



We market and sell internationally branded goods to today's discerning consumers.



Trading & Industrial Division

MAXIMISING BRAND POTENTIAL



TRADING & INDUSTRIAL DIVISION

OVERVIEW OF THE BUSINESS

The Trading & Industrial Division has interests in the following wholly-owned companies and jointly controlled companies:

- Swire Resources group – distribution and retailing of sports and casual footwear and apparel in Hong Kong and Mainland China
- Taikoo Motors group – distribution and retailing of motor vehicles in Taiwan and Hong Kong
- Swire Foods:
 - (i) Taikoo Sugar – packaging and selling sugar in Hong Kong and Mainland China
 - (ii) Campbell Swire – manufacture and distribution of soup and broth products in Mainland China
- Swire Pacific Cold Storage group – provision of cold storage and warehousing services in Mainland China
- Akzo Nobel Swire Paints – manufacture and distribution of paint in Mainland China and Hong Kong

Swire Resources Group

Swire Resources retails and distributes sports and casual footwear, apparel and related accessories. It operates 175 retail outlets in Hong Kong and 134 retail outlets in Mainland China. There are 215 single brand outlets and 94 multi-brand outlets, the latter operating under the Marathon Sports, GigaSports, Catalog, d2r and Actif names.

Swire Resources distributes the following brands of sports and casual footwear, apparel and related accessories: Aerosoles, Arena, Cath Kidston, Chevignon, Columbia, DKNY, Jockey, Montrail, Mountain Hardwear, Penguin, Repetto, Rockport, Sorel, Speedo, Surf-Siders, Teva and UGG.

Taikoo Motors Group

Taikoo Motors sells passenger cars, commercial vehicles, motorcycles and scooters. It is the principal distributor in Taiwan for Volkswagen and Škoda cars, Volkswagen light commercial vehicles, Volvo trucks and buses, Harley-Davidson motorcycles and Vespa scooters. In Hong Kong and Macau, it is the principal importer and distributor of FIAT and Alfa Romeo passenger cars, and Volvo, UD and Renault trucks.



Swire Foods

(i) Taikoo Sugar

Taikoo Sugar packages and sells sugar in Hong Kong and Mainland China under the Taikoo Sugar brand. It is the market leader in packaged sugar in the retail, catering and industrial sectors in Hong Kong. In Mainland China, it operates two packaging plants. It also exports sugar to Southeast Asia, the Middle East and North America, and sells tea, coffee, salt and pepper in Hong Kong and Mainland China.

太古 taikoo

(ii) Campbell Swire

Campbell Swire is a joint venture with The Campbell Soup Company which manufactures and distributes soup and broth products in Mainland China. The joint venture has a manufacturing plant in Xiamen. Swire Foods has a 40% interest in the venture.



Akzo Nobel Swire Paints

Akzo Nobel Swire Paints is a joint venture with Akzo Nobel which manufactures and distributes decorative paints, primarily under the Dulux brand, in Mainland China and Hong Kong. The joint venture has manufacturing plants in Guangzhou, Shanghai and Hebei.



Swire Pacific Cold Storage Group

Swire Pacific Cold Storage was established in 2010. A 60% equity interest in a company which operates a cold storage facility in Guangzhou was acquired in September 2012 from John Swire & Sons Pty Ltd, a wholly-owned subsidiary of John Swire & Sons Limited, the ultimate holding company of the Company. In the second half of 2012, land was acquired in Shanghai and Hebei on which cold storage facilities will be built. In the first quarter of 2013, two more sites were acquired (in Nanjing and Ningbo) on which cold storage facilities will be built. These four cold storage facilities are expected to open in 2014.

STRATEGY

The strategic objective of the Trading & Industrial Division is to develop and strengthen the trading and industrial businesses which it operates. The strategies employed in order to achieve this objective are these:

- Strengthening the capability of Swire Resources in branded sports and apparel goods, particularly in the Greater China region and including by expanding the range and quality of those branded goods and by increasing the number of retail outlets operated by Swire Resources.

IMPLEMENTING STRATEGIES

Distribution

A key objective of each business in the Trading & Industrial Division is to strengthen its distribution capability so as to make its products available to more people. Swire Resources aims to open new retail outlets, particularly in Mainland China, where there are greater opportunities for growth than in Hong Kong. Swire Resources and Taikoo Motors aim to increase the number of brands which they distribute. Taikoo Sugar and Akzo Nobel Swire Paints aim to distribute their products in more cities in Mainland China.

Turnover

Strengthening the distribution capability of each business is expected to lead to sales volume growth. The extent to which sales volume growth is translated into revenue growth will depend on the ability of each business to raise prices, reduce discounting and sell a higher proportion of more expensive goods. The extent to which this is possible depends largely on the state of the economies in which the businesses operate, consumer habits, competition and resistance by consumers to price increases.

