

Property Division

TRANSFORMING URBAN AREAS

Swire Properties' growing portfolio of offices, retail space and hotels is continuing to transform urban areas.





PROPERTY DIVISION

OVERVIEW OF THE BUSINESS

Swire Properties is a leading developer, owner and operator of mixed-use, principally commercial properties in Hong Kong and Mainland China, with a well-established record of creating long-term value by transforming urban areas. Swire Properties' business comprises three main areas:



Property Investment

Swire Properties' property investment portfolio in Hong Kong comprises Grade A office and retail premises in prime locations, serviced apartments and other luxury residential accommodation. The completed portfolio in Hong Kong totals 14.1 million square feet of gross floor area. In Mainland China, Swire Properties has interests in major commercial mixed-use developments in Guangzhou, Beijing, Shanghai and Chengdu, which will total 8.8 million square feet on completion. Of this, 6.3 million square feet has already been completed. In the United States, Swire Properties is the primary developer in an equity partnership undertaking a mixed-use commercial development at Brickell CityCentre in Miami, Florida. On completion after two phases of development, Brickell CityCentre is expected to comprise approximately 2.9 million square feet (5.4 million square feet including car park and circulation areas). Swire Properties was responsible for the redevelopment of OPUS HONG KONG at 53 Stubbs Road, which is owned by Swire Pacific Limited. Swire Properties is responsible for the leasing and management of the property.



Hotel Investment

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at Island East. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. In Mainland China, Swire Hotels manages two hotels, The Opposite House at Sanlitun Village in Beijing, which is wholly-owned by Swire Properties, and EAST, Beijing at INDIGO in the Jiangtai area of Beijing, in which Swire Properties owns a 50% interest. At TaiKoo Hui in Guangzhou, Swire Properties owns a 97% interest in the Mandarin Oriental, Guangzhou, which opened in January 2013. In the United Kingdom, Swire Properties wholly-owns four hotels, in Cheltenham, Bristol, Brighton and Exeter. In the United States, Swire Properties owns a 75% interest in the Mandarin Oriental Hotel in Miami.

PRINCIPAL PROPERTY INVESTMENT PORTFOLIO – GROSS FLOOR AREA (‘000 Square Feet)

Location	At 31st December 2012					At 31st December 2011
	Offices	Retail	Hotels	Residential	Total	Total
Completed						
Pacific Place	2,186	711	496	443	3,836	3,836
TaiKoo Place	6,180*	–	–	–	6,180	6,180
Cityplaza	1,633	1,105	200	–	2,938	2,938
Others	410	608	47	98	1,163	1,029
– Hong Kong	10,409	2,424	743	541	14,117	13,983
Sanlitun Village	–	1,296	169	–	1,465	1,465
TaiKoo Hui	1,732	1,473	584	52	3,841	3,208
INDIGO	298	470	179	–	947	298
Others	–	91	–	–	91	91
– Mainland China	2,030	3,330	932	52	6,344	5,062
– United States	–	–	259	–	259	259
– United Kingdom	–	–	208	–	208	196
Total completed	12,439	5,754	2,142	593	20,928	19,500
Under and pending development						
– Hong Kong	(28)**	12	–	63	47	220
– Mainland China	922	1,111	354	41	2,428	3,728
– United States	982	505	218	102	1,807	1,791
Total	14,315	7,382	2,714	799	25,210	25,239

Gross floor area represents 100% of space owned by Group companies and the Group's attributable share of space owned by jointly controlled and associated companies. A schedule of the principal properties of the Group and its jointly controlled and associated companies is given on pages 239 to 251.

* Includes 1.8 million square feet at three techno-centres (Somerset House, Warwick House and Cornwall House).

** Somerset House is due to be demolished for development in 2013. Once complete, the total gross floor area will be approximately 28,000 square feet lower than it is currently.

Property Trading

Swire Properties' trading portfolio comprises six luxury residential projects under development in Hong Kong (four on Hong Kong Island, one in Kowloon and one on Lantau Island), a residential complex under development at Brickell CityCentre in Miami, an office property under development as part of the Daci Temple project in Chengdu, and the remaining units at the completed ASIA development in Miami and at the completed developments at AZURA and 5 Star Street in Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida in the United States.

Particulars of the Group's key properties are set out on pages 239 to 251.



STRATEGY

The strategic objective of Swire Properties (as a listed company in its own right) is sustainable growth in shareholder value over the long-term as a leading developer, owner and operator of mixed-use commercial properties in Hong Kong and Mainland China. The strategies employed in order to achieve this objective are these:

- The creation of long-term value through conceiving, designing, developing, owning and managing transformational mixed-use and other projects in urban areas.

IMPLEMENTING STRATEGIES

New Projects

Swire Properties designs projects which it believes will have the necessary scale, mix of uses and transport links to become key commercial destinations and to transform the areas in which they are situated. Swire Properties' experience and record of success as a developer of major commercial projects gives it a strong competitive advantage in securing new projects. In Hong Kong suitable development sites of significant size are not easy to obtain due to strong competition and the limited amount of suitable undeveloped land. The progress and cost of developments can be adversely affected by a number of different factors. In Mainland China, Swire Properties aims to replicate the success which it has experienced in Hong Kong. It intends to take a measured approach to land purchases. Swire Properties will focus on developments where it can secure sites through early engagement with local governments who recognise its strengths in developing large-scale mixed-use projects.

Rental Income

Swire Properties actively manages its completed property developments (including by optimising the mix of retail tenants and negotiations with office tenants about early renewal). Its long-term aim is to maintain consistently high levels of service and to enhance and reinforce its assets. By doing so, Swire Properties expects to maximise the occupancy and earnings potential of its properties. Notwithstanding Swire Properties' active management of its developments, the growth of rental income principally depends on the performance of the real estate markets in Hong Kong and Mainland China (in the latter in particular in Beijing and Guangzhou). Any real estate market downturn in these areas could affect Swire Properties' rental income.

2012
PERFORMANCE

Capital Expenditure

HK\$3.8 bn

Gross Rental Income (HK)

-2%*

Capital Commitments at Year-end

HK\$15.9 bn

Gross Rental Income (Mainland China)

+75%

- Maximisation of the earnings and value of its completed properties through active asset management, including reinforcing its assets through enhancement, redevelopment and new additions.
- Continuing to expand its luxury residential property activities.
- Remaining focused principally on Hong Kong and Mainland China.
- Conservative management of its capital base.

Trading Profit

A key objective of Swire Properties is to expand its luxury residential property activities through acquiring appropriate sites for the development of luxury residential projects.

Capital Base

Swire Properties aims to maintain a strong capital base by investing in and financing projects in a disciplined and targeted manner. Its aim in managing its capital base is to safeguard its ability to operate as a going concern and to have access to finance at a reasonable cost. In monitoring its capital structure, Swire Properties considers (among other things) its gearing ratio, its cash interest cover and the return cycle of its various investments.

