

Review of Operations



**11,900,000
sq.ft.**

Swire Properties owns and manages an investment portfolio of prime office, retail and residential properties in Hong Kong.



	2000 HK\$M	1999 HK\$M
Gross rental income derived from:		
Offices	2,251	2,448
Retail	1,989	1,828
Residential	372	394
Other income	80	106
Property investment	4,692	4,776
Property trading	1,114	1,749
Sale of investment properties	–	515
Total turnover	5,806	7,040
Operating profit derived from:		
Investments	3,354	3,384
Trading	145	209
Sale of investment properties	–	54
Provision for land premium	(151)	–
	3,348	3,647
Share of profits before taxation of jointly controlled and associated companies		
Normal operations	88	85
Non-recurring item	(1,700)	–
Attributable profit	947	3,002

THE HONG KONG PROPERTY MARKET

Investment Property

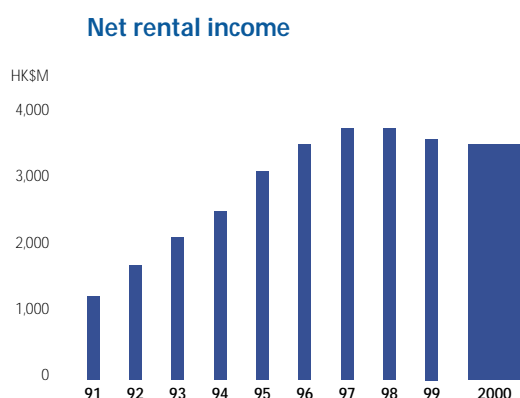
2000 saw a sustained recovery in rental levels following two years of declining rents triggered by the Asian recession in the latter part of 1997. The recovery is especially evident in the office sector. Retail market rents are also firming and reflect the recovery in consumer demand in Hong Kong which started in early 1999. New office supply is not of immediate concern although several new developments, particularly in Central District, will come onto the market in 2002/2003.

Property Trading

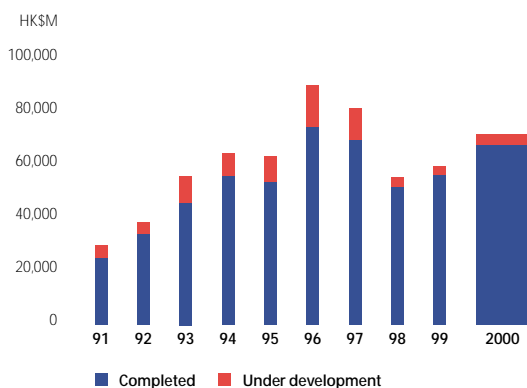
Transaction volumes in the residential market in Hong Kong recovered in the early part of 2000 and prices stabilised, albeit at much lower levels than those seen at the peak in 1997. However, buying sentiment subsequently weakened, due to higher interest rates and the prospect of substantial supply, mainly in the public sector. 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 to improve the tone of the market.

Taikoo Shing Arbitration

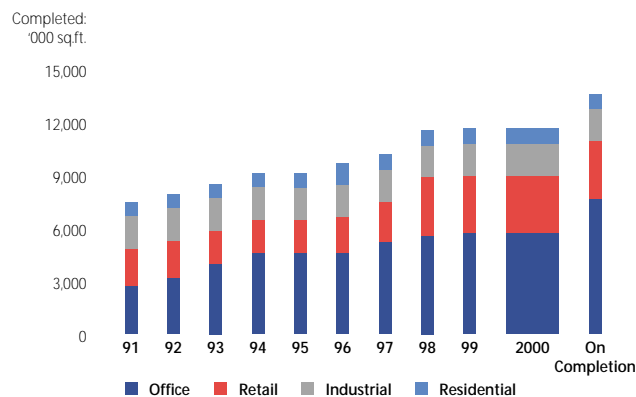
The Hong Kong SAR Government Lands Department's claim for payment of land premium and interest in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers, as well as the Horizon Gardens residential scheme at Taikoo Shing, was upheld in an arbitration award handed down in January 2001. The arbitrator has determined that the premium for Horizon Gardens is HK\$151 million, plus interest yet to be agreed. Swire Properties has submitted an application to the Hong Kong High Court for leave to appeal on a point of law concerning the claim by Government in relation to the office towers. In the event that this application, and any subsequent appeals, were to fail, the amount payable in respect of the office towers would still have to be agreed and, failing agreement, would be assessed by independent experts. The estimated amount of Government's total claim is approximately HK\$4,500 million which, as a matter of prudence, has been accrued in the Swire Pacific group accounts as at 31st December 2000. Of this amount, HK\$250 million has been charged directly to the consolidated profit and loss account in relation to the Horizon Gardens liability and the balance of HK\$4,250 million has been charged to the property valuation reserve.



