From Production

To Enjoyment

Review of Operations

Beverages Division

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.

	2003 HK$M	2002 HK$M
Turnover*	**5,136**	4,956
Operating profit	**364**	333
Share of profits before taxation jointly controlled companies	**205**	140
Attributable profit	**363**	276

* *Turnover does not include the Mainland China operations which are all jointly controlled companies. Total turnover from Mainland China operations was HK$3,798 million in 2003 (2002: HK$3,203 million).*

Segment information

	Turnover		Attributable Profit	
	2003 HK$M	2002 HK$M	**2003 HK$M**	2002 HK$M
Hong Kong	**1,351**	1,323	**127**	138
USA	**2,788**	2,696	**142**	110
Taiwan	**997**	937	**42**	30
Mainland China	**–**	–	**86**	33
Head Office – costs	**–**	–	**(34)**	(35)
	5,136	4,956	**363**	276

	Hong Kong	**USA**	**Taiwan**	**Mainland China**	**2003 Total**	2002 Total
Sales volume (million cases)	45.6	78.7	44.9	237.4	**406.6**	370.4
Franchise population (million)	6.8	5.7	22.6	383.2	**418.3**	415.6
Per capita consumption per annum (8oz serving)	161	332	48	15	**23**	21
Number of plants	1	2	2	9	**14**	14
Number of employees	1,146	1,746	879	8,541	**12,312**	11,886

Sales mix by location

	Sales mix%			
	2003		2002	
	CSD*	**NCB#**	CSD*	NCB#
Hong Kong	**63%**	**37%**	65%	35%
USA	**90%**	**10%**	91%	9%
Taiwan	**68%**	**32%**	68%	32%
Mainland China	**81%**	**19%**	84%	16%

* *Carbonated soft drinks.*
\# *Non-carbonated beverages.*

2003 OVERVIEW

Total sales volume grew 10% in 2003 to reach 407 million unit cases. A strong second half largely offset the impact of SARS seen within Greater China earlier in the year.

Profits fell in Hong Kong, mainly reflecting lost sales during SARS and a slightly weaker sales mix.

Mainland China was the principal source of incremental profits due to the added contribution from strong sales growth of 18% and the success in maintaining margins through tight control of materials, production and distribution costs. The USA also showed good profit growth on slightly improved margins and lower finance costs. Although adversely impacted by SARS in the second quarter, Taiwan benefited from improved sales mix and pricing as well as lower finance costs.

Hong Kong

Sales in Hong Kong grew by 6% in the second half thereby picking up most of the volume lost in the first half. Demand was stimulated by the successful launch of a range of brand extensions, including Nestea Icerush and Coke Light with Lemon, and a prolonged dry spell in the fourth quarter, but special post-SARS price promotions coupled with a weaker sales mix resulted in a modest decline in profit for the year.

Growth in non-carbonated beverages ("NCBs") is expected to continue. In 2003, NCBs accounted for 37% of sales with strong growth seen in Bonaqua, Nestea and Nescafé.

USA

Sales were flat against 2002 although the continuing consumer shift towards NCBs helped drive strong growth in Powerade of 31% and Dasani mineral water of 28%, a pattern consistent with the rest of the country.

Improving sales mix and careful management of price promotions enabled a slight improvement in margins, which together with lower finance costs, resulted in attributable profit increasing from HK$110 million to HK$142 million.

Taiwan

The Taiwan operation saw sales grow 11% in the second half but for the full year, overall volume was down 1%. Successful flavour extensions to the Nestea and Coke brands, and the launch of a local tea brand Tien Ren, invigorated demand.

Operating costs were effectively controlled and good cash generation helped reduce borrowings and finance costs.

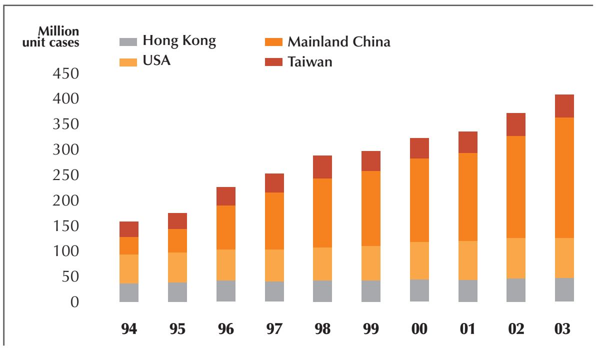
Mainland China

Jointly controlled operating companies hold bottling and distribution franchises for Henan, Fujian, Anhui, Shaanxi provinces and most of Zhejiang, Jiangsu and Guangdong provinces.

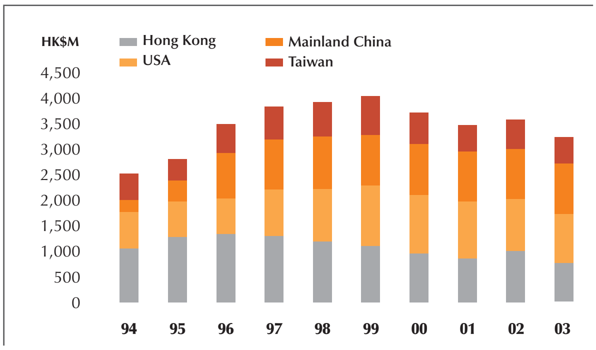
The attributable profit from Mainland China operations rose to HK$86 million on the back of sales growth of 18%. Qoo showed continued strength and Nestea was successfully launched throughout the territory. Consumer demand was further enhanced by exceptional weather in the second half.

Pricing pressures remain but margins improved slightly as a result of purchasing gains and volume-driven operational efficiencies.

Sales volume in million unit cases



Net assets employed



Net assets employed comprise shareholders' funds, minority interests and net borrowings of group companies, which include the share of net assets in jointly controlled companies in Mainland China.

From Expertise

To Confidence

Review of Operations

Marine Services Division

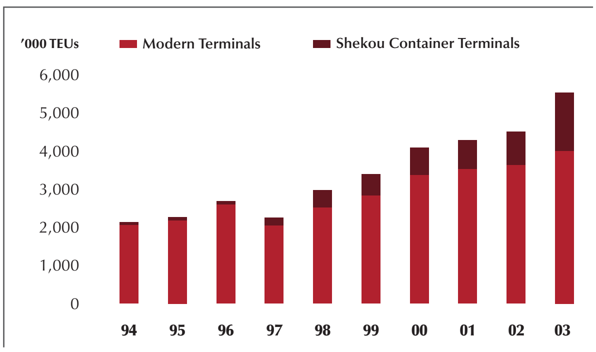
The Marine Services Division, through Swire Pacific Offshore, operates a fleet of specialist vessels supporting the offshore oil industry. The division also has interests, through jointly controlled and associated companies, in ship repair and harbour towage services in Hong Kong and overseas and in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

	2003 HK$M	2002 HK$M
Swire Pacific Offshore		
Turnover	**1,218**	993
Operating profit	**309**	352
Attributable profit	**306**	355
Share of profits before taxation jointly controlled and associated companies		
Ship repair, land engineering and harbour towage	**36**	24
Container terminal operations	**378**	330
Offshore oil support services	**23**	25
	437	379
Attributable profit	**646**	658

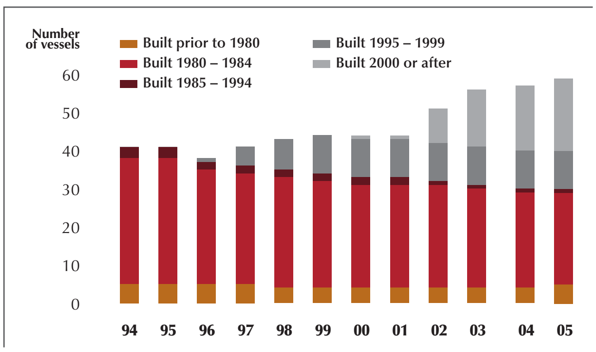
Fleet size (number of vessels)	2003	2002
Swire Pacific Offshore	**62**	56
Hongkong Salvage & Towage	**26**	26
Total	**88**	82

Container terminal throughput ('000 TEUs)	2003	2002
Modern Terminals	**3,991**	3,613
Shekou Container Terminals	**1,527**	884
Total	**5,518**	4,497

Throughput history



Swire Pacific Offshore – Fleet size



2003 OVERVIEW

The division's contribution to the group's attributable profit in 2003 amounted to HK$646 million, compared with HK$658 million in 2002, a decrease of 1.8%. This result reflected relative weakness in offshore oil support services, which offset an increased contribution from container terminal operations.

Offshore Oil Support

Swire Pacific Offshore provides marine support to the offshore oil industry. At the end of 2003 Swire Pacific Offshore had a fleet of 62 vessels, including seven boats in an Egyptian associated company, Ocean Marine Services.

