CORPORATE STATEMENT

Swire Pacific Ltd. is one of Hong Kong's leading listed companies, with five operating divisions: Property, Aviation, Beverages, Marine Services, and Trading & Industrial. The company's operations are predominantly based in the Greater China region, where the name Swire, or 太古 in Chinese, has been established for over 130 years.

Swire Pacific is actively involved in the day to day management of its various business operations, often in conjunction with joint venture partners and other investors.

The company seeks to foster long-term sustainable growth, underpinned by a strong financial base.

Swire Pacific Limited
FINANCIAL HIGHLIGHTS

	Note	2003 HK$M	2002 HK$M	Change %
Turnover		17,568	15,215	+15.5
Operating profit		4,585	4,345	+5.5
Profit attributable to shareholders		4,922	5,377	-8.5
Cash generated from operations		5,333	4,462	+19.5
Net cash inflow before financing		6,348	5,140	+23.5
Shareholders' funds and minority interests		73,307	73,808	-0.7
Consolidated net borrowings		10,174	14,188	-28.3
		HK¢	HK¢	
Earnings per share	1			
'A' shares		321.4	347.5)	-7.5
'B' shares		64.3	69.5)	
		HK¢	HK¢	
Dividend per share				
'A' shares		134.0	130.0)	+3.1
'B' shares		26.8	26.0)	
		HK$	HK$	
Shareholders' funds per share				
'A' shares		44.47	44.98)	-1.1
'B' shares		8.89	9.00)	
Gearing ratio - percentage	2	14	19	
Interest cover-times	3	9.88	7.94	
Cash interest cover-times	4	5.90	5.03	
Dividend cover times	5	2.40	2.69	

Notes:

1. Earnings per share have been calculated by dividing the profit attributable to shareholders by the weighted average number of shares in issue during each year.
2. Gearing represents the ratio of net borrowings to shareholders' funds and minority interests.
3. Interest cover is calculated by dividing operating profit by net finance charges.
4. Cash interest cover is calculated by dividing operating profit by net finance charges and capitalised interest.
5. Dividend cover is calculated by dividing profit attributable to shareholders by total dividends paid and proposed for the year.

Analysis of return on Shareholders' Funds

The return of each division on shareholders' funds is:

	Attributable profit		Attributable net assets employed		Return on shareholders' funds *	
	2003	**2002**	**2003**	**2002**	**2003**	**2002**
	HK$M	HK$M	HK$M	HK$M	%	%
Property	3,123	2,623	44,693	46,116	6.9	5.4
Aviation	844	2,115	16,199	16,505	5.2	13.0
Beverages	363	276	1,967	2,046	18.1	14.4
Marine Services	646	658	2,968	2,594	23.2	27.3
Trading & Industrial	238	4	1,262	888	22.1	0.3
Head Office	(292)	(299)	987	798	N/A	N/A
	4,922	5,377	68,076	68,947	7.2	7.6

* The return on shareholders' funds is calculated as attributable profit for the year divided by the average of attributable net assets at the start and end of the year.

CHAIRMAN'S STATEMENT

In a year in which the SARS outbreak provoked an unprecedented contraction in economic activity in Hong Kong, a relatively modest profit decline of 8% to HK$4,922 million reflects the underlying strength and resilience of the Swire Pacific group's businesses. Having weathered the marked slowdown in passenger traffic during the second quarter, Cathay Pacific was well placed to benefit from the resurgence in travel demand that was seen from July onwards, and which continues in the current year. Swire Properties has also benefited from renewed consumer confidence, evident in the second half with strong sales of residential apartments at improved prices. The HK$1,247 million profit contribution from Beverages, Marine Services and Trading & Industrial interests was 33% up on the previous year.

Dividend
Directors have recommended final dividends of HK¢102.0 per A share and HK¢20.4 per B share. This, together with the interim dividends of HK¢32.0 per A share and HK¢6.4 per B share paid in October 2003, gives a total dividend for the year of HK¢134.0 per A share and HK¢26.8 per B share, 3.1% growth over 2002.

Scope of Activities
Improved property trading profits and the contribution from sales of The Albany units compensated for declining rental income from the office portfolio. Whilst office occupancy levels fell during the year, the pick up in consumer confidence is beginning to filter through to the office leasing market and discussions continue with a number of potential tenants for Three Pacific Place, which will open early in the second half of this year.

As passenger traffic rebounded in the second half Cathay Pacific was quick to deploy additional capacity on existing long haul and regional trunk routes; this has had the added benefit of lowering unit costs, which reached a new low of HK$2.00 per ATK for the year, notwithstanding high fuel prices. Recovery in the passenger market, lower costs and robust cargo demand throughout the year helped Cathay Pacific to turn a first half loss into a full year contribution to Swire Pacific of HK$521 million. Hactl, together with HAECO and other associates, provided attributable profits of HK$323 million in 2003, 38% of the total aviation division contribution.

Another year of double digit volume growth in Mainland China enabled the Beverages Division to contribute profits of HK$363 million, 32% ahead of the prior year. Extensions to the product range and further reductions in unit costs, combined with volume growth, have facilitated improved margins in Mainland China. Elsewhere profit contributions from our beverage interests in Hong Kong, Taiwan and the USA were similar to those of the prior year.

Conditions in the offshore oil support industry were relatively challenging in 2003, with exploration activity particularly depressed in the first half. Although new vessels commissioned during the year were successfully placed into term charters, overall returns fell slightly.