Valuation of investment properties



Floor area of investment properties



2000 OVERVIEW

Investment Properties

Swire Properties' investment portfolio in Hong Kong largely comprises office and retail premises in prime locations in Hong Kong, as well as quality residential accommodation. The completed portfolio totals 11.9 million square feet of gross floor area and a further 2.0 million square feet, principally of office space, is pending or under development. In addition, Swire Properties owns a 20% interest in each of the three hotels in Pacific Place, and an interest in the CITIC Square development in Shanghai. The Swire Pacific group also owns an interest in a hotel in Miami, Florida.

Net rental income from the investment portfolio amounted to HK\$3,562 million in 2000, compared with HK\$3,635 million in 1999. Substantial progress was achieved in 2000 with fresh or renewed lettings which covered some 1.9 million square feet of lettable floor space, mainly in Island East. As a result of this, high occupancy levels were maintained during the course of 2000 and are expected to remain firm. Although gross rental income declined slightly, the contraction in the recurring income base had been halted by mid-2000. The coming year should continue to see a steady recovery as leases are progressively reviewed or renewed at higher levels.

Offices

Swire Properties' office portfolio is concentrated mainly in Island East, at TaiKoo Place and Cityplaza, and at Pacific Place in the Central District. The Island East completed portfolio comprises 5.7 million square feet of space with linkages to the Quarry Bay and Taikoo MTR stations. This space includes the Warwick, Somerset and Cornwall House "techno-centres", which were formerly more suited to industrial users, but which now have a tenancy profile focused on telecommunication and technology support services.

Lincoln and Oxford Houses at TaiKoo Place, which were completed in 1998 and 1999 respectively, had nearly 240,000 square feet of space remaining to let at the beginning of 2000. This was substantially committed in the early part of the year at satisfactory rentals. Overall, Island East achieved fresh or renewed lettings during the course of 2000 covering some 1.5 million square feet of lettable floor space in a steadily recovering market. The 625 King's Road office tower, which is 50% owned by Swire Properties, was only 40% let at the beginning of 2000 but was fully let by May 2000. Occupancy levels in One and Two Pacific Place remained

high throughout the year and average achieved rents, as with the Island East portfolio, continued to show steady recovery. Lease maturity profiles are well established and the incidence of lease renewals in any one year is contained within manageable limits.

Retail

The contributions from Swire Properties' two main established retail centres on Hong Kong Island, at Pacific Place and Cityplaza, steadily improved during the course of 2000 and this trend is expected to continue into 2001. The performance of Festival Walk in Kowloon, which opened in November 1998, has exceeded expectations and the coming year should see further improvements in contribution, mainly through mid-term rent reviews of existing leases. The Island Place shopping centre also performed satisfactorily. Taken overall, retail sales growth at Swire Properties' shopping centres has continued to outpace the general recovery in the Hong Kong retail sector since the downturn in 1997/98.

Cityplaza has been much enhanced by renovation works, the second phase of which was completed in 2000. The centre continues to maintain its position as the primary shopping destination in Island East. Uny, Wing On and Marks & Spencer remain the major anchor tenants at Cityplaza; other tenants comprise over 170 retail and catering outlets and the Cityplaza Ice Palace.

The trade mix of The Mall at Pacific Place remained largely unchanged during 2000 but the Seibu department store underwent significant reconfiguration and the basement food-hall re-opened in December 2000 under a new tenancy. Seibu, Lane Crawford, Marks & Spencer and UA Cinemas remain the anchor tenants together with 160 other retail and catering outlets.

Festival Walk, owned 50:50 by Swire Properties and CITIC Pacific, is firmly established as a major shopping destination in Kowloon and now has a bridge to the KCR station as well as an underground pedestrian link to the MTR/KCR interchange at Kowloon Tong. The trade mix comprises anchor tenants such as ParkNShop, Marks & Spencer, Page One Books and the 11 screen AMC Cinema, plus over 200 retail and catering outlets and The Glacier ice rink.