The level of offshore oil exploration fell somewhat in 2003 which reduced fleet utilisation and charter rates for the company. Swire Pacific Offshore reported an attributable profit of HK$306 million, compared with HK$355 million in 2002; a decrease of 13.8%.

During the year, the company took delivery of one 7,200 bhp Anchor Handling Tug Supply boat ("AHTS") and five 10,800 bhp AHTS and sold *Pacific Pearl*, a 2,200 bhp Standby Support vessel. A further four 4,825 bhp AHTS will be delivered in 2004 and 2005. This will bring Swire Pacific Offshore's fleet to 66 vessels by the end of 2005.

Expro Swire Production, a 50% owned jointly controlled company, returned satisfactory results from the production vessel operated on behalf of the National Iranian Oil Company. This contract, which was originally scheduled to end in August 2003, has been extended until May 2004 with options for further extension by the customer.

The market for larger vessels is mixed, with a continuing lack of major new deepwater drilling programmes to absorb significant new tonnage coming out of the yards. This will continue to have an impact on the utilisation of the company's higher powered vessels. The jack-up and production sectors remain firm and, with half of Swire Pacific Offshore's fleet targeted at this market, prospects for the small and medium sized vessels look solid.

HUD Group

The HUD Group provides ship repair, harbour and ocean towage and salvage, and general engineering services from its facilities 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 impact of SARS, 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, as well as maximising utilisation of its facilities.

Hongkong Salvage & Towage maintains its position as the largest operator of tugs in Hong Kong harbour, with a fleet of ten deployed locally. The business reported improved results from an increase in vessel movements and the profit on sale of four older tugs. The fleet age profile was improved by the addition of four new-builds, which were delivered during the year. A further two new-builds are being delivered during the first quarter of 2004, with two more to be added later in the year. Together with the ten tugs which are deployed overseas, the fleet will total 24 by the end of 2004. The company also operates six shallow-draft container vessels on long-term contracts in Hong Kong. In June 2003, the group acquired a 55% controlling interest in Australian Maritime Services Pty Limited, an Australian harbour towage company headquartered in Melbourne. Following its acquisition, Australian Maritime Services Pty Limited has extended its services to two additional ports in Australia.

Container Terminal Operations

Despite strong export growth in South China, throughput growth in Hong Kong was modest during the year as the various terminals in Shenzhen, with their pricing advantages, had absorbed most of the growth. Nevertheless, Modern Terminals Limited ("MTL") achieved a record throughput of 4.0 million TEU in 2003. The first MTL berth at Container Terminal No.9 ("CT9") was completed in the fourth quarter of 2003. It is expected that CT9 will be in full operation following completion of the second berth in mid 2004. However, competition in Kwai Chung will intensify as a result of increased capacity and Asia Container Terminals Limited's entry as a new operator. This is likely to have an impact on throughput growth and rates for existing Kwai Chung operators.

Shekou Container Terminals greatly benefited from continuing rapid growth of output from the many factories in Southern China leading to strong growth in exports. The third berth came into operation in August under Shekou Container Terminals (Phase II). Combined throughput for the year of the three berths reached a record 1.5 million TEU. Construction of the fourth berth has also been completed in January 2004 to provide additional capacity.

From Diversity

To Choice

Review of Operations

Trading & Industrial Division

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**
- **Distribution and retailing of sports and casual footwear and apparel**
- **Packaging and retailing of sugar products**
- **Marble cutting and contracting**
- **Waste management**
- **Aluminium can manufacture**
- **Paint manufacture**

	2003 HK$M	2002 HK$M
Turnover		
Taikoo Motors group	**2,570**	2,500
Swire Resources group	**857**	674
Other subsidiaries	**247**	309
	3,674	3,483
Operating profits/(losses)		
Taikoo Motors group	**106**	(131)
Swire Resources group	**55**	43
Other subsidiaries and head office costs	**(36)**	(2)
Profit on sale of jointly controlled company	**–**	68
	125	(22)
Attributable profits/(losses)		
Taikoo Motors group	**72**	(174)
Swire Resources group	**43**	35
Other subsidiaries and head office costs	**(23)**	65
	92	(74)
Share of profits/(losses) before taxation jointly controlled companies		
Swire SITA group	**101**	89
CROWN Beverage Cans group	**44**	14
ICI Swire Paints	**17**	19
Swire Resources group	**12**	10
Write-off of sports footwear franchise	**(6)**	(35)
Discontinued businesses	**–**	1
	168	98
Attributable profit	**238**	4

		2003	2002
Cars sold		**9,530**	10,915
Shoes sold (pairs)	Million	**1.91**	1.62
Brands managed		**19**	24

2003 OVERVIEW

The Trading & Industrial Division recovered strongly in the second half following the SARS outbreak in the Division's major markets of Mainland China, Hong Kong and Taiwan earlier in the year. When viewed as a whole 2003 saw continuing strong economic growth in Mainland China with strong exports and buoyant domestic demand. Taiwan saw modest GDP growth resumed in the second half although its currency continued to weaken. Hong Kong saw a rebirth of consumer and investor confidence from August onwards and for the first time in six years price deflation started to abate.

Most of the Division's businesses benefited from these conditions with improved sales and profits. Full year attributable profit was HK$238 million, a marked increase from HK$4 million in 2002. The result reflects the strong trading performance and the absence of restructuring charges seen in prior years.

Subsidiary Companies

Taikoo Motors group

The Taikoo Motors group in Taiwan returned a profit of HK$72 million in 2003, slightly down on HK$77 million in 2002. In Taiwan the company now has a strong and diversified portfolio dealing in VW, Audi and Kia motor cars, and Volvo commercial vehicles, and is expanding its retail network. The company sold 9,000 vehicles in Taiwan in 2003, although the persistent weakness of the Taiwan dollar put pressure on margins. During the year the company completed its exit from motor car trading in both Mainland China and Hong Kong, and sold the Kwun Tong Car Centre in January 2004 for HK$90 million.

Swire Resources

Swire Resources, which trades in sports shoes and sports apparel, returned a recurring profit of HK$51 million in 2003 which includes its share of post tax profits from jointly controlled companies amounting to HK$8 million. This is well ahead of HK$42 million in 2002. The company operates 71 stores in Hong Kong with an estimated 35% share of the retail market in its sector. The company is also the exclusive importer of 15 sports brands into Hong Kong. With the addition of new brands and product lines, sales of sports apparel and accessories now equal those of footwear. The company's Mainland China wholesale business returned a profit for the first time in 2003.

Taikoo Sugar

Taikoo Sugar recorded a loss of HK$2.7 million in 2003. During the year the company opened a production facility in Guangdong and re-launched the brand in Mainland China. The Hong Kong business continues to be modestly profitable.

Swire Duro

Swire Duro recorded a modest trading loss in 2003. The company has a relatively firm order book but delays on key projects meant the factory was under-utilised for much of the year.

Jointly Controlled Companies

Swire SITA Waste Services

Swire SITA Waste Services returned an attributable share of profit before taxation of HK$101 million, slightly ahead of 2002. The Hong Kong transfer stations and landfills performed as expected. Tonnages were generally down on 2002 but costs were well controlled and the company benefited from steadier pricing as general deflation in Hong Kong began to ease in the second half of the year. Swire SITA continues to suffer larger than forecast losses from the waste-to-energy incinerator contract in Kaohsiung, Taiwan. This is partly because of equipment malfunction but also due to the contraction of the industrial base of southern Taiwan as more and more industry moves to Mainland China. CSR Macau, the company's joint venture waste management company in Macau, exceeded budgeted profitability.

CROWN Beverage Cans group

The CROWN Beverage Cans group had good profit growth in 2003. Demand for the company's products, particularly in eastern and southern China, was strong. The company's joint venture plant in Hanoi, Vietnam showed improved profitability on the back of strong sales.

ICI Swire Paints

ICI Swire Paints had another good year in Mainland China with sales growing 31% by value over 2002, the fifth successive year of strong sales growth. Demand was particularly buoyant in the east and north. Profit growth was constrained by significant expenditure on a major new marketing initiative which is intended to drive further sales growth. Business in Hong Kong was adversely affected by the weak property market.

Financial Review

References are to "Notes to the Accounts" on pages 59 to 84.

