

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31st December 2015, which are set out on pages 127 to 210.

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 199 to 210. 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.

Consolidated Financial Statements

The consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") together with the Group's interests in joint venture and associated companies. Details of the joint venture and associated companies are provided under note 19 to the financial statements.

Dividends

The Directors have declared second interim dividends of HK\$278.0 per 'A' share and HK\$55.6 per 'B' share which, together with the first interim dividends of HK\$112.0 per 'A' share and HK\$22.4 per 'B' share paid in October 2015, amount to full year dividends of HK\$390.0 per 'A' share and HK\$78.0 per 'B' share, the same as those paid in respect of 2014. The second interim dividends will be paid on 6th May 2016 to shareholders registered at the close of business on the record date, being Friday, 15th April 2016. Shares of the Company will be traded ex-dividend from Wednesday, 13th April 2016.

Closure of Register of Members

The register of members will be closed on Friday, 15th April 2016, 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, 14th April 2016.

To facilitate the processing of proxy voting for the annual general meeting to be held on 12th May 2016, the register of members will be closed from 9th May 2016 to 12th May 2016, 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, 6th May 2016.

Business Review

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business, key performance indicators) are provided in the sections of this annual report headed Chairman's Statement (on pages 9 to 11), 2015 Performance Review and Outlook (on pages 12 to 71), Financial Review (on pages 83 to 89), Financing (on pages 90 to 96) and Risk Management (on pages 107 to 109) and in the Notes to the Financial Statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed 2015 Sustainable Development Review (on pages 72 to 82). To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed 2015 Sustainable Development Review (on pages 72 to 82), Corporate Governance Report (on pages 97 to 106), Risk Management (on pages 107 to 109) and Directors' Report (on pages 112 to 118).

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, the Company bought back 372,500 'A' shares and no 'B' shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") at an aggregate cost of HK\$34,590,975. The buy-back of these 'A' shares was made for the benefit of the Company and shareholders taking into

account relevant factors and circumstances at the time. All the 'A' shares bought back were cancelled. Particulars of this share buy-back and details of the Company's share capital are set out in note 32 to the financial statements.

Other than as stated above, there was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year 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 132 to 193 (if they relate to a particular item) and on pages 194 to 196.

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 83 to 89. A ten-year financial summary of the Group is shown on pages 6 to 8.

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 97 to 106.

Donations

During the year, the Group made donations for charitable purposes of HK\$39 million and donations towards various scholarships of HK\$5 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 (93% by value were valued by DTZ Debenham Tie Leung and 96% by value in total were valued by independent valuers) on the basis of open market value at 31st December 2015. This valuation resulted in an increase of HK\$7,053 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 217 to 227.

Borrowings

For details of the Group's borrowings refer to pages 90 to 96.

Interest

For details of the amount of interest capitalised by the Group refer to page 94.

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 110 and 111. With the exception of G R H Orr, who was appointed as an Independent Non-Executive Director on 21st August 2015, all the Directors at the date of this report served throughout the calendar year 2015. Baroness Dunn and C K M Kwok retired as Directors of the Company with effect from the conclusion of the 2015 annual general meeting held on 21st May 2015.

Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors listed on pages 110 and 111 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, R W M Lee, J B Rae-Smith and J R Slosar retire this year and, being eligible, offer themselves for re-election. P A Johansen also retires this year but does not offer himself for re-election. G R H Orr, having been appointed to the Board under Article 91 since the last annual general meeting, also retires this year and offers himself 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\$4.5 million. They received no other emoluments from the Group.

Directors' Interests

At 31st December 2015, 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 voting shares (comprised in the class) (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Pacific Limited						
'A' shares						
T G Freshwater	41,000	–	–	41,000	0.0045	
P A Johansen	31,500	–	–	31,500	0.0035	
G R H Orr	9,000	–	–	9,000	0.0010	
J B Rae-Smith	–	–	5,000	5,000	0.0006	1
M C C Sze	20,000	–	–	20,000	0.0022	
'B' shares						
P A Johansen	200,000	–	–	200,000	0.0067	
C Lee	950,000	–	21,605,000	22,555,000	0.7530	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 share capital (comprised in the class) (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
John Swire & Sons Limited						
Ordinary Shares of £1						
J B Rae-Smith	97,066	–	97,659	194,725	0.19	1
M B Swire	3,151,773	–	19,222,920	22,374,693	22.37	3
S C Swire	1,298,555	–	19,222,920	20,521,475	20.52	3
8% Cum. Preference Shares of £1						
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 voting shares (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Properties Limited						
Ordinary Shares						
T G Freshwater	28,700	–	–	28,700	0.00049	
P A Johansen	50,050	–	–	50,050	0.00086	
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 voting shares (%)
	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 voting shares (%)
	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.

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.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

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.

Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2015 or during the period from 1st January 2016 to the date of this Report are available on the Company's website www.swirepacific.com

Permitted Indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

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 2015 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 voting shares (comprised in the class) (%)	'B' shares	Percentage of voting shares (comprised in the class) (%)	Note
John Swire & Sons Limited	390,027,220	43.09	2,051,533,782	68.49	1
Aberdeen Asset Management plc	90,408,886	9.99	419,326,926	14.00	2

Notes:

- John Swire & Sons Limited is deemed to be interested in a total of 390,027,220 'A' shares and 2,051,533,782 'B' shares of the Company at 31st December 2015, 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: 300,072,200 '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 27,716,500 '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 2015, the Swire group was interested in 53.20% of the equity of the Company and controlled 62.60% of the voting rights attached to shares in the Company.

