PROPERTY

	2001 HK$M	2000 HK$M
Gross rental income derived from		
Offices	2,261	2,251
Retail	2,144	1,989
Residential	348	372
Other income	75	80
Property investment	4,828	4,692
Property trading	1,092	1,114
Sale of investment properties	261	–
Total turnover	6,181	5,806
Operating profit derived from		
Property investment	3,471	3,354
Property trading	128	145
Sale of investment properties	205	–
Provision for land premium	–	(151)
	3,804	3,348
Share of profits before taxation of jointly controlled and associated companies		
Normal operations	222	88
Non–recurring items	(312)	(1,700)
Attributable profit	**2,793**	**947**

Investment Property Portfolio – Gross Floor Area (square feet)

Location	Office	Techno-centres	Retail	Residential	Total
Pacific Place	1,558,776	–	711,182	617,074	2,887,032
TaiKoo Place	2,262,427	1,810,829	–	–	4,073,256
Cityplaza	1,646,327	–	1,105,177	–	2,751,504
Festival Walk	232,215	–	981,303	–	1,213,518
Others	182,820	–	573,816	229,317	985,953
Total completed	**5,882,565**	**1,810,829**	**3,371,478**	**846,391**	**11,911,263**
Under development	2,793,242	–	–	14,500	2,807,742
Total	**8,675,807**	**1,810,829**	**3,371,478**	**860,891**	**14,719,005**

Property

Swire Properties' investment portfolio in Hong Kong principally comprises office and retail premises in prime locations, as well as some luxury residential accommodation. The completed portfolio totals 11.91 million square feet of gross floor area. Current investment property pending or under development in Hong Kong comprises a further 2.81 million square feet, mainly of office space. In addition, Swire Properties owns a 20% interest in each of the three hotels in Pacific Place, and a 10% interest in the CITIC Square development in Shanghai. The Swire Pacific group also owns a 75% interest in the Mandarin Oriental Hotel in Miami, Florida.

2001 OVERVIEW

2001 saw some softening in demand for office space as the possibility of a worldwide recession contributed to a more cautious business climate. Rental levels declined as a result, although the impact was somewhat tempered by lack of new office supply. However, several new developments, particularly in Central, will come onto the market in 2002/2003. Retail market rents were stable, notwithstanding a general decline in consumer demand in the second half of the year. The residential market has continued to be fairly weak during 2001, although successive interest rate cuts are helping to restore buyer confidence.

Net rental income from the investment portfolio amounted to HK$3,762 million in 2001, compared with HK$3,562 million in 2000. High occupancy levels were maintained throughout most of the portfolio during the course of 2001, and gross rental income increased slightly. We are cautious about the outlook for 2002, as recessionary pressures in the economy have still not abated, and consumer demand is likely to remain weak.

Operating profit from property trading in 2001 amounted to HK$128 million, compared to HK$145 million in 2000. The 2001 contribution is stated prior to the deduction of a provision of HK$175 million for Swire Properties' share of stamp duty arising from the acquisition of land for the Ocean Shores development. The assessment is under appeal. A provision of HK$137 million has also been made in respect of the value of development properties at Tung Chung.

Investment Properties

OFFICES

Occupancy levels throughout the office portfolio remained high during the year, although vacancies increased at the Island East techno-centres, which have a higher proportion of technology and telecommunications-related tenants. Lease maturity profiles are well established and the incidence of lease renewals in any one year is contained within manageable limits. Average achieved rents decreased generally during the year.

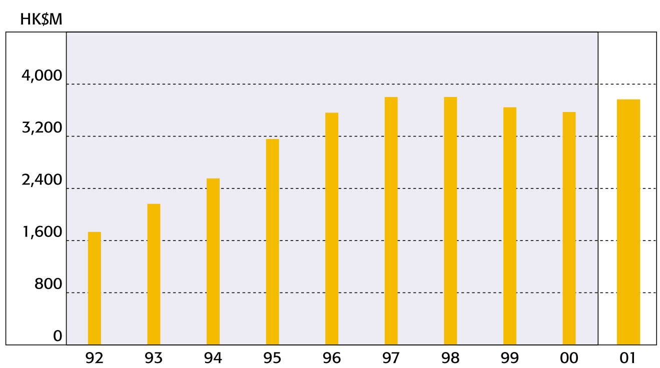
RETAIL

The contributions from Swire Properties' three established retail centres in Hong Kong improved during the course of 2001 and, taken overall, retail sales at Swire Properties' shopping centres outperformed the generally soft market.

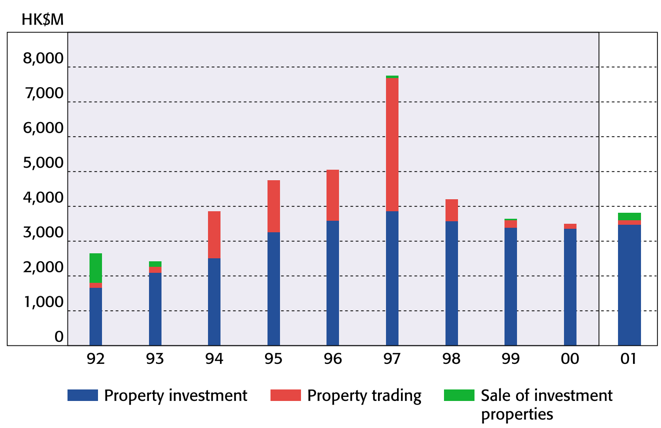
Cityplaza has been much enhanced by renovation works, the final phase of which was completed in 2001 with the opening of the Cityplaza Cinemas. The centre continues to maintain its position as the primary shopping destination in Island East. Uny, Wing On and Marks & Spencer are among the major anchor tenants; 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 2001, but the food court area underwent significant reconfiguration. Seibu, Great Food Hall, Lane Crawford, Marks & Spencer and UA Cinemas are the anchor tenants, together with 160 other retail and catering outlets.

Net rental income



Operating profit before non-recurring items



Festival Walk is owned 50:50 by Swire Properties and CITIC Pacific, and is firmly established as a major shopping centre in Kowloon. 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 at Tung Chung, in which Swire Properties has a 20% interest, comprises a 463,000 square foot retail centre and a 161,000 square foot office tower, both completed in 1999. There is also provision for a 350-room hotel, which will be completed in late 2003. Although only 19% of the office space has been secured so far, the retail centre is now 70% let.

RESIDENTIAL

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. Occupancy levels at the serviced suites have generally held up well. Nine units at The Albany were sold during the course of the year. The remaining residential properties on Hong Kong Island were fully let. Overall rental income from the residential portfolio was slightly lower in 2001.

Investment Properties under Development

At TaiKoo Place an office tower, to be known as Cambridge House, is now under construction. On completion in 2003, this will provide approximately 272,000 square feet of additional office space linked to Devon House.

The construction of Pacific Forum, which is located at One Queen's Road East, close to Pacific Place, will commence shortly. This is planned to comprise an office tower with a gross floor area of 629,000 square feet, plus 130 car park spaces.

Swire Properties has now acquired a 100% interest in the Aik San Factory Building and obtained an order for sale that will facilitate the completion of the acquisition of the Melbourne Industrial Building, both located on Westlands Road, Quarry Bay. Demolition of the two buildings is planned during the second half of 2002. The combined site has a redevelopment potential of 816,000 square feet of office space. No land premium is payable to Government on any office redevelopment on this site.

