



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 companies:

SWIRE RETAIL GROUP

Swire Resources group

Swire Resources retails and distributes footwear, apparel and related accessories. At 31st December 2014, it operated 184 retail outlets in Hong Kong and Macau and 65 retail outlets in Mainland China. Of these, 146 are single brand outlets and 103 are multi-brand outlets, the latter operating under the Marathon Sports, GigaSports, Catalog, d2r and Actif names.

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

Swire Brands group

Swire Brands makes investments in brand-owning companies. It has an associate interest in a joint venture with Columbia, which distributes and retails Columbia products in Mainland China. In June 2014, Swire Brands acquired a 9.4% minority interest in Rebecca Minkoff, which sells apparel, handbags and accessories.



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 of Volvo, UD and Renault trucks. It is a distributor of Volkswagen cars in Shanghai and Fuzhou in Mainland China and in Puchong in Malaysia.



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 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 acquired a 65% interest in Chongqing New Qinyuan Bakery Co. Ltd ("Qinyuan Bakery") in December 2014. The business is a leading bakery chain in southwest China, with over 460 stores in Chongqing, Guiyang and Chengdu.



SWIRE PACIFIC COLD STORAGE GROUP

Swire Pacific Cold Storage owns a 60% equity interest in a company which has operated cold storage facilities in Guangzhou since 2008 and wholly owns cold storage facilities in Shanghai and Hebei, which started operating in 2014. It owns land in Nanjing and Ningbo on which cold storage facilities are being built, with completion expected 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 SUSTAINABLE BUSINESS GROUP

Swire Sustainability Fund

The Swire Sustainability Fund invests in early-stage companies developing technologies (in the renewable energy, water treatment and reusable and environmentally-friendly packaging sectors) of relevance to the Group's sustainability aims. It owns an associate interest in Green Biologics and

minority equity interests in NanoSpun Technologies and Avantium. 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. Avantium is a biotechnology company that develops and commercialises bioplastics and chemicals.

Swire Waste Management

Swire Waste Management is a 50:50 joint venture with a subsidiary of Waste Management Inc. The joint venture, which commenced business in 2011, seeks waste management contracts in Hong Kong. It is contracted to provide waste management services to seven outlying islands.

STRATEGY

The strategic objective of the Trading & Industrial Division is to expand the trading and industrial businesses which it operates and to seek new business opportunities in related fields where advantage can be taken of existing skills, assets or relationships. The strategies employed in order to achieve this objective are these:

- Strengthening the capability of Swire Resources in branded footwear, apparel and related accessories, particularly in the Greater China region, by expanding the range and quality of those branded goods and by increasing the number of retail outlets operated by Swire Resources.
- Investing selectively in brand-owning companies through Swire Brands.
- Strengthening the capability of Taikoo Motors in the import and distribution of motor vehicles, including by selective additions to brands represented.
- Using Taikoo Motors' existing capability in order to expand into other motor-related businesses and markets in Asia.
- Increasing the volume and broadening the range of products sold by Swire Foods.
- Further expanding the network of the cold storage business in Mainland China in order to improve operating efficiency and customer service and thereby to acquire new customers.
- 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.

2014 PERFORMANCE

Financial Highlights	2014 HK\$M	2013 HK\$M
Revenue		
Swire Retail group	3,020	3,896
Taikoo Motors group	6,706	5,322
Swire Foods group	795	726
Swire Pacific Cold Storage group	3	–
	10,524	9,944
Operating profits/(losses)		
Swire Retail group	58	211
Taikoo Motors group	270	90
Swire Foods group	24	13
Swire Pacific Cold Storage group	(79)	(39)
Swire Sustainable Business group	1	–
Other subsidiary companies and central costs	(25)	(15)
	249	260
Attributable profits/(losses)		
Swire Retail group	82	139
Taikoo Motors group	213	57
Swire Foods group	15	7
Campbell Swire	(14)	(125)
Swire Pacific Cold Storage group	(73)	(31)
Akzo Nobel Swire Paints	230	206
Swire Sustainable Business group	(5)	(1)
Other subsidiary companies and central costs	(25)	(15)
Attributable profit	423	237

Sustainable Development Highlights

	2014	2013
Average training hours (per employee per year)	15.7	15.6
Staff turnover	65%	74%
LTIR	1.35	0.99

INDUSTRY BACKGROUND

Retailing in Mainland China and Hong Kong

Hong Kong retail sales grew modestly in 2014, but were adversely affected by Occupy Central in the fourth quarter. The growth in retail sales in Mainland China slowed in 2014. 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 12% to 419,834 units in 2014. Car registrations in Hong Kong increased by 3% to 41,597 units in 2014. Car registrations in Mainland China increased by 10% to approximately 19.7 million units in 2014. Car registrations in Malaysia increased by 2% to 588,341 units in 2014.

