

The Directors submit their report together with the audited accounts for the year ended 31st December 2006, which are set out on pages 83 to 150.

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 141 to 150. 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 2006 of HK¢220.0 per 'A' share and HK¢44.0 per 'B' share which, together with the interim dividends paid on 4th October 2006 of HK¢63.0 per 'A' share and HK¢12.6 per 'B' share, make total dividends for the year of HK¢283.0 per 'A' share and HK¢56.6 per 'B' share: an increase of 37.4% over those for 2005. This represents a total distribution for the year of HK\$4,333 million. Subject to the approval of the 2006 final dividends by the shareholders at the annual general meeting on 10th May 2007, it is expected that those dividends will be paid on 4th June 2007 to shareholders registered on the record date, 10th May 2007. The share registers will be closed from 7th May 2007 to 10th May 2007, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for the entitlement of the final dividends, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 4th May 2007.

Reserves

Movements in the reserves of the group and the Company during the year are set out in note 34 to the accounts.

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. Details of the Company's share capital are set out in note 33 to the accounts.

Accounting Policies

The principal accounting policies of the group are set out on pages 131 to 140.

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.

Financial Review

A review of the results, balance sheet and cashflow is shown on pages 38 to 45. A ten-year financial summary of the results and of the assets and liabilities of the group is shown on pages 4 to 5.

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. Details of the Company's corporate governance practices are set out on pages 54 to 66.

Donations

During the year, the Company and its subsidiaries made donations for charitable purposes of HK\$20 million and donations towards various scholarships of HK\$1 million.

Fixed Assets

Details of movements in fixed assets are shown in notes 14 and 15 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 2006. The valuations have been recorded in the accounts of the individual companies concerned and an overall increase of HK\$17,045 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 subsidiaries, jointly controlled and associated companies is given on pages 154 to 163.

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 29 and 30 to the accounts.

Interest

A statement of the amount of interest capitalised by the Company and its subsidiaries is included in note 9 to the accounts.

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.

Directors

Of the present Directors of the Company whose names are listed on pages 67 and 68, C D Pratt was appointed an Executive Director and Chairman of the Board on 1st February 2006 and J R Slosar was appointed an Executive Director on 12th May 2006. All the remaining Directors served throughout the calendar year 2006 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.

Independence Confirmation

The Company has received from each of its Independent Non-Executive Directors listed on page 68 confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

Term of Appointment

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, P A Johansen and Sir Adrian Swire retire this year and, being eligible, offer themselves for re-election.

J R Slosar, having been appointed to the Board under Article 91 since the last annual general meeting, also retires and offers himself for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until his retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election/re-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).

Fees and Emoluments

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK\$1.4 million. They received no other emoluments from the Company or any of its subsidiaries.

Full details of directors fees and emoluments are set out in note 8 to the accounts.

Directors' Interests

At 31st December 2006, 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), John Swire & Sons Limited, Cathay Pacific Airways Limited and Hong Kong Aircraft Engineering Company Limited:

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Pacific Limited						
'A' shares						
P N L Chen	–	2,000	–	2,000	0.0002	–
P A Johansen	10,000	–	1,500	11,500	0.0012	1
C D Pratt	21,000	–	–	21,000	0.0023	–
Sir Adrian Swire	–	–	794,473	794,473	0.0854	2
'B' shares						
P N L Chen	65,000	10,142	–	75,142	0.0025	–
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
C D Pratt	50,000	–	–	50,000	0.0017	–
Sir Adrian Swire	4,813,169	–	15,741,913	20,555,082	0.6844	2

	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	2,042,152	2,688,139	24,815,975	29,546,266	29.55	4
8% Cum. Preference Shares of £1						
Baroness Dunn	2,400	–	–	2,400	0.01	3
Sir Adrian Swire	1,049,080	843,411	7,332,727	9,225,218	30.75	4

Cathay Pacific Airways Limited**Ordinary Shares**

P N L Chen

	Beneficial interest (personal)	Percentage of issued capital (%)
P N L Chen	9,000	0.00027

Hong Kong Aircraft Engineering Company Limited**Ordinary Shares**

J R Slosar

M C C Sze

	Beneficial interest (personal)	Percentage of issued capital (%)
J R Slosar	6,400	0.0038
M C C Sze	2,800	0.0017

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.