Commentary on major variances in the Consolidated Profit and Loss Account, Balance Sheet and Cash Flow Statement

Consolidated Profit and Loss Account	2003 HK$M	2002 HK$M	Reference
Turnover In the Property Division, turnover from property trading increased significantly due to strong sales of the units in The Orchards. The increased revenue from the sale of investment properties during the year was more than offset by the reduced gross rental income. In the Beverages Division, strong sales growth in the second half of the year for both Hong Kong and Taiwan, particularly non-carbonated products, has largely offset the negative impact of SARS seen during the second quarter of 2003. Turnover for the two territories and USA increased 3.6% over that of 2002. Improved charter-hire revenue was recorded in the Marine Services Division, reflecting further capacity growth in Swire Pacific Offshore following the delivery of six new vessels during the year. In the Trading & Industrial Division, the strong sales in Swire Resources were partially offset by lower turnover in Swire Duro and Taikoo Sugar. Taikoo Motors group recorded increased sales of motor cars in Taiwan, whilst the turnover in Hong Kong fell following the sale of the business in 2003.	**17,568**	15,215	Note 1
Operating Profit In the Property Division, operating profit was marginally higher than 2002 due to increased contribution from the sale of trading properties (The Orchards) and the further sale of units in The Albany and 3 Coombe Road, partially offset by reduced net rental income from the office portfolio. The Beverages operations in the USA and Taiwan recorded good profit growth as a result of improved margins and sales mix as well as savings in operating costs. Operating profit for the Hong Kong operation dropped marginally due to special price promotions and unfavourable sales mix. Operating profit in the Marine Services Division saw a decline in 2003, reflecting the higher operating costs of the expanding fleet in Swire Pacific Offshore. The increase in operating profit in the Trading & Industrial Division was due to the combination of higher contribution from Swire Resources and the absence of closure costs and write-down of net assets relating to the car businesses in Mainland China and Hong Kong respectively.	**4,585**	4,345	Note 2 and Note 3
Net Finance Charges The decrease in net finance charges was due to the lower prevailing interest rates and the reduction of average net borrowings during the year.	**(464)**	(547)	Note 6
Share of Profits Less Losses of Jointly Controlled Companies The significant increase was due to the absence of provisions for property development projects and the write-off of goodwill in respect of a footwear franchise. The share of profits from Beverages operations in Mainland China rose by HK$65 million due to 18% sales growth and slightly improved margins. Contribution from container handling facilities in Shekou increased by HK$36 million, benefiting from the strong growth in exports from Southern China.	**530**	(36)	Note 7

Consolidated Profit and Loss Account (continued)

	2003 HK$M	2002 HK$M	Reference
Share of Profits Less Losses of Associated Companies The severe drop in passenger business during the SARS outbreak caused a dramatic fall in profit contributions from Cathay Pacific and Dragonair in the second quarter of 2003. Although demand recovered quickly in the second half, the share of profits from both companies in 2003 showed an aggregate decline of HK$1,205 million as both the overall passenger traffic and passenger yield were down from last year.	**1,522**	2,750	
Taxation The higher effective tax rate of 14.1% was mainly due to the increase in Hong Kong profits tax rate of 1.5% and its effect on the opening deferred tax liabilities.	**872**	755	Note 8
Profit Attributable to Shareholders The decrease in profit from the Aviation Division has been partially offset by the absence of provisions against property development projects held by jointly controlled companies and restructuring costs for the car businesses in the Trading & Industrial Division. In addition, higher profits were recorded from property trading and sales of investment properties as well as Beverages operations in Mainland China, USA and Taiwan.	**4,922**	5,377	Note 9

Consolidated Balance Sheet

	2003 HK$M	2002 HK$M	Reference
Fixed Assets The reduction in fixed assets mainly reflects the decrease in valuation of the investment property portfolio, and also the sale of units in The Albany and 3 Coombe Road.	**65,473**	66,975	Note 12
Investments in Jointly Controlled Companies Remittance of funds and dividends from jointly controlled companies holding interests in the Ocean Shores and Les Saisons development projects accounted for the decrease during the year.	**4,311**	5,845	Note 14
Investments in Associated Companies The slight decrease mainly represents the share of deficit in the cash flow hedge reserve recognised by Cathay Pacific, which more than offset the increase in retained earnings.	**17,677**	17,983	Note 15

Consolidated Balance Sheet (continued)	2003 HK$M	2002 HK$M	Reference
Properties for Sale The decrease is mainly due to the sale of units in The Orchards in Hong Kong and Courts Brickell Key in the USA.	**1,822**	2,442	Note 17
Trade and Other Receivables Trade receivables at the end of 2003 included the balance of proceeds receivable from the sale of units in The Orchards. Such increase was partially offset by the settlement of receivables brought forward from 2002, representing the proceeds from the sale of Swire Beverages (Dongguan) and the Hong Kong Spinners Industrial Building.	**2,485**	2,146	Note 19
Long-term Loans and Bonds The decrease reflects the reclassification of long-term loans and bonds due within one year, comprising HK$2,321 million (US$300 million) 144A bonds and HK$500 million medium term notes, to current liabilities. The decrease is also due to the repayment of long-term loans with funds received from the Property Division upon sale of trading and investment properties.	**1,325**	5,324	Note 22
Minority Interests The increase reflects retained profits attributable to minority interests and the minorities' share of 2003's revaluation surplus in respect of Festival Walk (a non-wholly owned investment property), partially offset by the repayment of shareholders' loans to minority interests in the Property Division.	**5,231**	4,861	
Shareholders' Funds The decrease relates principally to a decrease in the property valuation reserve and the cash flow hedge reserve, partially compensated by profit retained during the year. In 2003, the Company purchased a total of 1,932,500 'A' shares of the company, for an aggregate consideration of HK$60 million. All the shares repurchased were cancelled. The premium paid in excess of the nominal value of shares repurchased was charged to revenue reserve.	**68,076**	68,947	
Consolidated Cash Flow Statement			
Cash Generated from Operations The increase is mainly due to cash inflows from the sale of units in The Orchards. Strong trading in the second half of 2003 in Taikoo Motors Taiwan helped boost revenues and cash flows from the Trading & Industrial Division.	**5,333**	4,462	Note 30

Consolidated Cash Flow Statement (continued)

	2003 HK$M	2002 HK$M	Reference
Interest Paid The decrease in interest paid during the year is attributable to the continued decline in interest rates and to the lower level of the group's net borrowings.	**860**	961	
Profits Tax Paid The increase in tax paid during the year mainly represents the settlement of the higher tax charges relating to 2002. The 1.5% rise in the Hong Kong profits tax rate also has the effect of increasing the 2003 provisional profits tax paid.	**444**	298	
Proceeds from Fixed Asset Disposals The increase is due to cash inflows from the collection of receivable from the sale of the Hong Kong Spinners Industrial Building in 2002 and proceeds from the sale of residential units in The Albany and 3 Coombe Road.	**1,041**	605	
Purchase of Shareholdings in and Loans to Jointly Controlled Companies The outflow is mainly due to additional loans injected into property development projects undertaken by jointly controlled companies. The amount also includes further investment in Shekou Container Terminals (Phase II).	**973**	420	
Purchase of Shareholdings in and Loans to Associated Companies The cash outflow mainly relates to the purchase of additional shares in Cathay Pacific Airways.	**257**	3	
Sale of Shareholdings in and Repayment of Loans by Jointly Controlled Companies The increase in cash inflow mainly arose from the repayment of loans by jointly controlled companies upon realisation of trading properties (Ocean Shores and Tung Chung Crescent). The inflow also includes the proceeds received from the sale of Swire Beverages (Dongguan).	**2,748**	2,434	
Loans Drawn and Refinancing Loans drawn in 2003 were mainly for the financing of the construction of development properties in the USA and to refinance the bank loan in the US Beverages operations.	**1,235**	1,068	
Repayment of Loans and Bonds The outflow in 2003 mainly represents repayments of HK$2,400 million of fixed and floating rate notes, a HK$852 million (US$110 million) private placement and other bank loans. These were funded by operating cash inflows and asset realisations in the Property Division.	**5,321**	3,496	

Investment Appraisal and Performance Review

	Net assets employed (per ten-year financial summary)			Capital commitments		
	2001 HK$M	2002 HK$M	**2003 HK$M**	2001 HK$M	2002 HK$M	**2003 HK$M**
Property investment						
– at cost	37,127	38,182	**39,566**	1,898	2,178	**1,632**
– revaluation reserve	28,752	22,892	**19,673**			
– working capital	(3,402)	(3,856)	**(3,588)**			
Property trading	7,185	5,362	**2,791**			
Aviation	15,855	16,518	**16,214**			**99**
Beverages	3,478	3,588	**3,236**	25	19	**24**
Marine Services	2,899	3,814	**4,335**	1,397	431	**170**
Trading & Industrial	1,767	1,379	**1,052**			
Head office	215	117	**202**			
	93,876	87,996	**83,481**	3,320	2,628	**1,925**

Comments on these numbers:

- The increase in Property investment assets at cost is due to the HK$941 million investment in Three Pacific Place and Cambridge House partially offset by the sale of residential property at The Albany and 3 Coombe Road. The decrease in the property revaluation reserve was mainly due to a reduction in office values partially offset by the increase in the value of the retail portfolio.

- Property trading assets declined by HK$2,571 million in 2003. Sales of units in Ocean Shores, Les Saisons, Seaview Crescent and The Orchards as these residential projects moved towards completion were partially offset by expenditure on Jade Residences and The Carbonell in Miami.