Sugar sales in Mainland China and Hong Kong

The total amount of sugar sold in Mainland China fell by 1% to 30,424 million pounds in 2014. Sugar sales in Hong Kong in 2014 were unchanged.



Left | Swire Resources began to franchise the rights to operate Catalog stores in Mainland China.



Right | Taikoo Motors is the principal importer and distributor of Volvo trucks in Taiwan, Hong Kong and Macau.

Food sales in Mainland China

The packaged food market in Mainland China is estimated to have grown by 9% in 2014. Consumers want high quality products, healthy and increasingly organic products and convenience products. Internet sales of food are growing.

Cold storage in Mainland China

Demand for frozen food is increasing. This is increasing demand for cold storage facilities.

Paint market in Mainland China and Hong Kong

Total sales of decorative paints in Mainland China increased by 3% to 2,789 million litres in 2014. In Hong Kong, decorative paint sales increased by 3% to 11 million litres in 2014, reflecting a small increase in residential property transactions.

Waste management market in Hong Kong

The municipal solid waste generated per capita in Hong Kong has increased by 80% in the past 30 years. The Hong Kong

Government is committed to developing further waste disposal and treatment facilities.

2014 RESULTS SUMMARY

Attributable profit from the Trading & Industrial Division in 2014 increased by 78% to HK\$423 million. The increase principally reflects better results from Taikoo Motors and Akzo Nobel Swire Paints and reduced losses from Campbell Swire. These improvements were partly offset by weaker results from the Swire Retail group and costs associated with developing the Swire Pacific cold storage business.

Swire Retail group

Attributable profit decreased by 41% in 2014 to HK\$82 million. The decrease principally reflected the replacement of Swire Resources' Columbia distributorship by an interest, with Columbia, in an associated company from 1st January 2014.

Revenue in Hong Kong and Macau was 12% higher than in 2013. Retail sales benefited from demand from visitors from Mainland China. Gross margins improved

due to less discounting. Operating costs, in particular occupancy and staff costs, increased. The group managed 184 retail outlets in Hong Kong and Macau at the end of 2014, four more than at the end of 2013.

Revenue decreased by 88% in Mainland China. Disregarding the Columbia business, revenue was 8% higher than in 2013. Gross margins declined due to discounting of Rockport products (the distribution of which ceased at the end of the year). Lower inventory provisions for slow moving stock and lower advertising costs were partly offset by higher occupancy and staff costs. The number of retail outlets operated in Mainland China (excluding those occupied by the Columbia business) decreased by six to 65 at the end of 2014. 12 Rockport stores were closed.

The performance of the new Columbia China associated company was satisfactory.

Taikoo Motors group

Attributable profit in 2014 was HK\$213 million, compared to HK\$57 million in 2013. The increase principally reflected higher sales volume and the release of provisions for dealer incentives in Taiwan.

Swire Pacific Cold Storage opened cold storage facilities in Fengxian, Shanghai and Langfang (in Hebei) in 2014.



Computer rendering of Swire Pacific Cold Storage in Shanghai

Revenue increased by 26% in 2014, mainly due to an increase in the number of vehicles sold. In total, 25,679 cars, commercial vehicles and motorcycles were sold in 2014, 35% more than in 2013. Gross margins improved, mainly due to the release of provisions for dealer incentives before termination of the Volkswagen and Škoda importerships in Taiwan at the end of the year and a better sales mix. These beneficial effects on gross margins were partly offset by the cost of developing new dealerships in Mainland China and Malaysia.

Taiwan

Sales of passenger cars and light commercial vehicles increased by 27% compared with 2013, to 15,224 units. Sales of commercial vehicles increased by 30%. Sales of motorcycles and scooters increased by 48%. 632 vehicles were assembled. A similar number were assembled in 2013.

Hong Kong

234 Fiat and Alfa Romeo passenger cars and light commercial vehicles were sold in 2014, a decrease of 29% compared with 2013. The group started to sell Jeep passenger cars in January 2014; 148 units were sold in 2014. 568 commercial vehicles were sold, an increase of 79% compared with 2013.

Mainland China

414 Volkswagen passenger cars were sold in Shanghai and Fuzhou.

Malaysia

299 Volkswagen passenger cars were sold in Malaysia.

Swire Foods group

Swire Foods (including Taikoo Sugar)

Swire Foods (including Taikoo Sugar) reported an attributable profit of HK\$15 million in 2014, compared with a profit of HK\$7 million in 2013.

