



Columbia
Sportswear Company



TRADING & INDUSTRIAL DIVISION

Maximising Brand Potential

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



OVERVIEW OF THE BUSINESS

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

- Swire Resources group
- Taikoo Motors group
- Swire Foods group
- Swire Pacific Cold Storage group
- Akzo Nobel Swire Paints
- Swire Sustainable Business group

- Swire Resources group – distribution and retailing of sports and casual footwear and apparel in Hong Kong, Macau and Mainland China
- Taikoo Motors group – distribution and retailing of motor vehicles in Taiwan, Hong Kong, Mainland China and Malaysia
- Swire Foods group:
 - (i) Taikoo Sugar – packaging and selling sugar in Hong Kong and Mainland China
 - (ii) Campbell Swire – distribution of soup and broth products in Mainland China
 - (iii) Swire Foods – sale of hot cereal products and distribution of sugar in Mainland China
- Swire Pacific Cold Storage group – provision of cold storage, warehousing and logistics services in Mainland China
- Akzo Nobel Swire Paints – manufacture and distribution of paint in Mainland China and Hong Kong
- Swire Sustainable Business group:
 - (i) Swire Waste Management – provision of waste management services in Hong Kong
 - (ii) Swire Sustainability Fund – investment in clean and early-stage sustainable technology companies



SWIRE RESOURCES GROUP

Swire Resources retails and distributes sports and casual footwear, apparel and related accessories. It operates 180 retail outlets in Hong Kong and Macau and 146 retail outlets in Mainland China. There are 232 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, 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, Alfa Romeo and Jeep passenger cars, and Volvo, UD and Renault trucks. It commenced the distributorship of Volkswagen cars in Shanghai and Fuzhou in Mainland China and in Puchong in Malaysia in late 2013.



distributing sugar and soup and broth products on behalf of Taikoo Sugar and Campbell Swire respectively in Mainland China from the second half of 2013.



SWIRE PACIFIC COLD STORAGE GROUP

Swire Pacific Cold Storage owns a 60% equity interest in a company which operates cold storage facilities in Guangzhou. It also owns land in Shanghai, Hebei, Nanjing and Ningbo on which cold storage facilities are under construction. Two cold storage facilities are expected to be completed in 2014, with a further two to be completed in 2015.

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 FOODS GROUP

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 three 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.

Campbell Swire

Campbell Swire is a joint venture with The Campbell Soup Company which distributes soup and broth products in Mainland China under the Campbell's and Swanson brands. Swire Foods has a 40% interest in the venture.

Swire Foods

Swire Foods began selling hot cereal products in Mainland China in May 2013. These are distributed to supermarkets in Guangzhou and Shanghai under the Taikoo brand. Swire Foods also began

SWIRE SUSTAINABLE BUSINESS GROUP

Swire Waste Management

Swire Waste Management is a 50:50 joint venture with a subsidiary of Waste Management Inc. The joint venture seeks waste management contracts in Hong Kong. It has a contract to provide waste management services to seven outlying islands.

Swire Sustainability Fund

The Swire Sustainability Fund owns minority equity interests in two sustainable technology companies. Green Biologics is a biotechnology company which is developing renewable chemical and biofuel technology. NanoSpun Technologies is a company which is developing a water treatment process using nanotechnology.

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, including by expanding the range and quality of those branded goods and by increasing the number of retail outlets operated by Swire Resources.
- Strengthening the capability of Taikoo Motors in the import and distribution of motor vehicles, including by selective additions to 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 and strengthening the distribution network and sales channels of Akzo Nobel Swire Paints in Mainland China.
- Increasing the number of waste management contracts awarded to Swire Waste Management.
- Making more investments in early stage sustainable technology companies.

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.

2013 Performance

Number of Retail Outlets

+17

Number of Brands Sold

unchanged

Expansion into New Cities

+2

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 maintain or 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.

2013 Performance

Vehicles Sold

-4%

Sugar Sold

unchanged

Revenue

-1%

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.

