

**370** million  
unit cases of soft  
drinks sold in 2002.

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. It works in close partnership with The Coca-Cola Company on brand development and marketing.

	2002 HK\$M	2001 HK\$M
<b>Turnover*</b>	<b>4,956</b>	4,661
<b>Operating profit</b>	<b>333</b>	304
<b>Share of profits before taxation jointly controlled companies</b>	<b>140</b>	85
<b>Attributable profit</b>	<b>313</b>	252

\* Turnover does not include the Mainland China operations which are all jointly controlled companies. Total turnover from Mainland China operations was HK\$3,203 million in 2002 (2001: HK\$2,883 million).

### Segment information

	Turnover		Attributable Profit	
	2002 HK\$M	2001 HK\$M	2002 HK\$M	2001 HK\$M
Hong Kong	<b>1,323</b>	1,256	<b>135</b>	109
USA	<b>2,696</b>	2,566	<b>150</b>	123
Mainland China	–	–	<b>33</b>	–
Taiwan	<b>937</b>	839	<b>30</b>	30
Head Office – costs	–	–	<b>(35)</b>	(33)
Head Office – interest income	–	–	–	23
	<b>4,956</b>	4,661	<b>313</b>	252

	Total	Hong Kong	USA	Taiwan	Mainland China
Sales volume (million cases)	370.4	45.3	79.0	45.5	200.6
Franchise population (million)	415.6	6.9	5.7	22.5	380.5
Per capita consumption per annum (8oz serving)	21	158	333	49	13
Number of plants	14	1	2	2	9
Number of employees	11,886	1,174	1,713	845	8,154

## 2002 OVERVIEW

Overall sales volume grew by 11% in 2002 largely driven by 16% growth in Mainland China where sales exceeded 200 million unit cases for the first time. Effective marketing and pricing strategies in support of new products have led to significant volume growth in the Non-Carbonated Beverages (“NCB”) category. Materials and operating costs remain under control, helping to protect margins from sustained pricing pressure with the result that attributable profit for 2002 rose 24% to HK\$313 million.

The Beverages Division continues to focus on leveraging its asset base and its considerable distribution capacity to further improve its ratio of turnover to net assets employed and to lower unit manufacturing and distribution costs.

In 2003 further efforts will be made to build on the recent gains in the NCB category. In particular action is being taken to reduce costs throughout the supply chain to make these products more competitive. Sales in 2003 should also benefit from the planned introduction of more new products.

### Swire Coca-Cola Hong Kong

The introduction of flavour extensions to the Coke and Fanta brands enabled Swire Coca-Cola Hong Kong to reverse a trend of declining growth in its Carbonated Soft Drinks (“CSD”) portfolio. In addition, share gains in the juice and water categories were once again significant with both Qoo juices and Bonaqua mineral water performing well. Overall, sales volume grew by 7% over 2001.

Pricing continues to be tight but further cost savings were secured through more efficient customer servicing and lower raw material costs which helped to maintain stable margins.

Effective control of fixed costs ensured that much of the incremental margin from sales growth flowed through to the bottom line with attributable profits rising HK\$26 million to HK\$135 million in 2002.

### Swire Coca-Cola USA

The Salt Lake City Winter Olympics provided a good platform for the year aided by strong national marketing campaigns. The launch of Vanilla Coke helped stimulate sales in our core CSD brand while in the NCB category, Dasani mineral water and Minute Maid juices performed particularly well. Overall, sales volume rose 3.4% over 2001, exceeding the 3% average for the Coca-Cola system in the USA.

Control over variable costs, and selective price increases, assisted a volume driven increase in contribution. Fixed costs were generally contained and assisted by further savings in finance charges, helping USA operations contribute HK\$150 million to Swire Pacific, an increase of HK\$27 million from 2001.

### Swire Coca-Cola Taiwan

Total volume in Taiwan grew by 9% in 2002, driven by further gains from Qoo in the juice category and Coke Light in CSDs.

The Taiwan market remains highly competitive. Pricing came under further pressure and the total CSD category continued to lose share to ready-to-drink teas.

Operating costs have remained under control which, together with lower finance charges, helped Swire Coca-Cola Taiwan maintain attributable profits of HK\$30 million in 2002.

Efforts will be focused on expanding the brand presence in the NCB category in 2003 and driving down product costs to improve margins.