Sustainability

Tenants increasingly scrutinise the sustainability credentials of landlords and buildings. Swire Properties aims to be at the forefront of sustainable development by designing energy efficient buildings through the innovative use of design, materials and new technology.

Property Trading – Operating Profit

+HK\$2.4 bn

Gearing

-0.7% pts

Energy Consumption

-11%**

Units Closed

115

Return on Equity

9%

Water Consumption

+1%**

* Disregarding the gross rental income from Festival Walk in 2011, the gross rental income in Hong Kong in 2012 grew by 7%.

** The size of the completed property portfolio grew by 7% in the same period.

2012 PERFORMANCE

FINANCIAL HIGHLIGHTS

	2012 HK\$M	2011 HK\$M
Turnover		
Gross rental income derived from		
Offices	5,008	4,537
Retail	3,675	3,710
Residential	332	310
Other revenue *	108	94
Property investment	9,123	8,651
Property trading	4,147	213
Hotels	782	717
Total turnover	14,052	9,581
Operating profit/(loss) derived from		
Property investment	6,861	6,143
Valuation gains on investment properties	12,159	20,179
Sale of investment properties	12	638
Property trading	2,395	(50)
Hotels	(39)	(93)
Total operating profit	21,388	26,817
Share of post-tax profits from jointly controlled and associated companies	821	1,007
Attributable profit	18,647	24,999
Swire Pacific share of attributable profit	15,290	24,999

* Other revenue is mainly estate management fees.

Additional information is provided below to reconcile reported and underlying profit attributable to shareholders. These reconciling items principally adjust for net revaluation movements on investment properties and the associated deferred tax in Mainland China and for other deferred tax provisions in relation to investment properties.

	Note	2012 HK\$M	2011 HK\$M
Reported attributable profit		18,647	24,999
Adjustments re investment properties:			
Revaluation of investment properties	(a)	(12,751)	(20,899)
Deferred tax on investment properties	(b)	661	523
Realised profit on sale of investment properties	(c)	176	7,977
Depreciation of investment properties occupied by the Group	(d)	20	27
Non-controlling interests' share of revaluation movements less deferred tax		17	46
Underlying attributable profit		6,770	12,673
Swire Pacific share of underlying attributable profit		5,551	12,673

Notes:

- (a) This represents the Group's net revaluation movements and the Group's share of net revaluation movements of jointly controlled and associated companies.
- (b) This represents deferred tax movements on the Group's investment properties and the Group's share of deferred tax movements on investment properties held by jointly controlled and associated companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.
- (c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the income statement. On sale, the revaluation gains were transferred from the revaluation reserve to the income statement.
- (d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

PROPERTY INDUSTRY BACKGROUND

Office and Retail Markets

Hong Kong

Offices

Global economic uncertainties continued to affect demand for office space in 2012, particularly from financial institutions. Rents in Central came under pressure. However, rents outside Central remained robust. This reflected high occupancy rates and the fact that tenants are continuing to relocate from Central.

Retail

Growth in the local economy and in tourist arrivals continued to underpin demand for retail space in the first half of 2012, resulting in higher rents. Retail sales growth weakened in the second half, but demand for retail space remained robust.

Mainland China

Offices

Demand for office space weakened in 2012 in line with slowing economic growth. However, rents remained steady.

Retail

The retail market continued to grow in 2012, but more slowly towards the end of the year. Rents in major cities grew modestly.

Hotel Industry

Hong Kong

Hotels in Hong Kong did well in 2012. There were more visitors from Mainland China despite slowing economic growth there.

Mainland China

Trading conditions weakened in the second half of 2012 as economic growth slowed. New supply is expected to increase in 2013, putting pressure on rates and occupancy.

UK

Trading conditions were challenging in 2012 in unfavourable economic conditions.

Property Sales Markets

Hong Kong

Sales of residential properties in Hong Kong were strong for much of 2012. But they were adversely affected in the last



The Mall at Pacific Place is one of Hong Kong's premier shopping destinations.

quarter by government administrative measures. The effect of substantial increases and other changes in Hong Kong stamp duty on demand for luxury residential properties is uncertain.

USA

Sales of residential properties in urban Miami continued to improve with most of the excess condominium inventory having been absorbed. Average prices for new and resale units increased by approximately 12% in 2012.

2012 RESULTS SUMMARY

Attributable profit from the Property Division for the year was HK\$15,290 million compared to HK\$24,999 million in 2011. These figures include net property valuation gains, before deferred tax in Mainland China, of HK\$12,751 million and HK\$20,899 million in 2012 and 2011 respectively. Underlying profit, which principally adjusts for changes in the valuation of investment properties, decreased by HK\$7,122 million to HK\$5,551 million.

Excluding the underlying profit of HK\$8,615 million on the disposal of Festival Walk in 2011 and other non-recurring items, adjusted underlying profit increased by HK\$1,432 million to HK\$5,545 million in 2012.

This was achieved despite a reduction in Swire Pacific's interest in Swire Properties from 100% to 82% as a result of the listing of Swire Properties. The increase principally reflects a significant trading profit of HK\$1,534 million on completion of the sale of 98 units at the AZURA development in Hong Kong in the last quarter of 2012.

Adjusted underlying profit from property investment decreased. This reflected the reduction in Swire Pacific's interest in Swire Properties and the loss of rental income from Festival Walk following its sale in August 2011, partially offset by positive rental reversions from the Hong Kong portfolio, the first full year contribution from TaiKoo Hui in Guangzhou and a better performance at Sanlitun Village.

There were better performances in 2012 from the three managed hotels, The Upper House and EAST in Hong Kong and The Opposite House in Beijing. However, this was more than offset by pre-opening expenses at the Mandarin Oriental hotel in TaiKoo Hui and EAST in Beijing.

INVESTMENT PROPERTIES

Hong Kong

Offices

Swire Properties' completed office portfolio comprises 10.4 million square feet of space in Hong Kong, including 2.2 million square feet at Pacific Place in Admiralty, 1.6 million square feet at Cityplaza in Island East and 6.2 million square feet at TaiKoo Place in Island East.

Swire Properties has office tenants in Hong Kong operating in different sectors. The top ten office tenants occupied approximately 21% of the office space in Hong Kong at 31st December 2012. Approximately one-third of the office space in Hong Kong is occupied by companies operating in the financial services sector.

The Hong Kong office portfolio did well in 2012. Demand for space was strong in the first half, both from new tenants and from existing tenants wanting more space. Demand slowed in the second half but growth in rental income continued as a result of reversionary rent increases on tenancy renewals and rent reviews. Occupancy rates at Pacific Place and Island East remained high throughout the year.



OPUS HONG KONG is the first residential project in Asia designed by Pritzker Prize-winning architect Frank Gehry.

