



“ With the opening of Taikoo Hui in Guangzhou in early 2009, we will have a high-grade investment property portfolio of over 19 million square feet. ”

Swire Properties' portfolio in Hong Kong principally comprises office and retail premises in prime locations, as well as serviced apartments, hotel interests and other luxury residential accommodation. The completed portfolio totals 13.11 million square feet of gross floor area. Current property pending or under development in Hong Kong comprises a further 2.19 million square feet, mainly of office space. In Mainland China, Swire Properties has a 97% interest in Taikoo Hui, a foreign joint venture company which is constructing a four million square foot mixed-use commercial development in Guangzhou, to be managed by Swire Properties, as well as a 10% interest in the CITIC Square development in Shanghai. In the United States, Swire Properties owns a 75% interest in the Mandarin Oriental Hotel in Miami, Florida.

Swire Properties' trading portfolio comprises land and apartments under development in Hong Kong and Miami, Florida. The company has sold substantially all its inventory of residential apartments.

## Property Division

	Note	2005 HK\$M	2004 HK\$M
<b>Turnover</b>			
<b>Gross rental income derived from</b>			
Offices		1,647	1,574
Retail		2,315	2,218
Residential		206	187
<b>Non-recurring gross rental income</b>			
Offices		54	–
Retail		82	–
<b>Other income</b>	1	78	81
<b>Property investment</b>		4,382	4,060
<b>Property trading</b>		1,339	2,506
<b>Sale of investment properties</b>		509	766
<b>Total turnover</b>		6,230	7,332
<b>Operating profit derived from</b>			
Property investment		3,064	2,810
Property trading		514	838
Sale of investment properties		93	245
Valuation gains on investment properties			
– change in fair value	2	11,881	15,620
– transferred to finance cost	3	158	500
– write-back of over-provision for land premium	4	692	–
<b>Total operating profit</b>		16,402	20,013
<b>Share of post-tax profits from jointly controlled and associated companies</b>			
Normal operations		214	162
Non-recurring items		–	299
<b>Attributable profit</b>		12,684	15,097

Notes:

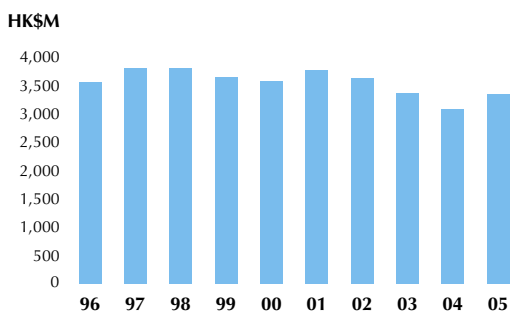
1. Other income is mainly estate management fees.
2. Refer to Note 2 in Financial Review section on page 35.
3. Refer to Note 4 in Financial Review section on page 36.
4. Refer to Note 5 in Financial Review section on page 36.

# Property Division

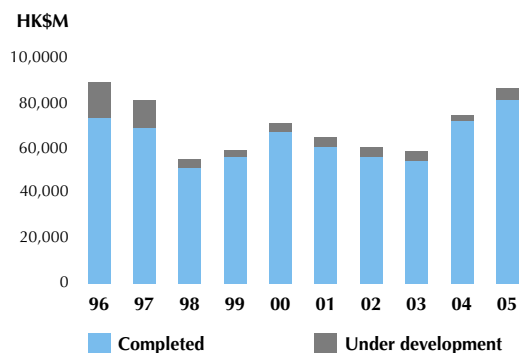
The attributable profit in the table on page 9 reflects the adoption of Hong Kong Accounting Standard (“HKAS”) 40 “Investment property”. Particulars of the standard and its impact on the division’s results are set out in the Financial Review Section on pages 35 to 44 and Note 1(a) to the Accounts on page 84. The underlying profit of the division, which excludes the impact of adopting HKAS 40 and Interpretation (“HKAS-Int”) 21 is shown below.

