

Property Division

Swire Properties' investment property 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 13.1 million square feet of gross floor area. Current property pending or under development in Hong Kong comprises a further 2.2 million square feet, mainly of office space. In Mainland China, Swire Properties has substantial interests in major commercial mixed-use developments under construction in Guangzhou, Beijing and 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 currently has no inventory of completed units.

Particulars of the group's principal properties are set out on pages 154 to 163.

On completion of current developments, our high grade investment portfolio will be 22 million square feet.

	2006 HK\$M	2005 HK\$M
Turnover		
Gross rental income derived from		
Offices	2,118	1,647
Retail	2,420	2,315
Residential	262	206
Non-recurring gross rental income		
Offices	–	54
Retail	–	82
Other revenue*	72	78
Property investment	4,872	4,382
Property trading	554	1,339
Sale of investment properties	180	509
Hotels	27	–
Total turnover	5,633	6,230
Operating profit derived from		
Property investment	3,450	3,064
Sale of available-for-sale investment	155	–
Valuation gains on investment properties		
– change in fair value	16,990	11,881
– transferred to finance cost	–	158
– write-back of over-provision for land premium	–	692
Property trading	190	514
Sale of investment properties	–	93
Hotels	2	–
Total operating profit	20,787	16,402
Share of post-tax profits from jointly controlled and associated companies		
Normal operations	267	214
Non-recurring items	132	–
Attributable profit	16,983	12,684

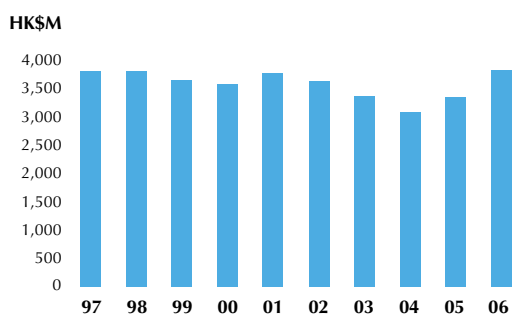
* Other revenue is mainly estate management fees.



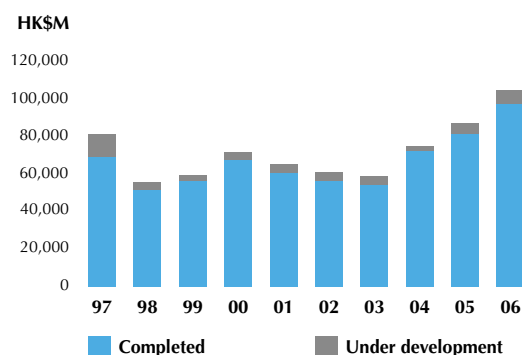
Additional information is provided below to reconcile reported and underlying profits attributable to the Company's shareholders. These reconciling items principally adjust for the impact of adopting HKAS 40 and HKAS-Int 21 on investment properties and deferred taxation respectively.

	2006 HK\$M	2005 HK\$M
Attributable profit	16,983	12,684
Profit on sale of investment properties	170	352
Valuation gains from subsidiaries		
– change in fair value	(16,990)	(11,881)
– transferred to finance cost	–	(158)
– write-back of over-provision for land premium	–	(692)
Share of valuation gains from JCC and Associates	(173)	(114)
Depreciation of owner occupied property	16	7
Deferred taxation	3,066	2,127
Minority interests	2	349
Underlying profit	3,074	2,674