28 Hennessy Road, a 145,390 square foot office building, was completed in the second half of 2012. Two of the 24 floors have been leased. The property continues to attract interest from smaller businesses currently based in Central.

At 31st December 2012, the office occupancy rate (excluding Somerset House which is scheduled to be demolished for development in 2013 and the newly opened 28 Hennessy Road) was 98%.

Retail

Swire Properties manages three retail malls in Hong Kong: The Mall at Pacific Place, comprising 0.7 million square feet; Cityplaza in Island East, comprising 1.1 million square feet; and Citygate Outlets at Tung Chung, comprising 0.5 million square feet. The malls are wholly-owned by Swire Properties, except for Citygate Outlets, in which it has a 20% interest. There are other minor retail interests in Hong Kong.

Rental income from the retail portfolio in Hong Kong improved in 2012. Rental reversions were positive. This reflected strong demand for space and a lack of supply.

The Group's wholly-owned malls were effectively fully let throughout the year.

Retail sales growth in The Mall at Pacific Place was 0.3% and same store retail sales growth was 3% (after excluding major shops which were closed or fitted out in 2011 and 2012). Retail sales at the Cityplaza and Citygate malls were 6% and 21% higher respectively in 2012 than in 2011.

Residential

The completed residential portfolio comprises Pacific Place Apartments, the recently completed luxury OPUS HONG KONG development (owned by Swire Pacific) and a small number of luxury houses and apartments.

Rental income from the residential portfolio continued to improve in 2012. But demand for space at Pacific Place Apartments softened in the fourth quarter of 2012.

Two units at OPUS HONG KONG were sold.

Occupancy at the residential portfolio was approximately 86% at 31st December 2012 (excluding OPUS HONG KONG).

Investment Properties under Construction

In 2012, improvement works continued at the Mall at Pacific Place. The space previously occupied by a department store has been reconfigured. New stores have opened. A beauty gallery has been created for retailers of high quality cosmetic and skin care brands. An additional arcade has linked the two



INDIGO, Swire Properties' new mixed-use development in Beijing, comprises a shopping mall, a Grade-A office tower – ONE INDIGO, and a lifestyle business hotel, EAST, Beijing.

sides of the Mall in order to improve the flow of pedestrian traffic. Refurbishment of the external façade is scheduled to be completed in the first half of 2013.

Swire Properties has leased the whole of 8 Queen's Road East, a 19-storey commercial building with 81,346 square feet of space, for a ten year term. Refurbishment of the building is scheduled to be completed later in the first half of 2013.

The property at 23 Tong Chong Street, which is being redeveloped into serviced apartments with a total area of approximately 75,000 square feet, is scheduled to be completed in 2014.

In March 2013, the company which owns the existing Citygate Outlets development at Tung Chung in Hong Kong (in which Swire Properties Limited has a 20% equity interest) won a tender to develop an adjacent commercial site.

Mainland China

Swire Properties owns and manages one retail centre and two mixed-use developments in Mainland China.

Sanlitun Village comprises two neighbouring sites in the Chaoyang district of Beijing, Village South (0.8 million square feet of retail space) and Village North (0.5 million square feet of retail space). Retail tenants in Sanlitun Village sell internationally branded goods. Village South focuses on global mid-market brands, with tenants including the largest Adidas store in the world and the largest Apple store in Mainland China. Tenants at Village North are principally retailers of international and local designer fashion brands. The Opposite House hotel (see page 29 "Hotels – Mainland China") is also at Sanlitun Village.

Gateway China Fund I, a fund managed by Gaw Capital Partners, owns 20% of the Sanlitun Village development (except The Opposite House, which is wholly-owned by Swire Properties). The fund has an option to sell its 20% interest to Swire Properties before the end of 2013.

TaiKoo Hui is a mixed-use development in the Tianhe central business district of Guangzhou with a total area of 3.8 million square feet. The development comprises a premium shopping mall, two Grade A office towers, a cultural centre and a Mandarin Oriental hotel with serviced apartments, together with approximately 700 car parking spaces, all of which are interconnected. The shopping mall opened in September 2011, with tenants including retailers of major international brands. The hotel and serviced apartments opened in January 2013.

INDIGO is a 1.9 million square foot mixed-use development at Jiangtai in the Chaoyang district of Beijing, comprising a retail mall, a Grade A office tower – ONE INDIGO, and a 369-room hotel operated by EAST, which opened in September 2012.

Offices

Gross rental income from the office portfolio in Mainland China grew strongly in 2012, reflecting a full-year contribution from the office towers at TaiKoo Hui.

At TaiKoo Hui, some of the remaining office space was taken up during the year. At 31st December 2012, tenants (including those who had signed letters of intent) had committed to take 79% of the office space at TaiKoo Hui. The corresponding figure at 31st December 2011 was 68%. Further vacant office space at TaiKoo Hui is expected to be leased in 2013.

The occupancy rate at the offices at ONE INDIGO was 95% at 31st December 2012. The corresponding figure at 31st December 2011 was 46%.

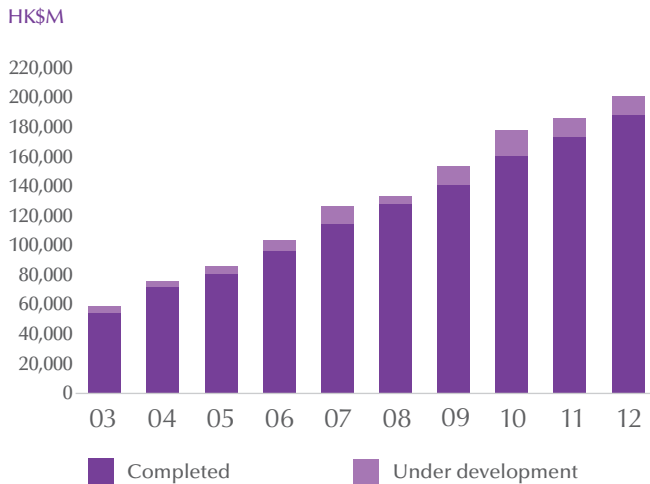
Retail

Gross rental income from the retail portfolio in Mainland China improved significantly in 2012. This reflected a full year of operation in 2012 of the shopping mall at TaiKoo Hui and better rental performance at Sanlitun Village.

