Additional information is provided below to reconcile reported and underlying attributable profit and equity 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. Further analysis compares the impact of other significant items in the current and prior years.

Underlying profit	**2006 HK$M**	2005 HK$M
Profit attributable to the Company's shareholders per accounts	**22,566**	18,757
Adjustments re investment property:		
Revaluation of investment property	**(17,216)**	(12,000)
Deferred tax on revaluation movement	**3,106**	2,390
Realised profit on sale of investment properties	**244**	290
Depreciation of owner-occupied properties	**16**	6
Net movements re Taikoo Shing land premium	**–**	(701)
Underlying profit attributable to the Company's shareholders	**8,716**	8,742
Other significant items:		
Group restructuring		
Profit on share realignment of Dragonair and Cathay Pacific (2005: Modern Terminals disposal)	**(1,334)**	(2,270)
Disposal of fixed assets		
Profit on sale of investment properties	**(297)**	(444)
Profit on sale of CITIC Square	**(155)**	–
Profit on sale of vessels (2005: production rig)	**(79)**	(78)
Trading items		
Provision write back re Ocean Shores	**(132)**	–
Investment property rent free periods	**–**	(136)
Interest cost on Taikoo Shing land premium	**–**	130
Adjusted profit	**6,719**	5,944

Underlying equity	**2006 HK$M**	2005 HK$M
Equity attributable to the Company's shareholders	**114,481**	94,843
Deferred tax on property revaluation	**12,641**	9,619
Revaluation of owner-occupied properties	**1,367**	780
Cumulative depreciation of owner-occupied properties	**74**	58
Underlying equity attributable to the Company's shareholders	**128,563**	105,300
Underlying minority interests	**614**	6,496
Underlying equity	**129,177**	111,796

Commentary on major balances and year on year variances in the Consolidated Profit and Loss Account, Balance Sheet and Cash Flow Statement

References are to "Notes to the Accounts" on pages 88 to 130.

Consolidated Profit and Loss Account

	2006 HK$M	2005 HK$M	Reference
Turnover	**19,111**	18,937	Note 4 and Note 7
Operating Profit	**23,513**	19,842	Note 5, Note 6 and Note 7

Turnover

In the Property Division, turnover from property investment increased by HK$490 million as office rents rose sharply on robust demand and the absence of significant new supply and from a steady increase in retail rents reflecting both domestic demand and tourism. Turnover from property trading decreased as a result of fewer unit closings in the USA. In the Beverages Division, turnover from both USA and Hong Kong operations increased on the back of good volume growth from non-carbonated ("NCB") products. Taiwan's turnover declined slightly as a result of intense price competition from local brands. The Fujain franchise in Mainland China became a subsidiary towards the end of the year and made a modest contribution to turnover. In the Marine Services Division, turnover from Swire Pacific Offshore increased by 34% following the addition of new vessels, and improved fleet utilisation and charter rates. In the Trading & Industrial Division, turnover fell following a contraction in the Taiwanese imported car market following a marked tightening of credit. The prior year included turnover from the Puma distribution business which was subject to reorganisation effective 1 January 2006 from which point it has operated through an associated company.

Operating Profit

In the Property Division, the operating profit attributable to fair value movements in investment property increased by over HK$4 billion on the prior year. Higher net rental from property investment was offset by a decline in profits from property trading and sale of investment properties. A gain of HK$155 million on the disposal of the group's 10% interest in CITIC Square was realised in the year. In 2005, a non-recurring profit of HK$136 million was recognised following a change in accounting policy for rent-free periods. The Aviation Division's operating profit includes a gain of HK$1,334 million following a share realignment resulting in the disposal of the Company's interest in Dragonair and dilution of its interest in Cathay Pacific. The Beverages Division's operations were hurt by increased raw material costs driven by a general rise in global commodity prices. Overall operating profit was flat as profit growth in Hong Kong and the USA was offset by reduced profits in Taiwan. The Marine Services Division saw good operating growth from Swire Pacific Offshore, but profits overall declined due to the absence of capital profits following the disposal of Modern Terminals in 2005. The Trading & Industrial Division experienced a decline in operating profit attributable to reduced sales and margins in the Taikoo Motors group.