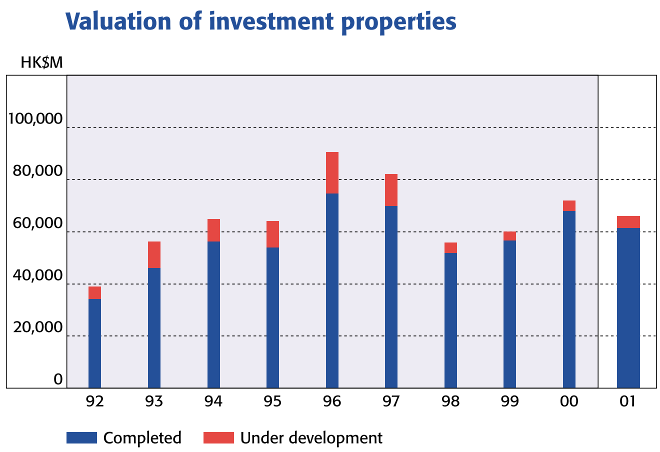
The 14,500 square foot luxury residential scheme at 3 Coombe Road, The Peak, is expected to be completed in 2002.

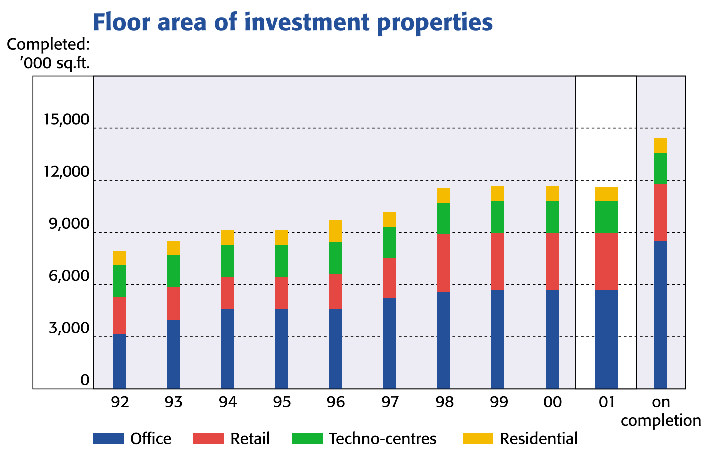
2001 Valuation of Investment Properties

The portfolio of completed investment properties in Hong Kong, as well as properties intended for investment which are under or pending development, was revalued at 31st December 2001 by professionally-qualified executives of the group. As a result of this valuation, Swire Pacific's property valuation reserve decreased by HK$6,802 million. The decrease in 2001, following an increase of HK$9,230 million at the end of 2000, is largely attributable to the decline in office rental levels. Swire Pacific's property valuation reserve at 31st December 2001 showed a surplus of HK$28,752 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 80 to 89.

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 announced in January 2001. Swire Properties has commenced an appeals process. If the appeals process were ultimately to prove unsuccessful, the amount payable in respect of the office towers would still have to be





agreed and, failing agreement, would be assessed by independent experts. Given the uncertainty, the amount of HK$4,500 million which, as a matter of prudence was accrued in the Swire Pacific group accounts as at 31st December 2000, remains our best estimate of the group's exposure.

Property Trading Portfolio

The portfolio of developments for sale mainly comprises residential apartments in Hong Kong. Nearly 7,000 units are under development by subsidiary or jointly controlled companies.

At Ocean Shores in Tseung Kwan O, which will comprise 5,728 residential units in 15 towers with 1,176 car park spaces and 32,000 square feet of neighbourhood shopping, 3,063 units in Phases 1 and 2 have been sold so far. The whole scheme is expected to be completed early in 2003, and marketing of Phase 3 will start shortly.

The Les Saisons residential scheme in Aldrich Bay received its occupation permit in October 2001. 663 units have been sold so far, at satisfactory prices, and are shortly to be handed over to purchasers. Les Saisons comprises 742,000 square feet of accommodation in 864 units, plus 216 car park spaces.

The main building contract of the Taikoo Valley Site V residential project on King's Road, to be known as The Orchards, is progressing. The scheme is expected to be completed by mid-2003 and will comprise two residential towers with 395,000 square feet of space in 432 units. There will also be 144 car park spaces, a new school and a community centre.

The Phase 1 residential scheme at Tung Chung Crescent, comprising 2,158 units, was completed in 1999. The scheme was developed in conjunction with the Citygate commercial centre, under an agreement with MTRC. A further 487 units were sold during 2001, with 107 units remaining to be sold at the year end. The second residential phase at Tung Chung, comprising over one million square feet of accommodation in 1,344 units, will be completed by the middle of 2002.

A further 37 units in the StarCrest residential development close to Pacific Place were sold during the course of 2001, and only 15 units remained to be sold at the year end. The 10,700 square feet of ground floor retail space and the 83 car park spaces are being retained for investment.

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

Hotels

The JW Marriott, Conrad International and Island Shangri-la hotels at Pacific Place felt the impact of weaker demand in Hong Kong during 2001, particularly in the last quarter. Both room rates and occupancy levels were affected. Competition for guests will remain keen until there is an improvement in the business environment.