2012 PERFORMANCE

Number of Retail Outlets

+40

Vehicles Sold

+10%

Number of New Brands Sold

+1

Sugar Sold

+1%

Expansion into New Cities

+14

Revenue

+12%

- Strengthening the capability of Taikoo Motors in the import and distribution of motor vehicles, including by selective additions to the portfolio of brands represented.
- Expanding Taikoo Motors' capability into other motor-related businesses and into other parts of Asia.
- Increasing the volume and broadening the range of products sold by Swire Foods.
- Establishing a network of cold storage and logistics businesses in Mainland China.
- Expanding the distribution network of Akzo Nobel Swire Paints in smaller cities and towns in Mainland China.

Cost of Sales

The businesses of the Trading & Industrial Division aim to reduce the costs of selling their products. Taikoo Sugar aims to ensure that suppliers of sugar provide a high quality product in a cost efficient manner. Swire Resources aims to minimise costs associated with renting premises.

People

Employees are key to the businesses of the Trading & Industrial Division. The Trading & Industrial Division believes that proper treatment of employees is an essential part of conducting a sustainable business. The businesses of the Trading & Industrial Division aim to build highly-trained teams, keep staff motivated, reduce staff turnover and adopt safe working practices.

Gross Margin

+1% pt

Operating Costs

+20%

Average Training Hours*

-25%

* Average training hours represents training hours per employee per year.

Staff Turnover

+1% pt

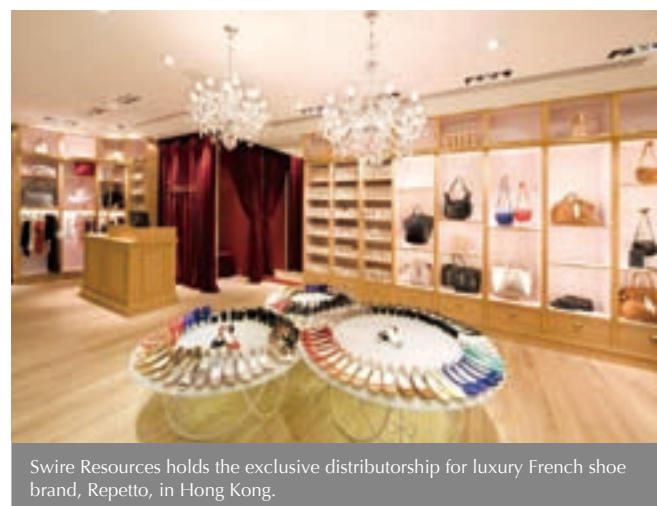
2012 PERFORMANCE

FINANCIAL HIGHLIGHTS

	2012 HK\$M	2011 HK\$M (Restated)
Turnover		
Swire Resources group	3,584	2,914
Taikoo Motors group	5,763	5,336
Taikoo Sugar	738	732
Other subsidiary companies	3	–
	10,088	8,982
Operating profits/(losses)		
Swire Resources group	182	192
Taikoo Motors group	120	121
Taikoo Sugar	7	(2)
Swire Pacific Cold Storage group	(24)	(17)
Other subsidiary companies and central costs	(14)	(16)
	271	278
Attributable profits/(losses)		
Swire Resources group*	143	149
Taikoo Motors group	87	93
Taikoo Sugar	3	(3)
Swire Pacific Cold Storage group^	(22)	(18)
Other subsidiary companies and central costs	(14)	(12)
	197	209
Share of post-tax profits/(losses) from jointly controlled companies		
Swire Resources group	3	2
Campbell Swire	(82)	(69)
Swire Pacific Cold Storage group	3	–
Akzo Nobel Swire Paints	138	130
Other jointly controlled companies	(6)	–
	56	63
Attributable profit (excluding profit on sale of interest in PUMA)		
Profit on sale of interest in PUMA	247	270
	–	148
Attributable profit	247	418

* Including post-tax profits from a jointly controlled company within the Swire Resources group shown below.

^ Including post-tax profits from a jointly controlled company within the Swire Pacific Cold Storage group shown below.



Swire Resources holds the exclusive distributorship for luxury French shoe brand, Repetto, in Hong Kong.

INDUSTRY BACKGROUND

Retailing in Mainland China and Hong Kong

The growth of retail sales slowed in Hong Kong and Mainland China in 2012. More visitors came to Hong Kong from Mainland China but they spent less. The slowdown in Mainland China was in line with the Mainland China economy generally.

Car Sales in Taiwan and Hong Kong

Car registrations in Taiwan decreased by 4% to 360,481 units in 2012. Car registrations in Hong Kong increased by 3% to 36,837 units in 2012.



Swire Resources opened Cath Kidston's first Hong Kong store in Causeway Bay.