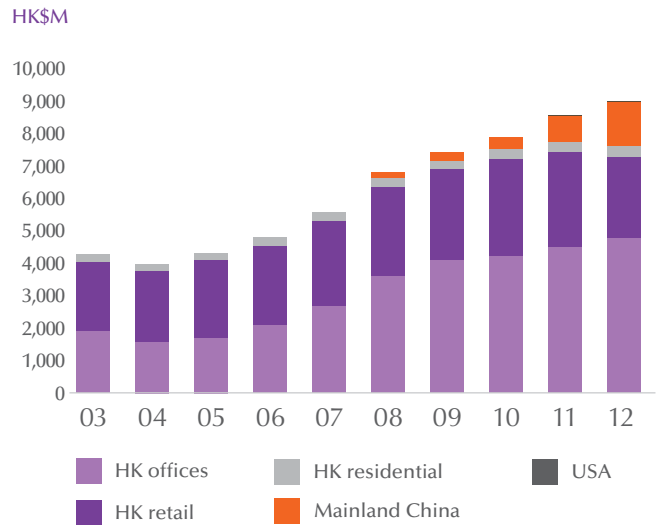
Retail sales at the shopping mall at TaiKoo Hui have been encouraging since it opened in September 2011. The mall was 99% leased at 31st December 2012.

At Sanlitun Village, retail sales increased strongly in 2012 compared with 2011. At 31st December 2012, occupancy rates were 97% at Village South and 90% at Village North.

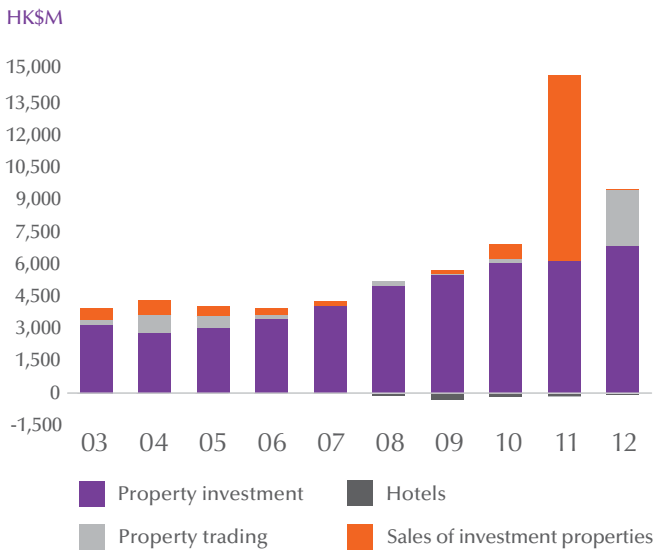
VALUATION OF INVESTMENT PROPERTIES



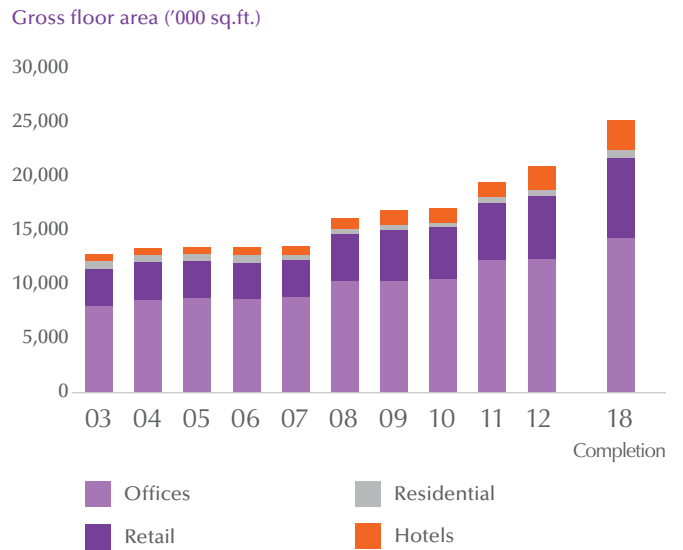
GROSS RENTAL INCOME



UNDERLYING OPERATING PROFIT



COMPLETED INVESTMENT PROPERTY PORTFOLIO



The shopping mall at INDIGO in Beijing opened gradually from March 2012. At 31st December 2012, tenants (including those who had signed letters of intent) had committed to take 84% of the space at the mall.

The put option in respect of the non-controlling interest in Sanlitun Village is recognised in the accounts. The movement in its fair value during the year resulted in a finance charge of HK\$175 million, compared to HK\$259 million in 2011.

Investment Properties under Construction

Site clearance and resettlement works at the Dazhongli project in Shanghai have largely been completed. Upon its scheduled

completion in phases from 2016 onwards, the Dazhongli development will consist of a retail mall, two office towers and three hotels. The project will be linked to the Nanjing West Road Station of Metro Line 13, which is expected to open at the end of 2015.

The site is being prepared at the Daci Temple project in Chengdu. Site excavation and piling are close to completion. This mixed-use development will comprise a street style retail complex, an office tower, a boutique hotel and serviced apartments. The office tower, to be called "Pinnacle One", is intended to be developed for trading purposes. The project is scheduled to be completed from 2013 and to open in phases from 2014 onwards.



Swire Properties aims to reduce energy consumption in its Hong Kong investment properties by 50 million kWh from 2008 levels by 2016. If achieved, this will save approximately HK\$66 million in annual electricity bills.

Audited Financial Information

Investment Properties

	Group			Company
	Completed HK\$M	Under Construction HK\$M	Total HK\$M	Total HK\$M
At 1st January 2012	174,130	17,385	191,515	5,266
Translation differences	190	–	190	–
Additions	465	1,812	2,277	73
Disposals	(931)	(2)	(933)	(931)
Transfer upon completion	7,391	(7,391)	–	–
Other net transfers from property, plant and equipment	72	5	77	–
Fair value gains	11,674	473	12,147	(12)
	192,991	12,282	205,273	4,396
Add: Initial leasing costs	315	–	315	–
At 31st December 2012	193,306	12,282	205,588	4,396
At 1st January 2011	160,763	19,485	180,248	2,295
Translation differences	374	421	795	–
Change in composition of Group	(18,090)	–	(18,090)	–
Additions	141	5,084	5,225	303
Transfer upon completion	11,142	(11,142)	–	–
Other net transfers from property, plant and equipment	175	38	213	–
Other net transfers from property held for development	104	249	353	–
Fair value gains	19,521	3,250	22,771	2,668
	174,130	17,385	191,515	5,266
Add: Initial leasing costs	290	–	290	–
At 31st December 2011	174,420	17,385	191,805	5,266