Mainland China

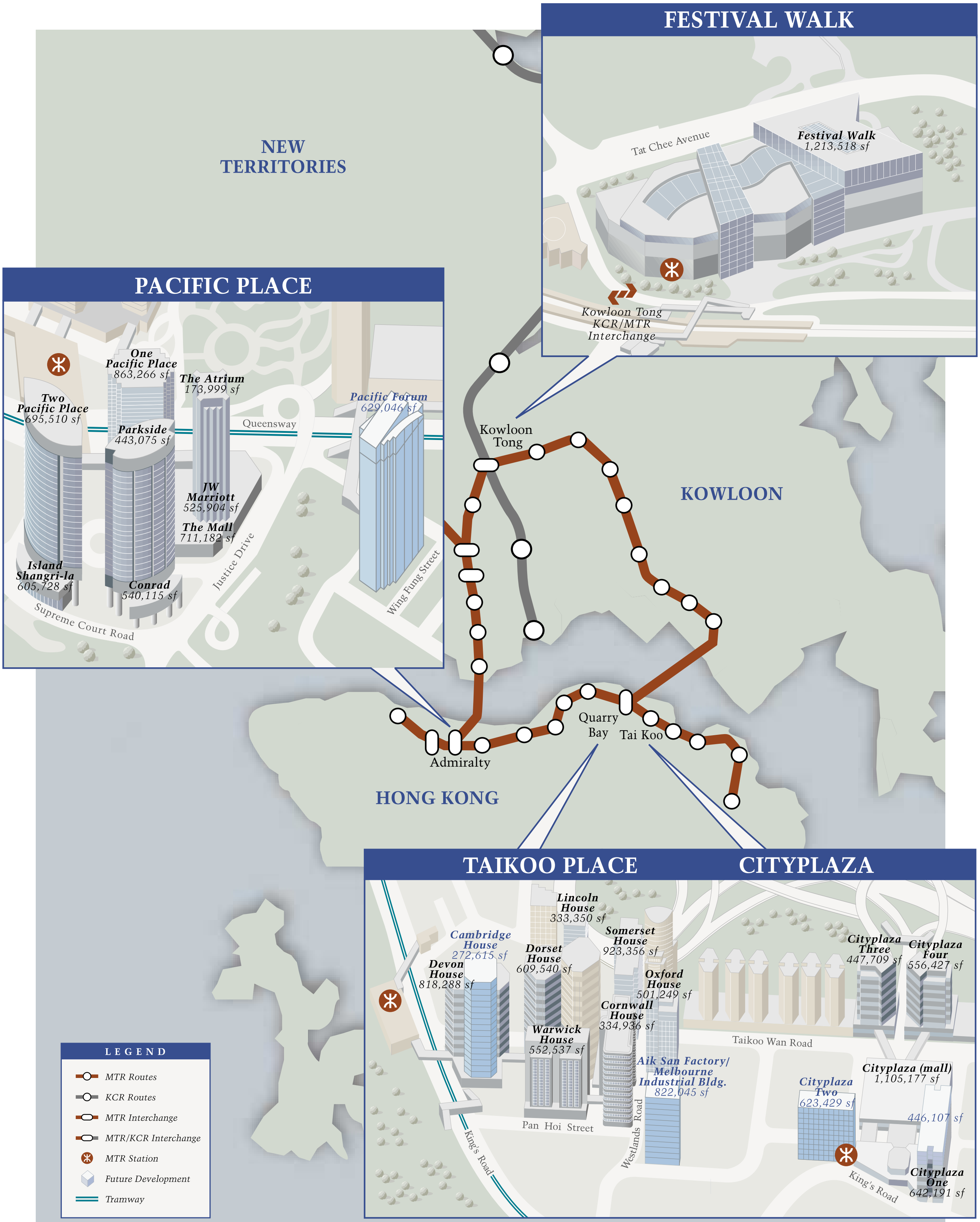
Swire Properties is in negotiations to enter into a joint venture agreement with the Guangzhou Daily News Group, in the proportion 55:45, to develop a commercial complex in the Tianhe district of Guangzhou to be known as Taikoo Hui Guangzhou Cultural Plaza. The site is well located in an important commercial district adjacent to a mass transit railway station and has already been cleared for redevelopment. It is planned to construct a major retail centre, offices, a hotel and cultural facilities totalling more than four million square feet of space. The property will be held for investment and is expected to be completed in 2007.

Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, Shanghai. The building comprises 1.1 million square feet of retail and office space, and is now over 90% let.

U.S.A.

The Three Tequesta Point condominium tower on Brickell Key, Miami, was completed in August 2001. It comprises 236 units, of which 221 units have been handed over to purchasers to date. The construction of the 318-unit Courts Brickell Key is in progress and is expected to be completed in late 2002. So far, 178 units have been sold. The 329-room Mandarin Oriental Hotel, which is 75% owned by the group, represents a significant enhancement to the Brickell Key development. However, operating results were severely affected by the drop in air travel in the fourth quarter of 2001.

Taking advantage of an opportunity within the immediate environment of Brickell Key, Swire Properties is 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.



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AVIATION

	2001 HK$M	2000 HK$M
Cathay Pacific Group *		
Share of attributable profit	**228**	2,172
Hong Kong Aircraft Engineering group		
Share of attributable profit	**139**	156
Hong Kong Dragon Airlines		
Share of attributable profit	**54**	85
Hong Kong Air Cargo Terminals		
Share of attributable profit	**96**	76
Others	**3**	21
Attributable profit	**520**	**2,510**

* *These figures do not include Cathay Pacific's share of profit from the Hong Kong Aircraft Engineering group, Hong Kong Dragon Airlines and Hong Kong Air Cargo Terminals, which have been included in the attributable figures for those companies.*

Cathay Pacific Airways

Key Operating Highlights

		2001	2000	Growth
Available tonne kilometres ("ATK")	*Million*	**11,827**	11,630	+ 1.7%
Available seat kilometres ("ASK")	*Million*	**62,790**	61,909	+ 1.4%
Revenue passenger kilometres ("RPK")	*Million*	**44,792**	47,153	– 5.0%
Passengers carried	*'000*	**11,269**	11,864	– 5.0%
Passenger load factor	*%*	**71.3**	76.2	– 4.9% pts
Passenger yield	*HK cents*	**45.7**	48.2	– 5.2%
Cargo carried	*'000 tonnes*	**704**	769	– 8.5%
Cargo and mail load factor	*%*	**67.3**	72.5	– 5.2% pts
Cargo and mail yield	*HK$*	**1.85**	2.07	– 10.6%
Cost per ATK	*HK$*	**2.36**	2.32	+ 1.7%
Cost per ATK without fuel	*HK$*	**1.93**	1.86	+ 3.8%
Aircraft utilisation	*Hours per day*	**12.1**	12.9	– 6.2%
On-time performance	*%*	**82.9**	84.0	– 1.1% pts
Breakeven load factor	*%*	**70.5**	63.9	+ 6.6% pts

Aviation

The Aviation Division comprises significant investments in associated companies, including the Cathay Pacific Group, the Hong Kong Aircraft Engineering group, Hong Kong Air Cargo Terminals, Dragonair and AHK Air Hong Kong. Cathay Pacific and HAECO are listed on the Hong Kong Stock Exchange. Other companies provide aviation-related services including flight catering, ramp-handling and laundry services.

2001 OVERVIEW

The Aviation Division had a very difficult year in 2001. The global economic downturn was already evident in weak demand for cargo traffic from the beginning of the year, and this was followed in mid-year by a downturn in passenger traffic and yields, exacerbated by industrial action in July by Cathay Pacific pilots. The tragic events of 11th September also had a severe effect on passenger traffic demand. As a result, both passenger numbers and cargo volumes fell during the year. Travel between Hong Kong and Mainland China has, however, been less affected, and Dragonair achieved growth in passenger and cargo revenue.

Fuel costs have fallen, which has helped contain unit costs. Following the terrorist attacks, insurance costs rose very sharply; Cathay Pacific, Dragonair and associated companies were able to obtain external insurance cover, albeit at a significantly increased cost. The Hong Kong Civil Aviation Department has approved a US$4 surcharge per passenger sector, raised to US$5 in January 2002, which has helped to alleviate the additional cost of insurance cover.

Inevitably, the reduction in demand for airline services has had a corresponding adverse impact on the business of ancillary companies. HAECO, Hactl and the catering businesses have done well to maintain profitability in the face of such difficult trading conditions.

Cathay Pacific Airways

Cathay Pacific made a consolidated profit of HK$657 million in 2001, a decrease of 86.9% on the record 2000 profit of HK$5,005 million.

The main causes of this decline were the global economic downturn and the additional demand shock following the terrorist attacks in September. Currency fluctuations also took their toll, as the airline receives revenue in many different currencies, but incurs most of its costs in US and HK dollars.

