

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31st December 2014, which are set out on pages 133 to 222.

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, joint venture and associated companies are shown on pages 212 to 222. An analysis of the Group's performance for the year by reportable business segment and geographical area is set out in note 7 to the financial statements.

DIVIDENDS

The Directors have declared second interim dividends of HK\$2.80 per 'A' share and HK\$0.56 per 'B' share which, together with the first interim dividends of HK\$1.10 per 'A' share and HK\$0.22 per 'B' share paid in October 2014, amount to full year dividends of HK\$3.90 per 'A' share and HK\$0.78 per 'B' share, compared to full year dividends of HK\$3.50 per 'A' share and HK\$0.70 per 'B' share in respect of 2013. The second interim dividends will be paid on 8th May 2015 to shareholders registered at the close of business on the record date, being Friday, 17th April 2015. Shares of the Company will be traded ex-dividend from Wednesday, 15th April 2015.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed on Friday, 17th April 2015, 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, 16th April 2015.

To facilitate the processing of proxy voting for the annual general meeting to be held

on 21st May 2015, the register of members will be closed from 18th May 2015 to 21st May 2015, 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, 15th May 2015.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in note 33 to the financial statements.

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 in the relevant Notes to the Financial Statements on pages 139 to 205 (if they relate to a particular item) and on pages 206 to 208.

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 94 to 102. 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 the Board as to suitability for the role.

Details of the Company's corporate governance practices are set out on pages 112 to 120.

DONATIONS

During the year, the Group made donations for charitable purposes of HK\$42 million and donations towards various scholarships of HK\$4 million.

FIXED ASSETS

For details of movements in fixed assets refer to notes 14 and 15 to the financial statements.

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 (95% by value having been valued by DTZ Debenham Tie Leung) on the basis of open market value at 31st December 2014. This valuation resulted in an increase of HK\$1,896 million in the carrying value of the investment property portfolio.

A schedule of the principal properties of the Group and its joint venture and associated companies is given on pages 235 to 243.

BORROWINGS

For details of the Group's borrowings refer to pages 103 to 111.

INTEREST

Refer to page 107 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 at the date of this report are listed on pages 124 and 125. With the exception of I K L Chu and G M C Bradley, who were appointed as Executive Directors on 14th March 2014 and 1st January 2015 respectively, and S C Swire, who was appointed as a Non-Executive Director on 1st January 2015, all the Directors at the date of this report served throughout the calendar year 2014. With effect from 14th March 2014, C D Pratt

retired as Chairman and a Director and J R Slosar was elected as Chairman. J W J Hughes-Hallett and P A Kilgour resigned as Directors with effect from 1st January 2015.

INDEPENDENCE CONFIRMATION

The Company has received from all of its Independent Non-Executive Directors listed on pages 124 and 125 confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

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, M B Swire, A K W Tang and M M T Yang retire this year and, being eligible, offer themselves for re-election. C K M Kwok will also retire this year but does not offer himself for re-election.

G M C Bradley and S C Swire, 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 8 to the financial statements.

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 2014, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Swire Pacific Limited 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		Trust interest			
	Personal	Family				
Swire Pacific Limited						
'A' shares						
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	
J B Rae-Smith	–	–	5,000	5,000	0.0006	1
M C C Sze	6,000	–	–	6,000	0.0007	
'B' shares						
P A Johansen	200,000	–	–	200,000	0.0067	
C Lee	850,000	–	21,605,000	22,455,000	0.7497	2
J B Rae-Smith	17,500	–	–	17,500	0.0006	
I S C Shiu	–	20,000	–	20,000	0.0007	

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
John Swire & Sons Limited						
Ordinary Shares of £1						
Baroness Dunn	8,000	–	–	8,000	0.01	
J B Rae-Smith	97,066	–	97,659	194,725	0.19	1
M B Swire	3,144,273	–	19,222,920	22,367,193	22.37	3
S C Swire	1,291,055	–	19,222,920	20,513,975	20.51	3

8% Cum. Preference Shares of £1

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
S C Swire	291,240	–	5,655,441	5,946,681	19.82	3