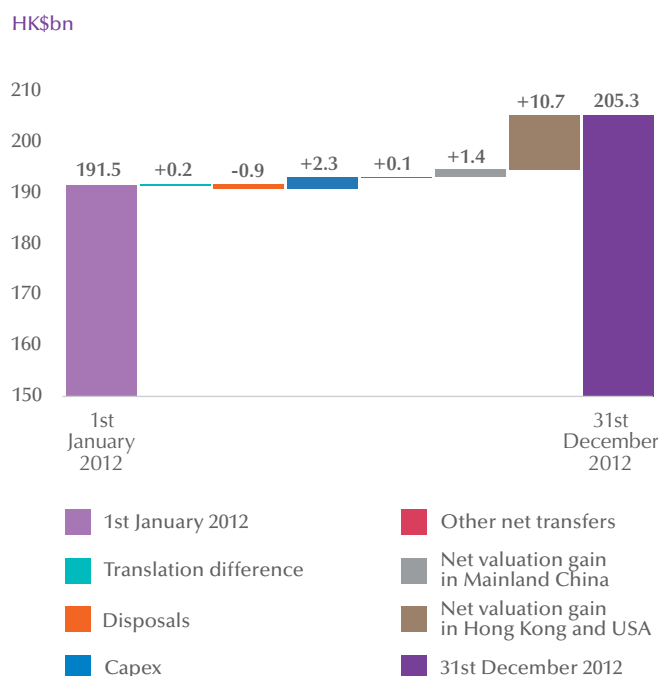
Geographical Analysis of Investment Properties

	Group		Company	
	2012 HK\$M	2011 HK\$M	2012 HK\$M	2011 HK\$M
Held in Hong Kong				
On medium-term leases (10 to 50 years)	25,342	25,143	–	–
On long-term leases (over 50 years)	156,272	144,751	4,396	5,266
	181,614	169,894	4,396	5,266
Held in Mainland China				
On medium-term leases (10 to 50 years)	23,105	21,230		
Held in USA				
Freehold	554	391		
	205,273	191,515		

Note:

The Group figures in the table above comprise investment properties owned by Swire Properties and a small number of properties owned by Swire Pacific Limited which are managed by Swire Properties. The Company figures represent those investment properties owned directly by Swire Pacific Limited.

MOVEMENT IN INVESTMENT PROPERTIES

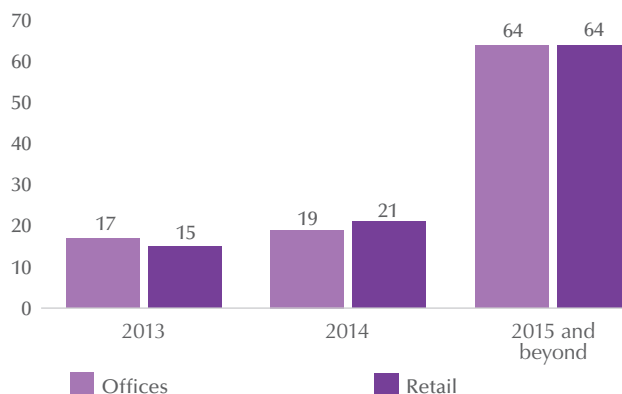


In January 2012, Swire Properties entered into an agreement with Sino-Ocean Land Limited to fund the whole of the remaining land premium (and associated taxes) payable in respect of the Daci Temple project and certain working capital requirements in an aggregate amount of US\$230 million. Following this transaction, Swire Properties' interest in the project was increased to 81%, reflecting its contribution to the overall funding of the project. Sino-Ocean Land had a call option, exercisable for one year commencing from the date of the agreement, to purchase Swire Properties' additional interest in the project for an amount equal to one half of the additional funding plus interest at the rate of 10% per year. Swire Properties had the right, exercisable for one year commencing one week before the end of the call option period, to require Sino-Ocean Land to purchase Swire Properties' additional interest in the project on the same terms as those described above. In January 2013, the above arrangements were amended. Sino-Ocean Land purchased part of Swire Properties' additional interest in the project and the options in respect of the remaining part of the additional interest were extended for a further year. The effect of the amended arrangements was to reduce Swire Properties' interest in the project to 63% and to increase Sino-Ocean Land's interest in the project to 37%. Until the extended options described above are exercised or lapse, Swire Properties' remaining additional interest in the project will be accounted for as a secured loan and Swire Properties' existing interest will continue to be accounted for as a 50% interest in a jointly controlled entity.

HONG KONG LEASE EXPIRY PROFILE

At 31st December 2012

% of the total rental income attributable to the Group for the month ended 31st December 2012



The Brickell CityCentre development is Swire Properties' first mixed-use development in Miami.

USA

Swire Properties owns 100% of the office, hotel and residential portions, and 87.5% of the retail portion, of the mixed-use development at Brickell CityCentre located in the financial district in Miami, with a site area of 393,678 square feet. Construction work began in June 2012. Phase 1 of the development, comprising a shopping centre, a hotel, serviced apartments, two office buildings and two residential towers, is scheduled to be completed in 2015.

Singapore

In December 2012, Swire Properties agreed to acquire eight residential units at Hampton Court, 2 Draycott Park in Singapore as investment properties.

VALUATION OF INVESTMENT PROPERTIES

The portfolio of investment properties was valued at 31st December 2012 (96% by value having been valued by DTZ Debenham Tie Leung) on the basis of open market value. The amount of this valuation, before associated deferred tax in Mainland China, was HK\$205,273 million compared to HK\$191,515 million at 31st December 2011 and HK\$199,300 million at 30th June 2012.

The change in the valuation of the investment property portfolio since 31st December 2011 principally reflects increased rental income.

Under HKAS 40, hotel properties are not accounted for as investment properties but are included within property, plant and equipment at cost less accumulated depreciation and any provision for impairment losses.

HOTELS

Hong Kong

Swire Properties wholly-owns Swire Hotels, which manages two hotels in Hong Kong, The Upper House, a 117-room luxury hotel at Pacific Place and EAST, Hong Kong, a 345-room hotel at Cityplaza. Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung.

The performance of the wholly-owned and managed hotels improved in 2012. At The Upper House, revenue per available room increased by 9% from 2011. At EAST, Hong Kong, revenue per available room increased by 5%. The performance of the non-managed hotels also improved in 2012.

Mainland China

Swire Hotels manages two hotels in Mainland China, The Opposite House, a 99-room luxury hotel at Sanlitun Village, Beijing, and EAST, a 369-room hotel located at INDIGO, Beijing. Swire Properties owns the whole of The Opposite House and 50% of EAST. Swire Properties owns 97% of, but does not manage, the Mandarin Oriental at TaiKoo Hui, which has 263 rooms and 24 serviced apartments.

The accommodation, restaurant and bar businesses at The Opposite House continued to improve in 2012. Revenue per available room increased by 3% from 2011. EAST, Beijing, opened in September 2012. The Mandarin Oriental at TaiKoo Hui opened in January 2013.

USA

Swire Properties has a 75% interest in the 326-room Mandarin Oriental Hotel in Miami. Results in 2012 improved from

2011 levels. Higher room rates were partially offset by lower occupancy rates in the second half.

United Kingdom

Swire Properties wholly-owns four hotels in the United Kingdom, one each in Cheltenham, Bristol, Brighton and Exeter. The hotel in Exeter, The Magdalen Chapter, re-opened in June 2012 after a major refurbishment. Although occupancy and room rates improved in 2012, trading conditions remained challenging.