PASSENGER SERVICES

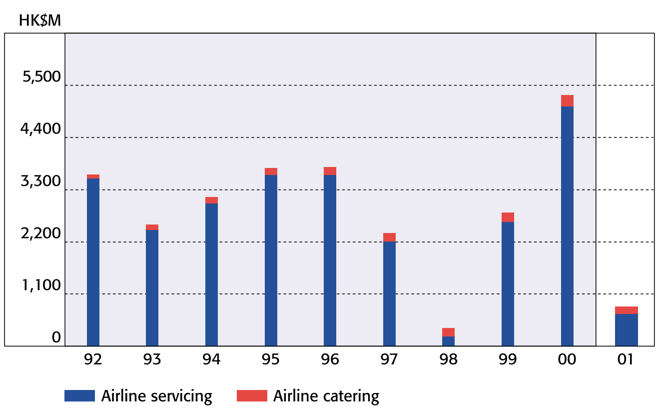
2001 saw a significant fall in passenger turnover compared with 2000. The most notable decreases were on the trans-Pacific routes, though routes to Taiwan, Japan and South-East Asia also suffered. The relative resilience of European economies has helped to maintain demand on these routes, and the difficulties experienced by other operators on the Australasian routes have underpinned demand for Cathay Pacific's services to these destinations.

Passenger yields fell as a result of weak demand for business travel and widespread discounting. Overall passenger yield dropped from HK¢48.2 to HK¢45.7. Passenger load factor also dropped by 4.9% points to 71.3%.

NETWORK

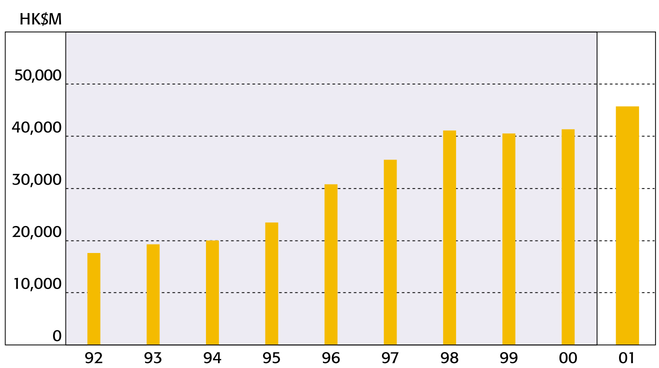
Cathay Pacific responded to the economic downturn by selectively reducing capacity, but also made some additions to its network with the launch of three new destinations: Delhi, Riyadh and Sapporo. In January 2002, the airline expanded its code-share

Operating profit* – Cathay Pacific Group



* Operating profit is stated before non-recurring items.

Net assets employed – Cathay Pacific Group**



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

agreement with British Airways to include a number of destinations in Europe and Asia Pacific.

PRODUCTS AND SERVICES

Maintaining its commitment to deliver a quality product and service to its passengers, Cathay Pacific introduced a new Business Class cabin and a new in-flight entertainment system. Other service innovations, including on-line check-in service, self-service kiosks and a second lounge, The Pier, at Hong Kong International Airport, have brought passengers added comfort and convenience.

CARGO

Although Hong Kong was partly cushioned by the relatively strong performance of exports from Mainland China, competition in the overall air cargo market remained intense and Cathay Pacific Cargo's turnover fell by 15.6% in 2001. During the year, two new Boeing 747-400 freighters were added to the fleet while one older freighter was parked. Cargo yields fell by 10.6% to HK$1.85.

FLEET

Cathay Pacific took delivery of 12 passenger aircraft and two freighters during 2001; the return of three A340s to Air China at the end of their leases restricted the net increase in fleet size to 11. By the end of the year, the airline had a fleet of 75 aircraft, comprising 19 B747-400s, 12 B777s, 20 A330s, 15 A340s and 9 B747 freighters.

The downturn in demand also led to the suspension of Cathay Pacific services to Zurich, Manchester and Istanbul, and some frequency reductions to other destinations in Asia and North America. These represent a reduction of 8% of the weekly schedule. The downturn is expected to continue through the first half of 2002, and Cathay Pacific has decided temporarily to withdraw four passenger aircraft and two freighters from service until demand picks up. However, with no new aircraft on order, and only three leased aircraft for delivery in late 2002 and early 2003, the level of surplus capacity remains modest.

Hong Kong Aircraft Engineering Company (HAECO)

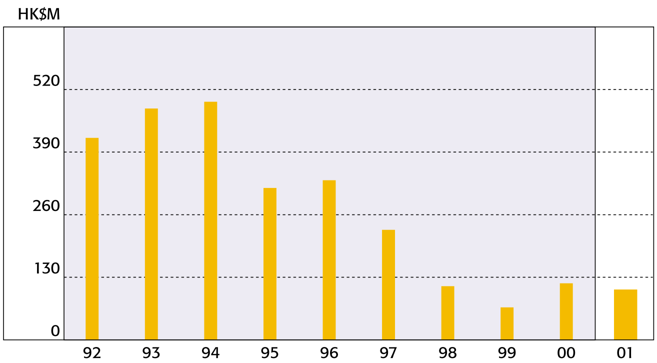
HAECO's 2001 profit attributable to shareholders was HK$312 million - a decrease of 22% on the 2000 profit. However, excluding non-recurring items, underlying profits increased by 7%.

Despite weaker demand for aircraft maintenance services, revenue has risen. The company has maintained its market share of line maintenance activity at Hong Kong International Airport and its heavy airframe maintenance and modification facilities at Chek Lap Kok were busy for most of the year.

The jointly controlled companies had a very successful year and the contribution from these companies increased significantly to 63.6% of the HAECO group's profit before tax. Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) provides heavy aircraft maintenance from two double-bay hangars in Xiamen, with a third under construction and due for completion in mid-2003. Hong Kong Aero Engine Services Limited (HAESL) is the major Rolls-Royce aero engine overhaul and refurbishment facility in the region. Both companies achieved high utilisation of their facilities and manpower during the year.

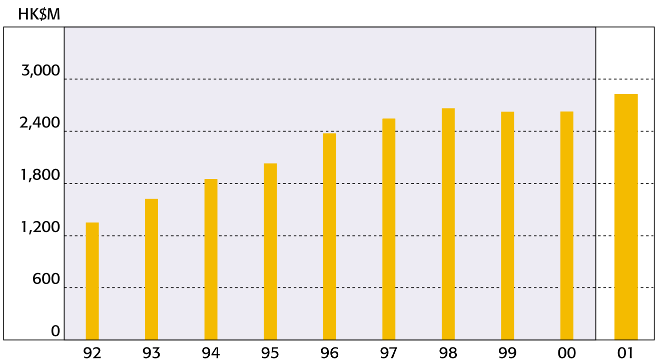
The downturn seen in the market in the last three months of the year has, however, already had an effect on the company's performance, and the weaker market conditions are expected to continue into 2002.

Operating profit* – HAECO group



** Operating profit is stated before non-recurring items.*

Net assets employed** – HAECO group



*** Net assets employed comprise shareholders' funds, minority interests and external long-term borrowings of the HAECO group.*

Aviation

Hong Kong Air Cargo Terminals (Hactl)

Hactl's throughput was adversely affected by the slowdown in world economies during 2001, particularly export volumes to the US. Throughput in cargo tonnes fell from 1.75 million tonnes in 2000 to 1.59 million tonnes in 2001 - a drop of 9%. However, the company benefited from lower interest rates, the release of provisions and control over staff costs.

	2001	2000
Cargo tonnes handled ('000)	**1,591**	1,749

Hong Kong Dragon Airlines (Dragonair)

Despite the weak travel market, Dragonair benefited from the resilience of the Mainland China economy and recorded a 14.5% increase in passenger revenue and a 0.5% point increase in passenger load factor in 2001. Passenger yield decreased slightly by 0.6% compared to 2000.

