

# DIRECTORS'

# REPORT

The Directors submit their report together with the audited accounts for the year ended 31st December 2012, which are set out on pages 147 to 221.

## Principal Activities

The principal activity of Swire Pacific Limited (the "Company") is that of a holding company, and the principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 211 to 221. An analysis of the Group's performance for the year by reportable business segment and geographical area is set out in note 8 to the accounts.

## Listing of Swire Properties Limited

On 18th January 2012 the shares in Swire Properties Limited ("Swire Properties") were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The listing was by way of introduction, achieved by a dividend in specie to the Company's shareholders of 18% of the total issued shares in Swire Properties. As a result of this dividend in specie, the Company's shareholding in Swire Properties decreased from 100% to approximately 82%.

## Dividends

The Directors have declared second interim dividends of HK\$2.50 per 'A' share and HK\$0.50 per 'B' share which, together with the first interim dividends of HK\$1.00 per 'A' share and HK\$0.20 per 'B' share paid in October 2012, amount to full year dividends of HK\$3.50 per 'A' share and HK\$0.70 per 'B' share, compared to full year dividends of HK\$6.50 per 'A' share and HK\$1.30 per 'B' share in respect of 2011. The second interim dividends will be paid on 3rd May 2013 to shareholders registered at the close of business on the record date, being Friday, 12th April 2013. Shares of the Company will be traded ex-dividend from Wednesday, 10th April 2013.

## Closure of Register of Members

The register of members will be closed on Friday, 12th April 2013, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim 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 Thursday, 11th April 2013.

To facilitate the processing of proxy voting for the annual general meeting to be held on 9th May 2013, the register of members will be closed from 6th May 2013 to 9th May 2013, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, 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, 3rd May 2013.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 36 to the accounts.

## Share Capital

During the year under review and up to the date of this report, the Company did not purchase, sell or redeem any of its shares and the Group has not adopted any share option scheme.

## Accounting Policies

The principal accounting policies of the Group are set out on pages 201 to 210.

## 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 consolidated results, financial position and cash flows is shown on pages 102 to 110. A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 8 to 10.

## Corporate Governance

The Company complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by both the potential Director and the Board as to suitability for the role.

Details of the Company's corporate governance practices are set out on pages 120 to 130.

## Donations

During the year, the Group made donations for charitable purposes of HK\$40 million and donations towards various scholarships of HK\$3 million.

## Fixed Assets

For details of movements in fixed assets refer to notes 15 and 16 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 valuers (96% by value having been valued by DTZ Debenham Tie Leung) on the basis of open market value at 31st December 2012. This valuation resulted in an increase of HK\$12,147 million in the carrying value of the investment property portfolio.

A schedule of the principal properties of the Group and its jointly controlled and associated companies is given on pages 239 to 251.

## Borrowings

For details of the Group's borrowings refer to pages 111 to 119.

## Interest

Refer to page 115 for details of the amount of interest capitalised by the Group.

## Major Customers and Suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and suppliers respectively.

## Directors

The Directors of the Company as at the date of this report are listed on pages 135 and 136. With the exception of R W M Lee who was appointed as an Independent Non-Executive Director on 1st July 2012 and J B Rae-Smith who was appointed as an Executive Director on 1st January 2013, all the Directors at the date of this report served throughout the calendar year 2012. During the year, M Leung served as an Independent Non-Executive Director until her resignation with effect from 1st July 2012 and G L Cundle served as an Executive Director until his resignation with effect from 1st January 2013.

### Independence confirmation

The Company has received from all of its Independent Non-Executive Directors listed on page 136 confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent. The confirmation from T G Freshwater refers to his directorship of Goldman Sachs (Asia) L.L.C. until his resignation with effect from 1st April 2012 and the confirmations from R W M Lee and M M T Yang refer to their directorships of The Hongkong and Shanghai Banking Corporation Limited. These directorships are mentioned under "Directors and Officers – Independent Non-Executive Directors" on page 136.

### 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 J R Slosar retire this year and, being eligible, offer themselves for re-election.

R W M Lee and J B Rae-Smith, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retire and offer themselves 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 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 or 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

Full details of Directors' fees and emoluments are set out in note 9 to the accounts.

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK\$4.7 million. They received no other emoluments from the Group.