GigaSports' ten superstores in Hong Kong sell a wide range of sports footwear, apparel and accessories.

Sugar Sales in Mainland China and Hong Kong

The total amount of sugar sold in Mainland China increased by 3% to 30,864 million pounds in 2012. Sugar sales in Hong Kong in 2012 were little changed, at approximately 331 million pounds.

Soup Market in Mainland China

Ready to consume soups and broths are a new concept in Mainland China, which has high consumption per capita of home-made soup. The Trading & Industrial Division is investing in this industry as it believes that the development of a commercial soup market in Mainland China represents a good business opportunity.

Cold Storage in Mainland China

There are concerns about the safety and quality of food in Mainland China. Foreign investment in the cold storage industry is welcomed. The Trading & Industrial Division is investing in this industry accordingly.

Paint Market in Mainland China and Hong Kong

Total sales of decorative paints in Mainland China increased by 2% to 2,636 million litres in 2012, reflecting a small increase in residential property construction and in demand for decorative paints. In Hong Kong, decorative paint sales fell 11% to 12 million litres in 2012, reflecting a reduction in residential property construction.

2012 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2012 decreased by 41% to HK\$247 million. Excluding the gain of HK\$148 million on disposal of the Group's interest in PUMA in January 2011, attributable profit decreased by 9% or HK\$23 million. The decrease principally reflected weaker results from Swire Resources and Taikoo Motors, increased losses from Campbell Swire and costs associated with new business development.

Swire Resources Group

Excluding the gain on disposal of the Group's interest in PUMA in 2011, attributable profit decreased by 4% in 2012 to HK\$143 million. Results from the distribution of Columbia products were good. However, the effect of this was more than offset by expenditure on developing the new Chevignon business and higher occupancy and staff costs.

Turnover in Hong Kong was 22% higher than in 2011. Retail sales benefited from demand from visitors from Mainland China and the new Chevignon business. Gross margins remained broadly the same as in 2011. Higher occupancy and staff costs reduced net margins.

Turnover increased by 31% in Mainland China. This principally reflected increased sales of Columbia and Chevignon products. Gross margins declined because lower margin wholesale sales accounted for a higher proportion of total sales and there were more promotions and discounting.

Taikoo Motors Group

Attributable profit in 2012 was HK\$87 million, compared to HK\$93 million in 2011. This decrease in attributable profit reflected weaker results from the retail business and the costs of developing a new commercial vehicles business in Hong Kong and a new dealership business in Mainland China.

Turnover increased by 8% in 2012. This principally reflected higher sales of cars and commercial vehicles, particularly in Taiwan. The FIAT and Alfa Romeo businesses in Hong Kong did well. Gross margins improved because of a favourable product mix.

Taikoo Motors sold 17,441 cars and commercial vehicles in 2012, 8% more than in 2011.

Volkswagen passenger car sales in Taiwan increased by 2% in 2012 to 10,547 units.



Volkswagen passenger car sales in Taiwan increased by 2% in 2012 to 10,547 units.

1,943 Škoda cars were sold in Taiwan in 2012, compared with 2,047 in 2011.

Taikoo Motors took responsibility for sales of FIAT and Alfa Romeo passenger cars in Hong Kong in the second half of 2011. 236 cars were sold in that year. 687 cars were sold in 2012.

2,401 Volkswagen light commercial vehicles were sold in Taiwan in 2012, 16% more than in 2011.

Sales of Volvo commercial vehicles in Taiwan increased by 46% compared to 2011. 362 Volvo trucks and buses were sold in the year.

In April 2012, Taikoo Motors started to assemble Volvo trucks in Taiwan. 220 Volvo trucks were assembled in the year.

Sales of Volvo trucks started in Hong Kong in June 2012. 132 Volvo trucks were sold in the year.

Sales of Harley-Davidson motorcycles continued to grow. 504 motorcycles were sold in Taiwan in 2012, an increase of 1% from 2011.

Sales of Vespa scooters started in Taiwan in April 2011. 1,507 scooters were sold in that year. In 2012, 1,886 scooters were sold.

At the end of 2012, Taikoo Motors operated 22 showrooms and 16 service centres in Taiwan and two showrooms and two service centres in Hong Kong.



Taikoo Motors was appointed sole distributor of Volvo commercial vehicles in Hong Kong in 2012.

Swire Foods

Taikoo Sugar

Taikoo Sugar reported an attributable profit of HK\$3 million in 2012, compared with a loss of HK\$3 million in 2011.

Taikoo Sugar sold 17.2 million pounds of sugar to retail and catering users in Hong Kong, an increase of 6% compared with 2011. In Mainland China, Taikoo Sugar sold 28.1 million pounds of sugar in 2012, an increase of 8% compared with 2011. The increase reflected expansion of the distribution network in Mainland China. Turnover in Mainland China was 24% higher than in 2011, reflecting both volume and price increases. Margins benefited from a decrease in average sugar costs. Taikoo Sugar sold sugar in 102 cities in Mainland China at the end of 2012. In order to expand the business in Mainland China, a third plant (in Chengdu) will start operations shortly.