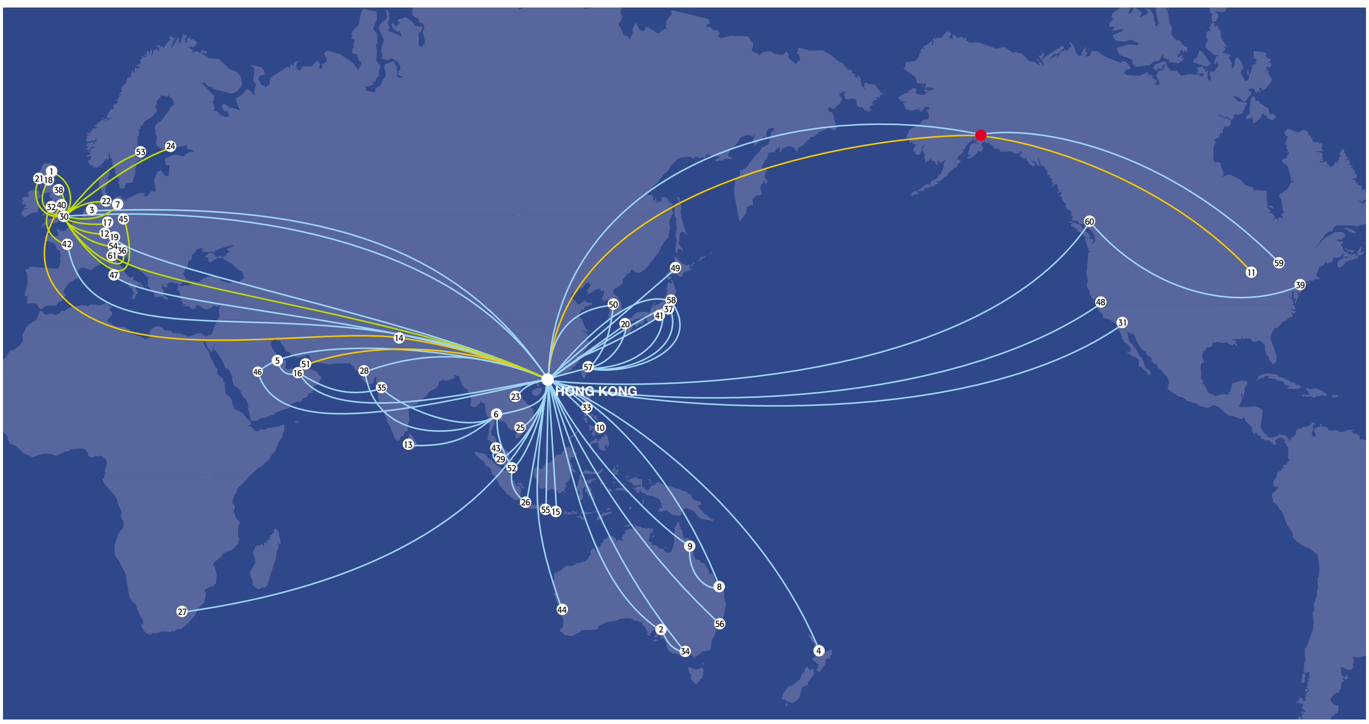
Cargo revenue and tonnage increased by 29.8% and 29.3% compared to last year, following the addition to the fleet of two B747-300 freighters. However, cargo yields of passenger aircraft and freighters decreased by 4.8% and 3.8% respectively, reflecting the weaker global air-cargo market.

Profit before taxation decreased by 34.1% over 2000, due to higher costs from fleet expansion and preparation costs for the introduction of the company's own freighters in 2001.

Although frequencies of passenger flights to existing destinations were increased earlier in the year, some of the additional

Cathay Pacific Network

Passenger Network — Codeshare Services — Freighter Services — ● Anchorage (Technical stop only)



1 Aberdeen
2 Adelaide
3 Amsterdam
4 Auckland
5 Bahrain
6 Bangkok
7 Berlin
8 Brisbane
9 Cairns
10 Cebu
11 Chicago
12 Cologne
13 Colombo
14 Delhi
15 Denpasar
16 Dubai
17 Dusseldorf
18 Edinburgh
19 Frankfurt
20 Fukuoka
21 Glasgow
22 Hamburg
23 Hanoi
24 Helsinki
25 Ho Chi Minh City
26 Jakarta
27 Johannesburg
28 Karachi
29 Kuala Lumpur
30 London
31 Los Angeles
32 Manchester
33 Manila
34 Melbourne
35 Mumbai
36 Munich
37 Nagoya
38 Newcastle
39 New York
40 Nottingham
41 Osaka
42 Paris
43 Penang
44 Perth
45 Prague
46 Riyadh
47 Rome
48 San Francisco
49 Sapporo
50 Seoul
51 Sharjah
52 Singapore
53 Stockholm
54 Stuttgart
55 Surabaya
56 Sydney
57 Taipei
58 Tokyo
59 Toronto
60 Vancouver
61 Zurich

frequencies were cut back from the end of October to reflect the seasonal downturn in demand. The service to Kathmandu was discontinued in March 2001. Additional freighter services to European destinations and to Shanghai were mounted from the third quarter, and a twice-weekly freighter service to Osaka was introduced in May.

With the accession of China to the World Trade Organisation and expected long-term growth in trade, the airline expects increasing demand for air services between Hong Kong and Mainland China. The management of Dragonair therefore remains optimistic about the future of the airline.

AHK Air Hong Kong

The slowdown in exports from Hong Kong and the intense competition for cargo services in the region had a negative impact on the profitability of the company. Both yields and load factors were put under pressure by excess industry capacity, and fell by 18.6% and 0.6% points respectively.

In September, the company introduced a cargo service to Korea, as an extension of the Japan services.

On 25th February 2002, Cathay Pacific purchased a further 25% of the shares of the company, which has now become a 100% subsidiary of the Cathay Pacific Group.

Airline Catering

The Cathay Pacific Catering Services group operates seven in-flight catering facilities in Asia and North America. Although the group remained profitable, the performance was adversely affected by a fall in passenger numbers.

Hong Kong Airport Services (HAS)

Services provided by the company include aircraft loading, passenger steps and air bridge operations, baggage handling and cargo and mail delivery.

HAS recorded a satisfactory profit in 2001 in spite of the reduction in demand for airline services and intensified price competition.