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 2006:

	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
Substantial Shareholders					
John Swire & Sons Limited	102,423,521	11.01	2,035,480,765	67.77	1
Franklin Resources, Inc.	103,228,390	11.10	–	–	2
Other Shareholders					
J.P. Morgan Chase & Company	92,452,357	9.94	–	–	3
Aberdeen Asset Management plc	–	–	270,664,594	9.01	4
The Capital Group Companies, Inc.	66,243,454	7.12	–	–	5
Capital Research and Management Company	71,040,500	7.64	–	–	5

Notes:

1. The shares are held in the capacity of beneficial owner.
2. This notification was filed under the repealed Securities (Disclosure of Interests) Ordinance and the capacities in which they are held were not given.
3. The shares held by J.P. Morgan Chase & Company are held in the following capacities:

Capacity	No. of shares
Beneficial owner	3,219,757
Investment manager	31,524,064
Custodian Corporation/Lending agent	57,708,536

4. 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.
5. These shares are held in the capacity as investment manager.

The Company had not been notified of any short positions in the shares of the Company as at 31st December 2006.

At 31st December 2006, the Swire group owned directly or indirectly interests in shares of the Company representing 33.28% of the issued capital and 54.35% 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.

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 33.28% of the issued capital of the Company and approximately 54.35% 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 2006 are given in note 39 to the accounts.

As directors and employees of the Swire group, P N L Chen, M Cubbon, K G Kerr, D Ho, J W J Hughes-Hallett, C D Pratt, and J R Slosar 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 transactions with the group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the group in the ordinary and usual course of business, on normal commercial terms, and in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

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

- i) The Company and its wholly owned subsidiary Redhill Properties Limited entered into sale and purchase agreements with JSSHK on 21st June 2006 for the sale of the properties known as Cameron Lodge and 26/28 Severn Road respectively to JSSHK for an aggregate consideration of HK\$371,943,872, comprising HK\$195 million for Cameron Lodge, HK\$175 million for 26/28 Severn Road and reimbursement of the renovation cost of Cameron Lodge amounting to HK\$1,943,872 incurred by the Company in 2006. As JSSHK is a substantial shareholder and hence a connected person of the Company, the transaction under the sale and purchase agreements constituted a connected transaction for the Company, in respect of which an announcement dated 21st June 2006 was published.
- ii) Top Noble Limited, a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Xiamen Light Industry Group Corp. Ltd. ("Xiamen Light") on 10th September 2006 for the acquisition of the entire 100% equity interest in Xiamen Luquan Industries General Co. Ltd. ("Luquan"), including Luquan's 49% shareholding in Swire Coca-Cola Beverages Xiamen Limited ("SCCX") but excluding certain minor assets owned by Luquan, for a cash consideration of RMB457 million at completion. As Luquan was 100% owned by Xiamen

Light and was also a substantial shareholder of SCCX which is a subsidiary of the Company, Xiamen Light was a connected person of the Company and the transaction under the sale and purchase agreement constituted a connected transaction of the Company, in respect of which announcements dated 11th and 13th September 2006 were published.

- iii) The Company's wholly owned subsidiary Swire Properties Limited ("Swire Properties") entered into a sale and purchase agreement with CITIC Pacific Limited ("CITIC Pacific") and its wholly owned subsidiary Eldwin Corporation ("Eldwin") on 22nd December 2006 for the sale by Swire Properties of its entire 10.002% interest in CITIC Square, Shanghai for a cash consideration of HK\$280 million. CITIC Square, Shanghai was wholly owned by Shanghai CITIC Square Co., Ltd. which was 60% owned by Join Resources Limited ("Join Resources"). Join Resources was owned 16.67% by Swire Properties and 83.33% by Eldwin. Swire Properties' entire 10.002% interest in CITIC Square, Shanghai was represented by 1,667 ordinary shares of HK\$1 each in the issued share capital of Join Resources and a shareholder's loan in the amount of HK\$66 million from Swire Properties to Join Resources. As CITIC Pacific is a substantial shareholder of a subsidiary of the Company and Eldwin is a wholly owned subsidiary of CITIC Pacific, each of CITIC Pacific and Eldwin is a connected person of the Company and the transaction under the sale and purchase agreement constituted a connected transaction of the Company, in respect of which an announcement dated 22nd December 2006 was published.

Connected and Discloseable Transaction

The Company, Swire Properties, 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 the Company. Newmarket is a wholly owned subsidiary of CITIC Pacific. CITIC Pacific and Newmarket are therefore connected persons of the Company.

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%.

On behalf of the Board

Christopher Pratt

Chairman

Hong Kong, 8th March 2007