	2005 HK\$M	2004 HK\$M
Attributable profit	<b>12,684</b>	15,097
Profit on sale of investment properties	<b>352</b>	408
Valuation gains from subsidiaries		
– change in fair value	<b>(11,881)</b>	(15,620)
– transferred to finance cost	<b>(158)</b>	(500)
– write-back of over-provision for land premium	<b>(692)</b>	–
Share of valuation gains from JCC and Associates	<b>(114)</b>	(61)
Others	7	7
Taxation	<b>2,127</b>	2,766
Minority interests	<b>349</b>	818
Underlying profit	<b>2,674</b>	2,915

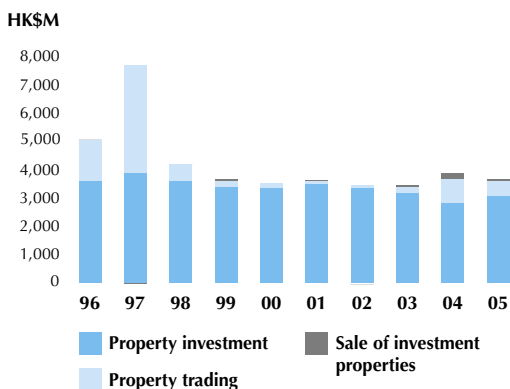
Net rental income



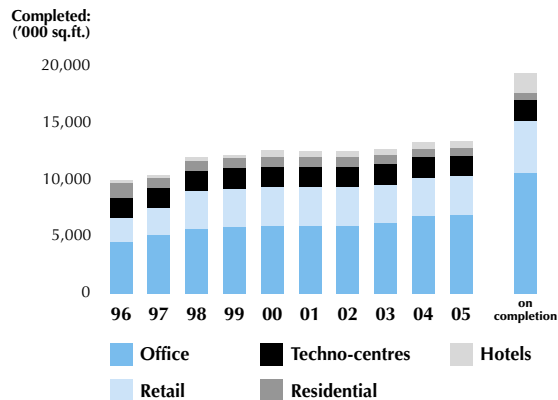
Valuation of investment properties

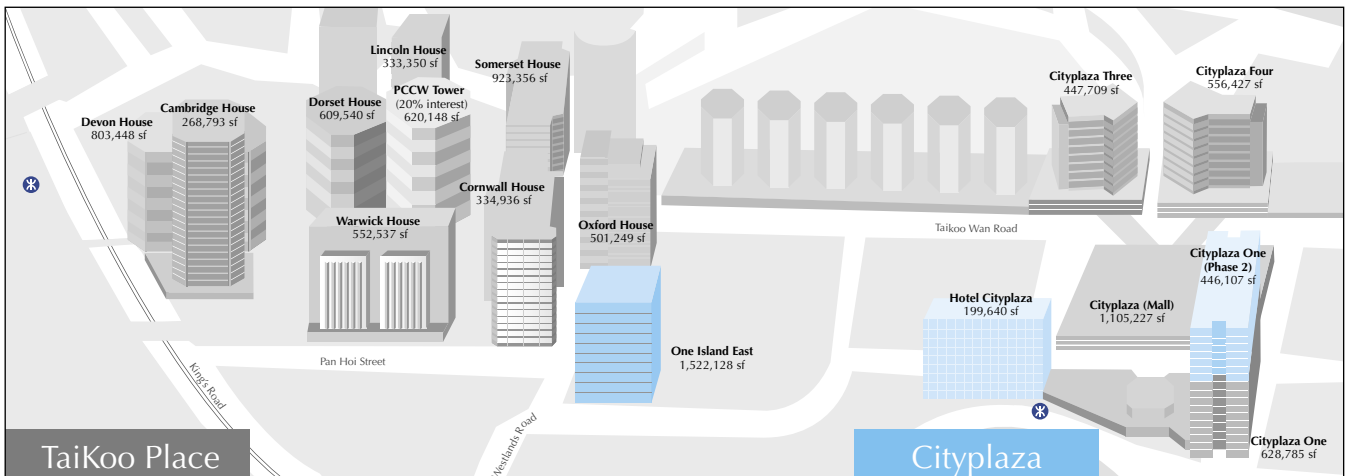
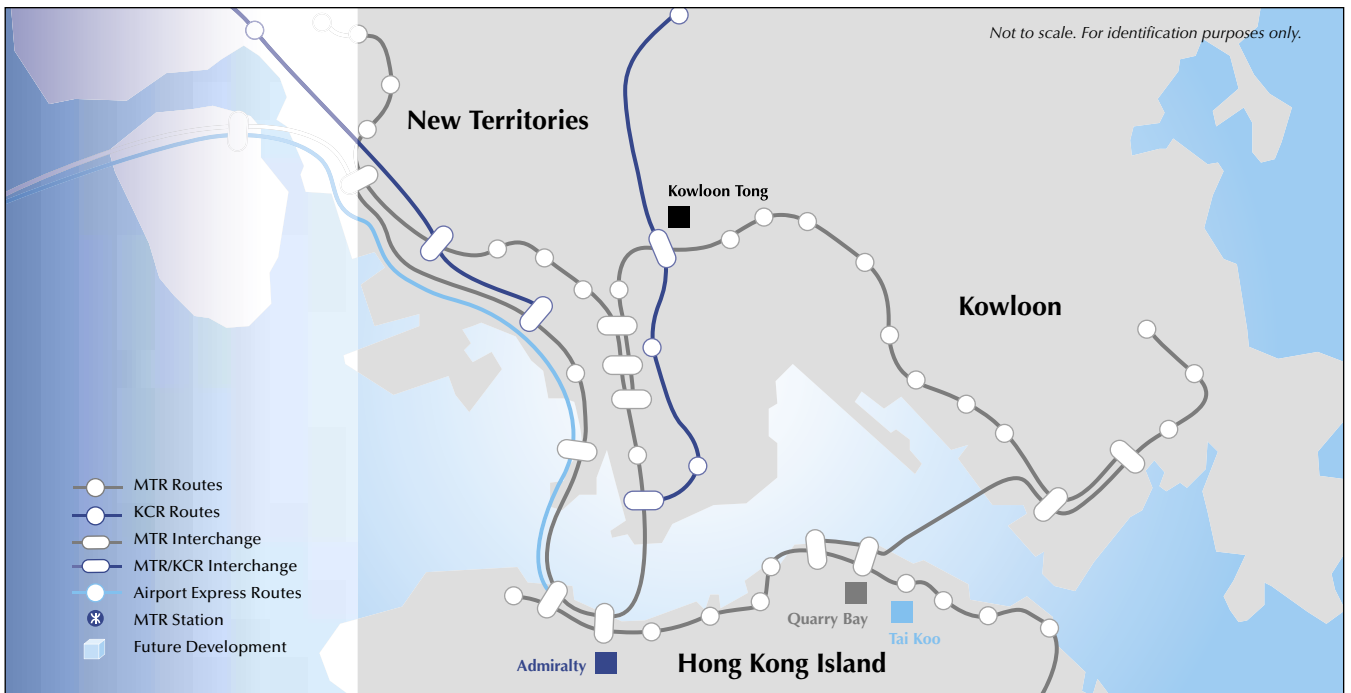
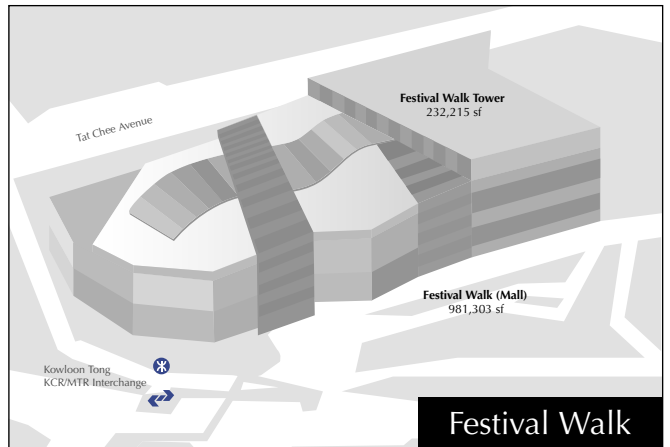
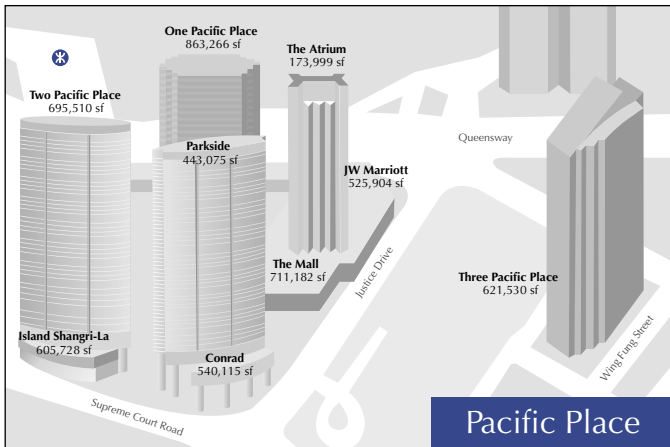


Operating profit before non-recurring items



Floor area of property portfolio





# Property Division

Property portfolio - gross floor area ('000 square feet)

