

Chairman's Statement

The attributable profit for Swire Pacific in 2005 was HK\$18,757 million. This compares to profits of HK\$18,818 million prepared on a comparable basis for 2004. These results reflect the adoption of new Hong Kong Financial Reporting Standards effective from 1st January 2005. Underlying attributable profits, which adjust for the impact of adopting Hong Kong Accounting Standard 40 and Interpretation 21 on investment properties and income taxes respectively, amounted to HK\$8,742 million, 33.7% up on the corresponding figure of HK\$6,538 million in 2004. This strong growth included significant non-recurring capital profits on the sale of the group's Hong Kong port interests and residential apartments. Profits from the Aviation Division saw a modest decline with good traffic growth unable to offset the significant rise in fuel costs. Other divisions performed well with the Property Division benefiting from positive rental reversions.

Dividends

Directors have recommended a final dividend of HK¢146.0 per 'A' share and HK¢29.2 per 'B' share, which together with interim dividends paid in October 2005, represents total dividends of HK¢206.0 per 'A' share and HK¢41.2 per 'B' share.

Scope of Activities

During the year it was decided to commence construction of One Island East, an office building of approximately 1,520,000 square ft., and a 350-room hotel to be known as Hotel Cityplaza, also in Island East. Both projects are scheduled for completion in 2008. With the opening of the Taikoo Hui mixed-use property in Guangzhou in early 2009, Swire Properties will then have a high-grade investment property portfolio of over 19 million square feet.

Cathay Pacific has continued to take advantage of robust traffic demand with many additional frequencies to existing destinations. This increase to the depth of the existing network has strengthened the Hong Kong hub and Cathay Pacific's competitiveness in a rapidly expanding market.

Rising demand for airframe and engine maintenance led to strong earnings growth at HAECO.

In spite of further rises in raw material prices, the Beverages Division enjoyed improved profits with better pricing in the USA augmented by robust volume growth in China.

A gradual increase in charter rates over the course of the year and high vessel utilisation led to a record profit for Swire Pacific Offshore in 2005. Profits were further lifted by the sale of a production rig early in the year.

The group's 17.6% interest in Modern Terminals Limited was sold in August realising an attributable profit of HK\$2,270 million. Shekou Container Terminals saw modest throughput and earnings growth and has recently introduced additional capacity.

Record sales of motor vehicles in Taiwan and sports apparel in Hong Kong and Mainland China coupled with improved returns from industrial associates on the mainland boosted earnings growth by 34% from the Trading & Industrial Division in 2005.

Finance

Good cash flows from operations, asset realisations and dividends totalling HK\$11,347 million resulted in net debt and gearing falling to HK\$5,448 million and 5% respectively.

Long-term credit ratings at the year end stood at A3 from Moody's and A- from both Fitch and Standard & Poor's.

“ We remain confident of the underlying strength of our core businesses and of the economies in which they operate. ”

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 is set out on pages 53 to 62.

Corporate Social Responsibility

For more than a century, the group has engaged closely with the communities where it operates. It has done this through community relations initiatives, philanthropy, health and safety programmes, sustained investment in staff development and human resources, and an increasingly sophisticated approach towards sustainability and environmental protection that meets or exceeds best practice. Highlights of the group's CSR developments in 2005 are set out on pages 72 to 76 of this report.

Prospects

Growing consumer confidence and trade across the region should underpin continued strong economic growth both in Hong Kong and on the mainland. A steady increase in investment in the group's property, aviation, marine and beverage operations over the last 18 months places the group in a good position to benefit from this positive economic outlook.

Good progress has been made on the design and construction of the Taikoo Hui development in Guangzhou. With offices now established in Shanghai and Beijing, Swire Properties is actively seeking additional investment opportunities in Mainland China.

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The recently placed order for 16 long-haul and three regional aircraft together with purchase rights for a further 20 long haul aircraft will allow Cathay Pacific to expand its regional and long haul network. Passenger traffic and cargo volumes are expected to continue to grow strongly. The high price of fuel is expected to keep margins under pressure.

Volume growth facilitated by recent investments in distribution equipment will help offset the effect on margins of high material costs for Swire Beverages.

The delivery of 12 new vessels over the next 15 months will allow Swire Pacific Offshore to take advantage of growing exploration demand for oil and gas.

The Trading & Industrial Division anticipates more modest growth in 2006 after three consecutive years of significant earnings growth to 2005. Mainland China will remain the key focus with a significant broadening of distribution capacity in sports apparel and manufactured products.

We remain confident of the underlying strength of our core businesses and of the economies in which they operate. The group has committed to a marked increase in new investment over the next few years and expects this to grow with a number of new projects under consideration.

The results achieved in 2005 reflect extremely well on staff across the group and I take this opportunity to thank them for their hard work and commitment throughout the year.

Christopher D Pratt

Chairman

Hong Kong, 9th March 2006