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Properties Limited						
Ordinary Shares						
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	23,500	–	–	23,500	0.00040	
C Lee	200,000	–	3,024,700	3,224,700	0.05512	2
J B Rae-Smith	2,450	–	3,500	5,950	0.00010	1
I S C Shiu	–	2,800	–	2,800	0.00005	
M C C Sze	4,200	–	–	4,200	0.00007	

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

	Capacity		Total no. of shares	Percentage of issued capital (%)	
	Beneficial interest				
	Personal	Other			
Hong Kong Aircraft Engineering Company Limited					
Ordinary Shares					
T G Freshwater		10,000	–	10,000	0.0060
I S C Shiu		1,600	–	1,600	0.0010
M C C Sze		12,800	–	12,800	0.0077

Notes:

1. 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 and S C Swire are trustees of trusts which held 7,899,584 ordinary shares and 2,237,039 preference shares in John Swire & Sons Limited included under "Trust interest" and do not have any beneficial interest in those shares. S C Swire was appointed as a Director of the Company with effect from 1st January 2015.

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 close 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 and short positions maintained under Section 336 of the SFO shows that at 31st December 2014 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
Substantial Shareholders					
John Swire & Sons Limited	324,336,720	35.82	2,051,533,782	68.49	1
Aberdeen Asset Management plc	135,765,945	14.99	435,779,326	14.55	2

Notes:

- John Swire & Sons Limited is deemed to be interested in a total of 324,336,720 'A' shares and 2,051,533,782 'B' shares of the Company as at 31st December 2014, 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: 244,859,700 '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 17,238,500 '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.

At 31st December 2014, the Swire group owned interests in shares of the Company representing 48.83% of the issued capital and 60.91% 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.

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 be agreed from time to time, and procured for the Company and its subsidiary, joint venture and associated companies the use of relevant trademarks owned by Swire.

In return for these services, JSSHK receives annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and joint

venture companies of the Company, where there are 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 are 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 reimburses the Swire group at cost for all the 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 and 1st October 2010, were renewed again on 14th November 2013 for a term of three years from 1st January 2014 to 31st December 2016. 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, joint venture 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 2014 are given in note 39 to the financial statements.

The Company, JSSHK and Swire Properties Limited ("Swire Properties") entered into a Tenancy Framework Agreement ("Tenancy Framework Agreement") on 14th August 2014 to govern existing and future tenancy agreements between members of the Group, members of the JSSHK group and members of the Swire Properties group for a term of two years ending on 31st December 2015. Pursuant to the Tenancy Framework Agreement, members of the Group, members of the JSSHK group and members of the Swire Properties group enter into tenancy agreements from time to time on normal commercial terms based on prevailing market rentals. The Tenancy Framework Agreement is renewable for successive periods of three years after its initial expiry date unless any party to it gives to the other parties notice of termination of not less than three months expiring on any 31st December.

Particulars of the aggregate rentals payable to the Group under tenancies subject to the Tenancy Framework Agreement for the

year ended 31st December 2014 are given in note 39 to the financial statements.

The Swire group owned approximately 48.83% of the issued capital of the Company and approximately 60.91% of voting rights attached to such issued share capital as at 31st December 2014. 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 Tenancy Framework Agreement are continuing connected transactions in respect of which announcements dated 14th November 2013 and 14th August 2014 were published respectively.

As directors and employees of the Swire group, G M C Bradley, I K L Chu, M Cubbon, I S C Shiu, J R Slosar and A K W Tang are interested in the Services Agreements and the Tenancy Framework Agreement. Before they ceased to be directors of the Company, J W J Hughes-Hallett, P A Kilgour and C D Pratt were so interested as directors and employees of the Swire group. Baroness Dunn, M B Swire and S C Swire are so interested as shareholders, directors and employees of Swire. J B Rae-Smith is so 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 and confirmed that the continuing connected transactions as set out above have been entered into by the Group in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the 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 nothing has come to their attention that causes them to believe that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the

transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that they have exceeded the relevant annual caps.

On behalf of the Board

John Slosar

Chairman

Hong Kong, 19th March 2015