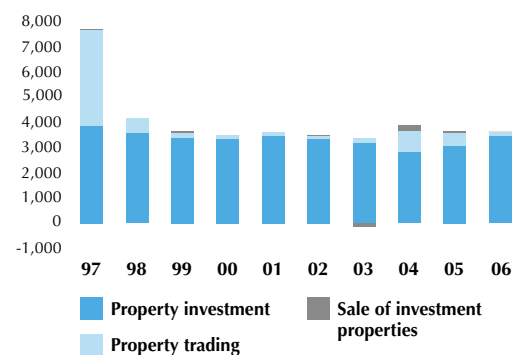
Net rental income



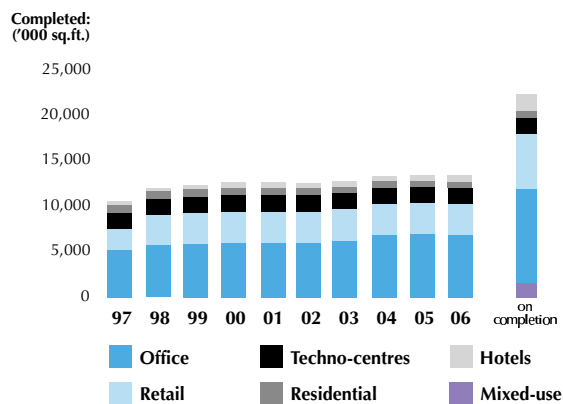
Valuation of investment properties

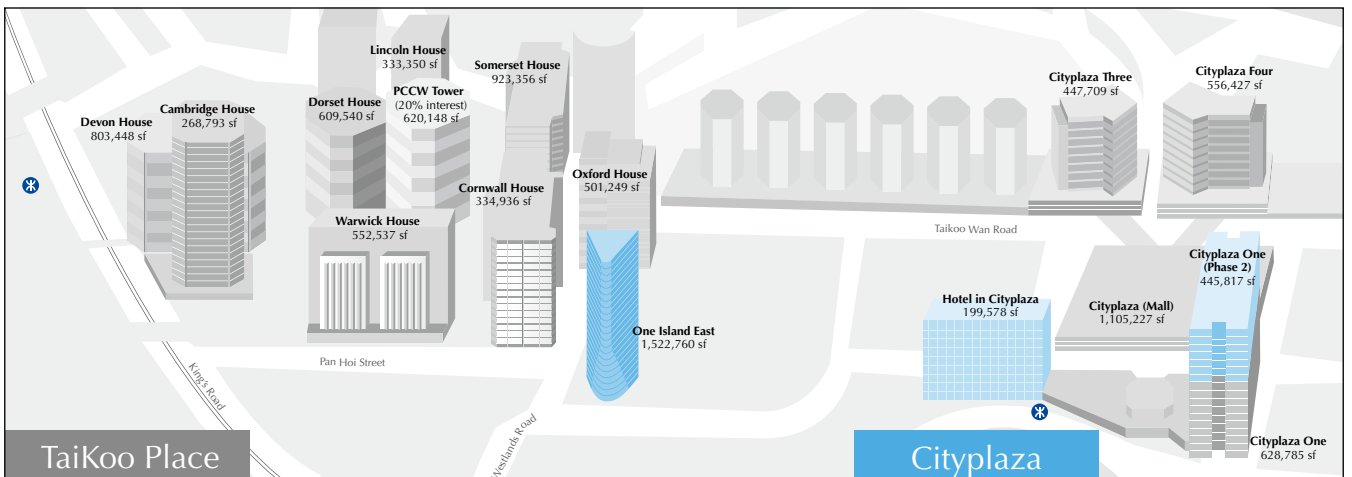
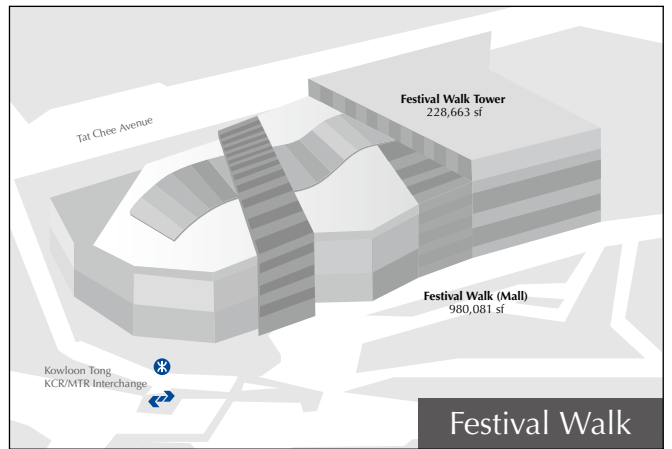
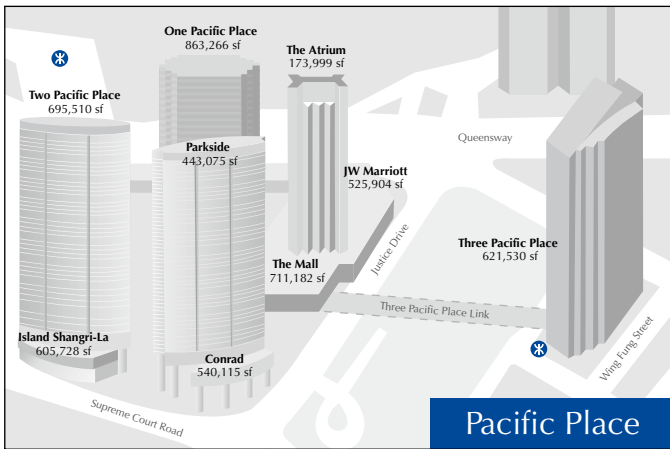