Consolidated Profit and Loss Account (continued)

	2006 HK$M	2005 HK$M	Reference
Net Finance Charges Despite increased net borrowings in the year, net finance charges fell due to the absence of interest charges (HK$158 million) on the Taikoo Shing land premium, a lower average rate of interest on group borrowings and an increase in interest capitalised on properties under construction.	**504**	582	Note 7 and Note 9
Share of Profits Less Losses of Jointly Controlled Companies The decrease is attributable to reduced trading profits at CROWN Beverage Cans group, which suffered from high aluminium costs, and from Mainland China beverage operations, where increased raw material and energy costs more than offset reductions in unit distribution and fixed costs. Contributions from Shekou Container Terminals fell by 27% through reduced traffic from key customers. The prior year also benefited from a capital profit on disposal of a production rig by Expro Swire Production. These decreases have been partially offset by a provision write back of HK$132 million in respect of the Ocean Shores development and a profit on sale of vessels by Hongkong United Dockyards.	**694**	756	Note 7 and Note 19
Share of Profits Less Losses of Associated Companies The group's share of the net fair value gain on PCCW Tower was HK$98 million higher than in 2005. Occupancy and room rates for hotel interests at Pacific Place improved during the year, contributing an increase in profit of HK$20 million to the group. The profit contribution from the Cathay Pacific group and Dragonair increased by HK$239 million in 2006, reflecting record passenger numbers and cargo volumes from Cathay Pacific, partially offset by higher fuel costs. HAECO contributed an increase in profit of HK$100 million, on strong demand for heavy maintenance in both Xiamen and Hong Kong and good growth in engine overhaul activity at HAESL. Hactl recorded throughput growth of 5.3%, from strong growth in transhipment cargo, resulting in a slightly improved contribution. Profits from Swire Resources' Puma business now operating in an associated company were HK$34 million. Modern Terminals contributed a profit of HK$156 million prior to its disposal in 2005.	**2,646**	2,306	Note 7
Taxation The increase in tax charges reflects the increase in pre-tax profits from property revaluations.	**3,582**	2,688	Note 10
Profit Attributable to the Company's Shareholders The key elements of the net increase in attributable profits are the increase in fair value of investment properties and reduced profits from asset disposals.	**22,566**	18,757	Note 7
Minority Interests The reduction reflects the absence of minority interests in respect of Festival Walk following the purchase of outside shareholders' interests in March 2006.	**201**	877	

Consolidated Balance Sheet

	2006 HK$M	2005 HK$M	Reference
Property, Plant and Equipment The increase was mainly due to the acquisition of Alias Hotels in the UK, a 49% interest in the Fujian Coca-Cola franchise and expenditure on new vessels in Swire Pacific Offshore and on plant and equipment in the Beverages Division.	**8,869**	6,975	Note 14
Investment Properties The increase comprises fair value gains of $17 billion and costs incurred on properties under development, primarily in respect of the One Island East office tower.	**104,368**	86,606	Note 15
Leasehold Land and Land Use Rights The increase represents amounts transferred from the investment property portfolio during the year in respect of owner-occupied properties.	**1,084**	822	Note 16
Intangible Assets Goodwill arose on the acquisition of a 50% interest in Festival Walk and a 49% interest in the Fujian Coca-Cola franchise.	**834**	44	Note 17 and Note 40(c)
Investments in Jointly Controlled Companies The increase primarily reflects the acquisition of a 50% interest in the Dazhongli project. On the other hand, following the acquisition of an additional 49% interest in the Fujian Coca-Cola franchise, this company became a subsidiary, resulting in a decrease of HK$192 million in the carrying value of jointly controlled companies.	**5,195**	3,869	Note 19
Investments in Associated Companies The increase reflects the share of profit retained in the Aviation Division and increased net assets following the shareholding realignment in Cathay Pacific and Dragonair.	**20,922**	19,281	Note 20
Available-for-sale Investments The decrease primarily represents the sale of the group's 10% interest in CITIC Square and shares in Tradelink.	**168**	470	Note 21
Properties for Sale The increase was due to the transfer of assets from investment properties and construction costs accumulated in the USA.	**1,218**	529	Note 23
Trade and Other Receivables The acquisition of new subsidiary companies during the year gave rise to an increase of HK$133 million.	**2,545**	2,325	Note 25
Trade and Other Payables The acquisition of new subsidiary companies during the year gave rise to an increase of HK$260 million.	**5,166**	4,549	Note 27

Consolidated Balance Sheet (continued)