- Aviation Division comprises associated companies. Its net assets employed reflect the change in these companies' reserves. The HK$304 million reduction during the year was mainly due to a reduction in Cathay Pacific's cashflow hedge reserve resulting from currency movements and a decrease in HAECO's retained profit due to a special dividend.

- Beverages Division's assets decreased by HK$352 million in 2003 due to depreciation exceeding capital expenditure and a HK$42 million increase in deferred tax liabilities in the USA.

- Marine Services Division's assets increased due to expenditure of HK$473 million on new vessels for the expansion of Swire Pacific Offshore.

- Trading & Industrial Division's assets declined by HK$327 million in 2003 mainly due to the withdrawal from motor vehicle trading in Hong Kong and Mainland China.

Credit Analysis

Introduction

This section of the report covers:

Treasury Management
- Structure and Policy
- Interest Rate Exposure
- Currency Exposure
- Commodity Exposure
- Credit Exposure
- Accounting for Derivatives

Credit Profile
- Key Credit Ratios
- Cash Flow Summary
- Currency Profile
- Sources of Finance
- Maturity Profile and Refinancing
- Covenants and Credit Triggers
- Interest Cover and Gearing
- Total Financial Obligations
- Debt in Jointly Controlled and Associated Companies

Treasury management

Structure and Policy

Swire Pacific's Head Office Treasury sets its financial risk management policies in accordance with policies and procedures approved by its Board. It also manages the majority of the group's funding needs and currency, interest rate, credit and event risk exposures. Within the same policy framework, operating subsidiaries manage currency, interest rate and commodity exposures that are specific to particular transactions within their businesses. It is the policy of the Swire Pacific group not to enter into derivative transactions for speculative purposes.

The group's listed associated companies, Cathay Pacific and HAECO, arrange their financial and treasury affairs on a stand-alone basis, in a manner consistent with the overall policies of the group.

Non-listed associated and jointly controlled companies also arrange their financial and treasury affairs on a stand-alone basis. Swire Pacific provides financial support by way of guarantees in cases where significant cost savings are available and risks are acceptable.

Interest Rate Exposure

The level of fixed rate debt for the group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the cash flow cycles of the group's businesses and investments.

In addition to raising funds on a fixed rate basis, the Swire Pacific group uses interest rate swaps in the management of its long-term interest rate exposure. It also uses forward rate agreements to manage its exposure to short-term interest rate volatility.

Currency Exposure

Exposure to movements in exchange rates on individual transactions in the Swire Pacific group is minimised using forward foreign exchange contracts where active markets for the relevant currencies exist. All significant foreign currency borrowings with a fixed maturity date are covered by appropriate currency hedges.

Translation exposure arising on consolidation of the group's overseas net assets is reduced, where practicable, by matching assets with borrowings in the same currency. Substantial proportions of the revenues, costs, assets and liabilities of Swire Pacific and its subsidiary companies are denominated in Hong Kong dollars.

The long-term financial obligations of Cathay Pacific have been arranged primarily in currencies in which it has substantial positive operational cash flows, thus establishing a natural currency hedge. The policy adopted requires that anticipated surplus foreign currency earnings should be at least sufficient to meet the foreign currency interest and principal repayment commitments in any year.

Commodity Exposure

Certain Swire Pacific group companies have underlying exposures to commodity risk. Derivatives including swaps, forwards and options are used in the management of these exposures in accordance with the policies approved by the Board.

Credit Exposure

When depositing surplus funds or entering into derivative contracts, the group controls its exposure to non-performance by counterparties by transacting with investment grade counterparties, setting approved counterparty limits and applying monitoring procedures. The group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of a derivative. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

Accounting for Derivatives

Derivatives are used solely for management of an underlying risk and the group is not exposed to market risk since gains and losses on the derivatives are offset by losses and gains on the assets, liabilities or transactions being hedged, hence, derivatives are not required to be valued at their market values.

Derivative transactions entered into by Swire Pacific and its subsidiary companies, and outstanding at the year end are summarised below by their respective types and maturities:

Maturity	Type	Purpose	Currency paid	Principal HK$	Basis of rate paid	Currency received	Basis of rate received
2004	Cross currency coupon only swap	To hedge USD coupons	HKD	2,534,850,000	Fixed	USD	Fixed
2004	Cross currency swap	To hedge principal repayment of USD debt	HKD	1,313,665,000	Fixed	USD	Fixed
2004	Cross currency swap	To hedge principal repayment of USD debt	HKD	1,007,435,000	Floating	USD	Floating
2004	Interest rate swap	To swap fixed rate debt into floating rate	HKD	500,000,000	Floating	HKD	Fixed
2005	Cross currency coupon only swap	To hedge USD coupons	HKD	390,000,000	Fixed	USD	Fixed
2006	Cross currency coupon only swap	To hedge USD coupons	HKD	3,315,000,000	Fixed	USD	Fixed
2006	Interest rate swap	To swap floating rate debt into fixed rate	HKD	700,000,000	Fixed	HKD	Floating
2007	Cross currency coupon only swap	To hedge USD coupons	HKD	974,250,000	Fixed	USD	Fixed
2008	Interest rate swap	To swap floating rate debt into fixed rate	USD	241,756,600	Fixed	USD	Floating

Credit Profile

Swire Pacific aims to maintain a capital structure that is appropriate for long-term credit ratings of A3 to A1 on Moody's scale and A- to A+ on Standard & Poor's scale. Actual credit ratings may depart from these levels from time to time due to economic circumstances. As at 31st December 2003 our long-term credit ratings were A3 from Moody's and BBB+ from Standard & Poor's.

Key Credit Ratios

The table below sets out those credit ratios of the group which credit agencies commonly assess when determining credit ratings:

	1999	2000	2001	2002	**2003**
Operating margin	26.8%	29.8%	33.1%	32.5%	**29.9%**
EBIT/net interest	3.5	4.2	5.5	6.5	**7.9**
FFO+net finance charges/net interest	3.8	4.6	5.8	6.3	**7.4**
Rental income/net interest	2.8	2.7	3.4	4.2	**4.3**
FFO/net debt	27.0%	33.8%	34.7%	34.7%	**52.1%**
Net debt/net capital	18.6%	17.0%	17.8%	16.1%	**12.2%**

Operating margin = Operating profit before depreciation and amortisation/turnover
EBIT = Earnings before interest and taxes
FFO (Funds from operations) = Net income plus depreciation plus deferred tax plus non-cash items
Net capital = Shareholders' funds plus minority interests plus proposed dividends plus net debt
Net interest is stated before deducting capitalised interest.

Cash Flow Summary

	2003 HK$M	2002 HK$M
Net cash generated by businesses and investments:		
Cash generated from operations	**5,333**	4,462
Cash from asset realisations*	**3,838**	3,272
Dividends received	**1,563**	1,245
Capital expenditure and investments**	**(3,130)**	(2,619)
Tax and net interest paid	**(1,256)**	(1,220)
	6,348	5,140
Cash paid to shareholders and net funding by external debt:		
Share repurchases	**(60)**	(540)
Dividends paid	**(1,999)**	(1,884)
Decrease in borrowings	**(4,352)**	(2,603)
	(6,411)	(5,027)
(Decrease)/increase in cash and cash equivalents	**(63)**	113

* *Includes proceeds from fixed asset disposals and the sale of shareholdings in and repayments of loans by jointly controlled and associated companies and investment securities as well as net changes in long-term receivables.*

** *Includes additions to fixed assets and deferred expenditure, purchase of shareholdings in and loans to subsidiary, jointly controlled and associated companies and investment securities.*

Cash from asset realisations was derived mainly from the sale of trading properties in Ocean Shores and Tung Chung Crescent as well as from sale of units in The Albany and 3 Coombe Road. Other receipts include proceeds from the sale of interests in Swire Beverages (Dongguan) and Xian BC Coca-Cola Beverages and the Hong Kong Spinners Industrial Building.

Capital expenditure and investments include mainly of construction costs for Three Pacific Place and Cambridge House, addition of offshore support vessels and purchase of shares of Cathay Pacific.

The major debt repayments for the year comprise HK$2,400 million of fixed and floating rate notes and a US$110 million private placement. Other repayments relate to funds drawn from syndicated and bilateral revolving credit loans, funded by cash from operations and asset realisations. A syndicated loan of HK$2,300 million and a revolving credit line of HK$200 million were secured during the year to provide additional committed facilities.