CAPITAL EXPENDITURE AND COMMITMENTS FOR INVESTMENT PROPERTIES AND HOTELS

Capital expenditure in 2012 on Hong Kong investment properties and hotels, including completed projects, was HK\$1,828 million (2011: HK\$3,104 million). Outstanding capital commitments at 31st December 2012 were HK\$5,405 million (31st December 2011: HK\$6,740 million).

Capital expenditure in 2012 on Mainland China investment properties and hotels, including the Group's share of the capital expenditure of jointly controlled companies, was HK\$1,776 million (2011: HK\$3,180 million). Outstanding capital commitments at 31st December 2012 were HK\$7,546 million (2011: HK\$8,430 million), including the Group's share of the capital commitments of jointly controlled companies of HK\$6,620 million (2011: HK\$7,101 million). The Group is committed to funding HK\$818 million (31st December 2011: HK\$1,828 million) of the capital commitments of jointly controlled companies in Mainland China.

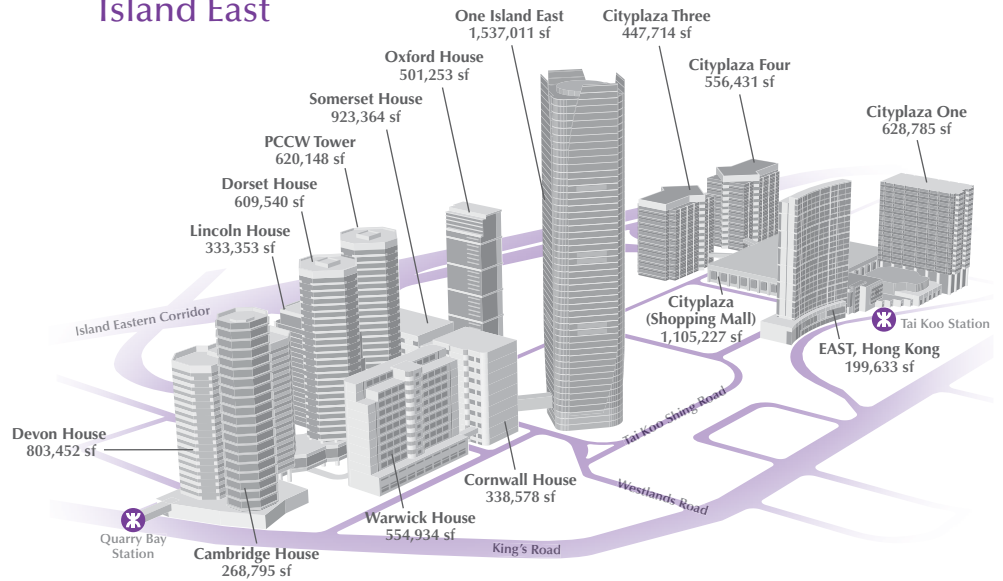
Capital expenditure in 2012 on USA, UK and Singapore investment properties and hotels was HK\$239 million (2011: HK\$102 million). Outstanding capital commitments at 31st December 2012 were HK\$2,963 million (2011: HK\$2,510 million).



EAST, Beijing, located at INDIGO, is Swire Hotels' second hotel in Beijing and its fourth in Asia.