The Trading and Industrial Division reported record profits of HK$238 million in 2003, with all the major businesses performing well. Motor vehicle and sports apparel trading operations have successfully integrated new brands during the year, whilst our industrial interests in paints and can manufacturing both benefited from aggressive growth strategies in Mainland China.

Finance
Net cash inflows were again strong in 2003 with cash from operations and asset realisations, in particular from the sale of residential apartments, totalling HK$9,171 million. Net debt and gearing fell to HK$10,174 million and 14% respectively. Undrawn committed and uncommitted facilities stood at HK$7,094 million and HK$2,577 million respectively.

Our A3 long term debt rating from Moody's was reaffirmed during the year; Standard & Poor's placed us on negative outlook in April 2003 but reaffirmed their BBB+ rating.

Corporate Governance
A commitment to good corporate governance is central to our management philosophy. The key principles and values to which we aim to adhere, and the various measures by which the interests of shareholders and other stakeholders are safeguarded, are set out on pages [38 to 41]. During the year we took further steps to enhance governance with the establishment of remuneration committees for each of the three listed companies within the Swire Pacific group.

In the interests of promoting higher standards of corporate governance, we became a member of the Asian Corporate Governance Association.

Social & Environmental Responsibility
The group is committed to acting in a socially responsible manner taking into account wider stakeholder interests. Building on a corporate database of key performance measures, the group published an Environment, Health and Safety progress report. The group received a number of awards and was again included in the Dow Jones Sustainability Index.

Prospects
Rising consumer confidence evident in the second half of 2003 appears to be sustainable and should lead to strong GDP growth both in Hong Kong and the region in 2004. This will help to improve returns from our retail interests and should lead, over time, to revitalised demand for office space, but in the short term it will not arrest the decline in net rental income. However, we remain confident that the market will recover in due course and justify investment in further building projects under consideration.

Cathay Pacific plans a significant increase in capacity in 2004, reflecting reinstatement of schedule reductions in place during the second quarter of 2003 and some further expansion. This will help offset the impact on unit costs of high fuel prices. The airline is now very well positioned to benefit from continued passenger and cargo traffic growth across Asia and the prospect of additional services to Mainland China. Our other aviation interests are also likely to benefit from a combination of strong traffic growth at the Hong Kong International Airport and a broad recovery in demand for aircraft maintenance services.

Our Mainland China beverage operations will benefit from rising per capita incomes, new product offerings and better purchasing and distribution strategies following the recent establishment of a supply chain management company in Mainland China in joint venture with The Coca-Cola Company. The offshore oil support market is likely to remain keenly competitive in the near future as demand growth has yet to absorb new supply. Trading and Industrial interests look set for another good year.

Hong Kong, recovering from a period of prolonged deflation, will benefit from closer integration with the rapidly developing Mainland China economy. We remain optimistic about the prospects for further growth and new investment opportunities presented by these developments.

James Hughes-Hallett
Chairman
Hong Kong, 11th March 2004

REVIEW OF OPERATIONS

PROPERTY DIVISION

	2003 HK$M	2002 HK$M
Turnover		
Gross rental income derived from:		
Offices	1,920	2,155
Retail	2,123	2,170
Residential	236	285
Other income (Note)	88	83
Property investment	4,367	4,693
Property trading	2,365	565
Sale of investment properties	833	555
Total turnover	7,565	5,813
Operating profit derived from:		
Property investment	3,173	3,338
Property trading	213	125
Sale of investment properties	558	409
Total operating profit	3,944	3,872
Share of profits before taxation jointly controlled and associated companies		
Normal operations	66	112
Non-recurring items	-	(398)
Attributable profit	3,123	2,623

Note: Other income is mainly estate management fees.

Investment property portfolio - gross floor area ('000 square feet)

Location	Total	Office	Techno-centres	Retail	Residential
Pacific Place	2,887	1,559	-	711	617
TaiKoo Place	4,327	2,516	1,811	-	-
Cityplaza	2,751	1,646	-	1,105	-
Festival Walk	1,214	232	-	982	-
Others	886	183	-	585	118
Total completed	**12,065**	**6,136**	**1,811**	**3,383**	**735**
Under and pending development	3,260	3,239	-	4	17
Total	**15,325**	**9,375**	**1,811**	**3,387**	**752**

Swire Properties' investment portfolio in Hong Kong principally comprises office and retail premises in prime locations, as well as serviced apartments and other luxury residential accommodation. The completed portfolio totals 12.07 million square feet of gross floor area. Current investment property pending or under development in Hong Kong comprises a further 3.26 million square feet, mainly of office space. In addition, Swire Properties has a 20% interest in each of the three hotels in Pacific Place. Outside Hong Kong, Swire Properties owns a 10% interest in the CITIC Square development in Shanghai, and a 75% interest in the Mandarin Oriental Hotel in Miami, Florida. Swire Properties also owns a 55% interest in a foreign joint venture company which plans to construct a mixed-use commercial development in Guangzhou, to be managed by Swire Properties and called Taikoo Hui. Certain terms of this joint venture are currently being renegotiated to allow Swire Properties to take a higher stake.

Swire Properties' trading portfolio in Hong Kong and the United States consists of approximately 400 unsold residential apartments completed or under development, of which approximately 210 units are attributable to the group. In addition, the Swire Pacific group owns further land held for development in Hong Kong and Miami, Florida.