BEVERAGES

Beverages

	2001 HK$M	2000 HK$M
Turnover *	**4,661**	4,584
Operating profit	**304**	256
Share of profits before taxation of jointly controlled companies	**85**	69
Attributable profit	**252**	**185**

* *Turnover does not include the Mainland China operations which are all jointly controlled companies. Total turnover from Mainland China operations was HK$2,883 million in 2001 (2000: HK$2,779 million).*

Segment performance

	Turnover		Attributable Profit	
	2001 HK$M	2000 HK$M	**2001 HK$M**	2000 HK$M
Hong Kong	**1,256**	1,273	**109**	118
USA	**2,566**	2,426	**123**	126
Mainland China	**–**	–	**–**	(23)
Taiwan	**839**	885	**30**	(16)
Head Office – costs	**–**	–	**(33)**	(47)
Head Office – interest income	**–**	–	**23**	27
	4,661	4,584	**252**	185

	Total	Hong Kong	USA	Taiwan	Mainland China
Sales volume (million cases)	333.8	42.5	76.4	41.6	173.3
Franchise population (million)	416.6	6.9	5.5	23.0	381.2
Per capita consumption per annum (8oz serving)	19.2	147.7	333.5	43.4	10.9
Number of plants	16	1	2	2	11
Number of employees	11,528	1,127	1,737	838	7,826

Beverages

The Beverages Division has the right to manufacture, market and distribute the products of The Coca-Cola Company in Hong Kong, Taiwan, seven provinces in Mainland China and in an extensive area in the western USA. We work in close partnership with The Coca-Cola Company on brand development and marketing.

2001 OVERVIEW

Overall volume growth in 2001, at 4%, was somewhat disappointing compared to the 9% achieved in 2000, though volume growth in Mainland China, at 6%, remained satisfactory. Pricing has generally been tight, constraining margins. However, the volume growth achieved, together with continuing controls over costs and distribution efficiencies, resulted in a 36% rise in attributable profit to HK$252 million in 2001.

Swire Beverages aims to improve returns by leveraging its asset base and its considerable distribution capacity throughout its operations. In 2001, this was reflected in improved ratios of turnover to net assets employed.

Sales in 2002 should also benefit from an increasing focus on non-carbonated beverages (NCBs) and the momentum generated by the launch, towards the end of 2001, of a number of new products. Further new products are planned to be introduced during the coming year.

Swire Coca-Cola Hong Kong

With over 80% market share, Swire Coca-Cola Hong Kong continues to maintain a dominant position in the carbonated soft drink (CSD) category. Competition from parallel imports and an increasing number of house brands has continued to maintain pressure on margins and volumes. Volume fell by 0.7% overall compared to 2000, following unusually poor weather in the peak summer months.

The company has enhanced its position in the faster-growing NCB sector with initiatives such as the successful launch of the Qoo brand of fruit-flavoured drinks and strong growth in sales of Bonaqua mineralised water following targeted marketing campaigns.

Effective cost-control measures and improved asset utilisation helped to mitigate the impact of weaker sales, but the profit attributable to Swire Pacific fell by 8% to HK$109 million.

Swire Coca-Cola USA

The trends in the USA operations reflect those of the industry as a whole, with growth coming from NCBs and water, while CSD brands showed a relative decline. Marketing support for NCB products and packages, and promotions for the Winter Olympics, led to an overall increase in sales volume of 0.3% over 2000.

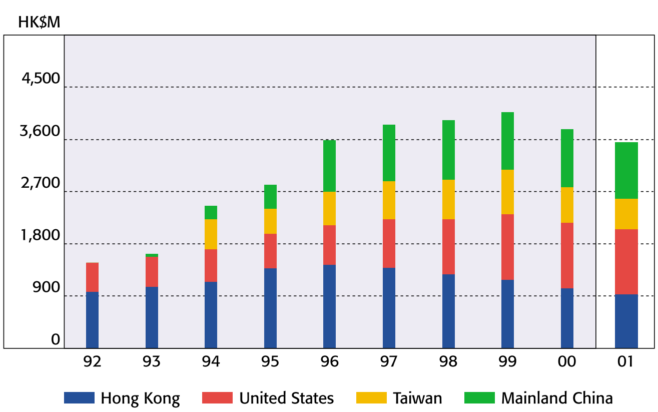
Although CSD volumes have faced pressure from increasing competition from house brands which represent 12% of the total CSD market, trends in recent months suggest that the core brands are regaining some strength.

Good general cost control and, in particular, lower finance charges helped to bring attributable profit to HK$123 million in 2001.

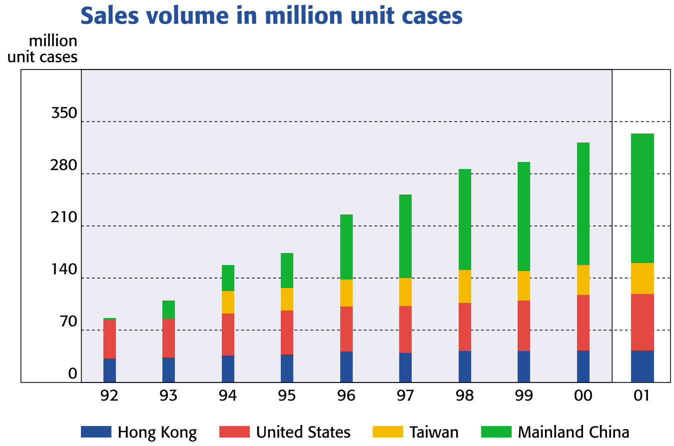
Swire Coca-Cola Taiwan

Total volume in Taiwan grew by 3% in 2001, driven by success in developing the market for NCB products. Poor weather,

Net assets employed



Sales volume in million unit cases



including several typhoons in the peak summer months, held back sales, though the successful launch of Qoo in the fourth quarter boosted NCB volumes. The restructuring that took place in late 2000 led to significant cost savings which, with a reduction in finance charges, helped the Taiwan operations contribute HK$30 million to Swire Pacific, compared with a loss of HK$16 million in 2000.

Mainland China

Swire Beverages' jointly controlled operating companies hold bottling and distribution franchises for Zhejiang, Jiangsu, Henan, Fujian, Guangdong, Anhui and Shaanxi provinces. The company also held franchises for the non-exclusive sales territories of Gansu and Ningxia, but these expired on 31st December 2001. During the year, the company increased its effective shareholding in Swire Coca-Cola Beverages Zhengzhou from 52.1% to 60.7%.

Sales volume grew 6% over 2000, although the benefit to gross margin of the incremental volume was largely offset by lower selling prices. Profitability improved across the Coca-Cola franchised territories as a result of increased efficiency in the distribution network leading to reduced overheads.

Losses were again sustained in Guangmei Foods Company, where increased competition between its Meijin brand and other soft drinks brands has continued to result in falling prices and volumes, and in the manufacturing business in Dongguan.

Overall, the combined Mainland China operations broke even in 2001 - an improvement on the 2000 loss of HK$23 million. We remain optimistic regarding the future prospects for further growth in values and profitability.

MARINE SERVICES

	2001 HK$M	2000 HK$M
Swire Pacific Offshore		
Turnover	**893**	843
Operating profit	**336**	231
Attributable profit	**312**	174
Ship repair, land engineering and harbour towage		
Attributable profit	**33**	61
Container terminal operations		
Attributable profit	**272**	270
Attributable profit	**617**	**505**

Fleet size	**2001**	2000
Number of vessels (Swire Pacific Offshore)	**49**	50
Number of vessels (Hongkong Salvage & Towage)	**25**	26
Total	**74**	76

Container terminal throughput (TEUs)	**2001**	2000
Modern Terminals ('000)	**3,310**	3,252
Shekou Container Terminals ('000)	**751**	720
Total ('000)	**4,061**	3,972

Marine Services

The Marine Services Division, through Swire Pacific Offshore, operates a fleet of specialist vessels supporting the offshore oil industry. The division also has interests, through jointly controlled and associated companies, in ship repair and harbour towage services in Hong Kong and overseas, and in container terminal operations in Hong Kong and Mainland China.