Currency Profile

Following is an analysis of debt by currency net of hedges at 31st December 2003:

Currency	Total HK$M	%
Hong Kong Dollar	6,999	69
United States Dollar	2,981	29
New Taiwan Dollar	253	2
Others	(59)	–
	10,174	100

Sources of Finance

At 31st December 2003, committed loan facilities and debt securities amounted to HK$16,534 million, of which HK$7,094 million (43%) remained undrawn. In addition, the group has undrawn uncommitted facilities totalling HK$2,577 million. Sources of funds at the end of 2003 comprised:

	Available HK$M	Drawn HK$M	Undrawn HK$M
Committed facilities			
Perpetual Capital Securities	4,642	4,642	–
Bonds	2,321	2,321	–
Fixed/Floating Rate Notes	1,000	1,000	–
Bank and other loans	8,571	1,477	7,094
	16,534	9,440	7,094
Uncommitted facilities			
Money market & others	3,810	1,233	2,577

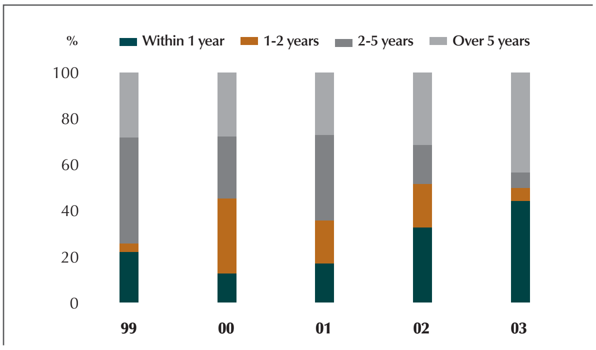
Maturity Profile and Refinancing

The group's weighted average term and cost of debt is:

	2003	2002
Weighted average term of debt	**4.8 years**	4.4 years
Weighted average term of debt (excluding Perpetuals)	**2.1 years**	1.8 years
Weighted average cost of debt	**6.4%**	5.6%
Weighted average cost of debt (excluding Perpetuals)	**4.7%**	4.1%

The maturity profile of the group's gross borrowings at the end of each of the last five years is set out below:

Maturity profile



Included in the group's debt is HK$4,642 million of Perpetual Capital Securities, half of which the group can call at any time after 30th October 2006. The other half can be called at any time after 13th May 2017. As the call is at the option of the group, this debt is reported as having a life of the longer of the first call date and ten years.

The group manages refinancing risks by spreading the maturity of its facilities over a number of years so that refinancing needs are not excessive in any one year. The repayment schedule of the group's committed debt facilities is detailed below:

Debt Maturity

	2004 HK$M	**2005 HK$M**	**2006 HK$M**	**2007 HK$M**	**beyond 2007 HK$M**
Capital market debts	2,821	–	500	–	4,642
Bank loans	805	3,577	1,867	22	2,300
	3,626	3,577	2,367	22	6,942

Covenants and Credit Triggers

There are no specific covenants given by the group for its debt facilities which would require debt repayment or termination of a facility should the group's credit rating be revised by the credit rating agencies.

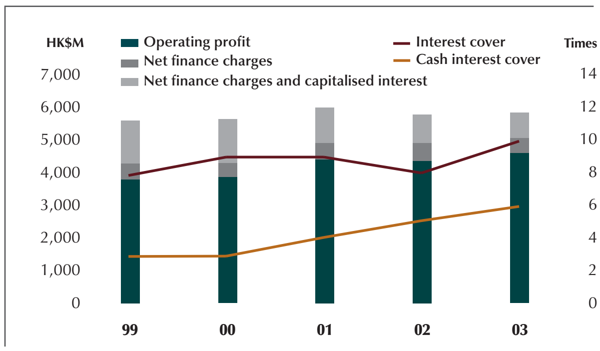
Covenants have been given in respect of gearing limits, maintenance of minimum consolidated tangible net worth and interest cover. During the term of these facilities, none of the covenants were breached.

Interest Cover and Gearing

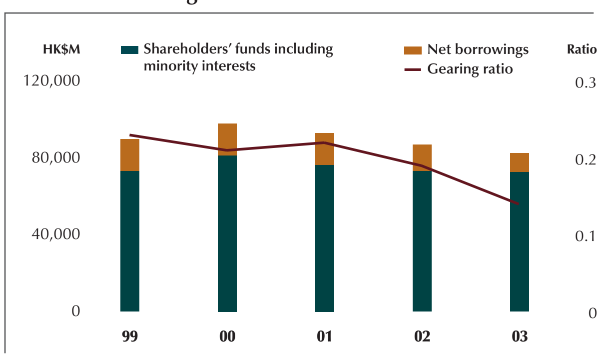
At 31st December 2003, 72% of the group's gross borrowings were on a fixed rate basis and 28% were on a floating rate basis.

The following graphs illustrate interest cover and gearing ratios for each of the last five years. Interest cover for the year ended 31st December 2003 was 9.88 times while cash interest cover, calculated by reference to total interest charges including capitalised interest, was 5.90 times. The gearing ratio was 14% at the end of 2003.

Interest cover and cash interest cover



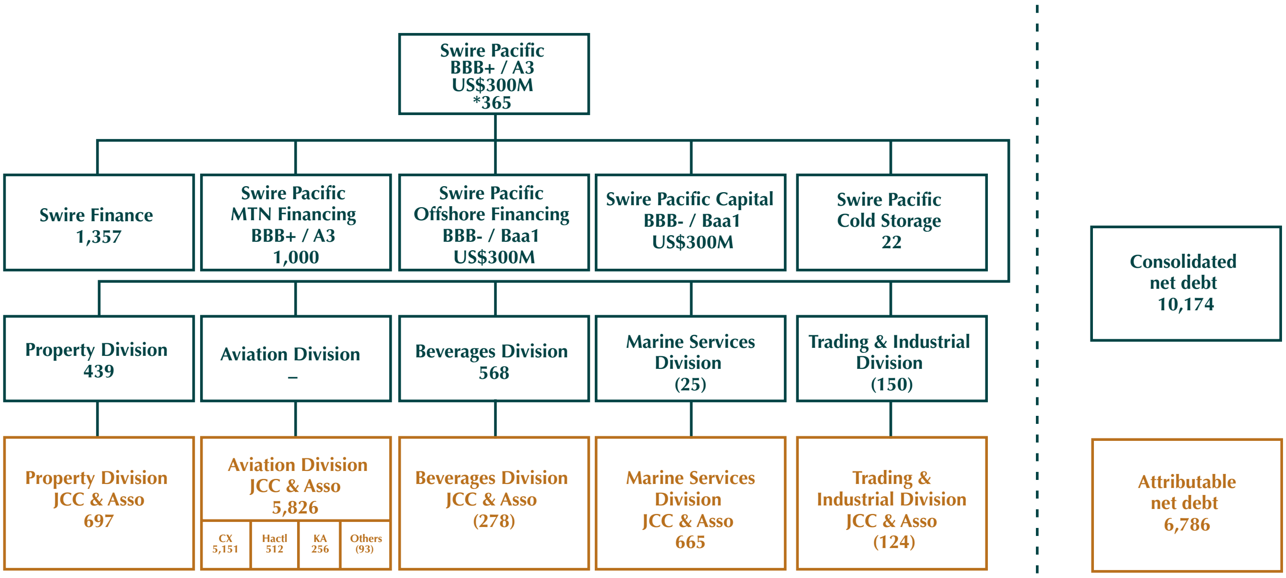
Gearing ratio



Total Financial Obligations

The chart below illustrates net debt by borrowing entity, attributable net debt in jointly controlled and associated companies ("JCC & Asso") and undertakings given to third parties.

(In HK$M except specified)



* *Performance guarantee given in respect of a jointly controlled company.*

Debt in Jointly Controlled and Associated Companies

In accordance with Hong Kong accounting standards, the group's balance sheet does not include the net debt in its jointly controlled and associated companies. These companies had the following net debt positions at the end of 2003 and 2002:

	Total net debt		Portion of net debt attributable to Swire Pacific		Debt guaranteed by Swire Pacific or its subsidiaries	
	2003 HK$M	2002 HK$M	**2003 HK$M**	2002 HK$M	**2003 HK$M**	2002 HK$M
Property Division	**2,245**	2,404	**697**	736	**337**	349
Aviation Division						
Cathay Pacific	**11,111**	9,645	**5,151**	4,414	**–**	–
Hactl	**2,076**	2,711	**512**	666	**–**	–
Dragonair	**1,601**	1,698	**256**	269	**–**	–
Other Aviation Division companies	**(51)**	(45)	**(93)**	(91)	**8**	–
Beverages Division	**(575)**	(167)	**(278)**	(97)	**–**	–
Marine Services Division	**2,104**	1,707	**665**	499	**500**	500
Trading & Industrial Division	**(325)**	(42)	**(124)**	(14)	**–**	–
	18,186	17,911	**6,786**	6,382	**845**	849

Corporate Governance

Business Values

A reputation for fair dealing and integrity is a valuable corporate asset and we are determined to foster and maintain high standards of corporate governance. We also believe that maximisation of long-term returns to shareholders is best achieved by acting in a socially responsible manner which recognises the interests of other community stakeholders. Our commitment is to:

- provide high-quality products and services to the satisfaction of our customers;
- maintain high standards of business ethics and corporate governance;
- ensure the safety and well-being of employees, customers and others with whom we have contact;
- protect the environment from harm; and
- achieve these goals whilst, at the same time, providing satisfactory returns to shareholders.

