

Risk Management

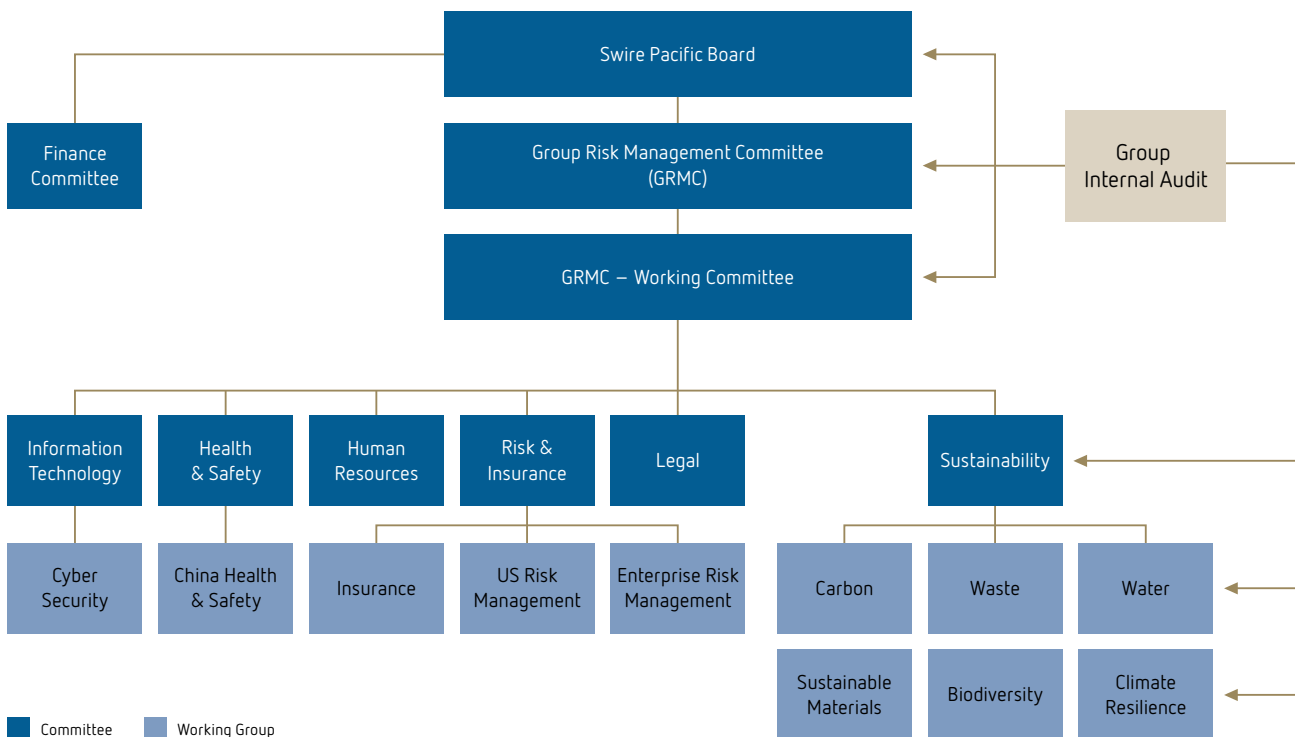
Effective risk management is key to ensuring the long-term viability of the Group. Divisions and major operating companies are required to follow the Group’s Enterprise Risk Management (ERM) policy. The ERM policy requires continuous identification, assessment, management, monitoring and reporting of current and emerging risks.

Group Risk Governance Structure

The Board of Directors and the management of each division are responsible for identifying and analysing the risks underlying the achievement of business objectives, and for determining how such risks should be managed and mitigated.

There are two key management committees which monitor the risks to which the Group is subject; the Group Risk Management Committee (GRMC) and the Finance Committee. These are made up of members of senior management and both are chaired by the Finance Director.

Risk Governance Structure



Note: The GRMC and Finance Committee report via the Audit Committee to the Board.

Group Risk Management Committee

The GRMC provides oversight of all the risks to which the Group is subject (except for those expressly covered by the Finance Committee) including setting risk management policies and strategies. The GRMC reports via the Audit Committee to the Board. It comprises the Finance Director, an Executive Director and six heads of operating businesses.

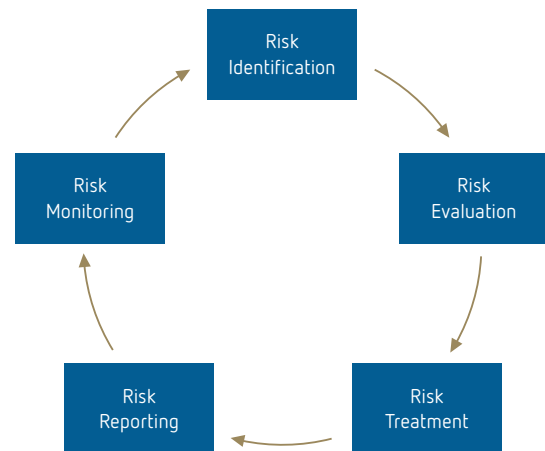
The GRMC oversees a number of committees and working groups. These cover the following areas: Risk & Insurance, Enterprise Risk Management, Human Resources, Health and Safety, Legal, Information Technology, Cyber Security and Sustainability (including the six SwireTHRIVE areas of focus).