	2006 HK$M	2005 HK$M	Reference
Taxation The reduced liability reflects early settlement of the Property Division's USA liabilities.	**177**	454	
Perpetual Capital Securities In October 2006, US$300 million of perpetual capital securities were redeemed at par.	**2,330**	4,633	Note 29
Long-term Loans and Bonds The increase represents additional borrowings to finance investments.	**9,940**	1,426	Note 30
Deferred Tax Liabilities The increase in the year was due to fair value gains on investment properties.	**14,268**	11,127	Note 31
Equity Attributable to the Company's Shareholders The increase was principally due to the profit retained by the group during the year.	**114,481**	94,843	Note 33 and Note 34
Minority Interests The reduction represents the absence of minority interests in Festival Walk following the group's acquisition of the balance of outside shareholder's interests in March 2006.	**610**	5,929	Note 35

Consolidated Cash Flow Statement

	2006 HK$M	2005 HK$M	Reference
Cash Generated from Operations The increase is mainly from increased rentals and marine charter hire.	**5,748**	5,158	Note 40(a)
Interest Paid The increase in interest paid is attributable to the higher level of borrowings to finance new investments in the year.	**826**	529	
Profits Tax Paid The Property Division in the USA paid its income tax prior to the year-end in 2006.	**660**	319	
Dividends Received from Jointly Controlled and Associated Companies The group received a special dividend of HK$503 million during the year from Cathay Pacific which was partially offset by the absence of dividends from Modern Terminals following its disposal in 2005.	**2,448**	2,152	
Purchase of Property, Plant and Equipment The increase is mainly due to higher capital expenditure on new vessels by Swire Pacific Offshore.	**1,671**	1,324	Note 40(b)

Consolidated Cash Flow Statement (continued)

	2006 HK$M	2005 HK$M	Reference
Additions of Investment Properties The additions in 2006 mainly comprise construction work on One Island East, ongoing development of the Pacific Place Mall and the purchase of residential units on the Peak, Hong Kong.	**1,834**	489	
Proceeds from Disposal of Available-for-sale Investment The group sold its interest in CITIC Square, Shanghai in the year.	**399**	–	
Proceeds from Investment Properties Disposals Proceeds were received from the sale of residential investment properties on the Peak, Hong Kong and remaining carparks in The Albany.	**377**	508	
Purchase of Shareholdings in Subsidiary Companies Consideration paid on the acquisition of Festival Walk, Alias Hotels and the Fujian Coca-Cola Beverage franchise.	**6,759**	–	Note 40(c)
Purchase of Shareholdings in Jointly Controlled Companies The outflow during the year primarily represents the acquisition of 50% interest in the Dazhongli project in Shanghai.	**567**	129	
Loans to Jointly Controlled Companies The outflow includes shareholders' loans of HK$769 million advanced to the new joint venture project in Dazhongli, Shanghai.	**800**	135	
Purchase of Shareholdings in Associated Companies Reflects the purchase of additional shares in HAECO during the year.	**40**	225	
Sale of Shareholdings in Associated Companies Cash received during the current year from the shareholding realignment in Cathay Pacific and Dragonair. The prior year flows primarily reflect receipt of cash from sale of the group's interest in Modern Terminals.	**677**	2,897	
Loans Drawn and Refinancing Additional finance has been drawn during the year to fund investment and loan repayments.	**10,311**	290	

Investment Appraisal and Performance Review

	Net assets employed			Capital commitments		
	2004 HK$M	2005 HK$M	**2006 HK$M**	2004 HK$M	2005 HK$M	**2006 HK$M**
Property investment						
– at cost	41,254	41,581	**44,607**	4,142	7,187	**9,606**
– valuation surplus	36,004	48,483	**65,694**			
– deferred taxation	(8,623)	(10,734)	**(14,005)**			
– other net liabilities	(3,948)	(1,836)	**(834)**			
	64,687	77,494	**95,462**	4,142	7,187	**9,606**
Property trading	1,358	598	**790**			
Aviation	17,304	18,431	**19,941**	99	99	**–**
Beverages	2,936	2,930	**3,201**	16	46	**32**
Marine Services	4,772	5,061	**6,026**	1,304	1,744	**2,392**
Trading & Industrial	1,363	1,540	**1,715**			
Head office	410	166	**(114)**			
Total net assets employed	92,830	106,220	**127,021**	5,561	9,076	**12,030**
Less net debt	8,262	5,448	**11,930**			
Less minority interests	5,943	5,929	**610**			
Equity attributable to the Company's shareholders	78,625	94,843	**114,481**			