2003 OVERVIEW

In the first half of 2003 all sectors of the property market faced extremely difficult market conditions. The SARS outbreak had severe adverse consequences for many retailers, whilst demand for office space continued to be weak. However, in the second half of the year conditions improved. Retail sales have rebounded strongly, with our major malls outperforming the general Hong Kong market. Office market rents have stabilised due to an improvement in business sentiment, but we have yet to see a pick-up in demand for new space.

Net rental income from the investment portfolio amounted to HK$3,352 million in 2003, compared with HK$3,630 million in 2002. This decrease is principally attributable to the office portfolio, where the absence of fresh demand, coupled with new supply, brought downward pressure on rents throughout the first three quarters. Whilst office rents appear to have bottomed out, we remain cautious about the prospects for 2004 as excess supply has yet to be absorbed. Our retail centres have continued to perform well and the outlook for the next twelve months is positive.

Transaction volumes in the residential market in Hong Kong in the first half of 2003 were very low due to weak demand exacerbated by the outbreak of SARS. However, a marked improvement in sentiment in the second half has generated demand and supported steady sales volumes.

Operating profit from property trading in 2003 amounted to HK$213 million, compared to HK$125 million in 2002. This principally reflects good sales in the second half of the year following the launch of The Orchards, together with continuing contributions from sales of units at Courts Brickell Key in the United States.

Investment Properties

Offices

The combination of abundant supply and lack of new demand resulted in a very difficult year for the office market. Gross rental income in 2003 from the office portfolio was 11% lower than that of 2002. Occupancy levels declined and at the year-end averaged 80% for the office portfolio compared to 89% at the end of 2002. Construction of Cambridge House, an office tower at TaiKoo Place comprising 269,000 square feet of office space, was completed in the first half of the year. As a result of competitive pressures, a number of leases were restructured at lower rents in exchange for longer tenure. In spite of improved sentiment, relatively high vacancy rates are likely to keep office rents under pressure in the near term. This will probably constrain rental income over the next three years.

Retail
The Swire Properties retail portfolio continued to perform well during 2003, notwithstanding the sharp decline in retail sales that was experienced at the time of the SARS outbreak. Gross rental income for the year was marginally below that of 2002, largely due to concessions granted in the first half of the year to certain key retail partners. Retail sales at Swire Properties' three principal shopping malls have recovered fully from the lows of the first half of the year, and these centres remain fully let. Cityplaza, The Mall at Pacific Place and Festival Walk together welcome more than ten million visitors each month.

Cityplaza is the primary destination for shoppers in Island East. Uny, Wing On, Marks & Spencer and UA Cinemas are among the major anchor tenants; other tenants comprise over 170 retail and catering outlets and the Cityplaza Ice Palace.

The Mall at Pacific Place is the pre-eminent shopping mall in Hong Kong. Seibu, Great Food Hall, Lane Crawford, Marks & Spencer and UA Cinemas are the anchor tenants, together with 160 other retail and catering outlets.

Festival Walk is jointly owned by Swire Properties and CITIC Pacific, and is a major shopping centre in Kowloon. Anchor tenants include Park'N'Shop, Marks & Spencer, Page One Books and the 11-screen AMC Cinema, plus over 200 retail and catering outlets and the Glacier ice rink.

The Citygate commercial centre at Tung Chung, in which Swire Properties has a 20% interest, comprises a retail centre that is 70% let and an office tower for which securing tenants remains difficult, with only 19% of the space let. Construction of a 450-room hotel will commence shortly for completion in late 2005.

Residential Investment Portfolio
The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place and The Albany apartments in Mid-Levels. Occupancy of the serviced suites was steady for much of the year. The suites at Parkside are currently undergoing refurbishment, which will remove approximately 50% of the suites from the market through to the middle of 2005. 22 units at The Albany were sold during 2003, mostly in the second half of the year, making a total of 56 units sold since sales started in late 2001. The remaining residential properties on Hong Kong Island were fully let.

All four houses at 3 Coombe Road, The Peak, were sold in the second half of the year.

Investment Properties under Development
The construction of Three Pacific Place is well advanced and is scheduled for completion in the middle of 2004. The development will comprise an office tower with a gross floor area of approximately 630,000 square feet.

Demolition work has commenced on the former site of the Aik San and Melbourne Industrial Buildings in Quarry Bay. The site has been given the working name of 16 Westlands Road. Building plans have been approved for the construction of an office building of approximately 1,550,000 square feet. No decision has yet been taken on when to proceed with this project.

2003 Valuation of Investment Properties
The portfolio of completed investment properties in Hong Kong, as well as properties intended for investment which are under or pending development, were revalued at 31st December 2003 by DTZ Debenham Tie Leung Limited. As a result of this valuation, Swire Pacific's property valuation reserve decreased by HK$2,735 million. The decrease in 2003 is largely attributable to the decline in office rental levels. Swire Pacific's property valuation reserve at 31st December 2003 following the revaluation showed a surplus of HK$19,673 million. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 107 to 117.