The group has a Corporate Code of Conduct which sets out principles, values and standards of conduct expected of management and staff throughout the group, and underpins group operating procedures and policies.

Relations with Shareholders

The ultimate holding company of Swire Pacific Limited is John Swire & Sons Limited ("JS&S"), a company incorporated in the United Kingdom, which controls shares representing a 29% equity interest and 53% voting rights in Swire Pacific Limited.

JS&S has been operating in Hong Kong and Mainland China for over 130 years. Its ownership and involvement in Swire Pacific Limited has been in place since before Swire Pacific Limited became a public listed company in 1959.

JS&S currently has three non-executive directors on the board, one of whom, P A Johansen chairs the Remuneration Committee and also sits on the Audit Committee.

The JS&S group also provides significant management support to the Swire Pacific group under agreements for services, details of which are provided on page 49 and in note 29 to the accounts on page 83.

JS&S expects Swire Pacific to achieve sustainable returns above the cost of capital. It believes its stable shareholding structure and management consistency are important ingredients to achieving this aim.

The group is committed to fair disclosure and comprehensive and transparent reporting of its performance and activities. Printed copies of the Annual and Interim Reports are sent to all shareholders. As part of a regular programme of investor relations, senior executives hold briefings and attend conferences with institutional investors and financial analysts to engage in two-way communications on the Company's performance and objectives. Archived webcasts and copies of presentation materials from such briefings are made available to investors and the public through our corporate website www.swirepacific.com, which also contains a wide range of additional information on the group's business activities. As part of our commitment to enhance corporate governance standards within the region, the Company became a member of the Asian Corporate Governance Association.

The Board of Directors

The Board consists of 12 Directors, whose details are given on page 46 of this report. Of these, five, including the Chairman of the Board, are Executive Directors. There are seven Non-Executive Directors, of whom four are considered to be independent. The Non-Executive Directors bring a wide range of experience and expertise to the group and are encouraged to play an active role in the work of the Board and its sub-committees.

The Board meets formally six times a year. In addition to this, board papers covering important issues are circulated for approval at other times. The average attendance rate of the Directors for the year was 82%.

The Board is accountable to shareholders for the strategic development of the group with the goal of maximising long-term shareholder value, whilst balancing broader stakeholder interests. The Board's specific responsibilities include the formulation of long-term strategy, ensuring that effective systems of internal control are in place, reviewing the performance of the operating divisions against their agreed budgets and targets, and the approval of financial statements, major acquisitions and disposals, major capital projects and the annual budget.

The Directors are accountable for the proper stewardship of the Company's affairs, and acknowledge that they have the responsibility for ensuring that the Company keeps fair and accurate accounting records which disclose the financial position of the Company, and which enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance.

Executive Management

Swire Pacific focuses on the long-term development and growth of businesses where it can add value through its industry-specific expertise and particular knowledge of the Greater China region. The group believes that a stable shareholding structure and a strong balance sheet provide a firm foundation for achieving sustainable long-term growth. As a conglomerate Swire Pacific combines the efforts of dedicated management teams in the individual business units, closely supported by a small head office team providing services including strategic direction, investment review, treasury, senior personnel management and staff development, performance monitoring, corporate governance and investor relations. The investment review activity covers the appraisal of specific investment opportunities. Performance monitoring covers the assessment of target rates of return for each business and periodic reviews of the businesses with a view to increasing investment where the group can add significant value and rationalising investment where expected returns are not commensurate with the risk-adjusted cost of capital and management resources.

Remuneration

At its meeting in November 2003, the Board established a Remuneration Committee comprising three Non-Executive Directors, two of whom are Independent Non-Executive Directors. The Committee is chaired by P. A. Johansen and will meet at least once a year.

The principal role of the committee is to determine and review the Company's policy for remunerating its Executive Directors and the remuneration packages of Individual Executive Directors. At its meeting in December, after due consideration by reference to relevant comparator companies, the committee approved the remuneration packages for those Individual Directors.

Remuneration of Executive Directors and other senior managers is aimed at attracting, motivating and retaining high-calibre individuals in a competitive international market. Remuneration consists of base salary, benefits including a provident fund and housing assistance, and performance-related bonuses related to the longer-term profitability of the group so as to align management incentives with shareholder interests. In 2003, Executive Directors' basic salaries accounted for 30% of gross emoluments, performance-related bonuses for 28%, housing for 27%, benefits and allowances for 3% and retirement benefits for 12%. Further information on Directors' emoluments is given in note 4 to the accounts, on pages 63 to 64.

Staff Development

The group employs over 56,700 staff and recognises that its success depends fundamentally on the efforts of a well-managed, skilled and motivated workforce. Group companies aim to provide competitive employment packages which are regularly monitored in relation to the market. Many group companies make use of incentive schemes in which significant elements of pay are related to individual and corporate performance in order to better align the interests of the group and its employees in the long-term success of the group. Staff members are encouraged to join staff associations to facilitate good industrial relations and effective consultation. The group is widely recognised for its commitment to staff training and development.

Audit Committee and Internal Control

The Board has overall responsibility for the system of internal control and conducts regular reviews of its effectiveness. The group's system of internal controls plays a key role in the management of risks that are significant to the fulfilment of business objectives. A sound system of internal control contributes to safeguarding shareholders' investment and the group's assets. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal controls is to help manage and control risk appropriately, rather than to eliminate the risk of failing to achieve business objectives.

The Board is assisted in discharging its responsibility for internal control by the work of the Group Internal Audit Department, the external auditors and the Audit Committee.

The Board recognises the importance of the internal audit function and has communicated this throughout the group. The Group Internal Audit Department, being more familiar with the operations of the group than the external auditors, assists the Board on an ongoing basis. The internal auditors regularly review operational procedures to ensure they incorporate adequate controls and comply with the policies laid down by the Board, and assist management in developing appropriate solutions to any problems which are identified.

The Audit Committee consists of three non-executive directors, two of whom are independent. On 1st October, C K M Kwok succeeded D G Eldon as Chairman of this Committee. The Committee reviews the findings of both the internal and external auditors on a regular basis and ensures that key issues are brought to the attention of the Board. In 2003, the Audit Committee met three times, with 100% attendance, to review and discuss matters including the 2002 results and Annual Report, the 2003 interim results and report, and the internal and external audit plans for 2003 and 2004.

Each meeting received written reports from the external and internal auditors, which detail matters of significance arising from the work conducted since the previous meeting. The external auditors, Group Finance Director and the Head of Group Internal Audit attend each meeting to answer questions on their reports or their work.

In assessing the effectiveness of the control environment, the Committee actively monitors:

- overall internal control trends in the group;
- the number and seriousness of the findings made by the Group Internal Audit Department; and
- the speed and effectiveness with which the recommendations made are implemented.

Key matters raised by the Group Internal Audit Department and discussed during the year included:

- the identification and management of key business risks;
- the transfer of best practice between the business units;
- the results of investigations into external allegations of control failures;
- control risks associated with the expansion of various group businesses in Mainland China;
- remedial actions in businesses assessed to have a weak control environment;
- the implementation of the Cost of Risk project across the group; and
- IT security and the way in which the group ensures data integrity during major system upgrades.

The Group Internal Audit Department, staffed by 11 qualified professionals, conducts risk-based audits in Swire Pacific and its subsidiaries, with additional work as required and agreed in some of the jointly controlled and associated companies. These audits are designed to provide the Board of Directors with reasonable assurance that the internal control systems of the group are effective, and that the risks associated with the achievement of business objectives are being properly managed.

The annual work plan, manning levels and qualifications of the department are discussed and agreed with the Audit Committee. In addition to its agreed schedule of work, the department conducts other projects and investigative work as may be required. The department works closely with the Group Risk Manager.

The department's primary reporting line is to the Chairman of the Board. There is also open access to the Chairman of the Audit Committee. Copies of all internal audit reports are sent to the Chairman, the Group Finance Director, the auditee and the external auditors. The results of each review are also discussed with the Audit Committee.

Risk Management

Risk management is concerned with the identification and effective management of business risks, including safety and security, legal, financial, environmental and reputational risks.

The group maintains a Risk Management Committee which coordinates the proper application of operational risk management procedures throughout the group. This committee, which meets quarterly, is chaired by the Group Finance Director and includes senior representatives from each division. The committee's aim is to strengthen the risk management culture throughout the group, by drawing up guidelines, monitoring divisional performance, promoting education and using group leverage where possible to reduce the overall cost of risk. Two specialist sub-committees focus on insurance matters and loss prevention control initiatives.