2013 Performance

Gross Margin

+2% pts

Operating Costs

+9%

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.

2013 Performance

Average Training Hours*

+26%

Staff Turnover

+9% pts

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

2013 PERFORMANCE

Financial Highlights

	2013 HK\$M	2012 HK\$M
Turnover		
Swire Resources group	3,896	3,584
Taikoo Motors group	5,322	5,763
Swire Foods group	726	738
Other subsidiary companies	–	3
	9,944	10,088
Operating profits/(losses)		
Swire Resources group	214	180
Taikoo Motors group	90	122
Swire Foods group	13	7
Swire Pacific Cold Storage group	(39)	(24)
Other subsidiary companies and central costs	(18)	(14)
	260	271
Attributable profits/(losses)		
Swire Resources group	142	141
Taikoo Motors group	57	89
Swire Foods group	7	3
Campbell Swire	(125)	(82)
Swire Pacific Cold Storage group	(31)	(22)
Akzo Nobel Swire Paints	206	138
Swire Waste Management	(1)	(6)
Other subsidiary companies and central costs	(18)	(14)
Attributable profit	237	247

Sustainable Development Highlights

	2013	2012
Average training hours (Per employee per year)	15.6	12.4
Staff turnover	74%	65%
LTIR	0.99	1.72

Notes:

- Swire Pacific has implemented the revised HKAS19: Employee Benefits (effective from 1st January 2013), which requires retrospective application. As a result, the 2012 full-year comparative results for the division have been restated from those in the Group's 2012 full-year statutory accounts.
- Please refer to pages 239 to 242 for further sustainable development statistics.

INDUSTRY BACKGROUND

Retailing in Mainland China and Hong Kong

Hong Kong retail sales grew moderately in 2013. More visitors came to Hong Kong from Mainland China. The growth of retail sales slowed in Mainland China in 2013. More international brands have entered both markets. This has resulted in greater competition.

Car Sales in Taiwan, Hong Kong, Mainland China and Malaysia

Car registrations in Taiwan increased by 4% to 375,237 units in 2013. Car registrations in Hong Kong increased by 9% to 40,261 units in 2013. Car registrations in Mainland China increased by 16% to 17,928,900 units in 2013. Car registrations in Malaysia increased by 4% to 573,984 units in 2013.

Sugar Sales in Mainland China and Hong Kong

The total amount of sugar sold in Mainland China remained broadly the same as in 2012 at 30,864 million pounds in 2013. Sugar sales in Hong Kong in 2013 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.

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. Accordingly the Trading & Industrial Division is investing in this industry.



To manage Swire Resources' diverse portfolio of brands, tailor-made training programmes have been developed to cater to the needs of newer brands such as Cath Kidston, Repetto and Chevignon. Customer service and product training were modified to suit different brand characteristics. Staff working with overseas brands were given classes in English and Mandarin.

Paint Market in Mainland China and Hong Kong

Total sales of decorative paints in Mainland China increased by 3% to 2,715 million litres in 2013, reflecting a small increase in residential property construction and in demand for decorative paints. In Hong Kong, decorative paint sales fell 13% to 10 million litres in 2013, reflecting a reduction in residential property construction.

Waste Management Market in Hong Kong

The municipal solid waste generated per capita in Hong Kong has increased by 88% in the past decade. The Hong Kong Government aims to reduce Hong Kong's per capita municipal solid waste disposal by 20% by 2017.



Swire Resources has extensive retail and wholesale interests in sports and lifestyle footwear and apparel.

2013 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2013 decreased by 4% to HK\$237 million. The decrease principally reflected weaker results from Taikoo Motors and Campbell Swire and costs associated with developing the Swire Pacific Cold Storage business. This was partly offset by a much better result from Akzo Nobel Swire Paints. Swire Resources' results were similar to those of 2012.

Swire Resources Group

Attributable profit increased by 1% in 2013 to HK\$142 million. Results from the operations of the multibrand business in Hong Kong were good. However, the effect of this was partly offset by higher occupancy and staff costs in Hong Kong and Mainland China.