### Mainland China

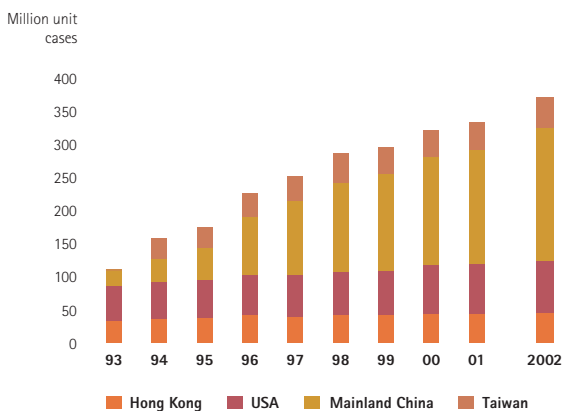
Swire Beverages Limited's jointly controlled operating companies hold bottling and distribution franchises for Henan, Fujian, Anhui, Shaanxi provinces and most of Zhejiang, Jiangsu and Guangdong provinces. During the year, the company increased its effective shareholding in the Shaanxi bottler, Xian BC Hans Foods, from 52.1% to 78.3%. Its principal subsidiary, Swire Coca-Cola HK, sold its entire interest in Swire Beverages (Dongguan), which produces NCBs, to a subsidiary of The Coca-Cola Company.

Significant gains from Qoo juices and Sensation water led to sales growth of 16%. A reduction in material costs and further gains in operational efficiency offset the impact of pressure on sales prices allowing margins to remain stable.

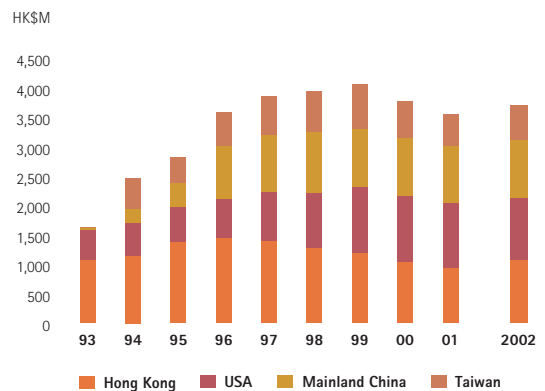
Guangmei Foods Company made a loss due to a decline in sales. Recent restructuring initiatives should ensure these losses do not recur in 2003.

Mainland China operations contributed an attributable profit of HK\$33 million. We remain optimistic about the prospects for continued growth in sales and profits.