Taikoo Shing Arbitration
The Hong Kong SAR Government Lands Department's claim for payment of land premium and interest in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers, as well as the Horizon Gardens residential scheme at Taikoo Shing, was upheld in an arbitration

award announced in January 2001. In July 2003 the Court of Final Appeal refused to grant Swire Properties leave to appeal on a point of law against an element of the arbitration award. In accordance with agreed post-arbitration procedures a fresh hearing was held before the arbitrator in February 2004 to determine the valuation date for the purpose of quantifying the amount of land premium and the method of calculating interest. The outcome of this hearing is not yet known, and the amount of HK$4,500 million which was accrued in the Swire Pacific group accounts as at 31st December 2000 remains our best estimate of the group's exposure. The allocation of the eventual cash payment between revaluation reserve, retained earnings and current year profit and loss has not yet been determined.

Property Trading Portfolio

The portfolio of developments for sale comprises residential apartments in Hong Kong and the USA. In Hong Kong there are approximately 330 unsold units of which Swire Pacific's attributable interest amounts to approximately 160 units.

The Orchards residential project on King's Road was launched successfully in the second half of the year. It comprises two residential towers with 442 units, with 144 car park spaces. 410 units were sold in 2003 and the project is now sold out.

The final phase of Ocean Shores in Tseung Kwan O, which comprises 5,728 residential units in 15 towers with 1,176 car park spaces and 32,000 square feet of neighbourhood shopping area, was completed in the second half of the year. 5,400 units have been sold to date. Swire Properties has a 49% interest in this development.

The Les Saisons residential scheme in Aldrich Bay in which Swire Properties has a 50% interest continued to sell steadily during 2003 and the scheme is virtually fully sold.

The residential schemes at Tung Chung Crescent and Seaview Crescent, comprising a total of 3,694 units, were developed in conjunction with the Citygate commercial centre, under an agreement with MTRC. Fewer than 20 units remain unsold at Tung Chung Crescent and Seaview Crescent.

Swire Properties controls over 98% of the residential properties at 2A – 2E Seymour Road in Mid-Levels with an approved redevelopment potential of approximately 174,000 square feet. There is potential to increase this to approximately 229,000 square feet subject to planning approval. No decision has yet been taken on when to proceed with this project.

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

Hotels

The JW Marriott, Conrad Hong Kong and Island Shangri-la hotels at Pacific Place have benefited from the sharp rebound in the number of visitor arrivals since mid-year, and occupancy rates have been very high in the fourth quarter.

Mainland China

Swire Properties has a joint venture agreement with the Guangzhou Daily News Group to develop the Taikoo Hui Guangzhou Cultural Plaza in the Tianhe district of Guangzhou. The project will consist of a major retail centre, offices, an hotel, a performing arts centre and a library and is scheduled for completion in 2008 at a total estimated cost of RMB 4,000 million. Discussions are underway to allow Swire Properties to take a higher stake than its current 55% in this proposed four million square foot development.

Swire Properties has a 10% interest in CITIC Square on Nanjing Road West, Shanghai. The building comprises 1.1 million square feet of retail and office space, and is 100% let.

USA

Construction work has commenced at The Carbonell, a 284-unit condominium tower on Brickell Key, Miami. 248 units have been sold to date, with completion scheduled in July 2005. 10 units remain unsold at the Courts Brickell Key condominium. Construction of Jade Residences, a 340-unit residential condominium development at Brickell Bay in which Swire Properties has a controlling interest, is well advanced, with completion scheduled for late 2004. 325 units have been sold to date.

The 329-room Mandarin Oriental Hotel, which is 75% owned by the group saw a pick-up in both occupancies and room rates and reported an improved operating profit.

AVIATION DIVISION

	2003 HK$M	2002 HK$M
Share of profits before taxation		
associated companies		
*Cathay Pacific Group	696	1,805
Hong Kong Aircraft Engineering Group	186	242
Hong Kong Dragon Airlines	11	107
Hong Kong Air Cargo Terminals	283	229
	1,176	2,383
Attributable profit	844	2,115

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

Swire Pacific's Aviation Division includes the following associated companies:

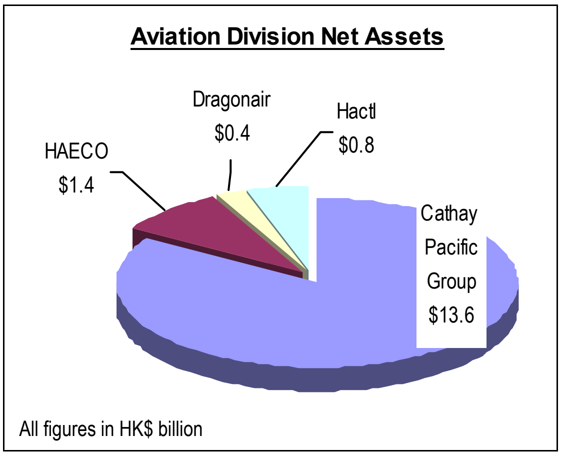
	Shareholding of Group companies			
	Direct or by Swire Aviation**	By Cathay Pacific Group	Total	Swire Pacific effective interest
Cathay Pacific Airways Ltd	46.4%	-	46.4%	46.4%
Hong Kong Dragon Airlines Ltd	7.7%	17.8%	25.5%	16.0%
AHK Air Hong Kong Ltd	-	60.0%	60.0%	27.8%
Hong Kong Aircraft Engineering Co Ltd	32.5%	27.4%	59.9%	45.2%
Hong Kong Air Cargo Terminals Ltd	30.0% **	10.0%	40.0%	24.6%

