

Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31st December 2019, which are set out on pages 128 to 219.

Principal Activities

The principal activity of Swire Pacific Limited (the Company) is that of a holding company, and the principal activities of its principal subsidiary, joint venture and associated companies are shown on pages 207 to 217. 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 20 to the financial statements.

Dividends

The Directors have declared second interim dividends of HK\$1.65 per 'A' share and HK\$0.33 per 'B' share which, together with the first interim dividends of HK\$1.35 per 'A' share and HK\$0.27 per 'B' share paid in October 2019, amount to full year dividends of HK\$3.00 per 'A' share and HK\$0.60 per 'B' share, compared to full year dividends of HK\$3.00 per 'A' share and HK\$0.60 per 'B' share in respect of 2018. The second interim dividends will be paid on 8th May 2020 to shareholders registered at the close of business on the record date, being Thursday, 9th April 2020. Shares of the Company will be traded ex-dividend from Tuesday, 7th April 2020.

The Company's dividend policy is to deliver sustainable growth in dividends and to pay out approximately half of its underlying profits in ordinary dividend over time.

Closure of Register of Members

The register of members will be closed on Thursday, 9th April 2020, 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 Wednesday, 8th April 2020.

To facilitate the processing of proxy voting for the annual general meeting to be held on 14th May 2020, the register of members will be closed from 11th May 2020 to 14th May 2020, 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, 8th May 2020.

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, Finance Director's Statement, 2019 Performance Review and Outlook, Financial Review, Financing and Risk Management 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 Sustainable Development Review. 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 Sustainable Development Review, Corporate Governance Report, Risk Management and Directors' Report.

Reserves

Movements in the reserves of the Group and the Company during the year are set out in notes 35 and 37(b) respectively, to the financial statements.

Share Capital

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.

At 31st December 2019, 905,206,000 'A' shares and 2,981,870,000 'B' shares were in issue (31st December 2018: 905,206,000 'A' shares and 2,981,870,000 'B' shares). Details of the movement of share capital are set out in note 34 to the financial statements.

Accounting Policies

The principal accounting policies of the Group are set out in the relevant Notes to the Financial Statements (if they relate to a particular item) and in the section of this annual report headed Principal Accounting Policies.

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 of the Group is shown in the section of this annual report headed Financial Review. A ten-year summary of the financial performance of the Group is shown in the section of this annual report headed Summary of Past Performance.

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 in the section of this annual report headed Corporate Governance Report.

Environmental, Social and Governance

The Company has complied or will comply with all the applicable provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year covered by the annual report.

Donations

During the year, the Group made donations for charitable purposes of HK\$34 million and donations towards various scholarships of HK\$2 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 completed or in the course of development, was carried out by professionally qualified valuers (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer) on the basis of market value at 31st December 2019. This valuation resulted in an increase of HK\$3,728 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 in the section of this annual report headed Schedule of Principal Group Properties.

Borrowings

For details of the Group's borrowings refer to the section of this annual report headed Financing.

Interest

For details of the amount of interest capitalised by the Group refer to page 85.

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

Z P Zhang has been appointed as a Director with effect from 14th April 2020. All the other present Directors of the Company whose names are listed in the section of this annual report headed Directors and Officers served throughout the calendar year 2019. I K L Chu has resigned as a Director with effect from 14th April 2020. S S Lin served as a Director from 1st January 2020 to 18th February 2020. M X Z Ma was appointed as a Director with effect from 1st August 2019. It is with great sadness that the Directors report the death of M X Z Ma on 31st August 2019.

Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors (listed in the section of this annual report headed Directors and Officers) 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, P K Etchells, C Lee and T G Freshwater retire this year and, being eligible, offer themselves for re-election. Z P Zhang, 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\$5.1 million. They received no other emoluments from the Group.