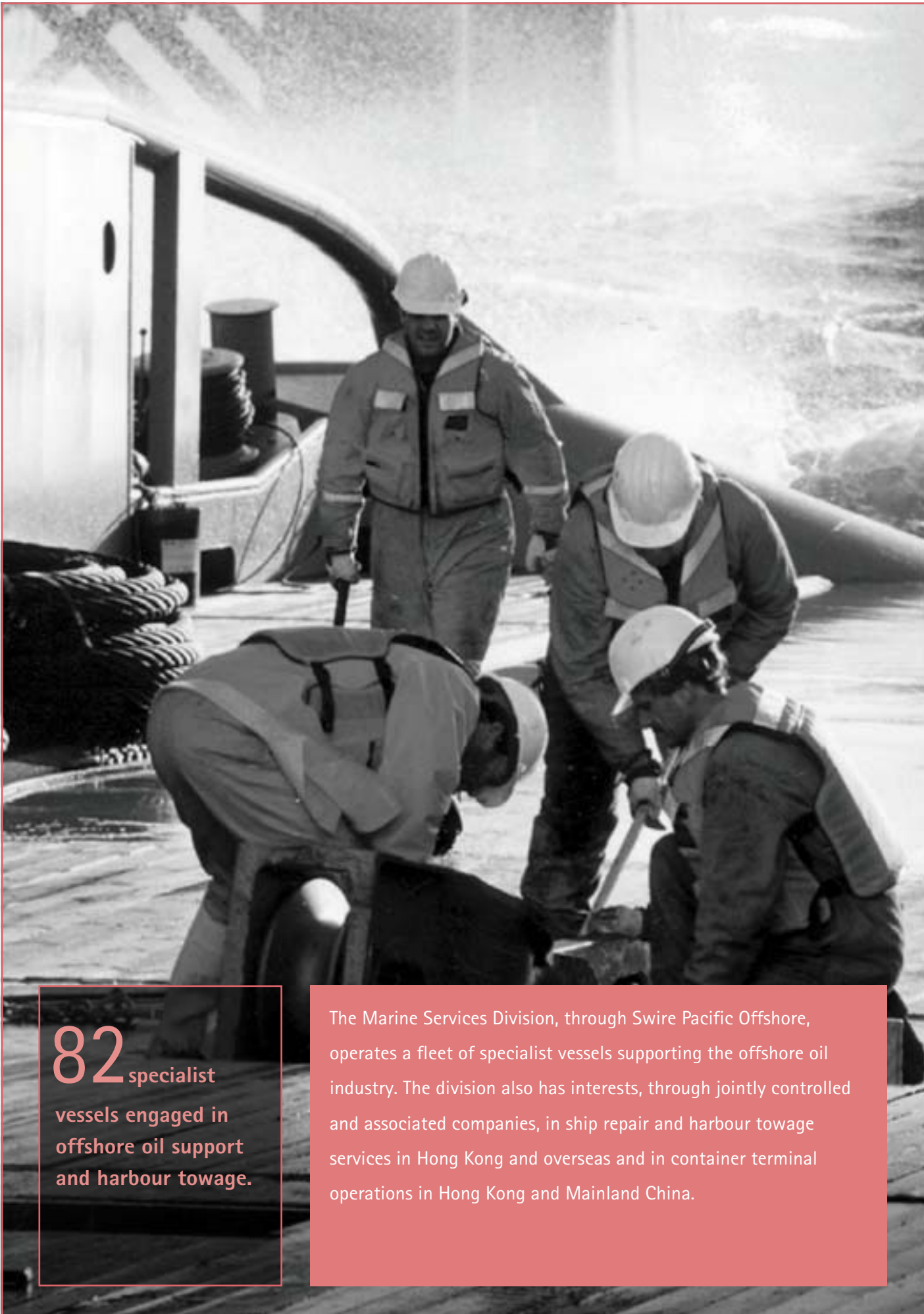
Sales volume in million unit cases



Net assets employed



Net assets employed in Mainland China are in jointly controlled companies, and these are included in the consolidated balance sheet as the share of net assets attributable to Swire Beverages.



**82** specialist vessels engaged in offshore oil support and harbour towage.

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.

	2002 HK\$M	2001 HK\$M
<b>Swire Pacific Offshore</b>		
Turnover	993	893
Operating profit	352	336
Attributable profit	355	312
<b>Share of profits before taxation jointly controlled and associated companies</b>		
Ship repair, land engineering and harbour towage	24	36
Container terminal operations	330	320
Offshore oil support services	25	9
	379	365
<b>Attributable profit</b>	<b>657</b>	617

### Key performance indicators

Fleet size (number of vessels)	2002	2001
Swire Pacific Offshore	56	49
Hongkong Salvage & Towage	26	25
Total	82	74

Container terminal throughput ('000 TEUs)	2002	2001
Modern Terminals	3,775	3,310
Shekou Container Terminals	884	751
Total	4,659	4,061



## 2002 OVERVIEW

The division's contribution to the group's attributable profit in 2002 amounted to HK\$657 million, compared with HK\$617 million in 2001: an increase of 6.5%. This result reflected the delivery of eight additional vessels to Swire Pacific Offshore, and improved throughput at the container terminals.

### Offshore Oil Support

Swire Pacific Offshore provides marine support to the offshore oil industry. At the end of 2002 Swire Pacific Offshore had a fleet of 56 vessels, including six boats in an Egyptian associated company, Ocean Marine Services.

Despite high oil prices, global uncertainty has reduced the amount of offshore oil exploration and with it the demand for offshore oil services. Swire Pacific Offshore reported an attributable profit of HK\$355 million, compared with HK\$312 million in 2001; an increase of 13.8%. The results reflect the five 7,200 bhp Anchor Handling Tug Supply boats ('AHTS') and three 10,800 bhp AHTS delivered during the year. *Pacific Rapier*, a 2,800 bhp AHTS was sold in August. A further five 10,800 bhp AHTS and one 7,200 bhp AHTS will be delivered in 2003. This will bring Swire Pacific Offshore's fleet to 62 vessels by the end of 2003.

Expro Swire Production, a 50% owned jointly-controlled company, recorded satisfactory results on the production facility operated by Shell Exploration BV on behalf of the National Iranian Oil Company. This contract runs to the end of August 2003 with options for the customer to extend.

The global uncertainty seen throughout 2002 is expected to continue into 2003 leading to fewer drilling programmes and reduced demand for high powered vessels operating in the

deep-water market. The production sector, however, remains firm and thus the prospects for the small / medium sized vessels which make up the majority of Swire Pacific Offshore's fleet remain reasonable.