** Swire Aviation is a 66.7% held subsidiary company of Swire Pacific.

Cathay Pacific Airways

Key Operating Highlights		**2003**	**2002**	**Growth**
Available tonne kilometres ("ATK")	*Million*	13,355	12,820	+ 4.2 %
Available seat kilometres ("ASK")	*Million*	59,280	63,050	- 6.0 %
Revenue passenger kilometres ("RPK")	*Million*	42,774	49,041	- 12.8 %
Revenue passengers carried	*'000*	10,059	12,321	- 18.4 %
Passenger load factor	*%*	72.2	77.8	- 5.6 % pts
Passenger yield	*HK cents*	43.3	45.4	- 4.6 %
Cargo carried	*'000 tonnes*	875	851	+ 2.8 %
Cargo and mail load factor	*%*	68.7	71.2	- 2.5 % pts
Cargo and mail yield	*HK$*	1.78	1.80	- 1.1 %
Cost per ATK	*HK$*	2.00	2.13	- 6.1 %
Cost per ATK without fuel	*HK$*	1.61	1.76	- 8.5 %
Aircraft utilisation	*Hours per day*	11.4	12.1	- 5.8 %
On-time performance	*%*	91.0	90.7	+ 0.3 % pts
Breakeven load factor	*%*	67.4	65.7	+ 1.7 % pts

The distribution of the Aviation Division's net assets is as follows:



Cathay Pacific Group also includes AHK Air Hong Kong, Airline Catering and Hong Kong Airport Services.

Cathay Pacific and HAECO are listed on the Hong Kong Stock Exchange. Dragonair provides passenger and cargo services to Mainland China and the rest of Asia, as well as freighter services to Europe. Air Hong Kong focuses on regional express cargo services. Other companies provide aviation-related services including flight catering, ramp and cargo handling and laundry services.

2003 OVERVIEW

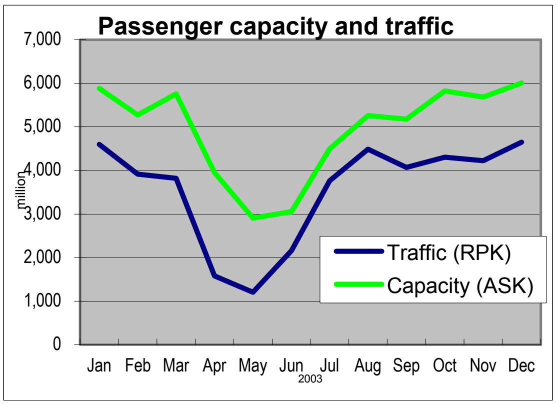
The Aviation Division started the year well but the airlines suffered from a very severe drop in passenger business in March to July due to the SARS outbreak, before recovering and ending the year with a strong last quarter.

The air cargo business was strong throughout the year, setting a new record for tonnage carried.

Cathay Pacific Airways

The Cathay Pacific Group made a consolidated profit of HK$1,303 million in 2003, compared to a profit of HK$3,983 million in 2002.

The results were severely affected by the SARS outbreak, which caused a sharp fall in passenger numbers. However, the recovery in the second half came more quickly than expected, spurred by pent-up demand and special offers created to stimulate passenger traffic. The cargo business remained strong throughout the year in spite of the loss of capacity from the passenger fleet during SARS, with 875,000 tonnes carried during the year, up 2.8% on 2002.

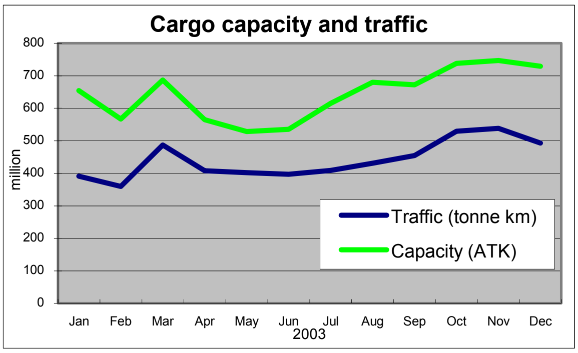


Passenger Services

The graph above illustrates the sharp drop in passenger loads and the cutback in capacity which occurred between March and July due to SARS. During May and June Cathay Pacific reduced its passenger schedule by 45% and parked 22 aircraft. As demand picked up, suspended services were progressively restored to full capacity by the end of September. Overall passenger traffic for the year, measured in revenue passenger kilometres, was down 12.8% on 2002, while passenger yield for the year was down 4.6% to HK¢43.3.

During the second half, Cathay Pacific carried six million passengers compared to just four million in the first half of the year. Traffic levels in the second half recovered to 2002 levels, with the exception of routes to North Asia which were still down 11% on the comparable period. Long haul routes performed particularly well, with European routes boosted by an increase in business travel and by stronger currencies.

Cargo



As the graph above shows, the direct impact of SARS on cargo traffic was not significant even though cargo capacity was reduced as a result of cutting back on passenger flights.

Cathay Pacific's cargo revenue grew by 7.5% in 2003 due to increased exports from Hong Kong to Europe, Japan and the United States. The improvement was partly due to additional traffic from the integration of Air Hong Kong's European operation.

During 2003, a record 875,000 tonnes of freight were carried, up 2.8% on 2002. Cargo capacity, measured in available cargo and mail tonne kilometres, grew by 13.1% while load factor decreased to 68.7%. Cargo yield also decreased by 1.1% to HK$1.78.