The Citygate commercial centre of Tung Chung new town has been developed under an agreement between the MTRC and a consortium of five developers, in which Swire Properties has a 20% equal interest. It comprises a 463,000 square foot retail centre and a 161,000 square foot office tower, both completed in 1999, as well as provision for a 350-room hotel. Although only 17% of the office space has been secured so far, the retail space is now 48% let.

Residential

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. Although occupancy levels have generally held up well, the larger units at Parkside experienced higher vacancies towards the end of the year. Swire Properties' other luxury residential properties on Hong Kong Island were fully let. Overall rental income from the portfolio was slightly lower in 2000 but the performance is considered generally satisfactory, given relatively difficult market conditions.

Investment Properties under Development

In May 2000, a site at TaiKoo Place, adjacent to Devon House, with a frontage onto King's Road, was acquired for HK\$435 million. An office tower, to be known as Cambridge House, is

now under construction. On completion in 2003, this will provide approximately 255,000 square feet of additional office space linked to Devon House.

The Cityplaza Two tower planned for the now vacant Mount Parker House site next to the Cityplaza shopping centre will comprise 610,000 square feet of office space. The Cityplaza One planned extension will add a further 445,000 square feet of office space in 16 storeys to the superstructure of the existing tower. These projects are currently on hold whilst the potential impact of the Taikoo Shing arbitration award is assessed, as both schemes may now be subject to agreement of land premium with Government.

Preparations continue for the construction of Pacific Forum which is located at One Queen's Road East close to Pacific Place. This is planned to comprise an office tower with a gross floor area of 632,000 square feet, plus 130 carpark spaces.

Swire Properties has now acquired a 91% interest in the Aik San Factory Building on Westlands Road, Quarry Bay. An application will shortly be made to Government for a compulsory sale by auction of the whole building as a means of acquiring the 9% interest not already held. The building has a redevelopment potential of 464,000 square feet of office space. No land premium is payable to Government on any office redevelopment on this site.

The 14,500 square foot luxury residential scheme at 3 Coombe Road, The Peak is expected to be completed in 2002.

2000 Valuation of Investment Properties

The portfolio of completed investment properties in Hong Kong, as well as properties under or pending development which are intended for investment, were revalued as at 31st December 2000 by DTZ Debenham Tie Leung Limited. As a result of this valuation, Swire Pacific's property valuation reserve increased by HK\$9,230 million. The increase in 2000, following an increase of HK\$2,716 million as at the end of 1999, is largely attributable to the strengthening recovery in commercial rental levels. However, as previously noted, a charge of HK\$4,250 million has been made against the property valuation reserve to reflect an estimate of Government's claim for premium and interest on the Cityplaza Four, Cityplaza Three and Cityplaza One office towers. Swire Pacific's property valuation reserve at 31st December 2000 showed a surplus of HK\$35,735 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 82 to 89.

Property Trading Portfolio

The portfolio of developments for sale mainly comprises residential apartments in Hong Kong. Nearly 8,000 units are under development by subsidiary or jointly controlled companies. Operating profit from property trading in 2000 amounted to HK\$145 million, as compared with HK\$209 million in 1999. The year 2000 contribution is stated prior to the deduction of a provision in respect of Government's claim in relation to Horizon Gardens and a further non-recurring provision against the Ocean Shores residential project in Tseung Kwan O. The development of Ocean Shores is being undertaken in joint venture with Sun Hung Kai Properties and comprises 5,728 residential units in 15 towers with over four million square feet of residential floor area, plus 1,176 carpark spaces and 32,000 square feet of neighbourhood shopping. The whole scheme is expected to be completed in early 2003. 1,656 units in Phase 1 have been sold so far and are shortly to be handed over to purchasers. Marketing of Phase 2 will start shortly.

Swire Properties sold a further 136 units in its StarCrest residential scheme close to Pacific Place at satisfactory prices during the course of 2000, and only 30 units remain to be sold. The 10,700 square feet of ground floor retail space and the 83 carpark spaces are being retained for investment.

The Les Saisons residential scheme in Aldrich Bay was launched successfully in September 2000. To date, 540 units have been pre-sold at satisfactory prices. The scheme is expected to be completed in mid-2001. Les Saisons is owned by Swire Properties, Sun Hung Kai Properties and China Motor Bus in the proportion 50:30:20 and comprises 742,000 square feet of accommodation in 864 units plus 216 carpark spaces.