In 2019, the GRMC met three times and its functional committees and working groups met 27 times.

The members of the functional committees and working groups are specialists in their respective areas and each committee is chaired by an individual with relevant experience. The role of the functional committees and working groups is to identify risks and opportunities which fall within their respective functional areas and to draw up policy recommendations for GRMC review and approval. The policies approved by the GRMC apply to all companies in which Swire Pacific has a controlling interest. The boards of these operating companies are required to adopt these policies and to establish procedures to ensure compliance with them. Joint venture and associated companies are encouraged to adopt Group policies.

The management of risks is subject to audit by the Group's Internal Audit department, with support from specialist external consultants where necessary.

Group ERM Process



The ERM process is aimed at ensuring robust and effective risk management by the Group and at fostering a risk aware culture. The ERM policy requires continuous identification, assessment, management, monitoring and reporting of current and emerging risks. It also promotes the identification of business opportunities.

The ERM process involves:

- Identification of new and emerging risks through inputs from divisional risk registers, risk workshops and reviews of functional risks identified by functional committees and working groups;
- Risk evaluation using standardised tools and risk matrices;
- Prioritisation of risks based on risk evaluation outcomes;
- Treatment of risks through the development of current and future mitigation plans;
- Reporting by divisions of key risks and mitigations to the GRMC and (through the GRMC) the Audit Committee;
- Review of the Group Corporate Risk Register at least annually and continuous monitoring and review of risks.

Key Risk Management Focus Areas

The Group is exposed to a broad range of risks. The following table deals with the current key areas of focus.

Key Focus Areas	Mitigation
Economic Volatility in Mainland China	<ul style="list-style-type: none"> – Close monitoring by the Board of economic and political developments in Mainland China. – Strategic relationships with Chinese companies.
Changes in Government Policy	<ul style="list-style-type: none"> – Senior management engagement with government authorities. – Provision of inputs for consultation papers on relevant policy initiatives and regulatory changes. – Lobbying via industry associations and chambers of commerce.
Cyber Security	<ul style="list-style-type: none"> – Adoption of NIST cyber security framework. – Adoption and close monitoring of compliance with the Group's Cyber & Information Security policy – Sharing of best practices about information security and promoting awareness of information security through a working group established by the I.T. Committee. – Testing and monitoring of systems.
Disruptive Technological Change	<ul style="list-style-type: none"> – Monitoring by each division of global and industry specific technological developments. – Consideration of the potential impact of disruptive technological change when making strategic plans and considering future scenarios. – Close engagement with industry groups so as to identify emerging trends.
Climate Change	<ul style="list-style-type: none"> – Considering climate change when making group policies and long-term plans. – Setting targets and establishing adaptation strategies. – Use of new technologies so as to adapt to climate change and to gain competitive advantages. – Engagement with others who are interested in what we do so as to assess changing attitudes to climate change and the impact on climate change of our products and services.
Infectious Diseases and Pandemics	<ul style="list-style-type: none"> – Regular updating and testing of business continuity plans. – Close communication with government and medical authorities with a view to ensuring timely access to information. – Maintaining sufficient cash to deal with temporary downturns in business. – Regular health and safety reporting to the Board.

Finance Committee

The role of the Finance Committee is to provide oversight of the Group's financial risks, including setting the Group's financial risk management policies and procedures. These are implemented within both the Group's central financial reporting function and the divisional finance functions.

The Finance Committee consists of the Finance Director, Divisional Finance Directors and other senior finance executives. The Finance Committee meets quarterly to review the financial risks at the Group level as well as the divisional level. In 2019, the Finance Committee met four times.

The Group's approach to financial risk management is discussed below.

Financial Risk Management

Audited Financial Information

Structure and Policies

In the normal course of business the Group is exposed to financial risks attributable to interest rates, currencies, credit and liquidity.

The Finance Committee maintains and develops the Group's financial risk management policies and procedures. These policies and procedures are implemented by the head office treasury department, within an agreed framework authorised by the Board.

The treasury department manages the funding needs of the Group's non-listed subsidiaries, as well as resulting interest rate, currency, credit and liquidity risks. Operating subsidiaries manage currency, credit and commodity exposures that are specific to their trading transactions.

It is the Group's policy not to enter into derivative transactions for speculative purposes. Derivatives are used solely for management of an underlying risk and the Group minimises its exposure to market risk by applying hedge accounting for derivative instruments. By applying hedge accounting, gains and losses on derivatives offset the losses and gains on the assets, liabilities or transactions being hedged. Accounting for derivative financial instruments and hedging activities is discussed on pages 177 and 178.

