

# Chairman's Statement

The profit for the year 2001, at HK\$4,118 million, was marginally higher than in 2000. This result reflects the underlying resilience of property investment earnings and a modest contribution from the sale of residential properties which, together with a good performance from Marine Services and Beverages, has more than offset a sharp fall in contribution from Aviation interests. The severity of the global economic downturn had a negative impact on Cathay Pacific from the second quarter of 2001 onwards and, more recently, has affected property rental levels. Net debt stands at HK\$16,756 million; gearing remains low at 22% in spite of a HK\$6,802 million fall in the valuation of investment properties.

## Dividends

Interim dividends of HK¢36.0 per 'A' share and HK¢7.2 per 'B' share were declared on 9th August 2001. Directors have recommended final dividends for 2001 of HK¢76.0 per 'A' share and HK¢15.2 per 'B' share. The total distribution per share paid and proposed for 2001 is the same as in 2000. Subject to approval by shareholders, dividend payments will be made on 3rd June 2002.

## Scope of Activities

Although there continues to be pressure on rental levels in Hong Kong, the strength of our investment portfolio is evident in the high occupancies achieved and consequent relative stability of earnings. While new supply of investment property will come into the market in the short term, we still view prospects over the longer term to be good, and we will shortly award the main contract for the construction of Pacific Forum in Hong Kong. We are also in negotiation to participate as developer and equity investor in a 326-unit residential condominium development at Brickell Bay, Miami, to be called Jade Residences. Construction is expected to start in the middle of this year, with completion in late 2004.

Our inventory of residential properties for resale has been reduced with satisfactory sales volumes at Ocean Shores in Tseung Kwan O, Les Saisons in Aldrich Bay and Tung Chung Crescent on Lantau. New residential projects were commenced at The Orchards in Quarry Bay and on Brickell Key in Miami, USA. We remain alert to additional development opportunities in the residential sector in projects where we believe our brand value and core competence can provide attractive returns.

Cathay Pacific experienced very difficult operating conditions in 2001 and attributable earnings fell by 90% to HK\$228 million. The airline's capacity increased with the delivery of a net eleven new aircraft during the year but, in the face of weak demand, a decision was made by the year end to park two older cargo aircraft and four passenger aircraft. With the exception of three aircraft on operating leases, due for delivery in 2002/2003, there are no outstanding commitments for additional aircraft. The current difficult operating conditions notwithstanding, Cathay Pacific has a strong balance sheet and good cashflow from operations. Other aviation interests have been less severely affected by the downturn, and their net contribution to Swire Pacific, at HK\$292 million, declined by 14%. The aviation market in Mainland China continues to grow, and Dragonair and TAECO have recently committed to new investments in capacity.

The Marine Services and Beverages Divisions have continued to enjoy satisfactory growth. Swire Pacific Offshore ordered a further eight vessels during the year, bringing its total orders for 2002 and 2003 to 14 vessels. The Beverages Division continued the expansion of its sales and distribution network in Mainland China, and increased its stake in Swire Coca-Cola, Zhengzhou to 60.7%.

Towards the end of the year, the Trading & Industrial Division disposed of its remaining interest in Carlsberg Brewery Hong Kong.

### Finance

The group's financial position remains strong, with committed loan facilities and other financing amounting to HK\$19,355 million, of which 17% remained undrawn as at 31st December 2001. In addition to these committed facilities, there were uncommitted facilities of HK\$3,121 million available at the year end.

In 2001 our credit ratings were re-affirmed at A3 and A- by Moody's and Standard & Poor's respectively. We believe this to be indicative of our strong operating performance and recurrent cashflows.

As at 31st December 2001, consolidated net borrowings amounted to HK\$16,756 million - a gearing ratio of 22%.

### Corporate Governance

A commitment to good corporate governance has always been a key element of our management philosophy. In this report we have introduced a separate section, summarising the key principles and values to which we aim to adhere in the conduct of our business, and the various measures by which the interests of shareholders and other stakeholders are safeguarded.

### Social and Environmental Responsibility

The group is committed to playing a full role as a responsible corporate citizen. Additional information on the group's policies in these areas can be found as a separate section later in this report.

### Prospects

The unexpectedly severe downturn in the global economy in 2001 has had an adverse impact on a number of our operations. However, our robust financial structure enables the group to continue to pursue our long-term growth strategy for our core businesses.

Although we expect demand for office space to remain lacklustre in the short term, we remain committed to adding 1,717,000 square feet of new space, contiguous to established commercial

centres, through the construction of Pacific Forum and Cambridge House, and the intended redevelopment of the Aik San Factory and Melbourne Industrial buildings.

Cathay Pacific will continue to invest in its network and its product. The market is likely to continue to be difficult, but we remain confident in the future prospects for our aviation businesses and in Hong Kong's position as Asia's leading aviation hub.

Continued volume growth, helped by the introduction of new non-carbonated products and coupled with tight control over costs, will enable the Beverages Division to maintain momentum.

In the Marine Services Division, Swire Pacific Offshore should continue to benefit from strong demand for offshore oil support services. Any slowdown at Modern Terminals is likely to be at least partly offset by continued growth at Shekou Container Terminals.

In the Trading & Industrial Division, our efforts will be focused on mitigating the adverse impact of the weak retail environment by active management of our portfolio of brands.

Overall, in a period of quite some global financial and political uncertainty, we view with cautious optimism the prospects for recovery in the economies in which we operate and, with that, the results of the group in the year ahead.

### Staff

The group employs more than 55,000 people. Their efforts are central to the success of the group and to our position in the communities where we operate. On behalf of the shareholders, I should like to thank all our staff for their hard work and achievements during a challenging year.

### James Hughes-Hallett

*Chairman*

*Hong Kong, 7th March 2002*