Underlying operating profit before non-recurring items and change in fair value of investment properties



Floor area of property portfolio





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

Location	Total	Retail	Office	Techno-centres	Residential	Hotels	Mixed-use
Completed							
Pacific Place	3,843	711	2,180		617	335	
TaiKoo Place	4,452		2,641	1,811			
Cityplaza	2,738	1,105	1,633				
Festival Walk	1,209	980	229				
Others	881	603	183		48	47	
– Hong Kong	13,123	3,399	6,866	1,811	665	382	–
– United States	258					258	
– United Kingdom	96					96	
Total completed	13,477	3,399	6,866	1,811	665	736	–
Under and pending development							
– Hong Kong	2,174		1,974			200	
– Mainland China	6,733*	2,701	1,465			1,000	1,567
Total	22,384	6,100	10,305	1,811	665	1,936	1,567

* Including gross floor area of 1,456,000 square feet for Sanlitun, Beijing acquired in February 2007.

2006 OVERVIEW

The Hong Kong property market has continued to strengthen during 2006, a reflection of Hong Kong's good economic performance. Office rents have risen sharply as a consequence of robust demand and the absence of significant new supply. Retail rents have risen steadily, with domestic demand improving and tourism from Mainland China continuing to benefit sales.

Recurring gross rental income from the investment portfolio amounted to HK\$4,800 million in 2006, compared with HK\$4,168 million in 2005, reflecting both improved occupancies and rents throughout the portfolio.

Operating profit from property trading represents principally profits booked on the completion of units at The Carbonell in the United States.

On 3rd March 2006 Swire Properties completed the acquisition of the 50% interest in Festival Walk previously held by CITIC Pacific for a total consideration of HK\$6,123 million. Festival Walk is now wholly owned by Swire Properties.

In December 2006 Swire Properties completed the purchase of 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 the development, consisting 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 announced an agreement to acquire an 80% interest in the retail component, and a 100% interest in a boutique hotel integral to the overall development of approximately 1.46 million square feet, currently under construction in Sanlitun, Beijing, for a total consideration of RMB4,800 million. The remaining 20% interest in the retail component will be held by Gateway Capital.

Hong Kong Investment Property Portfolio

Offices

Strong demand, particularly from the financial services sector, coupled with a limited amount of new supply, has allowed office rents to rise sharply during 2006. Recurring gross rental income from the office portfolio was 29% higher in 2006 than in 2005. Occupancy levels continued to improve and at the year-end averaged 97% for the office portfolio compared to 94% at the end of 2005.

Retail

The Swire Properties retail portfolio continued to perform well during 2006. Gross rental income for the year was 5% higher than that of 2005. Retail sales at Swire Properties' three principal shopping malls were higher and these centres remain fully let. The Mall at Pacific Place, Cityplaza and Festival Walk together welcome more than ten million visitors each month.