2001 OVERVIEW

The Marine Services Division achieved an excellent result in 2001, with a 22% increase in profit to HK$617 million. The principal driver of this result was continued growth in offshore oil exploration and consequent demand for the specialist services offered by Swire Pacific Offshore. Notwithstanding the economic downturn and the effect on marine cargo traffic, container terminal operations performed well. The Hongkong United Dockyards group had mixed fortunes, with a significant improvement in dockyard activity in spite of continued weakness in ship repair rates. There were significant project delays in the land engineering operations, while new automotive services incurred start-up costs which are not yet matched by revenue.

The prospects for 2002 for Swire Pacific Offshore remain promising, reflecting relatively stable oil prices and continued exploration activity. The container handling business in Hong Kong is likely to see greater pressure on margins as a result of the recent downturn in export market volumes and increasing competition from other terminals in Mainland China.

Offshore Oil Support

Demand for offshore oil services increased in 2001 as high oil prices in the first half led to an increase in offshore oil exploration which continued throughout the year. Swire Pacific Offshore reported an attributable profit of HK$312 million, compared with HK$174 million in 2000: an increase of 79%.

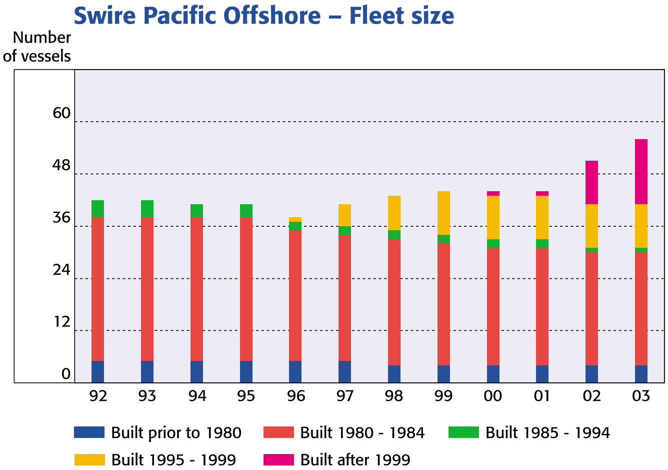
The contract awarded by Shell Exploration BV to Expro Swire Production for the operation and supply of an early production facility in Iran commenced in December 2001, and will run for 20 months, producing 100,000 barrels of crude oil per day.

Stable oil prices and projections of future rig numbers and utilisation indicate a further expansion in exploration, and hence strength in demand for Anchor Handling Tug Supply (AHTS) vessels. Swire Pacific Offshore has signed contracts for the construction of eight new AHTS vessels for delivery in 2002 and 2003. This brings the total number of newbuilds to 14, nine of which will be delivered in 2002. The new vessels will bring the total size of the Swire Pacific Offshore fleet to 56, with a further six vessels held by a jointly controlled company, Ocean Marine Services.

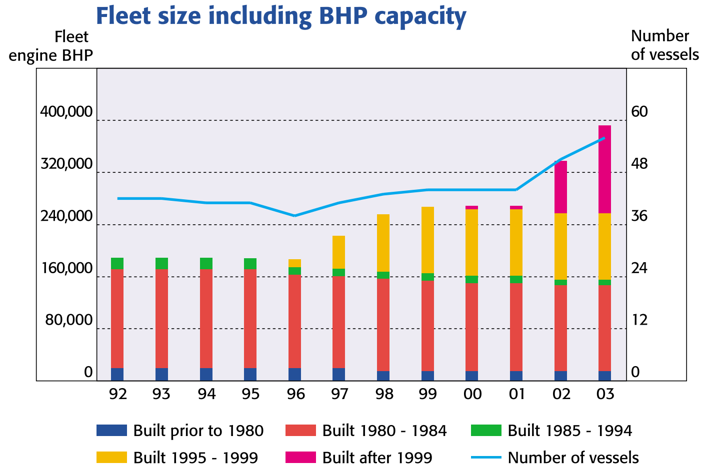
Ship Repair, Land Engineering and Harbour Towage

In spite of continued weakness in ship repair rates, Hongkong United Dockyards achieved a higher utilisation of its dockyard during the year, and results improved. However, the global economic slowdown continues to have an adverse impact on the international shipping industry, and this will place additional downward pressure on ship repair rates.

Swire Pacific Offshore – Fleet size



Swire Pacific Offshore – Fleet size including BHP capacity



Note: Fleet size is shown in terms of the aggregate engine brake horse power (BHP) as this is the best measure of its relative earning capacity.

Land engineering activities suffered from significant project delays in 2001, but should benefit from several new orders and contracts in 2002.

New automotive services were established during the year. These include bus painting, a Volvo authorised service workshop, tank cleaning and an environmental department for the testing and control of exhaust emissions. Although results from these operations were affected by start-up and development costs, significant progress has been made in bringing the businesses to profitability.

Hongkong Salvage and Towage, with a locally-deployed fleet of 11 vessels, remains the largest operator of tugs in Hong Kong harbour. The Hung Hom was sold in May, and eight other tugs are deployed overseas. The company also operates six shallow draft container vessels in Hong Kong. The Hong Kong operation, in a mature market, offers limited growth opportunities. The company will, therefore, continue to look for further opportunities to deploy vessels overseas. Two new tugs, currently being built in Japan, will be delivered in the latter half of 2002.

Container Terminal Operations

Modern Terminals (MTL) recorded another strong performance during 2001. The company achieved throughput of over three million TEUs for the second year running, with a small increase in market share. The economic downturn, however, has led to a decrease in export volumes, which is expected to continue into 2002. With limited opportunities for further growth, and continuing competition from terminals in Mainland China, MTL will focus on productivity gains to sustain its operating performance.

At Shekou Container Terminals, throughput continued to increase in 2001 to over 750,000 TEUs, with a consequent increase in operating profits. Despite the expected slower growth in the region’s total export market volumes in 2002, the Shenzhen throughput should continue to grow due to improving infrastructure and competitive terminal handling charges. At current throughput levels, the company is operating close to its theoretical capacity. The construction of two more berths is forecast to be completed by the end of 2003, with operations commencing in 2004.

Trading & Industrial

Trading & Industrial

Swire Pacific

	2001 HK$M	2000 HK$M
Subsidiaries		
Taikoo Motors group		
Turnover	**2,603**	2,690
Operating profit	**96**	158
Attributable profit	**19**	38
Swire Resources group		
Turnover	**590**	496
Operating profit	**47**	28
Attributable profit	**37**	28
Other subsidiaries and head office costs		
Turnover	**301**	682
Operating loss	**(31)**	(12)
Attributable loss	**(29)**	(29)
Subtotal		
Turnover	**3,494**	3,868
Operating profit	**112**	174
Attributable profit	**27**	37
Jointly Controlled Companies		
Swire SITA group		
Attributable profit	**97**	85
Carlsberg Brewery Hong Kong group		
Attributable profit/(loss) before non-recurring items	**10**	(45)
Share of non-recurring items	**–**	(132)
Attributable profit/(loss)	**10**	(177)
Crown Can group		
Attributable loss	**(27)**	(37)
ICI Swire Paints		
Attributable profit/(loss)	**12**	(9)
Other jointly controlled companies		
Attributable profit/(loss)	**11**	17
Attributable profit/(loss) for the division	**130**	**(84)**

Trading & Industrial

	2001	2000
Cars sold	11,553	10,431
Shoes sold ('000)	1,375	1,217
Brands managed	24	22

The Trading & Industrial Division has diverse interests in Hong Kong, Taiwan and Mainland China, which include wholly-owned and joint-venture investments in:

- The import and retailing of motor vehicles
- Retailing of sports and casual footwear and apparel
- Retailing of sugar products
- Marble cutting and contracting
- Waste management
- Aluminium can manufacture
- Paint manufacture
- Electrical busduct manufacture

2001 OVERVIEW

The economies of the Greater China region experienced varying economic conditions in 2001. Hong Kong was largely flat and retail prices continued to fall, Taiwan entered into recession and its currency came under persistent pressure in the second half of the year, while Mainland China maintained its recent impressive GDP growth, despite some slowing towards the end of the year.