A modification premium of HK\$799 million was paid by Swire Properties to Government in August 2000 relating to the Taikoo Valley Site V residential site on King's Road. The scheme comprises two residential towers with 395,000 square feet of space in 432 units, 144 carpark spaces, a new school and a community centre and is expected to be completed by mid-2003.

At Tung Chung Crescent, the 2,158 unit residential scheme developed in conjunction with the Citygate commercial centre under the agreement with MTRC, a further 403 units were sold during 2000 and 530 units remain to be sold. The second residential phase at Tung Chung, comprising over 1.0 million square feet of accommodation in 1,344 units, is presently under construction.

The former bus depot site on Wong Chuk Hang Road, Aberdeen, owned 50:50 by Swire Properties and China Motor Bus, remains let to a carpark operator and will not be redeveloped until market conditions improve. It has an industrial development potential of 382,000 square feet.

Hotels

In line with a general recovery in the Hong Kong hotel industry, the performance of the JW Marriott, Conrad International and Island Shangri-La hotels at Pacific Place improved appreciably during the course of 2000, mainly as a result of a recovery in occupancy levels. Room rates have exceeded budget expectations but have not yet recovered to the levels seen in the mid 1990s.

Shanghai

Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, which offers 1.1 million square feet of retail and office space. This development was completed in April 2000 and premises were progressively handed over to tenants during the latter part of 2000. Despite considerable oversupply in Shanghai, the building is now over 90% let.

U.S.A.

The 236-unit Three Tequesta Point condominium tower on Brickell Key, Miami is expected to be completed in the latter part of 2001. So far, 207 units have been sold. In view of the continuing strength of the residential market in Miami, it has been decided to proceed with the construction of a further condominium tower on Brickell Key, to be known as Courts Brickell Key, which will comprise 317 units for completion in 2002. The 329 room Mandarin Miami hotel, which is 75% owned by the group and is managed by Mandarin Oriental, opened in November 2000 and represents a significant enhancement to the Brickell Key development.



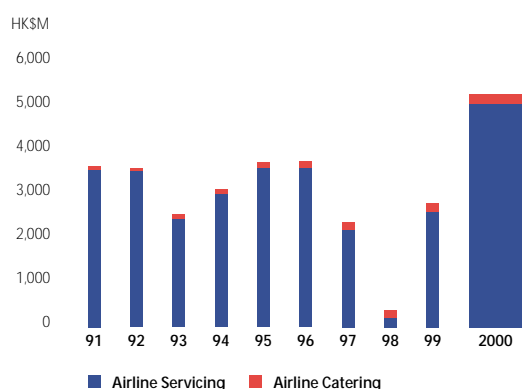
11,864,000 passengers
Cathay Pacific carried a record number of passengers in 2000.



	2000 HK\$M	1999 HK\$M
Cathay Pacific Airways group		
Share of attributable profit	2,172	955
Hong Kong Aircraft Engineering group		
Share of attributable profit	156	23
Hong Kong Dragon Airlines		
Share of attributable profit	85	53
Hong Kong Air Cargo Terminals		
Share of attributable profit/(loss)	76	(10)
Attributable profit	2,510	1,038

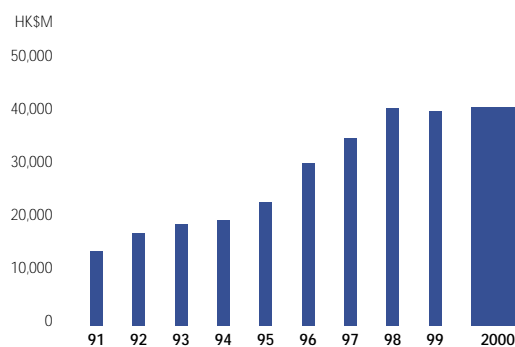
Cathay Pacific Airways					
Key Operating Highlights			2000	1999	Growth
Available tonne kilometres ("ATK")	<i>Million</i>	11,630	10,867	+7.0%	
Available seat kilometres ("ASK")	<i>Million</i>	61,909	58,114	+6.5%	
Revenue passenger kilometres ("RPK")	<i>Million</i>	47,153	41,502	+13.6%	
Passengers carried	<i>'000</i>	11,864	10,516	+12.8%	
Passenger load factor	<i>%</i>	76.2	71.4	+4.8%pts	
Passenger yield	<i>HK cents</i>	48.2	45.4	+6.2%	
Cargo carried	<i>'000 tonnes</i>	769	672	+14.4%	
Cargo and mail load factor	<i>%</i>	72.5	71.5	+1.0%pt	
Cargo and mail yield	<i>HK\$</i>	2.07	1.85	+11.9%	
Cost per ATK	<i>HK\$</i>	2.32	2.24	+3.6%	
Cost per ATK without fuel	<i>HK\$</i>	1.86	1.94	- 4.1%	
Aircraft utilisation	<i>Hours per day</i>	12.9	12.4	+4.0%	
On-time performance	<i>%</i>	84.0	83.5	+0.5%pt	
Breakeven load factor	<i>%</i>	63.9	67.2	-3.3%pts	