	<b>Total</b>	<b>Retail</b>	<b>Office</b>	<b>Techno-centres</b>	<b>Residential</b>	<b>Hotels</b>
<b>Location</b>						
<b>Completed</b>						
Pacific Place	3,890	711	2,180	–	617	382
TaiKoo Place	4,451	–	2,640	1,811	–	–
Cityplaza	2,738	1,105	1,633	–	–	–
Festival Walk	1,214	982	232	–	–	–
Others	817	591	183	–	43	–
– Hong Kong	13,110	3,389	6,868	1,811	660	382
– Mainland China	114	37	77	–	–	–
– United States	258	–	–	–	–	258
<b>Total completed</b>	<b>13,482</b>	<b>3,426</b>	<b>6,945</b>	<b>1,811</b>	<b>660</b>	<b>640</b>
<b>Under and pending development</b>						
– Hong Kong	2,185	11	1,974	–	–	200
– Mainland China	3,741	1,145	1,740	–	–	856
<b>Total</b>	<b>19,408</b>	<b>4,582</b>	<b>10,659</b>	<b>1,811</b>	<b>660</b>	<b>1,696</b>

## 2005 OVERVIEW

The Hong Kong property market has benefited significantly from the improved economy during 2005. Demand for office space has increased, and the absence of significant new supply has caused office rents to rise sharply, and vacancy to drop. Retail rents have risen steadily with tourism from Mainland China continuing to benefit sales, particularly in certain retail sectors, though domestic demand has also continued to improve.

Recurring gross rental income from the investment portfolio amounted to HK\$4,168 million in 2005, compared with HK\$3,979 million in 2004, reflecting increases throughout the portfolio.

The result for the year includes non-recurring gross rental income of HK\$136 million, representing a change in the accounting treatment for rent-free periods. In prior years, rent-free periods were accounted for on a cash basis as they occurred in individual leases. With effect from 1st January 2005 these rent-free periods are recognised evenly over the committed terms of individual leases. The effect of this treatment is to bring into income, in 2005, HK\$136 million which would otherwise have been recognised in future years.

Operating profit from property trading represents principally profits booked on the completion of units at The Carbonell in the United States, together with profits from the closing of remaining units at Jade Residences in the first half of the year. In addition, two office floors at Island Place in North Point were sold in August.

The remaining 13 apartments and some car parks at The Albany were sold during the year.

## Investment Properties

### Offices

The office market was considerably stronger in 2005 as a consequence of increased demand and a limited amount of new supply. Recurring gross rental income from the office portfolio was 5% higher in 2005 than in 2004. Reversionary rentals on new tenancies and lease renewals were higher from around the middle of the year. Occupancy levels improved significantly and at the year-end averaged 94% for the office portfolio compared to 82% at the end of 2004.

## Retail

The Swire Properties retail portfolio continued to perform well during 2005. Gross rental income for the year was 4% higher than that of 2004. Retail sales at Swire Properties' three principal shopping malls were higher 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, together totalling just over 1,100,000 square feet.

The Mall at Pacific Place is the pre-eminent shopping mall in Hong Kong. Seibu, Great Food Hall and Lane Crawford are the anchor tenants, together with 160 other retail and catering outlets amounting to approximately 700,000 square feet. Lane Crawford was closed for refurbishment for approximately three months in the second half of 2005. The cineplex at Pacific Place closed for reconfiguration and refurbishment at the end of January 2006 and will re-open in the fourth quarter of this year.

Festival Walk, a major shopping centre in Kowloon, was jointly owned by Swire Properties and CITIC Pacific until 3rd March 2006 and wholly owned by Swire Properties from that date. Anchor tenants include Taste, Marks & Spencer, Page One Books and the AMC Cinema, plus over 200 other retail and catering outlets and the Glacier ice rink together comprising over 980,000 square feet.

On 3rd March 2006, Swire Properties completed the acquisition of CITIC Pacific's 50% interest in Festival Walk for a consideration of HK\$6,123 million.

The Citygate retail centre at Tung Chung, in which Swire Properties has a 20% interest, is being repositioned as an outlet mall for international brands, and a number of new tenancies have been secured.

## Residential Investment Portfolio

The residential portfolio comprises mainly The Atrium and Parkside serviced suites at Pacific Place. Refurbishment of the suites at Parkside was completed during 2005. Occupancy of the available serviced suites has been lower in the second half of the year, largely due to increased competition in the market. The remaining residential properties on Hong Kong Island were fully let.

## Investment Properties under Development

Work will commence shortly on the main contract for the construction of One Island East, an office building of approximately 1,520,000 square feet at 18 Westlands Road, due for completion in 2008.

## 2005 Valuation of Investment Properties

The portfolio of investment properties was valued at 31st December 2005 by Debenham Tie Leung. As a result of this valuation, Swire Properties' operating profit increased by HK\$11,881 million. The increase in 2005 largely reflects the recovery in office rental levels and benchmarks set by recent transactions in the market. Particulars of the properties in Hong Kong and the USA, both for investment and development for sale, are set out on pages 151 to 159.

