

Chairman's Statement

The attributable profit for 2004 of HK\$6,544 million was 33% higher than in 2003. This reflects a sharp and broad based recovery in economic activity which has benefited the majority of the group's operations. Profit growth in the Aviation Division was particularly impressive reflecting strong traffic demand, currency gains and tight control of costs notwithstanding very high fuel prices. Attributable profits from the Property Division fell slightly due mainly to a one-off interest provision of HK\$500 million. Growth in profits from residential sales more than offset the decline in rental income.

The Beverages, Marine Services and Trading & Industrial Divisions all enjoyed good growth and together contributed attributable profits of HK\$1,501 million, 20.4% growth on the prior year.

Dividends

Directors have recommended a final dividend of HK¢142.0 per 'A' share and HK¢28.4 per 'B' share, which together with the interim dividends paid in October 2004, represents 49.3% growth on 2003.

Scope of Activities

Demand for office space has picked up in recent months and new leases are being secured at higher rents than those prevailing 12 months ago. We are now actively considering new investment opportunities in the Hong Kong market. During the year Swire Properties increased its interest in the Taikoo Hui commercial office and retail project to 97% from 55% and site formation work has now commenced.

An 18% increase in capacity, strong demand and the development of new services has enabled Cathay Pacific to counteract significantly higher fuel costs and increased competition. The acquisition of a 10% stake in Air China and the signing of agreements to purchase 15 additional aircraft will facilitate new growth opportunities and allow enhanced competitiveness.

Buoyed by strong demand HAECO has recently announced plans to expand operations with the construction of an additional hangar at Hong Kong International Airport.

Once again the group enjoyed significant attributable profit contributions from non-airline associates in the Aviation Division. These amounted to HK\$406 million in 2004, 30% growth on the prior year.

Volume growth was again very strong from Beverages operations on the Mainland and this together with improved

distribution efficiency allowed good profit growth in spite of significantly higher raw material costs.

Exploration activity in the offshore oil industry has picked up and Swire Pacific Offshore is enjoying improved charter rates and fleet utilisation. Orders for 12 more vessels have been placed.

The Trading & Industrial Division enjoyed another year of record profits with particularly strong growth from sports apparel and motors trading.

Finance

Cash inflows during the year were strong with cash from operations, asset realisations and dividends totalling HK\$8,769 million. Net debt and gearing fell to HK\$8,288 million and 9% respectively. Undrawn committed and uncommitted facilities stood at HK\$3,855 million and HK\$2,540 million respectively.

Our A3 long-term debt rating from Moody's, A- rating from Fitch and BBB+ from Standard & Poor's were reaffirmed during the year.

Corporate Governance

A commitment to good corporate governance and the highest standards of business integrity 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 43 to 49. During the year we implemented new procedures to enable full compliance with the Code provisions set out in the "Code on Corporate Governance Practices" recently issued by The Stock Exchange of Hong Kong Limited.



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Corporate Social Responsibility

The group recognises its business decisions and activities have a social and environmental impact, and is committed to following business practices that are sound, ethical and sustainable. Our Corporate Social Responsibility section on pages 58 to 61 details our goals, initiatives and achievements in this field. For the fourth year running, Swire Pacific was included in the Dow Jones Sustainability Index that identifies more than 300 companies worldwide seen as leaders in corporate sustainability.

Prospects

A widely forecast decline in GDP growth rates for Hong Kong and Mainland China in 2005 is not expected to have a significant impact on Swire Pacific's existing operations nor on its plans to expand capacity in many of its core activities. The group has established considerable scale and expertise in Mainland China in its property, aviation, beverages and trading & industrial operations and is thus in a good position to deploy significant new capital.

The outlook for the Hong Kong office property market has improved markedly over the last 12 months and although the rental reversionary cycle will continue to be negative for some months we can at last look forward to a period of rental growth and new investment.

With regional competition in the airline industry expected to intensify, Cathay Pacific will continue to focus on controlling costs and improving services through expanding capacity thus enhancing the effectiveness of the Hong Kong hub. Further expansion of the group's aviation interests on the Mainland remains a strategic priority.

We are confident the Beverages Division will continue to grow strongly through additional investment in distribution technology and new products.

Following recent investments in new capacity Swire Pacific Offshore is in a good position to benefit from the increase in demand for offshore oil support services.

The Trading & Industrial Division expects more modest growth in 2005 following record earnings in 2004.

The group will continue to explore opportunities to expand its businesses and to improve its return on capital. A number of projects are under review both on the Mainland and elsewhere. As ever we rely on our staff and I take this opportunity to thank them for their hard work during the last year.

David Turnbull

Chairman

Hong Kong, 10th March 2005