

Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31st December 2005, which are set out on pages 79 to 148.

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 142 to 148. An analysis of the group's performance for the year by business and geographical segments is set out in note 7 to the accounts.

Dividends

The Directors recommend the payment of final dividends for 2005 of HK¢146.0 per 'A' share and HK¢29.2 per 'B' share which, together with the interim dividends paid on 4th October 2005 of HK¢60 per 'A' share and HK¢12 per 'B' share, make total dividends for the year of HK¢206.0 per 'A' share and HK¢41.2 per 'B' share: an increase of 3.0% over those for 2004. This represents a total distribution for the year of HK\$3,154 million. Subject to the approval of the 2005 final dividends by the shareholders at the annual general meeting on 11th May 2006, it is expected that those dividends will be paid on 5th June 2006 to shareholders registered on 11th May 2006. The share registers will be closed from 8th May 2006 to 11th May 2006, both dates inclusive.

Reserves

Movements in the reserves of the group and the Company during the year are set out in note 35 to the accounts.

Accounting policies

The principal accounting policies of the group are set out on pages 132 to 141.

Donations

During the year, the Company and its subsidiaries made donations for charitable purposes of HK\$17 million and donations towards various scholarships of HK\$3 million.

Fixed assets

Details of movements in fixed assets are shown in notes 15 and 16 to the accounts. An analysis of capital expenditure by division is shown in note 7 to the accounts.

The annual valuation of the group's investment property portfolio, whether complete or in the course of development, was carried out by professionally qualified external valuers on the basis of open market value at 31st December 2005. The valuations have been recorded in the accounts of the individual companies concerned and an overall increase of HK\$11,887 million in the fair values of these properties is included in the profit and loss account.

A schedule of the principal properties of the Company and its subsidiary, jointly controlled and associated companies is given on pages 151 to 159.

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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 30 and 31 to the accounts.

Interest

A statement of the amount of interest capitalised by the Company and its subsidiaries is included in note 10 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 page 3.

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 are agreements for services ("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 agreements, 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 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 Swire group owns approximately 30.00% of the issued capital of the Company and approximately 53.07% 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 Agreements are continuing connected transactions, in respect of which an announcement dated 1st December 2004 was published.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2005 are given in note 39 to the accounts.

As directors and employees of the Swire group, C D Pratt, J W J Hughes-Hallett, M Cubbon, D Ho and K G Kerr are interested in the Agreements. D M Turnbull was similarly interested. Sir Adrian Swire is interested as a shareholder of Swire. Baroness Dunn and P A Johansen are also interested in these agreements as shareholders, directors and employees of Swire.

The Independent Non-Executive Directors, who are not interested in any connected transaction with the Swire group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the Swire group on normal commercial terms, that their terms are fair and reasonable and in the interests of the Company and its shareholders as a whole and that entry into the Agreements is in the ordinary and usual course of the Company's business.

The Auditors of the Company have also reviewed these transactions and confirmed to the Board that these transactions have been approved by the Board of the Company and have been entered into in accordance with the relevant agreements governing the transactions; and that they have not exceeded the relevant annual caps disclosed in previous announcements.

Connected transactions

A Heads of Agreement dated 25th November 2005 and a Formal Agreement dated 20th December 2005 were entered into amongst two subsidiaries of the Company, Swire Properties Limited ("Swire Properties") and Charming Grace Limited ("Developer"), and two subsidiaries of China Motor Bus Company Limited ("CMB"), Island Communication Enterprises Limited ("ICE") and Forever Vitality Limited ("Owner"). Pursuant to these agreements, Owner appointed Developer to develop and subsequently sell the units in a development ("the Development") to be constructed on certain land in Java Road, North Point with a total gross floor area for private residential use not exceeding 16,866.60 square metres, together with carparking spaces to be provided at a certain specified rate.

Owner shall reimburse to Developer all fees, costs and expenses ("Project Costs") incurred by Developer in connection with the Development and the sale of the units in the Development provided that the reimbursement shall only be made out of that portion of the sales proceeds from the sale of units in the Development which shall be in excess of HK\$568.30 million ("Available Sales Proceeds"). Only one-half of Available Sales Proceeds may be applied for reimbursement of Project Costs until such time when the cumulative Available Sales Proceeds reaches HK\$543.40 million. Thereafter, the whole of the excess may be applied for reimbursement of Project Costs. The total reimbursement shall not exceed the Project Costs which are estimated not to exceed HK\$299 million.

In addition, Developer shall be paid a fee based on the higher of (i) a 25% share of the amount by which the proceeds from the sale of units in the Development exceed the aggregate of Owner's land cost of HK\$840 million and Project Costs (such excess being the "Remaining Amount") and (ii) HK\$55 million, unless the Remaining Amount shall be less than HK\$55 million, in which case Developer's fee shall be the entirety of the Remaining Amount.

Developer will also be entitled to appoint a wholly-owned subsidiary of Swire Properties to act as project manager at a fee not exceeding 1% of the total construction costs, and as sales agent at a fee not exceeding 0.5% of the sale consideration. The fees paid to the project manager and the sales agent form part of the Project Costs.

As ICE, a wholly-owned subsidiary of CMB, holds a 40% interest in Swire and Island Communication Developments Limited, a subsidiary owned 60% by Swire Properties, CMB is a connected person of the Company and the transaction under the Heads of Agreement and the Formal Agreement constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 27th September 2005 was published by the Company.