HONG KONG

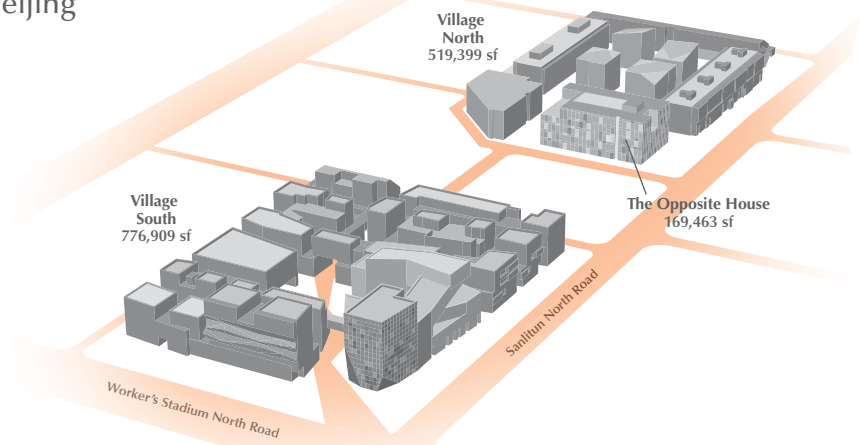
Island East



* Under development

MAINLAND CHINA

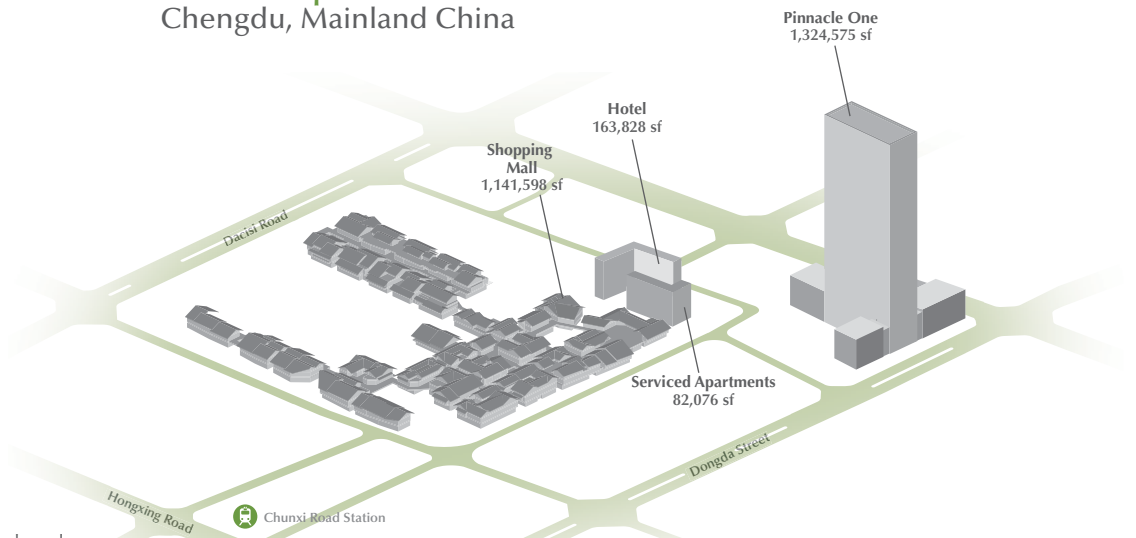
Sanlitun Village
Beijing



* Under development

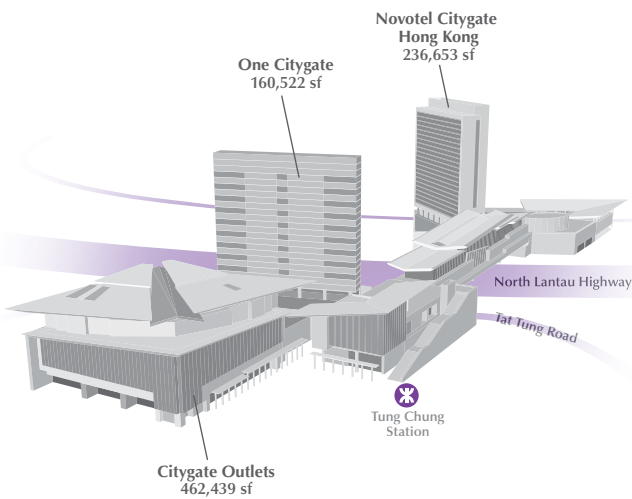
FUTURE DEVELOPMENTS

Daci Temple
Chengdu, Mainland China

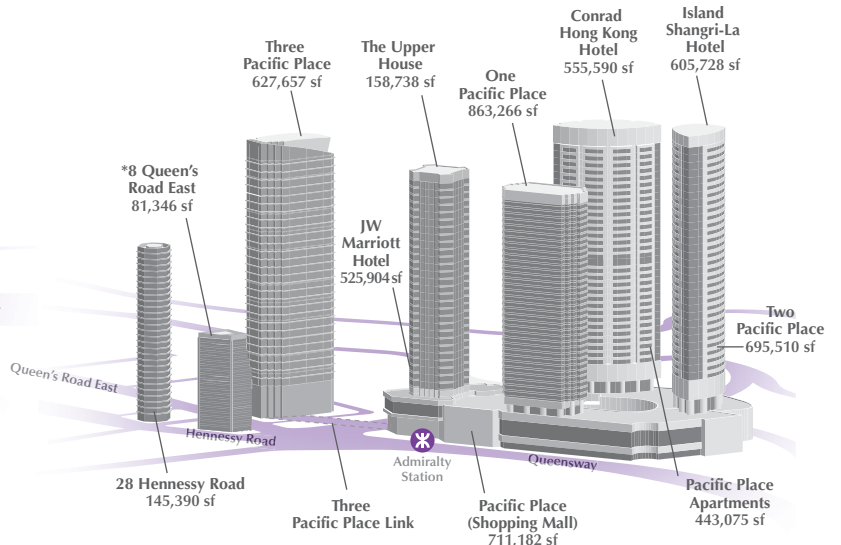


Note: These diagrams are not to scale and are for illustration purposes only.