	Equity attributable to the Company's shareholders			Return on equity attributable to the Company's shareholders*		
	2004 HK$M	2005 HK$M	**2006 HK$M**	2004 HK$M	2005 HK$M	**2006 HK$M**
Property investment	50,555	62,323	**78,480**	33.4%	22.0%	**23.8%**
Property trading	1,855	1,630	**1,171**	27.4%	15.0%	**14.2%**
Property - overall	52,410	63,953	**79,651**	33.1%	21.8%	**23.7%**
Aviation	17,289	18,397	**19,909**	14.3%	10.8%	**11.9%**
– including profit and change in equity on share realignment of Dragonair and Cathay Pacific	–	–	**1,474**	–	–	**18.8%**
Beverages	2,151	2,380	**2,521**	18.7%	20.9%	**19.6%**
Marine Services	3,417	3,358	**4,249**	23.2%	22.6%	**21.9%**
– including profit on sale of Modern Terminals	–	2,270	**–**	–	67.2%	**–**
Trading & Industrial	1,309	1,779	**1,810**	30.3%	33.7%	**24.7%**
Head office	2,049	2,706	**4,867**			
Total	78,625	94,843	**114,481**	26.7%	21.6%	**21.6%**

* The return on equity attributable to the Company's shareholders is calculated as attributable profit for the year divided by the average of equity attributable to the Company's shareholders at the start and end of the year.

Swire Pacific focuses on the long-term development of businesses where it can add value through its industry-specific expertise and particular knowledge of the Greater China region. It endeavours to create value for shareholders by making investments which exceed the target rate of return appropriate for each of its businesses.

The tables above show where the group's assets are employed, capital commitments by division and changes in returns on equity attributable to the Company's shareholders.

- **Property Division:** Net assets employed in property investment increased by HK$18.0 billion (23%) during the year, principally due to the increase of HK$13.9 billion in the fair value of the portfolio (net of HK$3.1 billion of deferred tax) and from construction work, primarily on One Island East. Other net liabilities at the end of 2006 relate mainly to rental deposits from tenants.

  Capital commitments at the end of 2006 relate primarily to the construction of Taikoo Hui, One Island East and the hotel in Cityplaza, and future investment in our interest in the Dazhongli project in Shanghai.

  The Hong Kong property market has continued to strengthen during 2006. 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 and tourism from Mainland China continuing to benefit sales. It is expected that rental income will remain firm on the back of continued strong demand and on the addition to the portfolio of One Island East and a retail development in Sanlitun, Beijing, both expected to open in early 2008.

  The return on equity attributable to the Company's shareholders from property investment increased to 23.8% in 2006 from 22.0% in the prior year. This is primarily attributable to the increase in fair value gains and improved net rental income, partially offset by lower gains on disposal of investment properties.

  The increase in net assets employed in property trading reflects the construction of residential property on Brickell Key in the USA, with sales closings expected in late 2007. There were no new developments completed in 2006 and therefore the division's trading profit fell, resulting in a decline in the return on equity attributable to the Company's shareholders.

- **Aviation Division:** Net assets employed have increased due to profits retained and changes attributable to the group from the shareholding realignment of Dragonair and Cathay Pacific.

  The return on equity attributable to the Company's shareholders increased on strong results at Cathay Pacific and HAECO.

- **Beverages Division:** Net assets employed have increased from investment in new sales and distribution infrastructure in Hong Kong and Mainland China financed by profits retained in the year.

  Beverages' average return on equity attributable to the Company's shareholders decreased from 20.9% to 19.6% as a result of relatively flat profits on an increased asset base.

- **Marine Services Division:** The division's net assets employed increased by HK$965 million reflecting the purchase of nine new vessels by Swire Pacific Offshore, offset in part through disposal of older vessels in both Swire Pacific Offshore and Hongkong United Dockyards. Further significant investment on new vessels is planned by Swire Pacific Offshore with a total of HK$2,392 million committed over the next three years.

  The overall return on equity attributable to the Company's shareholders for the division, excluding the profit on disposal of Modern Terminals in the prior year, was slightly below 2005 as improved profit from Swire Pacific Offshore was partially offset by lower profits from container terminal operations which fell HK$186 million due to the disposal of Modern Terminals in 2005 and a weak performance from Shekou Container Terminals.

- **Trading & Industrial Division:** The division's net assets employed increased by HK$175 million in the year. The return on equity attributable to the Company's shareholders fell from 33.7% in the prior year to 24.7% as a result of reduced profits from Taikoo Motors.