The Mall at Pacific Place is one of the leading shopping malls in Hong Kong. Seibu, Great Food Hall, Lane Crawford and AMC Cinemas (which re-opened following reconfiguration and refurbishment at the end of 2006) are anchor tenants, together with 160 other retail and catering outlets amounting to approximately 700,000 square feet.

Cityplaza is the primary destination for shoppers in Island East, with a number of major anchor tenants including Wing On, Marks & Spencer and UA Cinemas. A substantial anchor tenant, Uny, will undertake a significant refurbishment during the first half of 2007 and will relaunch as Apita. Other tenants comprise over 170 retail and catering outlets and the Cityplaza Ice Palace, together totalling just over 1.1 million square feet.

Festival Walk is the major shopping centre in central Kowloon with anchor tenants including 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.

The Citygate retail centre at Tung Chung, in which Swire Properties has a 20% interest, has been relaunched successfully as an outlet mall for international brands, with over 60 retail and catering outlets.

Residential

The residential portfolio comprises primarily The Atrium and Parkside serviced suites at Pacific Place. Occupancy at Parkside has been high, and rents have increased during 2006. The Atrium serviced suites will commence a significant reconfiguration and refurbishment programme in 2007, and will re-open as a boutique hotel upon completion in 2009. The remaining residential properties on Hong Kong Island were fully let.

Investment Properties under Development

Construction work on the superstructure of One Island East is well underway and it is expected that the building will be completed in the first half of 2008. This 70-storey Grade A office building will add approximately 1.5 million square feet to Swire Properties' Island East investment property portfolio.

2006 Valuation of Investment Properties

The portfolio of investment properties was valued at 31st December 2006 by Debenham Tie Leung. As a result of this valuation, Swire Properties' operating profit increased by HK\$16,990 million. The increase largely reflects the increase in office rental levels and benchmarks set by recent transactions in the market.

Mainland China

In December 2006 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.

Investment Properties under Development

Construction at the Taikoo Hui mixed-use development in Guangzhou has experienced some delay during 2006, and completion is now expected in early 2010, at which time the development will include 1.4 million square feet of prime shopping space, two office towers, two hotels and a cultural centre.

Site clearance and resettlement work is well underway at the Dazhongli Project in Shanghai. Design development is ongoing.

The Sanlitun project in Beijing will be completed in 2007 and both the retail and hotel components will open early in 2008.

Hotels

Hong Kong

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 from both higher occupancy levels and increased room rates.

The Novotel Citygate, a 440-room hotel in Tung Chung in which Swire Properties has a 20% interest, opened in April 2006 and has traded satisfactorily during the year.

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 completion scheduled in early 2009.

USA

The 329-room Mandarin Oriental Hotel in Miami, which is 75% owned by the group, continued to report improved operating profits.

UK

In October 2006 Swire Properties acquired Alias Hotels plc, a United Kingdom group of three boutique hotels (with a total of 165 rooms) in Exeter, Cheltenham and Brighton.

Property Trading Portfolio

There is currently no inventory of completed trading properties.

Following the sale of the remaining carparks and retail component at Ocean Shores, provisions of HK\$132 million booked in 2002 have been released in the year.

Hong Kong

The main construction contract for the development at Java Road in North Point, where Swire Properties has been appointed as developer by China Motor Bus, is under way and due for completion in 2008. Swire Properties is entitled to reimbursement of costs and a share of the net sales proceeds under the terms of this appointment.

The foundation contract at 2A – 2E Seymour Road in Mid-Levels is expected to be awarded shortly. Swire Properties has a controlling stake in this site with redevelopment potential of approximately 174,000 square feet. The final form of the development will be determined 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.

USA

Construction work at Asia, a 123-unit condominium tower on Brickell Key in Miami, is well advanced, with completion now scheduled in the fourth quarter of 2007. The project is essentially fully sold.

2007 Outlook

Swire Properties will continue to seek opportunities to invest in real estate projects in major cities in Mainland China.

In Hong Kong the development and leasing of One Island East, as a major addition to the commercial portfolio, will be a primary focus in 2007.

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