### HUD Group: ship repair, land engineering and harbour towage

The HUD Group provides ship repair, harbour towage and salvage, land-based engineering and automotive services from its facility based on Tsing Yi Island. Severe pressure on rates and strong competition from regional shipyards continue to depress the earnings and margins of the dockyard. The difficult business climate was compounded by the port disruption on the US West Coast which led to the postponement and cancellation of dockings. With the outlook continuing to be uncertain, management is focussing on efficiency and cost saving measures to improve performance.

Hongkong Salvage & Towage maintains its position as the largest operator of tugs in Hong Kong harbour, with a fleet of ten deployed locally. Two new-builds, the *Cheung Chau* and *Sha Chau* were delivered during the year and the *Tap Mun* was sold in September. Four new-builds will also be delivered during the first half of 2003, resulting in the Hong Kong and overseas fleets comprising 12 vessels each. The company also operates six shallow draft container vessels on long term contracts in Hong Kong.

Land engineering activities were hampered by the failure to secure some major contracts in 2002, and delays in the award of others. Committed orders and the award of new contracts should lead to improved performance in 2003.

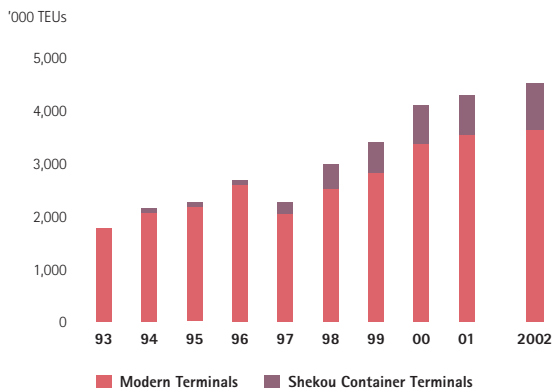
### Container Terminal Operations

Strong exports during the year and capacity constraints in Shenzhen have allowed Hong Kong throughput to grow with Modern Terminals achieving a record throughput of over 3.7 million TEU in 2002. Further growth is expected.

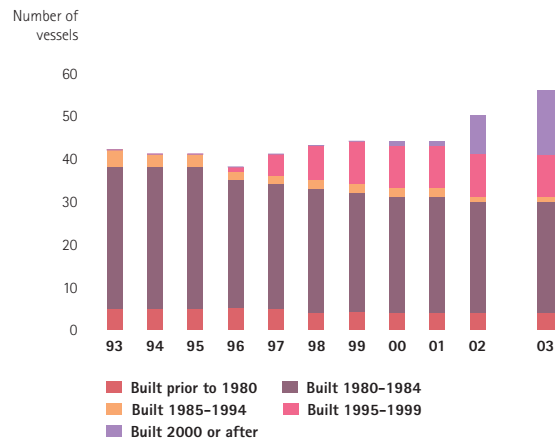
Modern Terminals will gain two extra berths once CT9 is fully operational in 2004 giving a total increase in capacity of 31% by 2005.

At Shekou Container Terminals, throughput increased 18% in 2002 to 884,000 TEU, with an improved level of profitability. The Shenzhen region is expected to continue to grow rapidly and the increase in throughput will permit the productive use of the first of the two new berths due for completion in August 2003.

Throughput history



Swire Pacific Offshore – Fleet size







**24** global brands  
of consumer and  
industrial products  
distributed in Hong  
Kong, Mainland China  
and Taiwan.

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

- Importing 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

	2002 HK\$M	2001 HK\$M
<b>Turnover</b>		
Taikoo Motors group	2,500	2,603
Swire Resources group	674	590
Other subsidiaries	309	301
	<b>3,483</b>	<b>3,494</b>
<b>Operating profits/(losses)</b>		
Taikoo Motors group	(131)	96
Swire Resources group	43	45
Other subsidiaries and head office costs	(2)	(29)
Profit on sale of jointly controlled company	68	-
	<b>(22)</b>	<b>112</b>
<b>Attributable profits/(losses)</b>		
Taikoo Motors group	(174)	19
Swire Resources group	35	33
Other subsidiaries and head office costs	65	(29)
	<b>(74)</b>	<b>23</b>
<b>Share of profits/(losses) before taxation jointly controlled companies</b>		
Swire SITA group	89	121
Crown Can group	14	(27)
ICI Swire Paints	19	13
Others	10	9
Write-off of sports footwear franchise	(35)	-
Discontinued businesses	1	22
	<b>98</b>	<b>138</b>
<b>Attributable profit</b>	<b>6</b>	<b>130</b>

		2002	2001
Cars sold		10,915	11,553
Shoes sold (pairs)	<i>million</i>	1.62	1.55
Brands managed		24	21

## 2002 OVERVIEW

The economies of Greater China saw sharply differing performances in 2002. Retail demand in Hong Kong continued to contract with prices falling for the fourth consecutive year; Taiwan saw modest GDP growth but the NT\$ was under consistent pressure, whereas Mainland China continued its remarkable economic expansion of recent years.

