in 2001. Mainland China also predicts strong GDP growth at 7.5%. Our businesses are in good shape and are well-positioned to take advantage of the opportunities presented by such growth. Local economies should also benefit from falling global interest rates. However, a cautionary note should be sounded in that any further slowdown in the US economy will, inevitably, have an effect on Asian economies, including Hong Kong.

In the commercial property market in Hong Kong, limited new supply over the next two years should mean that rental levels remain firm. Notwithstanding continued weakness in the residential property sales market, Swire Properties' portfolio is expected to generate satisfactory returns.

After a record year in 2000, Cathay Pacific faces a number of challenges in 2001. The significant expansion of the fleet, and the expected slower growth in demand, may exert pressure on margins. However, Cathay Pacific's reputation for excellent service, the strength of the route network and tight control over costs will stand the airline in good stead.

An improved contribution is expected from other interests.

Long-term prospects for all our core businesses remain good, and we shall continue to focus new investment in those areas.

James Hughes-Hallett

Chairman

Hong Kong, 9th March 2001