Directors' Interests

At 31st December 2019, 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 and Cathay Pacific Airways 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						
P K Etchells	–	12,000	–	12,000	0.0013	
T G Freshwater	41,000	–	–	41,000	0.0045	
G R H Orr	9,000	–	–	9,000	0.0010	
'B' shares						
M Cubbon	100,000	–	–	100,000	0.0034	
C Lee	1,370,000	–	21,605,000	22,975,000	0.7705	1

	Capacity			Total no. of shares	Percentage of issued share capital (comprised in the class) (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
John Swire & Sons Limited						
Ordinary Shares of £1						
M B Swire	2,671,599	130,000	17,546,068	20,347,667	20.35	2
S C Swire	1,948,381	–	21,135,992	23,084,373	23.08	2
8% Cum. Preference Shares of £1						
M B Swire	3,946,580	–	13,656,040	17,602,620	19.56	2
S C Swire	2,279,414	–	17,135,991	19,415,405	21.57	2

	Capacity			Total no. of shares	Percentage of voting shares (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Properties Limited						
Ordinary Shares						
P K Etchells	–	8,400	–	8,400	0.00014	
T G Freshwater	28,700	–	–	28,700	0.00049	
C Lee	200,000	–	3,024,700	3,224,700	0.05512	1

	Capacity			Total no. of shares	Percentage of voting shares (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Cathay Pacific Airways Limited						
Ordinary Shares						
M M S Low	1,000	–	–	1,000	0.00003	

Notes:

- All the shares held by C Lee under Trust interest are held by him as beneficiary of trusts.
- M B Swire and S C Swire are trustees and/or potential beneficiaries of trusts which held 6,222,732 ordinary shares and 9,812,656 ordinary shares respectively and 3,443,638 preference shares and 6,923,589 preference shares respectively 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 2019 or during the period from 1st January 2020 to the date of this Report are kept at the Company's registered office and made available for inspection by the members of the Company in accordance with Section 390(6) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

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 2019 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

Long position	Percentage of voting shares (comprised in the class)		Percentage of voting shares (comprised in the class)		Note
	'A' shares	(%)	'B' shares	(%)	
John Swire & Sons Limited	411,458,720	45.45	2,087,309,282	70.00	1

Note:

1. John Swire & Sons Limited is deemed to be interested in a total of 411,458,720 'A' shares and 2,087,309,282 'B' shares of the Company at 31st December 2019, 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: 322,603,700 'A' shares and 123,945,000 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 8,040,000 'A' shares and 328,343,444 '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.

At 31st December 2019, the Swire group was interested in 55.20% of the equity of the Company and controlled 64.28% 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.

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, including (but not limited to) assistance in negotiating with regulatory and other governmental or official bodies, certain staff services (including full or part time services of members of the staff of the Swire group), certain central 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 service fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associates and joint ventures of the Company, where there are no agreements for services with such companies, and (B) in the case of its subsidiaries and associates

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 took effect from 1st January 2005, were renewed on 1st October 2007, 1st October 2010, 14th November 2013 and 1st October 2016, were amended and restated on 9th August 2019 and were renewed again on 1st October 2019. The current term of the Services Agreements is from 1st January 2020 to 31st December 2022 and 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 subsidiaries, associates and joint ventures the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procuration obligation or such use. This procuration 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 2019 are given in note 41 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. The Tenancy Framework Agreement, which took effect from 1st January 2014 and was renewed on 1st October 2015, was renewed again on 1st October 2018 for a term of three years from 1st January 2019 to 31st December 2021. It 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. Pursuant to the Tenancy Framework Agreement, members of the Group, members of the JSSHK group and members of the Swire Properties group will enter into tenancy agreements from time to time on normal commercial terms based on prevailing market rentals.

Particulars of the aggregate rentals payable to the Group under tenancies subject to the Tenancy Framework Agreement for the year ended 31st December 2019 are given in note 41 to the financial statements.

The Swire group was interested in 55.20% of the equity of the Company and controlled 64.28% of the voting rights attached to shares in the Company at 31st December 2019. 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 9th August 2019 and 10th May 2018 respectively were published.

As directors and/or employees of the Swire group, D P Cogman, M Cubbon, I K L Chu and M M S Low are, and Z P Zhang will be, interested in the Services Agreements and the Tenancy Framework Agreement. M B Swire and S C Swire are so interested as shareholders, directors and employees of the Swire group.

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 the relevant annual caps have been exceeded.

On behalf of the Board

Merlin Swire
Chairman
Hong Kong, 12th March 2020