Chairman's Statement

Swire Pacific reported an attributable profit in 2006 of HK$22,566 million compared to HK$18,757 million in 2005. Underlying attributable profit, which adjusts for net property revaluation gains, was HK$8,716 million, 0.3% down on the corresponding figure of HK$8,742 million in 2005. The decrease in underlying profit is attributable to a net reduction in non-recurring profits, in particular the disposal of the group's Hong Kong port interests in 2005. Core property and aviation earnings grew strongly in the year.

2006 was characterised by a restructuring of the group's aviation interests and by reinvestment in core businesses with capital expenditure and new investments of HK$11.9 billion and year-end commitments of HK$9.4 billion. A further RMB4.8 billion has been committed to new investment property projects in Mainland China in early 2007.

Dividends

The Directors have recommended a final dividend of HK¢220.0 per 'A' share and HK¢44.0 per 'B' share, which together with interim dividends paid in October 2006, amounts to a full year dividend of HK¢283.0 per 'A' share and HK¢56.6 per 'B' share.

Scope of Activities

In March Swire Properties acquired a further 50% interest in Festival Walk in Hong Kong from CITIC Pacific for HK$6.1 billion at which point it became a wholly owned subsidiary. In December Swire Properties sold its 10% interest in CITIC Square, Shanghai, to CITIC Pacific for a total consideration of HK$280 million, realising a gain of HK$155 million.

In December Swire Properties purchased a 50% interest in a project in Dazhongli in the Jingan District of Shanghai, from HKR International Limited ("HKRI") for a total consideration of HK$1,329 million. Swire Properties and HKRI are strategic partners in this large scale development which will consist of a major retail centre, offices, hotels, serviced apartments and residential units, to be jointly developed and held primarily for long term investment.

In February 2007, Swire Properties agreed to acquire an 80% interest in a retail development now under construction in the Sanlitun District of Beijing for RMB4.8 billion. The price includes the purchase of a 100% interest in a boutique hotel adjacent to the retail site.

Continued strong demand for office and retail property in Hong Kong saw occupancy levels and rentals improve across the investment portfolio. Attributable profit for the Property Division grew by 34%.

On 28th September Dragonair became a wholly owned subsidiary of Cathay Pacific following a shareholding realignment involving Cathay Pacific, Air China, CNAC, CITIC Pacific and Swire Pacific. As part of the realignment, Cathay Pacific increased its shareholding in Air China to 17.3%, Air China purchased 17.5% of Cathay and Swire Pacific's interest in Cathay Pacific reduced to 40%. This transaction strengthens Cathay Pacific's Hong Kong hub and provides a significant increase in access to Mainland China for the company.

Robust demand from both passenger and cargo services together with additional frequencies and capacity from an expanded fleet resulted in increased profits at Cathay Pacific.

Facilities expansion in both Hong Kong and Mainland China to address continued strong demand for airframe and engine maintenance produced good earnings growth from the HAECO group.

The Beverages Division recorded strong volume growth in Mainland China although margins were attenuated through rising raw material costs. The Division reported strong sales and earnings growth in the USA.

In October Swire Beverages acquired an additional 49% interest in the Fujian Coca-Cola franchise which is now a subsidiary interest of the group.

Finance

New debt facilities, including ten year US$ bonds, seven year HK$ bonds and syndicated and bilateral bank loans, totalling HK$11.2 billion were raised during the year to finance new investment and to repay maturing debt of HK$4.3 billion. As a result, net debt and gearing rose by HK$6.5 billion and 5 percentage points to HK$11.9 billion and 10.4% respectively.

We will continue to seek new investment opportunities where our competencies can deliver value to shareholders.

Continued increases in charter rates, vessel utilisation and fleet size resulted in another year of record profit for Swire Pacific Offshore. The company commenced operations off Sakhalin, Russia, with two new ice-class vessels on 15 year charters. Nine new vessels were purchased in 2006 at a cost of HK$1.3 billion.

Following the disposal in 2005 of the Company's interest in Modern Terminals, it agreed to sell its minority interest in Shekou Container Terminals realising a profit of HK$1.0 billion. This will be recognised in the 2007 results.

Earnings from the Trading & Industrial Division fell by 15% in 2006. Weakness in consumer demand in Taiwan reduced sales in the Company's automotive trading business and sharply increased aluminium prices reduced margins at the Company's canning plants in Mainland China.

Corporate Governance

Swire Pacific's governance principles and the processes adopted to safeguard the interests of shareholders are set out on pages 54 to 66.

Corporate Social Responsibility

Swire Pacific has a duty to adopt best practice in its relations with all stakeholders of the Company. This includes the communities in which we are involved, the people we employ and the need to protect the natural environment in which we operate. Highlights of the group's corporate social responsibility developments and activities in 2006 are set out on pages 76 to 80 of these accounts.

Prospects

Growing consumer demand and increased capital formation are expected to continue to underpin economic performance in Hong Kong and Mainland China. Swire Pacific enters 2007 with investment commitments of HK$14.2 billion.

Construction at the Taikoo Hui mixed-use development in Guangzhou has commenced in March 2007 with completion now expected in early 2010. The development comprises 1.4 million square feet of retail space, two office towers, two hotels and a cultural centre. The Sanlitun retail centre in Beijing is scheduled for completion in the third quarter of 2007. Site clearance and resettlement continues on schedule for the Dazhongli mixed-use development in Shanghai.

In Hong Kong it is expected that the construction of One Island East will be completed in the first half of 2008. This 70-storey Grade A office building will add 1.5 million square feet to Swire Properties' office property portfolio. The company is also developing a 350-room hotel adjacent to the site.

On completion of current developments Swire Properties will have a high-grade investment property portfolio of over 22 million square feet in Hong Kong and Mainland China.

Cathay Pacific will continue to capture revenue and cost synergies from its acquisition of Dragonair. The cross shareholding with Air China is expected to lead to profitable cooperation between both airlines in a number of areas. In general, strong passenger and cargo demand in Cathay Pacific's key markets, and increased capacity towards the end of the year, should lead to profitable growth for the business. As ever the company is exposed to fuel price volatility and increased regional competition.

HAECO's forward order book is firm and increased hangar capacity at its main facilities in Hong Kong and Xiamen should lead to profitable growth for the company.

Swire Beverages anticipates further strong sales growth in Mainland China although margins across its network will be challenged by rising raw material prices.

Swire Pacific Offshore has a strong forward order book and is expected to continue to benefit from strong demand from the offshore oil and gas sector. The company has commissioned the building of a further eight vessels for delivery in the next 18 months.

The Trading & Industrial Division anticipates continued strong sales and profit growth for its Mainland China businesses, particularly Swire Resources and ICI Swire Paints. This will be offset somewhat by continued negative sentiment in the Taiwan automotive market.

We remain confident in the underlying strength of our businesses and of the economies in which they operate. The group has made significant investments in property and aviation recently and will continue to seek new investment opportunities where its competencies can deliver value to shareholders.

The 2006 results reflect well on staff across the group and I thank them for their hard work and commitment throughout the year.

Christopher Pratt
Chairman
Hong Kong, 8th March 2007