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Connected and discloseable transaction

The Company, Swire Properties, CITIC Pacific Limited ("CITIC Pacific") and Newmarket Holdings Limited ("Newmarket") entered into a sale and purchase agreement on 20th January 2006 for the acquisition ("Acquisition") by Swire Properties of CITIC Pacific group's entire 50% interest in the Festival Walk shopping and commercial complex located at Kowloon Tong, Hong Kong for a cash consideration of HK\$6,123 million at completion. Swire Properties is a wholly-owned subsidiary of the Company and is the owner of the remaining 50% interest in Festival Walk.

The CITIC Pacific group's entire 50% interest in Festival Walk was represented by one ordinary share in the issued share capital of Supreme Luck Investments Ltd. ("Supreme Luck"), and a shareholder's loan in the amount of HK\$3,252 million from CITIC Pacific to Supreme Luck. Supreme Luck was an indirect wholly-owned subsidiary of CITIC Pacific and held a 50% equity interest in Festival Walk Holdings Limited, which was a company owned as to 50% by Swire Properties and 50% by Supreme Luck and is the owner of Festival Walk. Newmarket was a wholly-owned subsidiary of CITIC Pacific and held 100% of the issued share capital in Supreme Luck.

CITIC Pacific is a substantial shareholder of a subsidiary of Swire Pacific. Newmarket is a wholly-owned subsidiary of CITIC Pacific. CITIC Pacific and Newmarket are therefore connected persons of Swire Pacific.

The acquisition was a connected and discloseable transaction in respect of which an announcement dated 20th January 2006 was published and a circular dated 13th February 2006 was sent to shareholders. The acquisition was completed on 3rd March 2006 and Swire Properties' interest in Festival Walk has increased from 50% to 100%.

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, and has not adopted any share option scheme.

Directors

Of the present Directors of the Company whose names are listed on pages 63 and 64, V H C Cheng was elected as an Independent Non-Executive Director at the 2005 annual general meeting held on 12th May 2005, P N L Chen was appointed as an Executive Director on 13th May 2005 and C D Pratt was appointed an Executive Director and Chairman of the Board on 1st February 2006. All the remaining Directors served throughout the calendar year 2005 and still hold office at the date of this report. K G Kerr served as Alternate Director to Sir Adrian Swire during the year. In addition, D M Turnbull served as an Executive Director and Chairman of the Board and Alternate Director to Baroness Dunn during the year until his resignation with effect from 1st February 2006. D G Eldon served as an Independent Non-Executive Director until his resignation with effect from 11th May 2005.

The Company has received from each of its Independent Non-Executive Directors listed on page 64 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, J W J Hughes-Hallett, D Ho, K G Kerr, C K M Kwok, M M T Yang, retire this year and being eligible offer themselves for re-election.

C D Pratt and P N L Chen having been appointed to the Board under Article 91 since the last annual general meeting, also retire and offer themselves 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\$1,400,000; they received no other emoluments from the Company or any of its subsidiaries.

Corporate governance

The Company has complied throughout the year with all the code provisions and most of the recommended best practices in the Code on Corporate Governance Practices as set out in the Listing Rules.

Directors' interests

At 31st December 2005, 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 (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Pacific Limited						
'A' shares						
P A Johansen	10,000	–	1,500	11,500	0.0012	1
Sir Adrian Swire	–	–	794,473	794,473	0.0854	2
D M Turnbull	1,266	–	–	1,266	0.0001	–
P N L Chen	–	2,000	–	2,000	0.0002	–
'B' shares						
D Ho	100,000	–	–	100,000	0.0033	–
P A Johansen	–	–	200,000	200,000	0.0067	1
C Lee	750,000	–	21,405,000	22,155,000	0.7376	1
Sir Adrian Swire	4,813,169	–	15,741,913	20,555,082	0.6844	2
P N L Chen	65,000	10,142	–	75,142	0.0025	–

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	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
John Swire & Sons Limited						
Ordinary Shares of £1						
Baroness Dunn	8,000	–	–	8,000	0.01	3
P A Johansen	8,000	–	–	8,000	0.01	3
Sir Adrian Swire	2,142,152	2,815,062	24,715,975	29,673,189	29.67	4
8% Cum. Preference Shares of £1						
Baroness Dunn	2,400	–	–	2,400	0.01	3
Sir Adrian Swire	1,186,758	843,411	7,332,727	9,362,896	31.21	4
Cathay Pacific Airways Limited						
Ordinary Shares						
P N L Chen				9,000		0.00027

Notes:

- All the Swire Pacific Limited 'A' and 'B' shares held by these Directors under "Trust Interest" are held by them as beneficiaries of trusts.
- 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.
- 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.
- 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 14,426 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.

Directors' interests in competing business

None of the Directors and their respective associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

Substantial shareholders' and other interests

The register of substantial shareholders maintained under Section 336 of the SFO shows the following interests in the Company's shares as at 31st December 2005:

	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
Substantial Shareholders					
John Swire & Sons Limited	47,235,458	5.08	2,012,783,265	67.01	1
Franklin Resources, Inc.	103,228,390	11.10	–	–	2
J.P. Morgan Chase & Company	121,409,494	13.05	–	–	3
Other Shareholders					
Aberdeen Asset Management plc	–	–	210,522,900	7.01	4
Capital Group Companies Inc.	65,604,421	7.05	–	–	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 Ltd, 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 capital), 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	4,709,726
Investment Manager	59,230,314
Custodian Corporation/Lending Agent	57,469,454

- Aberdeen Asset Management plc is interested in these shares in its capacity as investment manager and includes shares in which wholly owned controlled corporations of Aberdeen Asset Management plc are interested.
- 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 2005.

At 31st December 2005, the Swire group owned directly or indirectly interests in shares of the Company representing 30.00% of the issued capital and 53.07% of the voting rights.

Public float

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital are held by the public at all times during the period under review.

Auditors

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

Christopher D Pratt

Chairman

Hong Kong, 9th March 2006