During 2003, the committee's work included:

- organising a loss prevention seminar attended by over 40 managers from across the group, during which divisional best practices were shared and key findings from risk surveys conducted at all major locations were reviewed;
- the establishment of Spaciom Limited, a wholly-owned captive insurance company which, in its first year of operation, is writing the group's Hong Kong-based

property insurance programme. The captive enables the group to directly access reinsurance markets, provides a formal structure through which to pool retained risk and also demonstrates to insurance markets the group's commitment to risk management;
- during the SARS outbreak, the setting up of a special taskforce which disseminated information on prevention, issued risk management guidelines, shared best practices and initiated contingency planning;
- the approval of group guidelines on insurance procurement which have subsequently been ratified by the Board;
- the review of loss trends in order to identify root causes and to prioritise risk mitigation work;
- the adoption of enhanced injury management and rehabilitation procedures to reduce the impact of workplace injuries;
- the ongoing development of a programme to track and control the group's cost of risk; and
- implementing further initiatives to leverage the group's global insurance procurement.

Environmental and Social Responsibility

Swire Pacific is committed to conducting its business in a sustainable manner. As a major diversified business group we are very conscious of the potential impact of our activities on the environment. We are committed to ensuring our businesses meet or exceed legal and regulatory requirements for environmental best practice wherever we do business.

The group Environment Committee, chaired by a Board Director, coordinates overall group policy on environmental issues. In 2003, the Committee and its working groups met nine times.

Group companies have taken a number of initiatives to address specific environmental issues including designing buildings for greater energy efficiency, the reduction of air pollution through the use of low sulphur fuels in vehicle fleets, the operation of world-class public waste management facilities, and investments in waste water treatment and conservation. The group now tracks a wide range of key environmental, health and safety performance measures across major business units within the group, with the aim of establishing baseline performance measures and setting goals for continuous improvement. An Environment, Health and Safety Report summarising progress is available through our corporate website www.swirepacific.com. The major business units have now established their own EHS committees with the objective of managing key environment, health and safety issues within each business.

Swire Pacific is a founder member of the Hong Kong Business Environment Council; was recognised in the United Nations Global 500 Roll of Honour for its commitment to sound environmental practice; and was again included as a member of the 2004 Dow Jones Sustainability Index.

Community Relations

Swire Pacific is committed to playing a full role as a responsible corporate citizen. We provide financial support, other donations in kind and encourage voluntary activity by our employees to sustain a diverse range of community programmes and charitable activities in the various countries where we do business, especially in the Hong Kong community where the Swire group has been active for over 130 years.

Swire Pacific has a particular interest in supporting educational causes, and funds a variety of graduate and post-graduate scholarships both in Hong Kong and overseas for Hong Kong, Mainland Chinese and other Asian students. The group has also funded a number of development projects at local universities and other educational institutions. The group has had long association with Taikoo Primary School and provides additional support for language teaching and the use of information technology. The group also supports a Community English Language Laboratory (CELL) which provides further training in the use of spoken English.

Swire Pacific and Cathay Pacific are major sponsors in Hong Kong of the Life Education Activity Programme (LEAP), which uses mobile classrooms and specially trained staff to teach over 60,000 school children each year about healthy lifestyles and the dangers of substance abuse, including drugs, tobacco and alcohol. Other organisations we support include the Community Chest, Project Orbis, the Asia Society, the Hong Kong Red Cross, the Hong Chi Association, the Outward Bound Trust, the Society for the Promotion of Hospice Care and the Sunnyside Club.

Directors and Officer

Executive Directors

* **J W J Hughes-Hallett**, aged 54, has been a Director of the Company since January 1994. He was appointed Deputy Chairman in March 1998 and Chairman in June 1999. He is also Chairman of Cathay Pacific Airways Limited and Swire Properties Limited. He joined the Swire group in 1976 and has worked with the group in Hong Kong, Taiwan, Japan and Australia.

* **M Cubbon**, aged 46, has been a Director of the Company since September 1998 with responsibility for Group Finance. He is also a Director of Cathay Pacific Airways Limited and Swire Properties Limited. He joined the Swire group in 1986.

* **D Ho**, aged 56, has been a Director of the Company since March 1997. He is Chairman of the group's Taiwan operations and of a number of Swire group companies with shipping and travel interests. He is also a Director of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1970 and has worked with the group in Hong Kong and Taiwan.

* **K G Kerr**, aged 51, has been a Director of the Company with responsibility for the Property Division since January 1991. He joined Swire Properties Limited in 1975 and has been its Managing Director since February 1989.

* **D M Turnbull**, aged 48, has been a Director of the Company since November 1996 and has responsibility for the Aviation Division. He is Deputy Chairman and Chief Executive of Cathay Pacific Airways Limited and Chairman of Hong Kong Aircraft Engineering Company Limited. He joined the Swire group in 1976.

Non-Executive Directors

* **Baroness Dunn**, DBE, aged 64, has been a Director of the Company since February 1981 and until January 1996 had responsibility for the Trading Division. She is also a Director of John Swire & Sons Limited and is Deputy Chairman of HSBC Holdings plc. She joined the Swire group in 1963.

+# **P A Johansen**, aged 61, has been a Director of the Company since January 1983 and was Finance Director until April 1997. He joined the Swire group in 1973 and has worked with the group in Hong Kong and Japan. He is also a Director of John Swire & Sons Limited, Swire Properties Limited and Hong Kong Aircraft Engineering Company Limited.

* **Sir Adrian Swire**, aged 72, is Chairman of John Swire & Sons Limited. He joined the Swire group in 1956 and has been a Director of the Company since October 1978. He is also a Director of Cathay Pacific Airways Limited.

Independent Non-Executive Directors

D G Eldon, aged 58, has been a Director of the Company since June 1996. He is also a Director of HSBC Holdings plc, The Hongkong and Shanghai Banking Corporation Limited and MTR Corporation Limited. He has been with the HSBC Group since 1968. He is also Chairman of Hang Seng Bank Limited.

+# **C K M Kwok**, aged 44, has been a Director of the Company since September 2002. He is also Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited.

+# **C Lee**, aged 50, has been a Director of the Company since January 1993 and previously was Alternate Director for J S Lee from January 1987. He is also a Director of Hysan Development Company Limited.

M M T Yang, aged 51, has been a Director of the Company since October 2002. She is also Chairman and Chief Executive Officer of Esquel Group, and a Director of The Gillette Company. She sits on various advisory boards of educational institutions including Massachusetts Institute of Technology, Hong Kong University of Science and Technology, Tsinghua, Fudan, and Lingnan Universities.

Secretary

M S M Yu Chan, aged 58, has been Company Secretary since September 2002. She joined the Swire group in 1978.

Notes:
** These Directors are also directors of John Swire & Sons (H.K.) Limited.*
+ These Directors are members of the Audit Committee.
 # These Directors are members of the Remuneration Committee.
All the Directors, apart from the Independent Non-Executive Directors, are employees of the John Swire & Sons Limited group.

Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31st December 2003, which are set out on pages 54 to 97.

Principal activities

The principal activity of the Company is investment holding and the principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 91 to 97. An analysis of the group's performance for the year by business and geographical segments is set out in note 3 to the accounts.

Dividends

The Directors recommend the payment of final dividends for 2003 of HK¢102.0 per 'A' share and HK¢20.4 per 'B' share which, together with the interim dividends paid on 2nd October 2003 of HK¢32.0 per 'A' share and HK¢6.4 per 'B' share, make total dividends for the year of HK¢134.0 per 'A' share and HK¢26.8 per 'B' share: an increase of 3.1% over those for 2002. This represents a total distribution for the year of HK$2,052 million. Subject to the approval of the 2003 final dividends by the shareholders at the annual general meeting on 13th May 2004, it is expected that those dividends will be paid on 1st June 2004 to shareholders registered on 13th May 2004. The share registers will be closed from 10th May 2004 to 13th May 2004, both dates inclusive.

Reserves

Movements in the reserves of the group and the Company during the year are set out in note 26 to the accounts.

Accounting policies

The principal accounting policies of the group are set out on pages 85 to 90.

The reason for a departure from the Statement of Standard Accounting Practice No. 11(HK SSAP No. 11) laid down by the Hong Kong Society of Accountants is set out in principal accounting policy no. 4.

Donations

During the year, the Company and its subsidiaries made donations for charitable purposes of HK$5.4 million and donations towards various scholarships of HK$0.9 million.

Fixed assets

Details of movements in fixed assets are shown in note 12 to the accounts. An analysis of capital expenditure by division is shown in note 3 to the accounts.

Properties

The annual valuation of the group's property portfolio, whether complete or in the course of development, was carried out by independent professional valuers on the basis of open market value at 31st December 2003. The valuations have been recorded in the accounts of the individual companies concerned and an overall net decrease of HK$2,735 million in respect of these properties is reflected in group reserves.

A schedule of the principal properties of the Company and its subsidiary, jointly controlled and associated companies is given on pages 100 to 107.

Bank and other borrowings

The bank loans and overdrafts, other borrowings, Perpetual Capital Securities and Medium Term Notes of the Company and its subsidiary companies are shown in notes 21 and 22 to the accounts.

Interest

A statement of the amount of interest capitalised by the Company and its subsidiaries is included in note 6 to the accounts.