Operating profit* – Cathay Pacific Airways



* Operating profit is stated before non-recurring items.

Net assets employed** – Cathay Pacific Airways



** Net assets employed comprise shareholders' funds, minority interests and net external borrowings of the Cathay Pacific Airways Group.

2000 OVERVIEW

The Aviation Division continued to benefit from the improvement in Asian economies, with consequent increases in passenger and cargo traffic. The price of fuel has been, and continues to be, a concern, as the additional costs are not directly recoverable through fares. Nevertheless, excluding fuel, Cathay Pacific's costs per ATK fell by HK\$8.0 to HK\$1.86, as the increase in capacity did not bring with it a commensurate increase in costs. Strengthening front-end loads enabled yields to rise slightly, although they are still not back to the levels experienced in the mid-1990s. Cargo operations continued to strengthen, and now represent approximately 29.4% of Cathay Pacific's business. The increase in traffic also had a positive impact on Dragonair and the ancillary businesses, with Cathay Pacific Catering Services, Hong Kong Aircraft Engineering, Hong Kong Air Cargo Terminals and Hong Kong Airport Services reporting improved profits over 1999. The anticipated downturn in the US economy may reduce growth in 2001, though the breadth of Cathay Pacific's network and passenger feed through the oneworld alliance should help to mitigate the effects of any global slowdown. The key challenges for 2001 will be to grow the airline businesses profitably through additional frequencies to existing destinations and the opening of new passenger and cargo routes, while maintaining margins through careful management of costs.

Cathay Pacific Airways

The consolidated profit of Cathay Pacific was HK\$5,005 million in 2000, compared with a profit of HK\$2,180 million in 1999.

Turnover increased by 20.3% to HK\$34,523 million as a result of an improvement in yields and a broad-based improvement in load factors. While high load factors have been good for profitability in the short-term, they are difficult to sustain indefinitely and Cathay Pacific is expanding its fleet and recruiting additional staff to cater for increased demand.

Passenger services

The number of passengers carried, at 11.9 million, set a new record for the company. Substantial growth was seen in the airline's key markets of North Asia, North America and Hong Kong; other routes saw satisfactory results despite weak European currencies and intense competition in other markets. The increase in business travel and product upgrades improved the load factors in First and Business Class.

Revenue generated from the oneworld alliance and codeshare arrangements continued to increase. The addition of extra frequencies also helped to increase market share on a number of routes.

Karachi was added as a destination in September, and Wellington joined the network in July through a codeshare arrangement with Qantas New Zealand.

A recent agreement with the Indian government has led to the addition of Delhi to the passenger network, with direct flights commencing in March.

In the course of 2001, Cathay Pacific will extend its popular First Class cabin to the long-haul Airbus aircraft. In addition, the airline will be one of the world's first to offer in-flight e-mail and internet services across the fleet, with installation starting in the middle of 2001.

Cathay Pacific received a number of awards during the year, including "Best-managed airline in Asia", and "Asia's Superbrand".

Cargo Services

Strong global demand for air cargo continued, leading to an excellent performance from Cathay Pacific Cargo. Cargo turnover increased by 21.8% over the previous year. The airline recorded growth of 1% point in cargo load factor and 11.9% in yields. Yields improved as the company introduced fuel surcharges to help compensate for the impact of rising fuel prices.

In March, Cathay Pacific introduced overnight services for DHL Worldwide Express between Hong Kong and four Asian destinations. RPX, a new courier service for small parcels, was also launched in November.

Three new freighter destinations were added, bringing San Francisco, Penang and Delhi into the growing list of cities served by Cathay Pacific Cargo.