The Group's listed subsidiary (Swire Properties Limited) and the Group's joint venture and associated companies arrange their financial and treasury affairs on a stand-alone basis. The Company may provide financial support by way of guarantees to its non-listed joint venture and associated companies in cases where significant cost savings are available and risks are acceptable.

Interest Rate Exposure

The Group's interest rate risk arises primarily from borrowings. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group earns interest income on cash deposits.

The Group maintains a significant proportion of debt on a fixed rate basis with a view to increasing certainty of funding costs. The level of fixed rate debt for the Group is decided after taking into consideration the potential impact of higher interest rates on profit, interest cover and the expected cash flows of the Group's businesses and investments. The Group uses interest rate swaps to manage its long-term interest rate exposure. The Finance Directors of the Group and Swire Properties Limited approve all interest rate hedges prior to implementation.

On a quarterly basis, the treasury department calculates the effect of the Group's exposure to interest rate fluctuations on forecast earnings and cash flows by performing sensitivity testing with varying forecast interest rates. The treasury department reports the results of this testing to the Finance Committee. Refer to page 135 for details of the sensitivity testing performed at 31st December 2019.

Currency Exposure

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Chinese Renminbi. Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations.

The Group's policy is to hedge in full all highly probable transactions in each major currency where their value or time to execution gives rise to a significant currency exposure, provided that the cost of the foreign exchange forward or other derivative contract is not prohibitively expensive having regard to the underlying exposure.

Exposure to movements in exchange rates on transactions is minimised by using appropriate hedging instruments where active markets for the relevant currencies exist. At 31st December 2019, the Group had hedged its significant foreign currency funding exposures, by fixing the foreign exchange rates with forward contracts.

Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency.

Financial Risk Management (continued)

Audited Financial Information (continued)

Foreign currency funding and deposit exposure is monitored by the treasury department on a continuous basis and hedging proposals are presented to the Finance Committee.

Refer to page 136 for a sensitivity analysis of the Group's exposure to currency risk arising from recognised financial assets or financial liabilities denominated in a currency other than the functional currency at 31st December 2019.

Credit Exposure

The Group's credit risk is primarily attributable to trade and other receivables with wholesale customers, derivative financial instruments, receivables from joint venture companies and associated companies and cash and deposits with banks and financial institutions. Individual operating entities are responsible for setting credit terms appropriate to their industry and assessing the credit profile of individual customers.

Standard settlement terms within the HAECO group, the Beverages Division and SPO are 30 days from the date of invoice. In accordance with the provisions of Swire Properties' standard tenancy agreements, rentals and other charges are due on the first day of each calendar month. Typically sales to retail customers within Swire Resources are made by cash or major credit cards. The Group has no significant credit risk with any one customer.

When depositing surplus funds or entering into derivative contracts, the Group controls its exposure to non-performance by counterparties by dealing with investment grade counterparties to the extent possible, setting approved counterparty limits and applying monitoring procedures. Counterparty credit exposure limits for financial institutions are proposed by the treasury department and approved by the Finance Director. The treasury department monitors the counterparties' credit ratings and issues an approved list of counterparties with their limits on a quarterly basis to all subsidiaries. Group companies require prior approval from the Group's treasurer to deal with banks not on the approved list. In addition, the Group and the Company monitor the exposure to credit risk in respect of the financial assistance provided to subsidiaries, joint venture companies and associated companies through exercising control or significant influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

The Group is not required by its counterparties to provide collateral or any other form of security against any change in the market value of derivatives. There are no specific conditions that would require the termination of derivative contracts should the credit rating of Swire Pacific be downgraded.

The maximum credit risk in respect of contingencies is disclosed in note 39 to the financial statements.

Liquidity Risk

The Group takes liquidity risk into consideration when deciding its sources of funds and their tenors, so as to avoid over reliance on funds from any one source and to prevent substantial refinancing in any one period. The Group maintains significant undrawn committed revolving credit facilities and cash deposits in order to reduce liquidity risk further and to allow for flexibility in meeting funding requirements.

The Group aims to maintain immediate access to committed funds to meet its refinancing for the following 9 months on a rolling basis and capital commitments for the following 12 months on a rolling basis, excluding its onshore Renminbi debt funding, where forward commitments are not readily available. The Group does not have significant offshore Renminbi debt funding.

The treasury departments of Swire Pacific and its listed subsidiary (Swire Properties Limited) produce a forecast funding plan for the Group on a quarterly basis and a summary forecast on a monthly basis, in order to assess committed and probable funding requirements. The plan includes an analysis of debt refinancing by year and by source of funds. The Group's treasurer presents the forecast funding plan together with funding proposals to the Finance Director on a regular basis, and to the Finance Committee. Refer to page 137 for details of the Group's contractual obligations at 31st December 2019.

Price Risk

The Group is exposed to price risk in relation to listed equity securities held as equity investments at fair value through other comprehensive income. Management regularly reviews the expected returns from holding such investments, on an individual basis.