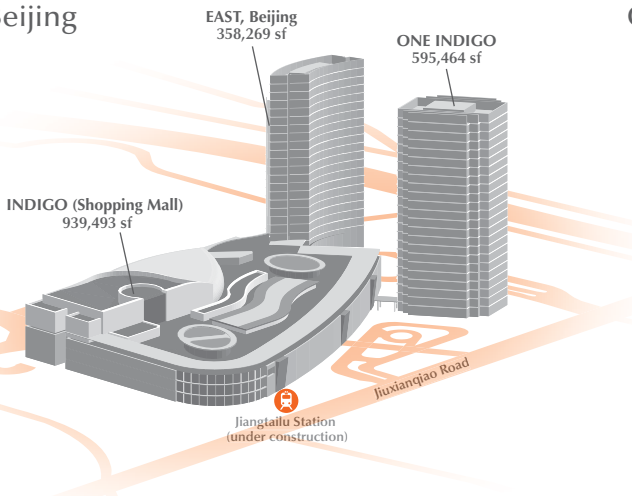
Citygate



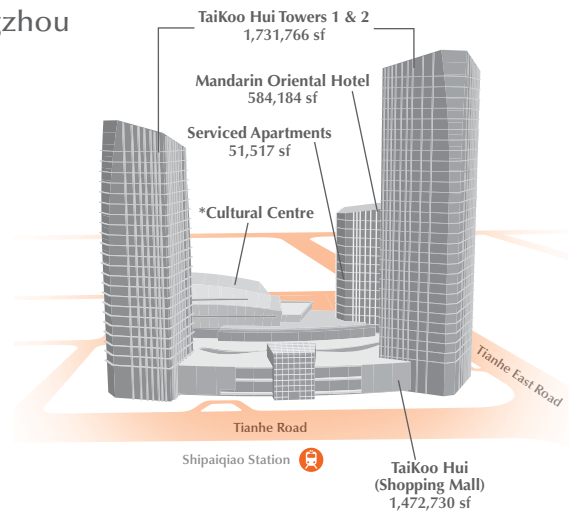
Pacific Place



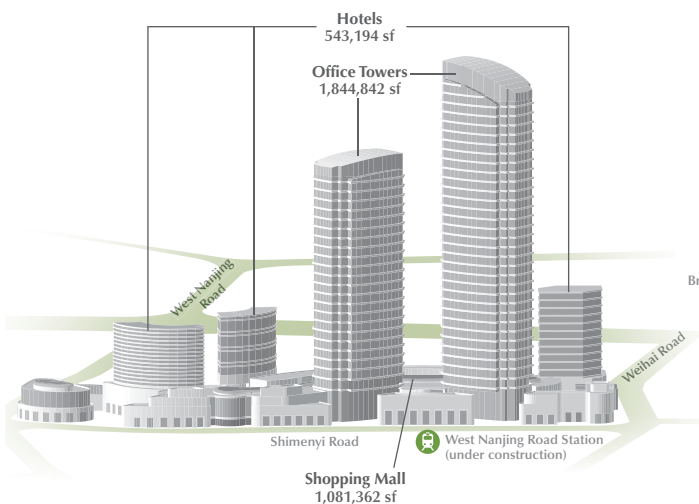
INDIGO Beijing



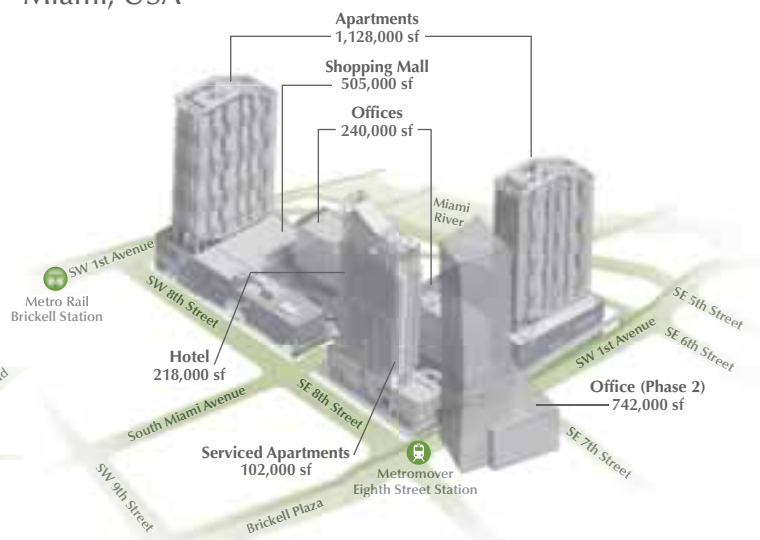
TaiKoo Hui Guangzhou



Dazhongli Shanghai, Mainland China



Brickell CityCentre Miami, USA



PROFILE OF CAPITAL COMMITMENTS FOR INVESTMENT PROPERTIES AND HOTELS

	Expenditure	Forecast year of expenditure				Commitments*
	2012 HK\$M	2013 HK\$M	2014 HK\$M	2015 HK\$M	2016 & beyond HK\$M	At 31st Dec 2012 HK\$M
Hong Kong	1,828	879	548	606	3,372	5,405
Mainland China	1,776	3,680	2,361	831	674	7,546
USA and others	239	1,360	1,603	–	–	2,963
Total	3,843	5,919	4,512	1,437	4,046	15,914

* The capital commitments represent the Group's capital commitments plus the Group's share of the capital commitments of jointly controlled companies. The Group is committed to funding HK\$818 million of the capital commitments of jointly controlled companies.

PROPERTY TRADING

Audited Financial Information

Property Trading Portfolio at Cost

	Group	
	2012 HK\$M	2011 HK\$M
Properties held for development		
Freehold land	188	124
Properties for sale		
Completed properties – development costs	401	270
Completed properties – freehold land	4	7
Completed properties – leasehold land	145	4
Properties under development – development costs	1,762	1,329
Freehold land under development for sale	175	175
Leasehold land under development for sale	4,423	5,025
	6,910	6,810

Hong Kong

The AZURA development on Seymour Road was completed in the second half of 2012. Sales of 98 out of the total 126 units were completed in 2012. A further 13 units have been sold since the end of 2012. Swire Properties has an 87.5% interest in this development.

Superstructure work at the 75,805 square foot residential development at ARGENTA is progressing on schedule, with completion and handover to purchasers expected in 2013. Six of the total 30 units in the development have been pre-sold.

Superstructure work at the 151,954 square foot residential development known as MOUNT PARKER RESIDENCES (formerly known as Sai Wan Terrace), in which Swire Properties has an 80% interest, is progressing on schedule, with completion expected in 2013 and handover to purchasers expected in 2014.

Construction work at the 165,792 square foot Phase 1 of the residential development at 33 Seymour Road is progressing on schedule, with completion expected in 2014 and handover to purchasers expected in 2015. Foundation work is progressing at the adjacent Phase 2 of this residential development. The Phase 2 site is to be redeveloped into a 195,531 square foot

residential development, with completion expected in 2016 and handover to purchasers expected in 2017.

Superstructure work is progressing at the 88,555 square foot residential development known as DUNBAR PLACE (formerly known as 148 Argyle Street). Completion of this 50% joint venture project is expected in 2013 with handover to purchasers expected in 2014.

Two sites at Cheung Sha, Lantau Island, are being redeveloped into detached houses, providing an aggregate GFA of 64,412 square feet. Completion of this development and handover to purchasers is expected in 2015.

USA

Sales of 16 units were closed at the ASIA residential development in Miami in 2012. Of the 123 units at ASIA, 109 units had been sold and three units had been leased at 31st December 2012.

The residential portion of Brickell CityCentre in Miami, which is intended to be developed for trading purposes, is expected to be completed in 2015.



A new addition to the Mall at Pacific Place, The Beauty Gallery contains premium beauty and cosmetic brands.

OUTLOOK

Offices and Retail

Hong Kong

Offices

Swire Properties is cautious about the outlook for 2013. Demand from financial services companies for office space in Central is likely to remain soft. However, occupancy at Pacific Place is high and there are no major leases expiring until the latter part of 2013. Rents are therefore expected to be fairly resilient in 2013.

At Island East, rents are expected to remain robust owing to high occupancy. Somerset House, one of the techno-centres at Island East, is scheduled to be demolished for redevelopment in August 2013, with completion of an office tower expected in 2017.

Office tenancies accounting for approximately 17% of rental income in the month of December 2012 are due to expire in 2013 with no committed renewals or new lettings, with a further 19% due to expire in 2014.

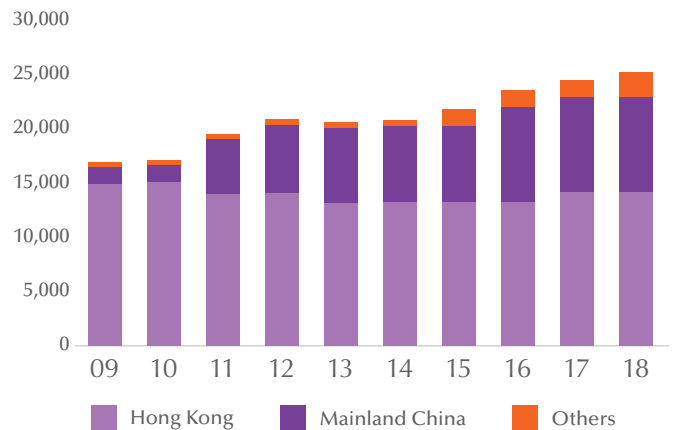
Retail

Despite slower growth in sales towards the end of 2012, the Hong Kong retail market is expected to continue to benefit from local economic growth and from tourists from Mainland China. Demand for retail space, particularly at prime locations, continues to be strong. Rents are expected to continue to increase.

Retail tenancies accounting for approximately 15% of rental income in the month of December 2012 are due to expire in 2013 with no committed renewals or new lettings, with a further 21% due to expire in 2014.

COMPLETED PROPERTY INVESTMENT PORTFOLIO

Gross floor area ('000 sq ft)



Mainland China

Offices

Demand for office space and rental rates is expected to remain stable in 2013.

Retail

There has been some reduction in consumer confidence and spending in Mainland China. However, retailers of internationally branded goods in the few high quality shopping malls remain popular. Retail rents are expected to be steady in 2013.

Hotels

Results in 2013 from the hotel portfolio will benefit from the fact that EAST, Beijing, will be in operation for its first full year and from a contribution from the Mandarin Oriental in TaiKoo Hui.

Property Trading

Hong Kong

Profits from property trading are expected to be lower in 2013 than in 2012, but nevertheless significant, with the completion of the ARGENTA development and the expected sale of the remaining units at the AZURA development. The effect of substantial increases and other changes in Hong Kong stamp duty on demand for luxury residential properties is uncertain.

USA

The residential market in downtown Miami is expected to continue to improve gradually in 2013. Excess condominium supply has been largely absorbed and new condominium developments are being built.

Martin Cubbon