## Directors' Interests

At 31st December 2012, 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, Swire Properties 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			
<b>Swire Pacific Limited</b>						
<b>'A' shares</b>						
Baroness Dunn	100,000	–	–	100,000	0.0110	
T G Freshwater	41,000	–	–	41,000	0.0045	
P A Johansen	31,500	–	–	31,500	0.0035	
P A Kilgour	5,000	–	–	5,000	0.0006	
C D Pratt	41,000	–	–	41,000	0.0045	
J B Rae-Smith	–	–	5,000	5,000	0.0006	1
M C C Sze	6,000	–	–	6,000	0.0007	
<b>'B' shares</b>						
P A Johansen	200,000	–	–	200,000	0.0067	
C Lee	800,000	–	21,605,000	22,405,000	0.7480	2
C D Pratt	100,000	–	–	100,000	0.0033	
J B Rae-Smith	17,500	–	–	17,500	0.0006	1
I S C Shiu	–	20,000	–	20,000	0.0007	

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
<b>John Swire &amp; Sons Limited</b>						
<b>Ordinary Shares of £1</b>						
Baroness Dunn	8,000	–	–	8,000	0.01	
J B Rae-Smith	97,066	–	97,659	194,725	0.19	1
M B Swire	3,140,523	–	19,222,920	22,363,443	22.36	3
<b>8% Cum. Preference Shares of £1</b>						
Baroness Dunn	2,400	–	–	2,400	0.01	
J B Rae-Smith	18,821	–	9,628	28,449	0.09	1
M B Swire	846,476	–	5,655,441	6,501,917	21.67	3

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
<b>Swire Properties Limited</b>						
<b>Ordinary Shares</b>						
Baroness Dunn	70,000	–	–	70,000	0.00120	
T G Freshwater	28,700	–	–	28,700	0.00049	
P A Johansen	50,050	–	–	50,050	0.00086	
P A Kilgour	3,500	–	–	3,500	0.00006	
C Lee	200,000	–	3,024,700	3,224,700	0.05512	2
C D Pratt	4,200	–	–	4,200	0.00007	
J B Rae-Smith	2,450	–	3,500	5,950	0.00010	1
I S C Shiu	–	2,800	–	2,800	0.00005	
M B Swire	–	–	138,855	138,855	0.00237	3
M C C Sze	4,200	–	–	4,200	0.00007	

	Capacity		Total no. of shares	Percentage of issued capital (%)
	Beneficial interest			
	Personal	Family		
<b>Cathay Pacific Airways Limited</b>				
<b>Ordinary Shares</b>				
I S C Shiu		1,000	1,000	0.00003

	Capacity		Total no. of shares	Percentage of issued capital (%)
	Beneficial interest			
	Personal	Other		
<b>Hong Kong Aircraft Engineering Company Limited</b>				
<b>Ordinary Shares</b>				
T G Freshwater		10,000	11,200	0.0067
I S C Shiu		1,600	1,600	0.0010
M C C Sze		12,800	12,800	0.0077

Notes:

1. J B Rae-Smith was appointed as a Director of the Company with effect from 1st January 2013. All the shares held by J B Rae-Smith under "Trust interest" are held by him as beneficiary of trusts.
2. All the shares held by C Lee under "Trust interest" are held by him as beneficiary of trusts.
3. M B Swire is a trustee of trusts which held 138,855 shares in Swire Properties Limited and 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have 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, being a contract 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 Businesses

None of the Directors or 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 interests in shares maintained under Section 336 of the SFO shows that as at 31st December 2012, the Company had been notified of the following interests in the Company's shares:

Long position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
<b>Substantial Shareholders</b>					
John Swire & Sons Limited	266,681,520	29.45	2,051,533,782	68.49	1
Aberdeen Asset Management plc	118,712,051	13.11	360,638,226	12.04	2
JPMorgan Chase & Co.	45,944,580	5.07	–	–	3
Short position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
JPMorgan Chase & Co.	127,500	0.01	–	–	4

Notes:

- John Swire & Sons Limited is deemed to be interested in a total of 266,681,520 'A' shares and 2,051,533,782 'B' shares of the Company as at 31st December 2012, comprising:
  - 885,861 'A' shares and 13,367,962 'B' shares held directly;
  - 12,632,302 'A' shares and 37,597,019 'B' shares held directly by its wholly-owned subsidiary Taikoo Limited;
  - 39,580,357 'A' shares and 1,482,779,222 'B' shares held directly by its wholly-owned subsidiary John Swire & Sons (H.K.) Limited; and
  - the following shares held directly by wholly-owned subsidiaries of John Swire & Sons (H.K.) Limited: 196,290,500 'A' shares and 95,272,500 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 9,140,000 'A' shares and 321,240,444 'B' shares held by Shrewsbury Holdings Limited, 99,221,635 'B' shares held by Tai-Koo Limited and 8,152,500 'A' shares held by Waltham Limited.
- Aberdeen Asset Management plc is interested in the 'A' shares and 'B' shares in its capacity as investment manager. These include shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc are interested.
- The shares held by JPMorgan Chase & Co. are held in the following capacities:

Capacity	No. of shares
Beneficial owner	1,512,173
Investment manager	419,020
Custodian Corporation/Lending agent	44,013,387

- This short position is held in the capacity as beneficial owner and comprises physically settled derivatives listed or traded on a stock exchange or on a futures exchange.

At 31st December 2012, the Swire group owned interests in shares of the Company representing 44.99% of the issued capital and 59.43% of the voting rights.

## Public Float

From information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25% of the Company's total issued share capital is held by the public.

## Connected Transaction

On 6th August 2012, Swire Pacific Cold Storage Limited, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with John Swire & Sons Pty Ltd. ("JSS Pty") for the purchase of JSS Pty's entire 60% interest in Guangdong Swire Cold Chain Logistics Co., Ltd. ("Guangdong Swire") for a total cash consideration of RMB202 million. The purchase was completed and the cash consideration was paid on 1st September 2012. As a result the Company holds an indirect 60% interest in Guangdong Swire.

As JSS Pty is a wholly-owned subsidiary of John Swire & Sons Limited, a substantial shareholder of the Company, JSS Pty is a connected person of the Company. The transaction under the sale and purchase agreement constituted a connected transaction for the Company, in respect of which an announcement dated 6th August 2012 was published.

## Continuing Connected Transactions

There are agreements for services ("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, and procured for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire.

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 non-controlling interests after certain adjustments. The fees for each year were payable in cash in arrear 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 at cost for all expenses incurred in the provision of the services.

The Services Agreements, which took effect from 1st January 2005 and were renewed on 1st October 2007, were renewed again on 1st October 2010 for a term of three years from 1st January 2011 to 31st December 2013. 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.

Under the Services Agreement between JSSHK and the Company, JSSHK is obliged to procure for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procurator obligation or such use. This procurator obligation would fall away if the Services Agreement between JSSHK and the Company were terminated or not renewed.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2012 are given in note 42 to the accounts.

The Company and JSSHK entered into a Tenancy Framework Agreement ("the JSSHK Tenancy Framework Agreement") on 5th August 2010 to govern existing and future tenancy agreements between members of the Group and members of the JSSHK group for a term of six years from 1st January 2010 to 31st December 2015. Pursuant to the JSSHK Tenancy Framework Agreement, members of the Group will enter into tenancy agreements with members of the JSSHK group from time to time on normal commercial terms based on prevailing market rentals. The JSSHK Tenancy Framework Agreement is renewable for successive periods of six years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Particulars of the aggregate rentals payable to the Group under the tenancies pursuant to the JSSHK Tenancy Framework Agreement for the year ended 31st December 2012 are given in note 42 to the accounts.

The Swire group owned approximately 44.99% of the issued capital of the Company and approximately 59.43% of voting rights attached to such issued share capital as at 31st December 2012. JSSHK, as a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the Services Agreements and the JSSHK Tenancy Framework Agreement are continuing connected transactions in respect of which announcements were published dated 1st October 2010 and 5th August 2010 respectively.

As directors and employees of the Swire group, M Cubbon, J W J Hughes-Hallett, P A Kilgour, C D Pratt, I S C Shiu, J R Slosar and A K W Tang are interested in the Services Agreements and the JSSHK Tenancy Framework Agreement. G L Cundle was interested as director and employee of the Swire group. Baroness Dunn and M B Swire are interested as shareholders, directors and employees of Swire. J B Rae-Smith is interested as a director and employee of the Swire group and as a shareholder of Swire.

The Independent Non-Executive Directors of the Company, who are not interested in any connected transactions with the Group, have reviewed the continuing connected transactions set out above and have confirmed that they 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 they have been approved by the Board of the Company and have been entered into in accordance with the relevant agreements governing the transactions; that they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group); and that they have not exceeded the relevant annual caps disclosed in previous announcements.

On behalf of the Board

**Christopher Pratt**

Chairman

Hong Kong, 14th March 2013