The Cathay Pacific Cargo website, upgraded in October, now provides facilities for booking cargo space on-line, and enables customers to trace the status of their shipments in real-time.

New aircraft

Cathay Pacific took delivery of a Boeing 747-400 freighter and a B777-200 during the year. In 2001, two B747-400 freighters and eight Airbus Industrie A330-300s will join the fleet. The airline has also agreed to lease four A340-300s, to be delivered in 2001, and three A340-600s for delivery in 2002 and 2003.

At the year end, Cathay Pacific operated a fleet of 64 aircraft, comprising 19 B747-400s, 12 B777s, 12 A330s, 14 A340s and seven B747 freighters.

E-Business and Technology

During the year, Cathay Pacific unveiled a series of e-business projects covering passenger and cargo services, procurement and internal business processes. Major projects include the flagship website, www.cathaypacific.com, which was upgraded in October, a new travel exchange portal site and an e-marketplace: Aeroexchange.

The airline's initiatives in e-business will significantly enhance passenger choice and convenience, from booking tickets, through internet check-in, to e-mail and internet access in the Cathay Pacific lounge at Hong Kong International Airport and on board the aircraft. Additional benefits for the company will be increased efficiency and cost-effectiveness and enhanced staff training and productivity.

AHK Air Hong Kong

AHK Air Hong Kong operates a fleet of three B747-200 freighters leased from Cathay Pacific. Capacity increased by 3.9% over 1999, yield improved by 1.8% and load factor by 6.3% points. The strength of the cargo market enabled the company to achieve good profits in 2000, in spite of the impact of higher fuel prices.

Airline Catering

Cathay Pacific Catering Services operates seven flight kitchens in Asia and North America, serving 63 airlines. Improved passenger traffic led to an increase in the number of meals produced to 32.3 million, and an increase in profit.

Hong Kong Airport Services (HAS)

HAS is owned 70% by Cathay Pacific and 30% by Dragonair. It is the leading franchised ramp handling company at Hong Kong International Airport and maintained over 50% market share in an extremely competitive environment. The economic upturn generated considerable traffic growth in 2000, which has resulted in a good year for the company.

Hong Kong Aircraft Engineering Company (HAECO)

In 2000, HAECO's profit attributable to shareholders was HK\$400 million, of which HK\$156 million is attributable to Swire Pacific.

This profit represents a significant increase from 1999 (HK\$59 million). Attributable profit before non-recurring items (restructuring costs in 1999 and profit on the sale of shares in jointly controlled companies and surplus property in 2000), increased by 84.1%.

The company's operating profitability improved during 2000, reflecting the productivity gains realised following the restructuring exercises in 1998 and 1999. However, although the number of aircraft handled under line maintenance contracts increased during the year in line with the increased number of flights into Hong Kong, rates remained under competitive pressure.

The contribution from jointly controlled companies increased significantly during the year, with both Taikoo (Xiamen) Aircraft Engineering Company and Hong Kong Aero Engine Services having very successful years.

Hong Kong Dragon Airlines (Dragonair)

The profit for 2000 attributable to Swire Pacific was HK\$85 million, an increase of 60.4% on 1999.

Dragonair had a good year in 2000 with increases in both passenger numbers and yields, although, as with the rest of the airline industry, higher fuel prices had a negative effect on profit. With the proposed accession of the People's Republic of China to the World Trade Organisation and the finalisation of the new Air Services Agreement between the General

Administration of Civil Aviation of China and the Government of the Hong Kong SAR, demand for air travel between Hong Kong and Mainland China is expected to increase, and the company is optimistic about the future.

In 2000, 2.7 million passengers were carried, with a passenger load factor of 66.2%, representing a growth of 3.7% points. New passenger routes to Sanya and Kathmandu were added, and frequencies to major destinations in Mainland China were increased during the year.

2000 saw the introduction of Dragonair's first all-cargo flights from Hong Kong to Shanghai and various destinations in Europe. The cargo load factor, including both freighter and passenger aircraft, increased by 19.6% points to 76.2%.

During 2000, Dragonair added one A321 and one A320, and now operates a fleet of 14 aircraft. Two more A330 passenger aircraft and two B747-300 freighters will join the fleet in 2001.

Hong Kong Air Cargo Terminals (HACTL)

HACTL enjoyed a good year with strong cargo throughput growth of just over 10%. HACTL will continue with the drive to improve performance and to provide an efficient and cost effective service.