

Principles

We believe a reputation for fair dealing and integrity is a valuable corporate asset and are determined to foster and maintain high standards of professional conduct and business ethics.

Maximisation of long-term returns to shareholders is best achieved by acting at all times in a socially responsible manner which recognises the interests of the wider community.

Our commitment is to:

- Provide high-quality products and services to the satisfaction of our customers;
- Maintain high standards of business ethics and corporate governance;
- Ensure the safety and well-being of employees, customers and others with whom we have contact;
- Protect the environment from harm; and
- Achieve these goals whilst, at the same time, providing satisfactory returns to shareholders.

The Board of Directors

The Board consists of 12 directors, whose details are given on page 41 of this report. Of these, six, including the Chairman of the Board, are executive directors and six are non-executive. Of the non-executive directors, three are independent.

The Board meets formally six times a year. In addition to this, board papers covering important issues are circulated for approval at other times. The average attendance rate of the Directors for the year was 70%.

The Board is responsible to the shareholders for the strategic development of the Company, the management of the Company's assets in a way that maximises long-term shareholder value, and for the control of the operations of the business. Included within the Board's responsibilities are the formulation of long-term strategy and review of the performance of the operating divisions against their agreed budgets and targets, as well as the approval of financial statements, major acquisitions and disposals, major capital projects and the annual budget.

The Directors are accountable for the proper stewardship of the Company's affairs, and acknowledge that they have the responsibility for ensuring that the Company keeps fair and accurate accounting records which disclose the financial position of the Company, and which enable them to ensure that the financial statements comply with the requirements of the Hong Kong Companies Ordinance.

Executive Management

Swire Pacific focuses on the long-term organic growth of businesses where it can add value through its industry-specific expertise and knowledge of the Greater China region. It maintains a stable shareholding structure and a strong balance sheet to provide a firm platform for growth.

As a conglomerate Swire Pacific combines the efforts of management teams focused on the individual business units, closely supported by a small head office function.

The role of the holding company includes investment review, treasury, senior personnel management, performance monitoring, corporate governance and investor relations. The investment review activity covers the appraisal of specific investment opportunities. Performance monitoring covers the assessment of target rates of return for each business and periodic reviews of the businesses with a view to increasing investment where the group can add significant value and rationalising investment where expected returns are not commensurate with the risk-adjusted cost of capital and management time.

Remuneration of executive directors and other senior managers is aimed at attracting, motivating and retaining high-calibre individuals in a competitive international market. Remuneration consists of base salary, benefits, including a provident fund and housing assistance, and performance-related bonuses related to the longer-term profitability of the company so as to align management incentives with shareholder interests. Executive directors are not involved in determining their own remuneration. In 2001, executive directors' basic salary accounted for 30% of gross emoluments, performance-related bonuses for 22%, housing for 34%, benefits and allowances for 7% and retirement benefits for 7%. Other information on directors' emoluments is given in note 4 to the accounts, on page 62.

Audit Committee and Internal Control

The Directors have overall responsibility for the group's system of internal control. They are assisted in their review of this system by the Group Internal Audit department, the work of the external auditors and the Audit Committee, which also provides an independent review of the adequacy and effectiveness of the internal control system.

The Audit Committee, under the Chairmanship of Mr David Eldon, consists of three non-executive directors, two of whom are independent. In 2001 it met three times, with 100% attendance, to review and discuss the 2000 results and Annual Report, the

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2001 interim results and report and the external and internal audit plans for 2001 and 2002. In addition, at each meeting, reports are received from the internal and external auditors which detail matters of significance arising from work conducted since the previous meeting. In assessing the effectiveness of the control environment, the Committee actively monitors:

- i) Overall trends in internal control within the group, supported by;
- ii) The number and seriousness of the findings reported; and
- iii) The speed and effectiveness with which the recommendations made are implemented.

The external auditors, the Group Finance Director and the Head of Group Internal Audit are in attendance to answer questions on the reports or their work.

The Internal Audit department, which is staffed by 11 qualified professionals, has the responsibility for the conduct of risk-based audits in Swire Pacific and its subsidiaries, with additional work as required and agreed in some of the jointly-controlled and associated companies. These audits are designed to provide the Board of Directors with assurance that the internal control systems of the group are effective, and that the risks associated with the achievement of business objectives are being properly managed. The annual work plan, manning levels and qualifications of the department are discussed and agreed with the Audit Committee. In addition to the agreed schedule of work, the department conducts such ad hoc project and investigative work as may be required. The department's primary reporting line is to the Group Finance Director and through him to the Chairman, though there is also open access to the Chairman of the Audit Committee. Copies of all internal audit reports are sent to the Chairman, the Group Finance Director, the auditee and the external auditors.

The external auditors have a primary responsibility for auditing and reporting on the annual financial statements. At the request of the Board and the Audit Committee, they also assist the Audit Committee in their review of the unaudited interim statements. Matters of significance, both in terms of internal control improvements and of accuracy of reporting, are raised by them with the Board and the Audit Committee. In 2001, the total remuneration paid to the external auditors of the Company was HK\$12 million, including HK\$8 million for the statutory audit and interim review and HK\$3 million for taxation advice.

Risk Management

The group maintains a Risk Management Committee which oversees the proper application of risk management procedures

throughout the group. This committee is chaired by the Group Finance Director and includes representatives from each division in the group. It meets quarterly to discuss all aspects of risk management. The divisions are required to report any events of importance, so that they may be discussed at the Committee and any applicable lessons identified.

During 2001, the committee addressed a number of risk management issues, the most significant of which were:

- i) the appointment of new insurance brokers to act as risk management partners, and help develop more comprehensive programmes for enhanced risk management;
- ii) the ongoing development of group-wide policies covering ethical, health and safety, environmental and business risks;
- iii) a review of risks throughout the group in the light of the terrorist attacks of 11th September;
- iv) a review of insurance claims to identify and improve on poor risk management practices and techniques, and thereby reduce the number of insurance losses and claims;
- v) a review of insurance deductible levels throughout the group to increase the responsibility at the operating company level for the active management of the cost of risk; and
- vi) the continuing development of the insurance renewal strategy, including active dialogue with underwriters. As part of this, a series of roadshow presentations were given in December which set out:
 - The current structure of the group;
 - The current risk management arrangements, and the plans for development of the group-wide risk management philosophy;
 - The deductible levels to be accepted by the group; and
 - The likely effect on the risk profile of the group of known future plans.

Environment

The group is committed to conducting its business in a manner which fosters the sustainable use of natural resources and minimises any adverse impact on the environment. The group Environment Committee is chaired by a Board Director and co-ordinates overall group policy on environmental issues. In 2001, the Committee and its working groups met nine times. In addition to pursuing specific environmental projects, the group has embarked upon a major project to develop and monitor a wide range of key environmental, health and safety performance measures across major business units within the group.