During the year the division continued to narrow its focus onto core businesses. To this end the 49% interest in Schneider Swire, a manufacturer of electrical busduct in Guangzhou, was sold for HK\$95 million, giving rise to a gain on disposal of HK\$68 million. At year end the decision was made to withdraw from motor vehicle distribution in Mainland China following Volvo's decision to change its distribution arrangements there. The net cost of closure was HK\$58 million. In addition the division wrote down the value of the Kwun Tong Car Centre in Hong Kong by HK\$93 million to reflect changed market conditions and wrote off HK\$41 million of goodwill for one of its Hong Kong car franchises (acquired in 1997) and HK\$35 million of goodwill for a sports footwear franchise (acquired in 1996). Shortly before the year end the division reached agreement to sell its interest in the Hong Kong Spinners Industrial Building in Lai Chi Kok to Li & Fung for HK\$225 million.

As a result of this significant restructuring, the Trading & Industrial Division reported a profit of HK\$6 million in 2002 compared to an attributable profit of HK\$130 million in 2001. If non-recurring items of HK\$173 million are excluded, the 2002 profit was HK\$179 million, an increase of 38% over 2001.

## Subsidiary Companies

### TAIKOO MOTORS GROUP

In 2002 the Taikoo Motors group was both distributor and dealer for the following brands:

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

Taikoo Motors recorded robust sales and profit growth in Taiwan despite an overall decline in the imported vehicles market of 5% from 2001. The company remains the largest importer of vehicles into Taiwan with sales in 2002 of 8,426 cars and 412 trucks and buses. On 1st May the company assumed the Audi distributorship in Taiwan to replace the Volvo distributorship lost earlier in the year.

Taikoo Motors had a difficult year in Mainland China due to a protracted customs investigation across the industry which inhibited sales for many months. At year end the company decided to withdraw from this market.

Taikoo Motors continued to record losses in Hong Kong due to reduced demand and severe price competition.

### SWIRE RESOURCES

Swire Resources is the leading importer and retailer of sports and casual footwear in Hong Kong and also distributes certain lines of sports apparel. Brands include Reebok, Puma, DKNY, Diesel, Rockport and Skechers. The company retails in Hong Kong under the names of Marathon Sports, Catalog and GigaSports. Swire Resources has 57 shops in Hong Kong and 19 in Mainland China.

Despite a tough retail market in Hong Kong the company recorded sales and profit growth. The Mainland China operation, although incurring a small loss, achieved good sales growth.

#### TAIKOO SUGAR

Taikoo Sugar packs and sells a full range of retail sugars and is Hong Kong's leading sugar brand. It increased market share in 2002 but returned a modest loss due to increased marketing spend in both Hong Kong and Mainland China.

#### SWIRE DURO

Swire Duro is Hong Kong's leading importer of granite and marble. It reported a small loss in 2002 due to the weak construction sector.

### Jointly Controlled Companies

#### SWIRE SITA WASTE SERVICES

Swire SITA manages 12 waste collection and transfer stations and two major landfills in Hong Kong. Earnings from this business in 2002 were satisfactory. Its subsidiary, CSR Macau, maintained stable earnings. The company also manages a waste-to-energy incineration plant in Kaohsiung, Taiwan. This facility recorded a loss in 2002 but the result was substantially better than in 2001. It is expected to improve further in 2003. Swire SITA continues to explore opportunities to expand its waste management business in Hong Kong, Taiwan and Mainland China.

#### CROWN CAN GROUP

The group produces aluminium cans at four plants in Mainland China and one in Vietnam. It recorded strong earnings growth in 2002 due to a substantially reduced raw material import tariff and stronger demand for its products. There are clear signs that the market in Mainland China has stabilised. Prospects for 2003 are encouraging.

#### ICI SWIRE PAINTS

The company produces emulsion paints at factories in Guangzhou and Shanghai for sale in Mainland China and Hong Kong. For the fourth successive year the company's Mainland China sales increased by over 20%, significantly boosting profitability. Hong Kong sales were flat reflecting the weak property market.