Turnover in Hong Kong and Macau was 12% higher than in 2012. Retail sales benefited from demand from visitors from Mainland China. Gross margins improved due to less discounting, but operating costs, in particular occupancy and staff costs, continued to increase. The group managed 180 retail outlets in Hong Kong and Macau at the end of 2013, five more than at the end of 2012.

Turnover increased by 4% in Mainland China. This principally reflected more sales of Columbia products. Gross margins improved due to less discounting of those products. Higher occupancy and staff costs reduced net margins. The number of retail outlets operated in Mainland China increased by 12 to 146 at the end of 2013.

With effect from 1st January 2014, Swire Resources' Columbia distributorship in Mainland China was replaced by a joint venture with Columbia, in which Swire Resources holds a 40% interest.



Cath Kidston has become a popular brand in Hong Kong, offering accessories, homeware and womenswear in its trademark colourful prints.



Taikoo Motors opened new Volkswagen dealerships in Mainland China and Malaysia in 2013.

Taikoo Motors Group

Attributable profit in 2013 was HK\$57 million, compared to HK\$89 million in 2012. This decrease in attributable profit reflected a decrease in the number of vehicles sold and the costs of developing new dealership businesses in Mainland China and Malaysia.

Turnover decreased by 8% in 2013. This principally reflected a reduction in the number of passenger cars sold in Taiwan following a product recall. Gross margins improved, mainly due to a better sales mix, reflecting more sales of light commercial vehicles.

Taikoo Motors sold 14,522 cars and commercial vehicles in 2013, 17% less than in 2012.

At the end of 2013, Taikoo Motors operated 21 showrooms and 15 service centres in Taiwan, two showrooms and two service centres in Hong Kong, two showrooms in Mainland China and one showroom in Malaysia.

TAIWAN

Volkswagen passenger car sales fell by 29% in 2013 to 7,503 units. 1,818 Škoda cars were sold in 2013, 6% less than in 2012.

2,638 Volkswagen light commercial vehicles were sold in 2013, 10% more than in 2012. In February 2013, Taikoo Motors began assembling Volkswagen light commercial vehicles. 213 Volkswagen light commercial vehicles were assembled in the year.

447 Volvo trucks and buses were sold in 2013, 23% more than in 2012. 422 Volvo and UD trucks were assembled in 2013, compared with 220 in 2012.

Sales of Harley-Davidson motorcycles and Vespa scooters continued to grow. 573 motorcycles and 3,898 scooters were sold in 2013, increases of 14% and 107% respectively from 2012.

HONG KONG

330 Fiat and Alfa Romeo cars were sold in 2013, a decrease of 52% compared with 2012. 317 Volvo and UD trucks were sold in the year, compared with 132 in 2012.

MAINLAND CHINA

Sales of Volkswagen passenger cars in Shanghai started in September 2013. 37 cars were sold.

MALAYSIA

Taikoo Motors began selling Volkswagen passenger cars in Malaysia in November 2013. 43 cars were sold.

Swire Foods Group

SWIRE FOODS (INCLUDING TAIKOO SUGAR)

Swire Foods (including Taikoo Sugar) reported an attributable profit of HK\$7 million in 2013, compared with a profit of HK\$3 million in 2012.

Taikoo Sugar sold 183 million pounds of sugar to retail, catering and bulk users in Hong Kong, a decrease of 2% from 2012. In Mainland China, Swire Foods and Taikoo Sugar sold 32 million pounds of sugar in 2013, an increase of 14% compared with 2012. Swire Foods and Taikoo Sugar sold sugar in 107 cities in Mainland China at the end of 2013. Swire Foods began distributing sugar on behalf of Taikoo Sugar and soup and broth products on behalf of Campbell Swire during the year.

A third sugar packaging plant in Chengdu started operations in September 2013. Taikoo Sugar has a 34% interest in a joint venture to build and operate a sugar refinery in Guangdong. Construction of the refinery will commence later in the first half of 2014, with operations expected to commence in mid-2015.