During the year, the group sold its interests in Carlsberg Brewery Hong Kong to the Pacific Spirit Group, a partner of Carlsberg AS. At the end of the year, Taikoo Motors Taiwan relinquished the distribution agency for Volvo cars in Taiwan, which has been resumed by the Volvo Car Company. Taikoo Motors remains the dominant retail dealer for the marque.

The Trading & Industrial Division as a whole contributed an attributable profit of HK$130 million, compared with a loss of HK$84 million in 2000. If non-recurring items of HK$132 million incurred in 2000 are excluded, the recurrent year-on-year profits grew by 171%.

Trading Companies

TAIKOO MOTORS GROUP

In 2001, the Taikoo Motors group was both distributor and dealer for the following brands:

Hong Kong:	Volvo and Hyundai
Taiwan:	Volvo, Volkswagen and Kia
Mainland China:	Volvo and Kia

Taikoo Motors recorded sales growth in Taiwan in a difficult market, where overall vehicle imports dropped by some 20% against 2000, and remains the largest importer of vehicles. The Taiwan business also benefited from a recovery of HK$18 million in compensation for cars written off due to flood damage in 2000. Sales and earnings growth in Mainland China were solid, although the market slowed appreciably towards the year end in anticipation of WTO-related tariff reductions. The shortage of import licences continued to hamper growth. Sales and earnings in Hong Kong were disappointing.

With effect from 1st January 2002, the Volvo Car Company has set up its own distributorship in Taiwan, although Taikoo Motors will continue to be a leading retail dealer and after-sales service provider for the Volvo brand. Taikoo Motors Taiwan plans to expand its line-up of brands in 2002 to compensate for the Volvo distributorship. The company will continue to be the distributor for Volvo Truck and Bus.

SWIRE RESOURCES

Swire Resources is the leading importer and retailer of sports and casual footwear in Hong Kong, and also distributes specialist lines of sports apparel. Brands include Reebok, Puma, DKNY, Diesel, Rockport and Skechers. Retail operations comprise 44 shops in Hong Kong and 13 in Mainland China.

The company achieved record sales and earnings in 2001, with 1.73 million pairs of shoes sold, despite the general slowdown in retail sales. The Mainland China operations also returned a profit in 2001, for the first time.

Industrial Companies

Subsidiaries

TAIKOO SUGAR

Taikoo Sugar sells a full range of packaged sugars. It returned a loss in 2001 due to difficulties related to the closure of the company's own Hong Kong packaging factory and the establishment of new supply chains from overseas producers. The brand was re-launched in the second quarter. Following this restructuring of the business, it is anticipated that the company will return to profitability in 2002.

SWIRE DURO

Swire Duro imports, forms and fixes marble and granite products. Losses were incurred in the first half of 2001 due to a generally weak construction sector and delays on certain key projects. The company has, however, a firm forward order book and is once again trading profitably.

Jointly Controlled Companies

SWIRE SITA WASTE SERVICES (50%)

Swire SITA manages 12 waste collection and transfer stations and two major landfill sites in Hong Kong. In October, the Yuen Long transfer station was completed, and is now in operation. Earnings from this business in 2001 were satisfactory.

Earnings from the company's subsidiary, CSR Macau, were in line with the 2000 results.

The company also manages a waste-to-energy incineration plant in the Kaohsiung district of southern Taiwan. This facility, opened in December 2000, incurred losses in 2001 as it took some time to build up waste intake volumes to an economic level. By the end of the year, the facility was operating near break-even, and it is expected to deliver improved earnings in 2002.

The company continues to explore additional opportunities to expand its waste management business in both Taiwan and Mainland China.

CARLSBERG BREWERY HONG KONG (49%)

Carlsberg Brewery brews a range of beers in Guangdong province for sale throughout Mainland China and Hong Kong. The beer market declined in both volume and value in Hong Kong in 2001, although Carlsberg held its market share. The disposal of the Shanghai Brewery in 2000 reduced overcapacity and helped to change the company's result before non-recurring items from an attributable loss of HK$45 million in 2000 to an attributable profit of HK$10 million in the period up to the disposal.

As a further part of the refocusing of its interests, Swire Pacific disposed of its shares in Carlsberg Brewery Hong Kong in November 2001 for a net consideration of HK$260 million. The impairment loss of HK$307 million arising in respect of goodwill previously written off against reserves has been recognised as a prior year adjustment in the profit and loss account in accordance with HK SSAP No. 31.

CROWN CAN GROUP

Overall, the Crown Can group recorded a reduced attributable loss of HK$27 million to Swire Pacific, compared with an attributable loss of HK$37 million in 2000. Although market conditions continued to be poor, Crown Can increased its market share and sales volume, leading to better asset utilisation and reduced losses. The injection of funds following recapitalisation in some subsidiaries led to a reduction in borrowing levels and a consequent saving in external interest costs.

Crown Can Hong Kong (43%) produces aluminium cans for the beverage industry at four plants in Mainland China. The regional market remains over-supplied, and the deterioration in price noted in 2000 continued unabated in 2001, leading to reduced margins and earnings for the company. By the end of the year, there were tentative signs that both capacity and prices may have begun to stabilise. Following an injection of shareholders' funds in the second half of the year, Swire Pacific's effective interest in Crown Can Hong Kong rose from 40% to 43%.

Crown Vinalimex Packaging (37%) operates the only aluminium can-making line in northern Vietnam. Demand increased during the year, leading to improved sales and a reduced loss.

ICI SWIRE PAINTS (40%)

The company produces emulsion paints at factories in Guangzhou and Shanghai for sale throughout Mainland China and Hong Kong. For the third successive year, the company's Mainland China sales increased by over 30%, significantly boosting profitability. Hong Kong sales were flat, reflecting the weak property market. The share of profit attributable to Swire Pacific went from a loss of HK$9 million in 2000 to a profit of HK$12 million in 2001, largely as a result of the elimination of losses in the Mainland China business.

SCHNEIDER SWIRE (49%)

Schneider Swire manufactures electrical busduct in Guangzhou for sale in Mainland China, Hong Kong and South East Asia. Results were satisfactory, with Mainland China sales increasing by 49%. Margins have also improved, with most raw materials now being sourced in Mainland China. The profit attributable to Swire Pacific rose by 12% to HK$8 million.