Financial summary

A ten-year financial summary of the results and of the assets and liabilities of the group is shown on pages 108 to 109.

Major customers and suppliers

During the year, less than 30% of the group's sales and 30% of the group's purchases were attributable to the group's five largest customers and suppliers respectively.

Connected transactions

On 21st February 2003, Swire Beverages Limited ("SBL") sold its 30% interest in Xian BC Hans Foods Company Limited (now known as Xian BC Coca-Cola Beverages Limited) ("Xian BC") to BC Development Company Limited ("BCD"), in order to consolidate the group's holdings in Xian BC into BCD, which is the group's primary China holding company for its beverages interests. After the transaction, the attributable interest of the Company in Xian BC was reduced from 78.31% to 74.38%.

BCD is owned 85% by SBL and 15% by CITIC Beverage (HK) Limited ("CITIC Beverage"). CITIC Beverage is a subsidiary of China International Trust and Investment Corporation ("CITIC"). CITIC holds 20% of Swire Coca-Cola Beverages Hefei Limited, the majority 80% being held by BCD, and is a connected person of the Company.

Both SBL and BCD are non-wholly owned subsidiaries of the Company and CITIC Beverage is an associate of CITIC, which is a connected person of the Company. Therefore this is a connected transaction under Rule 14.25(1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). A press notice was published on 30th January 2003.

Share capital

During the year under review and up to the date of this report, the Company made the following purchases of its shares on the Stock Exchange. These purchases were made for the benefit of the Company and shareholders taking into account relevant factors and circumstances at the time. All the shares purchased were cancelled.

	Month	Number purchased	Highest price paid HK$	Lowest price paid HK$	Aggregate price paid HK$
'A' shares	Jan 2003	1,932,500	31.90	29.35	60,328,400

Agreements for services

There are agreements for services, in respect of which John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, provides services to the Company and some of its subsidiary and associated companies and under which costs are reimbursed and fees payable. The agreements can be terminated by either party giving not less than twelve months' notice of termination expiring on 31st December 2005 or any subsequent 31st December. Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2003 are shown in note 29 to the accounts.

As Directors and employees of the John Swire & Sons Limited group, J W J Hughes-Hallett, M Cubbon, D Ho, K G Kerr and D M Turnbull are interested in these agreements. M J Bell was similarly interested. Sir Adrian Swire, Baroness Dunn and P A Johansen are also interested in these agreements as shareholders, directors and employees of John Swire & Sons Limited.

Directors

The names of the Company's present Directors are listed on page 46. In addition, M J Bell and T S Lo also served as Directors of the Company until 8th March 2003 and 15th May 2003 respectively.

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, P A Johansen and Sir Adrian Swire retire this year and being eligible offer themselves for re-election.

No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Corporate governance

The Company has complied throughout the year with the Code of Best Practice as set out in the Listing Rules.

Directors' interests

At 31st December 2003, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Swire Pacific Limited and its associated corporations (within the meaning of Part XV of the SFO), Cathay Pacific Airways Limited and John Swire & Sons Limited:

	Capacity				
	Beneficial interest (Personal)	Trust interest	Total no. of shares	Percentage of issued capital (%)	Remarks
Swire Pacific Limited					
'A' shares					
J W J Hughes-Hallett	4,500	–	4,500	0.0005	–
P A Johansen	10,000	–	10,000	0.0011	–
Sir Adrian Swire	–	1,364,006	1,364,006	0.1466	See Note 1
D M Turnbull	1,266	–	1,266	0.0001	–
'B' shares					
D Ho	100,000	–	100,000	0.0033	–
J W J Hughes-Hallet	158,000	–	158,000	0.0053	–
P A Johansen	–	200,000	200,000	0.0067	See Note 2
C Lee	750,000	20,505,000	21,255,000	0.7075	See Note 2
Sir Adrian Swire	4,813,169	20,810,916	25,624,085	0.8531	See Note 1

	Capacity					
	Beneficial interests			Total no.	Percentage of issued	
	Personal	Family	Trust interest	of shares	capital (%)	Remarks
John Swire & Sons Limited						
Ordinary Shares of £1						
Baroness Dunn	8,000	–	–	8,000	0.01	See Note 3
P A Johansen	8,000	–	–	8,000	0.01	See Note 3
Sir Adrian Swire	2,292,152	2,815,062	37,699,197	42,806,411	42.81	See Note 4
8% Cum. Preference Shares of £1						
Baroness Dunn	2,400	–	–	2,400	0.01	See Note 3
Sir Adrian Swire	1,186,758	843,411	11,669,615	13,699,784	45.67	See Note 4

	Beneficial interest (Personal)	Percentage of issued capital (%)
Cathay Pacific Airways Limited		
Ordinary Shares		
J W J Hughes-Hallett	12,000	0.0004

Notes:

1. All the Swire Pacific Limited 'A' and 'B' shares held by Sir Adrian Swire under "Trust Interest" are held by him as trustee only and he has no beneficial interest in those shares.

2. All the Swire Pacific Limited 'A' and 'B' shares held by these Directors under "Trust Interest" are held by them as beneficiaries of trusts.

3. Sir Adrian Swire has a residual beneficial interest in 4,000 Ordinary Shares in John Swire & Sons Limited held by each of Baroness Dunn and P A Johansen and in 1,200 Preference Shares held by Baroness Dunn. These holdings are therefore duplicated in the personal interest of Sir Adrian Swire.

4. Neither Sir Adrian Swire nor his wife, who are trustees of trusts which hold the Ordinary and Preference Shares in John Swire & Sons Limited listed under "Trust Interest", has any beneficial interest in those shares.
Included in the personal beneficial interest of Sir Adrian Swire are 18,426 Ordinary Shares and 2,453 Preference Shares held by other shareholders, including those referred to in Note 3, in which he has a residual beneficial interest.

Other than as stated above, no Director or chief executive of the Company had any interest or short position whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Neither during nor prior to the year under review, has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of Swire Pacific Limited.

Other than as stated above, the Directors of the Company held no interests, whether beneficial or non-beneficial, in the shares or warrants of Swire Pacific Limited or its associated corporations.

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which Swire Pacific Limited or any of its associated corporations was a party which was of significance and in which the Director's interest was material.

At no time during the year was Swire Pacific Limited, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

Substantial shareholders' and other interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that at 31st December 2003 the Company had been notified of the following interests in the Company's shares:

	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Remarks
Substantial Shareholders					
John Swire & Sons Limited	40,765,128	4.38	2,012,783,265	67.01	See Note 1
Franklin Resources, Inc.	103,228,390	11.10	–	–	See Note 2
Other Shareholders					
Brandes Investment Partners, L.P.	67,644,634	7.27	–	–	See Note 1
J.P. Morgan Chase & Company	65,016,920	6.99	–	–	See Note 3
State Street Corporation	57,525,934	6.18	–	–	*See* Note 4
The Capital Group Companies, Inc.	46,080,776	4.95	–	–	See Note 5

Notes:

1. *The shares are held in the capacity of beneficial owner.*
2. *This notification was filed under the repealed Securities (Disclosure of Interests) Ordinance and the capacities in which they are held were not given. A subsequent notification has been received from Templeton Global Advisors Limited, which is a 100% owned subsidiary of Franklin Resources, Inc., declaring its interest in 64,830,700 'A' shares (representing 6.97% of the issued capital), held in the capacity of investment manager.*
3. *The shares held by J.P. Morgan Chase & Company are held in the following capacities:*

Capacity	***No. of Shares***
Beneficial Owner	*5,585,350*
Investment Manager	*8,594,553*
Lending Pool	*50,837,017*

4. *These shares are held by State Street Bank & Trust Company, which is a 100% owned subsidiary of State Street Corporation, in a lending pool.*
5. *These shares are held in the capacity of investment manager.*

The Company had not been notified of any short positions in the shares of the Company as at 31st December 2003.

At 31st December 2003, the John Swire & Sons Limited group owned directly or indirectly interests in shares of Swire Pacific Limited representing 29.37% of the issued capital and 52.82% of the voting rights.

Auditors

A resolution for the reappointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

J W J Hughes-Hallett
Chairman
Hong Kong, 11th March 2004

FINANCIAL CONTENTS

Auditors' Report and Accounts

53 Auditors' Report
54 Consolidated Profit and Loss Account
55 Consolidated Balance Sheet
56 Company Balance Sheet
57 Consolidated Cash Flow Statement
58 Consolidated Statement of Changes in Equity
59 Notes to the Accounts
85 Principal Accounting Policies
91 Principal Subsidiary, Jointly Controlled and Associated Companies and Investments

Supplementary Information / Financial Calendar and Information for Investors

98 Cathay Pacific Airways Limited – Abridged Financial Statements
100 Schedule of Principal Group Properties
108 Ten-Year Financial Summary
110 Group Structure Chart
112 Financial Calendar and Information for Investors