Network, Product and Fleet

Flights to London were increased to three times daily and additional flights were added to Auckland, Johannesburg, Melbourne and Rome. Codeshare agreements with **one**world partners American Airlines and British Airways were extended to more destinations in the United States and Europe respectively. Additional freighter services were operated to Chicago, Los Angeles, Melbourne, Milan, New York, Osaka and Singapore. Cathay Pacific resumed services to Beijing in December and has also been licensed by the Hong Kong authorities to operate services to Shanghai and Xiamen.

Cathay Pacific won a number of awards including "World's Best Airline" in a global Skytrax Research poll and was recognised for its leadership role in various initiatives to relaunch Hong Kong and the region after SARS.

The airline took delivery of six new aircraft during 2003 including one Airbus A340-600, three Airbus A330-300s, and two Boeing B777-300s. At the end of the year it had a fleet of 85 aircraft, consisting of 74 passenger aircraft and 11 freighters. One more B777-300 joined the fleet in February 2004 and a B747-400 freighter is scheduled for delivery in 2005. In addition the airline has announced its intention to convert up to 12 used Boeing 747-400 passenger aircraft into freighters.

AHK Air Hong Kong (AHK)

AHK is 60% owned by Cathay Pacific and 40% by DHL International Limited ("DHL") following DHL's acquisition of an additional 10% shareholding from Cathay Pacific in March 2003.

AHK operates scheduled cargo services to Osaka and Seoul and charter flights for Cathay Pacific using a B747-200 freighter. It commenced a four times weekly express cargo service to Bangkok in March and a five times weekly service to Singapore in October. The company recorded a satisfactory profit in 2003. AHK has placed orders for six Airbus A300-600 freighter aircraft for delivery in 2004/2005.

Hong Kong Aircraft Engineering Company (HAECO)

HAECO provides line and heavy maintenance services at Hong Kong International Airport. Its principal associated companies are:

- Taikoo (Xiamen) Aircraft Engineering Company Limited (TAECO) which provides heavy maintenance from three double bay hangars in Xiamen, the third having opened in March 2003. TAECO also provides line maintenance services at Xiamen, Beijing and Shanghai.

- Hong Kong Aero Engine Services Limited (HAESL) which is the major Rolls-Royce aero engine overhaul and refurbishment facility in the region.

Attributable profit from the HAECO Group comprised:

	2003 HK$'m	2002 HK$'m	% change
HAECO	82	238	-65.5
TAECO	81	71	+14.1
HAESL	158	141	+12.1
Other associates	24	15	+60.0
	345	465	-25.8

These results reflect the drop in traffic through Hong Kong International Airport and the deferral of heavy maintenance due to base customers temporarily grounding some of their aircraft during the SARS outbreak. HAECO's 2002 result included provision write-backs totalling HK$70 million.

Prospects for the HAECO Group in 2004 are encouraging with base maintenance work deferred from 2003 likely to result in high utilisation of the maintenance facilities in both Hong Kong and Xiamen. In addition TAECO should benefit from plans announced by Cathay Pacific in January 2004 to acquire up to 12 used Boeing 747-400s for conversion to freighters.

Hong Kong Air Cargo Terminals (Hactl)

Boosted by strong export growth, Hactl achieved record throughput of 2.0 million tonnes, representing a growth of 5.6%.

Hong Kong Dragon Airlines (Dragonair)

Dragonair's result was seriously affected by the SARS outbreak. However, the company returned to profit based on a very strong cargo performance and the robust recovery in passenger demand in the second half of the year.

Dragonair recorded a 11.1% decrease in passenger numbers in 2003. Passenger yield decreased by 8.6% as a result of special offers to stimulate passenger traffic. The passenger load factor, despite flight cancellations, was down by 5.9 percentage points to 59.4% in 2003.

Helped by additional freighter capacity, the company carried 269,980 tonnes of cargo in 2003, 39.5% higher than last year. Cargo load factor increased by 0.9 percentage points to 80.4%, while cargo yield increased by 8.6%.

In April, Dragonair's services to Sendai and Hiroshima were suspended as a result of the SARS outbreak whilst the joint venture service with Malaysian Airlines to Kuching was also terminated. The company commenced a twice-daily passenger service to Bangkok in November whilst frequencies of passenger services to Beijing and Shanghai were increased in the winter season in order to cope with growing traffic demand.

Dragonair took delivery of two Airbus A321s during the year bringing the fleet to 23 passenger aircraft and 3 freighters at the end of 2003.

With the relaxation of visa requirements for individual travel from Mainland China to Hong Kong and the signing of the Closer Economic Partnership Arrangement, Dragonair is optimistic about the future growth in demand for air travel between Hong Kong and Mainland China.

Airline Catering

The Cathay Pacific Catering Services group operates six flight catering facilities in Asia and North America. The catering business was severely affected by the sharp fall in passenger numbers during the SARS outbreak and stringent cost controls were implemented. Passenger traffic returned to normal levels in the second half but pressure on meal prices continued.

Hong Kong Airport Services (HAS)

HAS is the largest franchised ramp handling company at Hong Kong International Airport and provides services including aircraft loading, passenger steps and air-bridge operation, baggage handling, passenger and staff buses, aircraft load control, cargo and mail delivery.

The total number of flights handled in 2003 fell due to flight cancellations resulting from the SARS outbreak. In the circumstances HAS reported a satisfactory profit for the year.