Swire Foods acquired a 65% interest in Qinyuan Bakery in December 2014 for HK\$749 million. The remaining equity will be acquired in 2017 if certain conditions are met. Attributable profit in 2014 (following the acquisition) was HK\$7 million.

Volumes of sugar sold in Hong Kong and Mainland China decreased by 8% and increased by 19% respectively. The costs associated with developing new businesses increased.

Campbell Swire

An attributable loss of HK\$14 million was recorded in 2014, compared with a loss of HK\$125 million in 2013.

Sales volume of soup and broth products increased by 2% in 2014. The joint venture closed its production facilities and outsourced production to Swire Beverages during the year.

Swire Pacific Cold Storage group

Swire Pacific Cold Storage recorded an attributable loss of HK\$73 million in 2014 compared to a loss of HK\$31 million in 2013. The 2014 loss principally reflected the cost of developing new cold stores in Shanghai, Hebei, Nanjing and Ningbo. These costs were partly offset by an attributable profit of HK\$10 million from the 60% interest in Guangdong Swire Cold Chain Logistics Co. Ltd., where performance was in line with expectations.

The Shanghai and Hebei facilities were completed in the second half of 2014 and started to operate. The Nanjing and Ningbo facilities are expected to be completed later in 2015.

Swire Pacific Cold Storage acquired land in Chengdu in September 2014. A sixth cold storage facility will be built on this land. It is expected to start operating in 2016.

The capital commitments of the Swire Pacific Cold Storage group at 31st December 2014 were HK\$1,284 million.



Akzo Nobel Swire Paints

The attributable profit for 2014 was HK\$230 million, compared to HK\$206 million in 2013.

Sales volume in Mainland China grew by 9% from 2013. Gross margins were in line with those of 2013. Akzo Nobel Swire Paints distributed paint in approaching 600 cities in Mainland China at the end of 2014, a similar number to 2013.

In Hong Kong, attributable profit increased by 69% to HK\$6 million in 2014. Sales volume grew by 3%. Operating expenses were lower.

Swire Sustainability Fund

Swire Sustainability Fund's attributable loss for 2014 was HK\$7 million. This reflected the group's attributable loss from Green Biologics, which became an associated company in December 2014. The fund's other investments are accounted for at cost.

Swire Waste Management

The attributable profit of Swire Waste Management for 2014 was HK\$2 million, compared to a loss of HK\$1 million in 2013. The operating profit from a waste management contract was partly offset by administrative costs and tender costs for new projects.



Swire Pacific Cold Storage's new facility in Shanghai, which opened in 2014, achieved Leadership in Energy & Environmental Design Platinum certification. This is the green building certification programme's highest rating. The facility has LED lighting and geothermal heating and recycles rain.

Sustainable Development

Average training hours per employee in 2014 increased by 1% to 15.7 compared with 2013.

Staff turnover rates in 2014 decreased by 9 percentage points to 65% compared with 2013. This principally reflected lower staff turnover at Taikoo Motors.

Lost time injury rates increased by 36% to 1.35 in 2014. This reflected an increase in the number of minor injuries, in particular at Swire Resources.

OUTLOOK

Swire Resources will continue to seek more distributorships of international brands in Hong Kong and Mainland China. The costs of developing the multibrand stores in Mainland China are expected to increase. The retail market in Hong Kong will remain highly competitive. Increased staff and occupancy costs are likely to put pressure on profit margins. Swire Brands will continue to seek attractive investment opportunities.

Taikoo Motors expects sales of vehicles to decrease in 2015 as a result of the termination of the Volkswagen and Škoda importerships in Taiwan at the end of 2014. Taikoo Motors will continue to develop its Volkswagen, Škoda and other dealerships

and its other motor-related businesses. The costs of developing and expanding showrooms and workshops are expected to increase. Taikoo Motors started selling Mercedes-Benz passenger cars in Kaohsiung, Taiwan in 2015.

The 2015 profits of Swire Foods are expected to grow as a result of the inclusion of a full year's results of Qinyuan Bakery. The construction of a new factory in Chongqing is expected to be completed later in 2015. A joint venture with Mövenpick will start to distribute coffee in Mainland China later in 2015.

Taikoo Sugar expects moderate sales growth in 2015. Its 34% owned sugar refinery in Guangdong is expected to start operating in late 2015.

Akzo Nobel Swire Paints expects to continue to expand and strengthen its distribution network and sales channels in Mainland China. Construction of a fourth plant (in Chengdu) has started. It is expected to start operating in 2016.

The overall results of the Trading & Industrial Division are expected to be adversely affected by the cost of new business development.

J B Rae-Smith