## Taikoo Shing Arbitration

The claim by the Hong Kong SAR Government Lands Department for land premium in relation to the Cityplaza Four, Cityplaza Three and Cityplaza One office towers 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. Following a fresh hearing held in February 2004, the arbitrator determined that the valuation dates for the purpose of quantifying the amount of land premium on the office towers should be the dates on which occupation permits were issued for each of the buildings, and that interest should be calculated at two-thirds of HIBID from those valuation dates.

# Property Division

Swire Properties and the Lands Department entered into discussions to settle land premium figures for the Cityplaza office towers at the respective valuation dates. Those discussions concluded during the course of the year and the amount of land premium was agreed to be HK\$2,900 million.

Interest from the relevant valuation dates to the date of payment of the agreed premium was calculated to be HK\$658 million, of which HK\$500 million was charged to the profit and loss account in 2004 and the balance of HK\$158 million in 2005. The total amount of premium and interest payable in relation to the Cityplaza office towers was therefore HK\$3,558 million. Swire Properties made a payment on account of premium to Government in an amount of HK\$2,027 million in August 2004. A further payment of HK\$1,531 million was made in August 2005, representing the balance of premium and interest.

An amount of HK\$4,250 million was charged against the property valuation reserve in the Swire Pacific group accounts for the year ended 31st December 2000 in relation to the Cityplaza office towers. This compares with the total amount now paid of HK\$3,558 million. The balance of HK\$692 million remaining from the provision made in 2000 was credited to the profit and loss account in 2005. Prior to 2005 this amount of overprovision would have been credited to the group's property valuation reserve. Following the group's adoption of the new Hong Kong Accounting Standards for the year commencing 1st January 2005, property valuation movements have been shown as part of the group's operating profit for the year.

## Property Trading Portfolio

The portfolio of developments for sale comprises substantially residential apartments in the USA. There is currently no inventory of completed units in Hong Kong.

Swire Properties has been appointed as developer of a site owned by a subsidiary of China Motor Bus on Java Road, North Point. Swire Properties will be entitled to reimbursement of costs and a share of sales proceeds under the terms of this appointment. It is estimated the project will be completed in 2008.

Demolition work has commenced at 2A – 2E Seymour Road in Mid-Levels, where Swire Properties has a controlling stake in this site with redevelopment potential of approximately 174,000 square feet. This development will proceed once outstanding approvals have been obtained.

A former bus depot site on Wong Chuk Hang Road, Aberdeen, is owned 50:50 by Swire Properties and China Motor Bus. The site has an industrial development potential of 382,000 square feet. Consideration is being given to alternative uses.

## Hotels

Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place, results of which have improved during the year, with both higher occupancy levels and room rates.

The Novotel Citygate, a 440-room hotel in which Swire Properties has a 20% interest, has been completed and will open at the end of the first quarter of 2006.

Planning approval has been obtained to build a 350-room hotel on the site formerly known as Cityplaza Two. Construction work is expected to commence shortly, with Hotel Cityplaza scheduled for completion at the end of 2008.

The 329-room Mandarin Oriental Hotel in Miami, which is 75% owned by the group, continued to report improved operating profits as a result of increased occupancy and room rates.

### Mainland China

Work has commenced at the Taikoo Hui mixed-use development in Guangzhou. Completion of this four million square foot development, including 1.2 million square feet of prime shopping space, two office towers, two hotels and a cultural centre, is now scheduled for completion in early 2009.

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 of The Carbonell, a 284-unit condominium tower on Brickell Key, Miami, was completed during the year. All apartments have been sold, and at the end of December 186 units had been handed over to purchasers, with profits recognised on those units. The balance of these units is expected to be handed over in the first half of 2006. All remaining units at Jade Residences, a residential condominium development at Brickell Bay, in which Swire Properties had a controlling interest, were closed during the year. Construction work at Asia, a 123-unit condominium tower on Brickell Key, has commenced, with completion scheduled in the middle of 2007.

### 2006 Outlook

Swire Properties will continue to seek opportunities in major cities on the Mainland for further projects of the scale and nature of Taikoo Hui in Guangzhou.

In Hong Kong the development of One Island East, as a major addition to the commercial portfolio, will be a primary focus in 2006. In residential trading, the company will pursue quality projects of the type in which it has established a strong track record.

In the United States, Swire Properties intends to build further on its reputation for developing high-quality residential apartments in South Florida.

**Keith G Kerr**