Public Float

Listing Rule 8.08(1) of the Listing Rules requires that at least 25% of an issuer's total number of issued shares must at all times be held by the public. The Company has been granted by the Stock Exchange a waiver from strict compliance with Listing Rule 8.08(1) such that the Company's public float percentage continues to be calculated based on its issued share capital as if its shares still had nominal values. From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 25% of the Company's total issued share capital (calculated as described in the previous sentence) is held by the public.

Connected Transactions

On 21st July 2015, Swire Beverages Holdings Limited, a wholly owned subsidiary of the Company, entered into equity transfer agreements with CITIC Corporation Limited ("CITIC") for the acquisition of CITIC's 15% interest in the registered capital of Swire BCD Co., Ltd., 20% interest in the registered capital of Swire Coca-Cola Beverages Hefei Limited and 12.86% interest in the registered capital of Swire Coca-Cola Beverages Zhengzhou Limited for a total cash consideration of RMB1,250 million. As CITIC was a substantial shareholder of Swire BCD Co., Ltd., Swire Coca-Cola Beverages Hefei Limited and Swire Coca-Cola Beverages Zhengzhou Limited and such companies are subsidiaries of the Company, CITIC was a connected person of the Company at the subsidiary level under the Listing Rules. Accordingly, the equity transfer agreements constituted a connected transaction of the Company, in respect of which an announcement dated 21st July 2015 was published.

On 31st July 2015, the Company and R W M Lee, an Independent Non-Executive Director, entered into a preliminary agreement for sale and purchase in respect of the sale by the Company to R W M Lee of the residential unit on the 6th floor (together with an air-conditioning plant room on the lower ground floor) and parking spaces nos. 13 and 14 on the lower ground floor of OPUS HONG KONG, No. 53 Stubbs Road, Hong Kong for a cash consideration of HK\$375,375,000. On completion of the transaction, R W M Lee was entitled to a cash benefit of HK\$28,153,000 subject to proof of due payment of ad valorem stamp duty payable on the transaction. As R W M Lee is a Director of the Company, the transaction under the preliminary agreement for sale and purchase constituted a connected transaction of the Company, in respect of which an announcement dated 31st July 2015 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 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 2015 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 was renewed for a term of three years from 1st January 2016 to 31st December 2018 and is renewable for successive periods of three years thereafter 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 2015 are given in note 40 to the financial statements.

The Swire group was interested in 53.20% of the equity of the Company and controlled 62.60% of the voting rights attached to shares in the Company at 31st December 2015. 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 20th August 2015 respectively were published.

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. Baroness Dunn, M B Swire and S C Swire were so interested as shareholders, directors and employees of Swire during the year. 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 the continuing connected transactions as set out above and have confirmed that they 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.

Discloseable Transaction

On 24th September 2015,

(i) Swire Coca-Cola, USA (a wholly owned subsidiary of the Company, as Purchaser) and Coca-Cola Refreshments USA,

Inc. (as Seller) entered into a sale and purchase agreement, under which the Purchaser conditionally agreed to acquire from the Seller certain distribution assets and working capital for the sale of beverages products of The Coca-Cola Company in Arizona, U.S.A., including the Phoenix and Tucson markets, for a consideration of US\$133 million (together with the other elements of the transaction, the "Distribution Transaction"); and

(ii) The Coca-Cola Company, the Seller and the Purchaser entered into a comprehensive beverage agreement, which contains the rights granted by the Seller to the Purchaser to distribute beverages products of The Coca-Cola Company in Arizona (including the Phoenix and Tucson markets) and (in substitution for those presently in place) on which the Purchaser is granted the rights to distribute such beverage products in the existing franchise territories in Denver and Colorado Springs.

On 8th December 2015, the Purchaser and the Seller entered into a sale and purchase agreement, under which the Purchaser conditionally agreed to acquire from the Seller certain manufacturing assets, working capital and associated manufacturing and packaging rights for the manufacture and sale of beverages products of The Coca-Cola Company in Phoenix, Arizona and in Denver, Colorado for a consideration of US\$106 million (together with the other elements of the transaction, the "Production Transaction"). In connection with the Production Transaction, the Purchaser will enter into (i) a regional manufacturing agreement with The Coca-Cola Company, (ii) finished goods supply agreements with other bottlers of Coca-Cola beverages in the U.S.A. and (iii) a national product supply governance agreement with the Seller, The Coca-Cola Company and certain other parties. Under (iii), Swire Coca-Cola, USA will become a member of Coca-Cola's U.S. National Product Supply Group that will administer key national product supply activities.

Under the Distribution Transaction and the Production Transaction, certain quarterly sub-bottler payments are due by the Purchaser to the Seller. The net present value of such payments on 8th December 2015 was estimated to be US\$32.8 million.

The Distribution Transaction and the Production Transaction together constituted a discloseable transaction for the Company under the Listing Rules, in respect of which announcements dated 24th September 2015 and 9th December 2015 were published.

On behalf of the Board

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John Slosar

Chairman

Hong Kong, 10th March 2016

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