

Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31st December 2004, which are set out on pages 64 to 106.

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 100 to 106. 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 2004 of HK¢142.0 per 'A' share and HK¢28.4 per 'B' share which, together with the interim dividends paid on 5th October 2004 of HK¢58.0 per 'A' share and HK¢11.6 per 'B' share, make total dividends for the year of HK¢200.0 per 'A' share and HK¢40 per 'B' share: an increase of 49.3% over those for 2003. This represents a total distribution for the year of HK\$3,062 million. Subject to the approval of the 2004 final dividends by the shareholders at the annual general meeting on 12th May 2005, it is expected that those dividends will be paid on 3rd June 2005 to shareholders registered on 12th May 2005. The share registers will be closed from 9th May 2005 to 12th May 2005, 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 94 to 99.

The reason for a departure from the Statement of Standard Accounting Practice No. 11 (HK SSAP No. 11) laid down by the Hong Kong Institute of Certified Public 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\$10 million and donations towards various scholarships of HK\$3.2 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 professionally qualified executives of the group on the basis of open market value at 31st December 2004. The valuations have been recorded in the accounts of the individual companies concerned and an overall net increase of HK\$14,915 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 109 to 117.

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 the inside front cover.

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.

Agreements for services

There were agreements for services ("Old Agreements"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK"), a wholly-owned subsidiary of John Swire & Sons Limited ("Swire"), provided to the Company and some of its subsidiary and associated companies advice and expertise of the directors and senior officers of the Swire group, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may have been agreed from time to time.

In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and jointly controlled companies of the Company, where there were no agreements for services with such companies, and (B) in the case of its subsidiary and associated companies with such agreement, as 2.5% of their relevant consolidated profits before taxation and minority interests after certain adjustments. The fees for each year were payable in cash in arrears in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimbursed the Swire group for all expenses incurred in the provision of the services at cost. The Old Agreements were terminated on 31st December 2004 and replaced by new agreements ("New Agreements") signed on 1st December 2004 also with JSSHK.

The New Agreements took effect from 1st January 2005 and will terminate on 31st December 2007. However they are renewable for successive periods of three years thereafter unless either party to them gives to the other notice of termination of not less than three months expiring on any 31st December.

The terms of the New Agreements are substantially the same as those of the Old Agreements. The Directors estimate that the maximum aggregate annual amount of the service fees and the costs reimbursed to the Swire group under the New Agreements (excluding those in respect of shared administrative services) will not exceed HK\$252 million in the period up to 31st December 2007.

The Swire group owns approximately 29.47% of the issued capital of the Company and approximately 52.87% of its voting rights and JSSHK, a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Rules Governing the Listing of Securities ("the Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The transactions under the New Agreements are continuing connected transactions under the Listing Rules, in respect of which an announcement dated 1st December 2004 was published by the Company.

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As directors and employees of the Swire group, D M Turnbull, J W J Hughes-Hallett, M Cubbon, D Ho and K G Kerr are interested in both the Old Agreements and the New Agreements. Baroness Dunn and P A Johansen are also interested in these agreements as shareholders, directors and employees of Swire. Sir Adrian Swire was similarly interested but has ceased to be director and employee of Swire at the end of December 2004.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2004 are given in note 29 to the accounts.

Connected transactions

An agreement dated 9th January 2004 ("JV Agreement") was signed by a total of 24 companies, comprising, inter alia, (i) the Company's subsidiary, Swire Beverages Limited ("SBL") and its seven jointly controlled bottling companies in the PRC (together "SBL Group"), (ii) three subsidiary and associated companies of COFCO Coca-Cola Beverages Limited ("COFCO" and together "COFCO Group"), and (iii) Coca-Cola (China) Investment Limited ("CCCIL").

Pursuant to the JV Agreement, the parties agreed to set up a foreign-invested company limited by shares in the PRC to be named Coca-Cola Bottling Manufacture Company Limited ("JV Company"), for the production, processing, distribution and sale of certain types of non-carbonated beverages ("NCB") which bear the trademarks of The Coca-Cola Company. The establishment of JV Company will bring the NCB manufacturing process and related assets in the PRC together under one company to create economies of scale and efficiency and diversify risk, thus strengthening the economic and technological cooperation between the parties in their business operations in respect of NCB and will minimise production costs.

JV Company will have a registered capital of RMB564.4 million (HK\$530.54 million), to which the SBL Group will subscribe in aggregate RMB135.46 million (HK\$127.33 million) for an equity interest of 24%, the COFCO Group RMB118.52 million (HK\$111.4 million) for 21% and CCCIL RMB95.95 million (HK\$90.19 million) for 17%. The profit or loss of the JV Company will be shared by the parties in accordance with their respective equity interest and liability is limited to their respective capital contribution.