CAMPBELL SWIRE

An attributable loss of HK\$125 million was recorded in 2013, compared with a loss of HK\$82 million in 2012.

Campbell Swire sold 204,000 cases of soup and broth products in 2013, a decrease of 13% from 2012. The increased loss was mainly due to an impairment provision on the joint venture's production facilities.

Swire Pacific Cold Storage Group

Swire Pacific Cold Storage recorded an attributable loss of HK\$31 million in 2013 compared to a loss of HK\$22 million in 2012. The loss principally reflects the costs of developing new cold stores in Shanghai, Hebei, Nanjing and Ningbo. These costs were partly offset by an attributable profit of HK\$8 million from the 60% interest in Guangdong Swire Cold Chain Logistics Co. Ltd., where performance was in line with expectations.

Construction of the new cold storage facilities is in progress. The Shanghai and Hebei facilities are expected to be completed in the second half of 2014. The Nanjing and Ningbo facilities are expected to be completed in 2015. The capital commitments of the Swire Pacific Cold Storage group at 31st December 2013 were HK\$2,015 million.

Akzo Nobel Swire Paints

The attributable profit for 2013 was HK\$206 million, compared to HK\$138 million in 2012.

Sales volume in Mainland China grew by 3% from 2012. A favourable product mix and lower raw material costs resulted in higher gross margins. The beneficial effect of this was partially offset by higher operating costs, in particular staff and advertising costs. Akzo Nobel Swire Paints distributed paint in approximately 600 cities in Mainland China at the end of 2013.



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

Swire Waste Management

The attributable loss for 2013 was HK\$1 million, compared to a loss of HK\$6 million in 2012. The operating profit from the company's waste management contract (which commenced in March 2013) was more than offset by administrative costs and tender costs for new projects.

Sustainable Development

Training hours per employee in 2013 increased by 26% to 15.6 compared with 2012. A number of training courses were offered with a view to improving the knowledge and performance of staff and increasing retention rates.

Staff turnover rates in 2013 increased by 9% points to 74% compared with 2012.

Lost time injury rates decreased by 42% to 0.99 in 2013. This reflected fewer injuries, in particular at Swire Resources. Swire Resources organised a safety competition for its retail, warehouse and transport staff in order to raise awareness of and improve safety standards.

OUTLOOK

The 2014 profits of Swire Resources will be adversely affected by the replacement of the Columbia Mainland China distributorship by a joint venture and by the increased costs of developing the Chevignon brand and multibrand stores in Mainland China. The retail market in Hong Kong will continue to be highly competitive. Increased staff and occupancy 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 and Škoda groups plan to set up a national sales company in Taiwan. There will be a transitional period up to the end of 2014 at the end of which Taikoo Motors will cease to be the Volkswagen and Škoda importer in Taiwan. Taikoo Motors will focus on developing its Volkswagen and Škoda dealer network and its other motor-related businesses. The costs of developing and expanding showrooms are expected to increase.

Swire Foods intends to start selling dried fruits and rice-based dairy dessert products. Swire Foods has formed a joint venture with Mövenpick to distribute premium coffee products in Hong Kong and Mainland China.

Taikoo Sugar expects moderate growth in sales volume in 2014.

Campbell Swire continues to explore ways to contain costs. The joint venture will close its production facilities in the first half of 2014 and outsource production to Swire Beverages and third parties. The business remains challenging.

Swire Pacific Cold Storage's Shanghai and Hebei cold storage facilities will commence operations in the second half of 2014. The other two new cold stores in Nanjing and Ningbo will remain under construction during 2014. It is intended to acquire suitable sites for more cold stores in Mainland China.

Akzo Nobel Swire Paints expects to continue to expand and strengthen its distribution network and sales channels in Mainland China in 2014. It is intended to acquire a site in Chengdu in 2014 to build a fourth plant in Mainland China.

Swire Waste Management intends to submit bids for more government contracts in Hong Kong.

The Swire Sustainability Fund will continue to seek attractive investment opportunities.

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

JB Rae-Smith