BEVERAGES DIVISION

	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

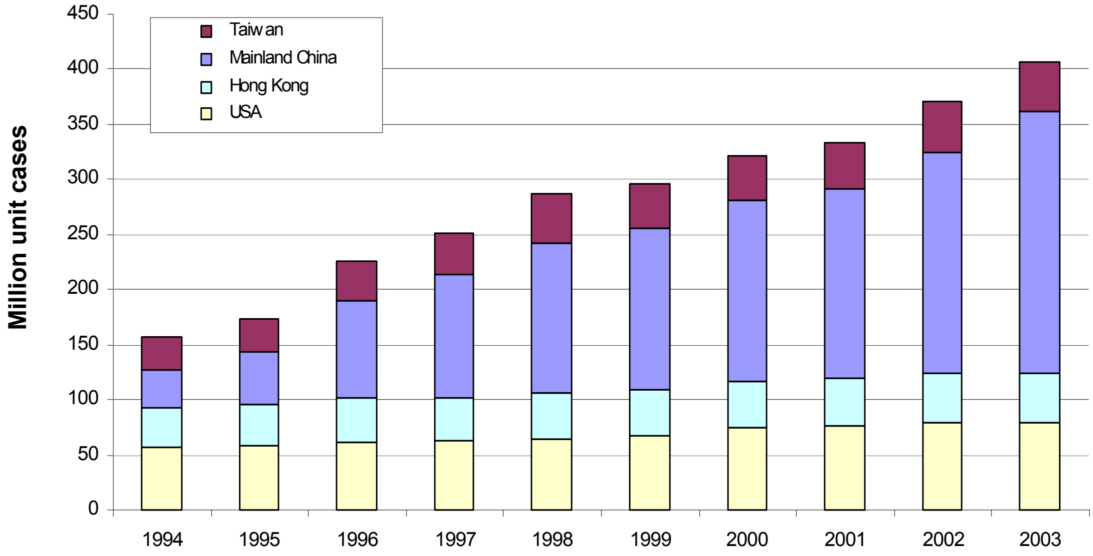
	Hong Kong	**USA**	**Taiwan**	**Mainland China**	**2003 Total**	**2002 Total**
Sales volume (million cases)	45.6	78.7	44.9	237.4	406.6	370.4
Franchise population (million)	6.8	5.7	22.6	383.2	418.3	415.6
Per capita consumption per annum (8oz serving)	161	332	48	15	23	21
Number of plants	1	2	2	9	14	14
Number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

Sales Mix by location

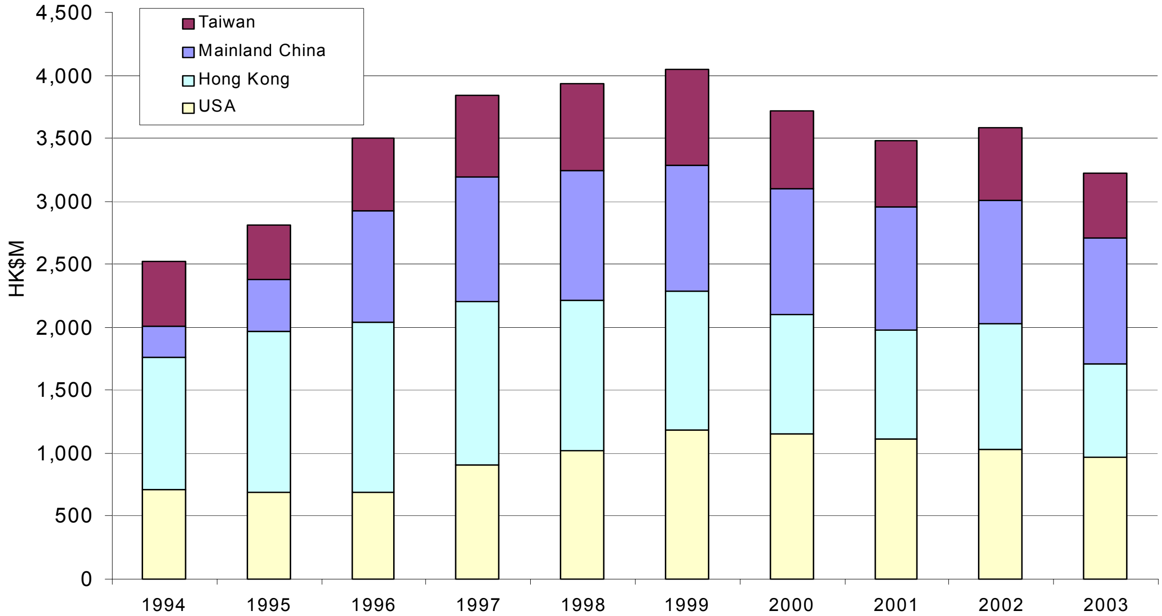
	Sales Mix %			
	2003		2002	
	CSD*	**NCB#**	**CSD***	**NCB#**
Hong Kong	63%	37%	65%	35%
USA	90%	10%	91%	9%
Taiwan	68%	32%	68%	32%
Mainland China	81%	19%	84%	16%

* Carbonated soft drinks
\# Non-carbonated beverages

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.

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 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 38% 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 (+31%) and Dasani mineral water (+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.