The subscription money shall be paid by the parties within 30 days of the issue by the Ministry of Commerce ("MOC") of the certificate approving the establishment of JV Company ("the Approval Certificate"). Up to the date of this report, such approval has not been received and the subscription to JV Company has not been made. The JV Agreement shall be terminated automatically (i) if the Approval Certificate is not issued by MOC within 18 months of the submission of all necessary application documents, or (ii) if JV Company fails to obtain its business licence within 120 business days of capital contribution. If any of these circumstances occurs, any capital contributions already made shall be refunded to the parties. The application documents were submitted to MOC on 23rd March 2004.

CCCIL is a wholly-owned subsidiary of Coca-Cola South Asia Holdings Inc. ("CCSAH") which is a connected person of the Company because of its 12.5% interest in SBL. Three wholly-owned subsidiary companies of COFCO are substantial shareholders in the Company's indirect subsidiary bottling companies in the PRC with interests of over 10%. COFCO is therefore a connected person of the Swire group.

As CCCIL and the COFCO Group are associates of CCSAH and COFCO respectively as defined in the Listing Rules, they are also connected persons of the Company.

The JV Agreement was a connected transaction under the definition of the Listing Rules, in respect of which an announcement was published on 28th July 2004 by the Company.

Share capital

During the year under review and up to the date of this report, the group did not purchase, sell or redeem any of its shares.

Directors

Of the present Directors of the Company whose names are listed on pages 50 and 51, M C C Sze was appointed on 1st November 2004. All the remaining Directors served throughout the calendar year 2004 and still hold office at the date of this report. D G Eldon has tendered his resignation from the Board with effect from 11th May 2005.

The Company has received from each of its independent Non-Executive Directors listed on pages 50 and 51 confirmation of his/her independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

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, M Cubbon, Baroness Dunn and C Lee retire this year and being eligible offer themselves for re-election.

M C C Sze having been appointed to the Board under Article 91 since the last annual general meeting, also retires and offers himself for 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).

Directors' fees paid to the independent Non-Executive Directors during the year totalled HK\$1,233,400; they received no other emoluments from the Company or any of its subsidiaries.

Directors' interests

At 31st December 2004, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), Cathay Pacific Airways Limited and John Swire & Sons Limited:

	Capacity		Total No. of Shares	Percentage of Issued Capital (%)	Remarks
	Beneficial Interest (Personal)	Trust Interest			
Swire Pacific Limited					
'A' shares					
P A Johansen	10,000	1,500	11,500	0.0012	See Note 1
Sir Adrian Swire	–	794,473	794,473	0.0854	See Note 2
D M Turnbull	1,266	–	1,266	0.0001	–
'B' shares					
D Ho	100,000	–	100,000	0.0033	–
P A Johansen	–	200,000	200,000	0.0067	See Note 1
C Lee	750,000	21,105,000	21,855,000	0.7265	See Note 1
Sir Adrian Swire	4,813,169	15,741,913	20,555,082	0.6844	See Note 2

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Directors' interests (continued)

	Capacity			Total No. of Shares	Percentage of Issued Capital (%)	Remarks
	Beneficial Interests		Trust Interest			
	Personal	Family				
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	24,565,975	29,673,189	29.67	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	7,332,727	9,362,896	31.21	See Note 4

Notes:

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

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 the Company 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 the Company, 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 2004 the Company had been notified of the following interests in the Company's shares:

	'A' shares	Percentage of Issued 'A' shares	'B' shares	Percentage of Issued 'B' shares	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
J.P. Morgan Chase & Company	119,709,281	12.87	–	–	See Note 3
Other Shareholders					
State Street Corporation	47,461,463	5.10	–	–	See Note 4
Aberdeen Asset Management Asia Limited	–	–	206,905,900	6.89	See Note 5

Notes:

- The shares are held in the capacity of beneficial owner.
- 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 55,761,220 'A' shares, representing 5.99% of the issued 'A' shares, held in the capacity of investment manager.
- The shares held by J.P. Morgan Chase & Company are held in the following capacities:

Capacity	No. of Shares
Beneficial Owner	2,631,576
Investment Manager	45,452,760
Custodian Corporation/approved lending agent	71,624,945

- These shares are held by State Street Bank & Trust Company, which is a 100% owned subsidiary of State Street Corporation, in a lending pool.
- 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 2004.

At 31st December 2004, the Swire group owned directly or indirectly interests in shares of the Company representing 29.47% of the issued capital and 52.87% of the voting rights.

Auditors

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. 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

D M Turnbull

Chairman

Hong Kong, 10th March 2005