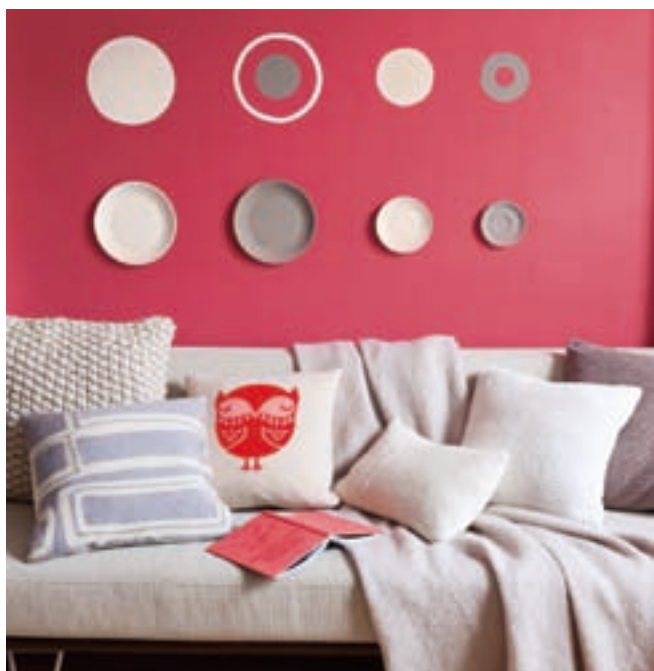
Campbell Swire

The joint venture with The Campbell Soup Company manufactures, sells and distributes soup and broth products in Mainland China under the Campbell's and Swanson brands. Initial volume growth has been slow, as might be expected for what is a new concept in Mainland China. An attributable loss of HK\$82 million was recorded in 2012. This was in line with expectations.

Swire Pacific Cold Storage Group

Swire Pacific Cold Storage recorded an attributable loss of HK\$22 million in 2012 compared to a loss of HK\$18 million in 2011. This principally reflected the costs of developing new cold stores in Shanghai and Hebei. These costs were partly offset by an attributable profit of HK\$3 million from the 60% interest in Guangdong Swire Cold Chain Logistics Co. Ltd. which was acquired in September 2012.

Swire Resources' sales staff are trained using an in-house "Retail Academy" programme. The programme is customised by reference to brands (including their characteristics and desired positioning), retail chains and target customers.



Akzo Nobel Swire Paints manufactures and distributes decorative paints in Mainland China and Hong Kong.

Akzo Nobel Swire Paints

Attributable profit for 2012 was HK\$138 million, compared to HK\$130 million in 2011.

Sales volume in Mainland China grew by 12% from 2011. Lower average material costs resulted in increased gross margins. But the beneficial effect of this was partially offset by higher operating costs, in particular, staff and selling and distribution costs. Akzo Nobel Swire Paints distributed paint in 603 cities in Mainland China at the end of 2012.

OUTLOOK

The outlook for Swire Resources in 2013 depends principally on the growth of retail sales in Hong Kong and the performance

of the Columbia wholesale business in Mainland China. The outlook for retail sales in Hong Kong will depend on the growth in the number of visitors to Hong Kong from Mainland China. In any event, increased staff and rental costs are likely to put pressure on profit margins.

The outlook for Taikoo Motors depends principally on the economic outlook for Taiwan and its effect on the sales of cars and commercial vehicles. The Volkswagen group plans to set up a national sales company in Taiwan. There will be a transitional period up to the end of 2014 (subject to fulfilment of certain conditions) for Taikoo Motors to cease to be the Volkswagen importer in Taiwan. Taikoo Motors will focus on the development of its dealer network and other motor-related businesses in Taiwan and elsewhere in Asia. It will also continue to seek to broaden its geographical coverage by developing businesses in Mainland China and Malaysia. The costs of developing sales and of expanding showrooms are expected to increase.

Swire Foods intends to start selling hot cereals and dried fruits.

Taikoo Sugar is increasing the number of cities in which it sells its products in Mainland China and expects to increase the volume of sales in 2013.

Campbell Swire will increase the number of products which it sells and expects solid but gradual growth in retail and catering sales.

Swire Pacific Cold Storage will be principally engaged in constructing its four new cold stores in Mainland China and in acquiring suitable sites for more cold stores in Mainland China.

Akzo Nobel Swire Paints expects to continue to expand its network in Mainland China in 2013.

The results of the division as a whole are likely to continue to be affected by the cost of new business development.

J B Rae-Smith