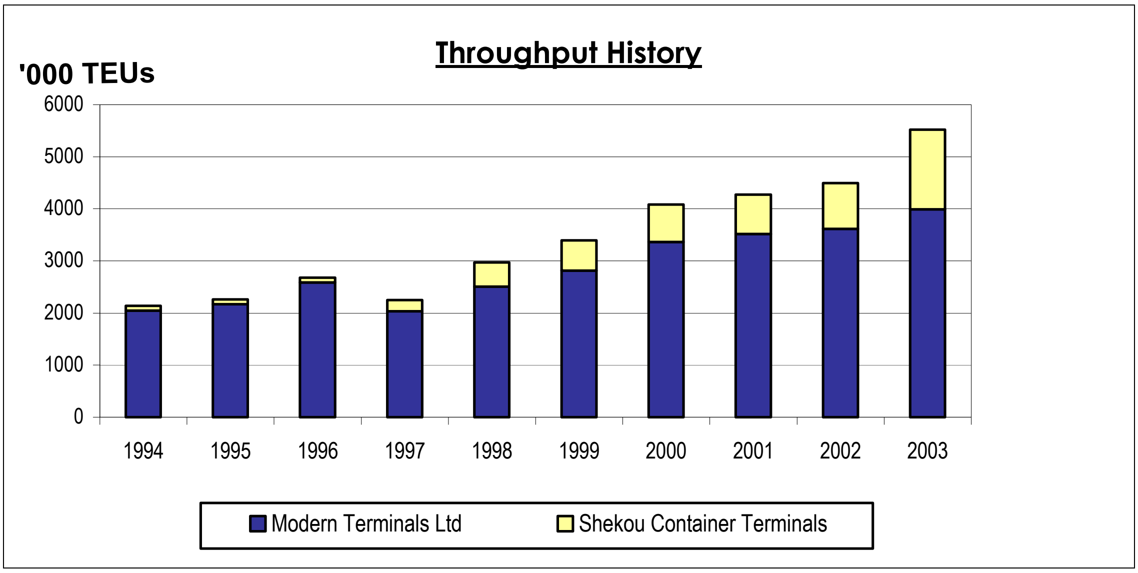
MARINE SERVICES DIVISION

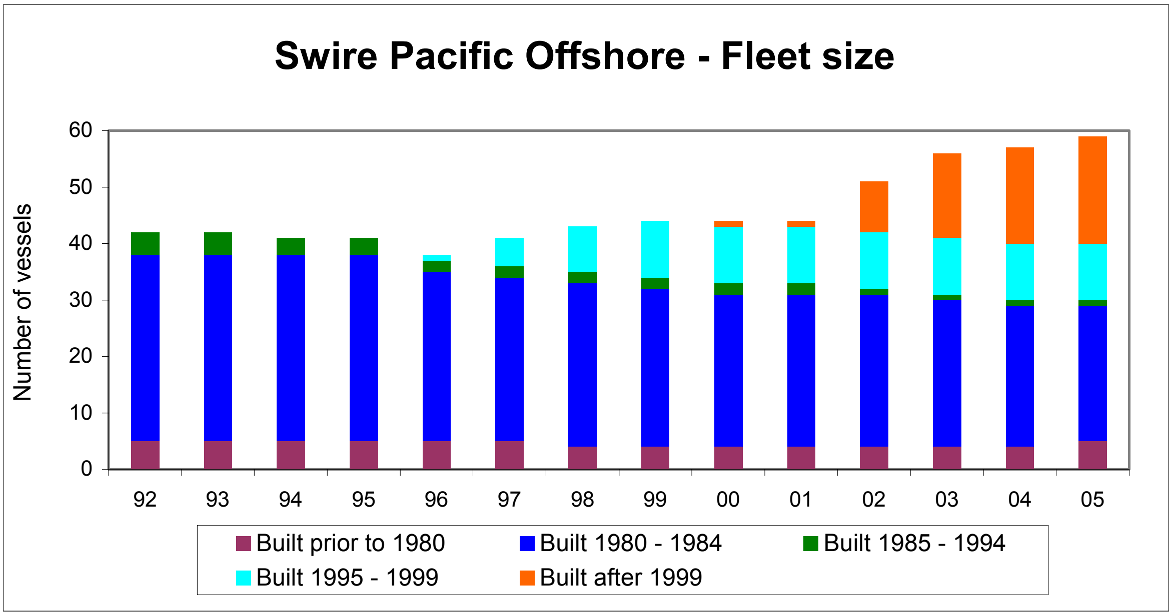
	2003 HK$M	2002 HK$M
Swire Pacific Offshore		
Turnover	1,218	993
Operating profit	309	352
Attributable profit	306	355
Share of profits before taxation jointly controlled and associated companies		
Ship repair, land engineering and harbour towage	36	24
Container terminal operations	378	330
Offshore oil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

Key Performance Indicators

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

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





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 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 10 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.

TRADING & INDUSTRIAL DIVISION

	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

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 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 resume 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 55 to 82.

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

Consolidated Profit and Loss Account (continued)	2003 HK$M	2002 HK$M	Reference
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
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
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

Consolidated Balance Sheet (continued)	2003 HK$M	2002 HK$M	Reference
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	2003 HK$M	2002 HK$M	Reference
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
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	

Consolidated Cash Flow Statement (continued)	2003 HK$M	2002 HK$M	Reference
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	2002	2003	2001	2002	2003
	HK$'m	HK$'m	HK$'m	HK$'m	HK$'m	HK$'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.