

# Corporate Governance

## Business Values

As a leading international company, Swire Pacific's reputation for high ethical standards is central to its success. Swire Pacific is committed to maintaining robust corporate governance practices and the highest standards of business integrity in all activities. Our commitment in terms of corporate governance is to:

- provide high-quality products and services to the satisfaction of our customers;
- maintain high standards of business ethics;
- achieve these goals while, at the same time, providing satisfactory and sustainable returns to shareholders.

In addition, the group acts in a socially responsible manner through a variety of initiatives outlined on pages 58 to 61 and sees this as part of its overall commitment to good corporate governance.

Swire Pacific has a Corporate Code of Conduct which sets out principles, values and standards of conduct expected of management and staff throughout the Company, and underpins our operating procedures and policies.

## Corporate Governance Practices

The Company has complied throughout the year with the Code of Best Practice as set out in the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited ("Stock Exchange").

The Code on Corporate Governance Practices ("the CG Code") as promulgated by the Stock Exchange has come into effect for the 2005 reporting year. Swire Pacific welcomes the principles-based approach of the CG Code and the flexibility this provides concerning the adoption of corporate policies and procedures. In particular, we welcome the CG Code's intent to continue allowing companies not to comply, so long as they have good reasons to make this choice. While Swire Pacific is only required to report on compliance with the new code in respect of the 2005 financial year onwards, the Company has already put in place corporate governance practices to meet all the provisions of the CG Code and most of its recommended best practices.

As part of its commitment to enhance corporate governance standards within the region, Swire Pacific is a member of the Asian Corporate Governance Association.

## Communication with Shareholders

The ultimate holding company of Swire Pacific is John Swire & Sons Limited ("Swire"), a company incorporated in England, which controls shares representing approximately 29% of the equity interest and 53% of the voting rights in Swire Pacific Limited.

Swire has been operating in Hong Kong and Mainland China for over 130 years. Its ownership and involvement in Swire Pacific has been in place since before Swire Pacific became a public listed company in 1959.

The Swire group also provides significant management support to the Swire Pacific group under agreements for services, the details of which are provided on page 53 and note 29 to the accounts on page 92.

Swire expects Swire Pacific to achieve sustainable returns above the cost of capital. It believes its stable shareholding structure and management consistency are important ingredients to achieving this aim.

Swire Pacific is committed to fair disclosure and comprehensive, transparent reporting. The Chairman is ultimately responsible for ensuring that there is effective communication with investors and that the Board understands the views of major shareholders. The Chairman therefore makes himself available to meet shareholders for this purpose. On a day-to-day basis the Board's primary contact with major shareholders is through the Group Finance Director.

Communication with shareholders is a high priority. Printed copies of the Annual and Interim Reports are sent to all shareholders. The most recent Annual General Meeting was held on 13th May 2004 at the Pacific Place Conference Centre, Level 5, One Pacific Place, 88 Queensway, Hong Kong. The meeting was open to all shareholders and members of the press and was attended by 49 shareholders personally present or by proxy. The following Directors also attended:

### Executive Directors

J W J Hughes-Hallett (Chairman of the Board)  
 M Cubbon  
 D Ho  
 D M Turnbull

# Corporate Governance

## Non-Executive Directors

Baroness Dunn

P A Johansen (Chairman, Remuneration Committee)

Sir Adrian Swire

## Independent Non-Executive Directors

D G Eldon

C K M Kwok (Chairman, Audit Committee)

M M T Yang

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. In addition to the ordinary business of receiving the report of the Directors and the audited accounts for the year ended 31st December 2003, declaring final dividends, re-electing Directors and re-appointing auditors and authorising the Directors to fix their remuneration, the meeting approved, as special business, ordinary resolutions giving Directors general mandates to make on-market share repurchases and to allot and issue shares. A special resolution was also passed to amend the Company's articles of association to reflect recent amendments to the Companies Ordinance and the Listing Rules, to incorporate minor drafting improvements and align them more with current practices. Minutes of the meeting together with voting results are available on Swire Pacific's website, [www.swirepacific.com](http://www.swirepacific.com).

Key shareholder dates for 2005 are set out on page 120 of this report and are available on the Company's website.

As part of a regular programme of investor relations, senior executives hold briefings and attend conferences with institutional investors and financial analysts to engage in two-way communications on Swire Pacific's performance and objectives. Archived webcasts and copies of presentation materials from such briefings are made available to investors and the public through the corporate website, which also contains a wide range of additional information on the group's business activities. Webcasts of the meetings announcing the interim and final results are available on Swire Pacific's website.

In 2004, the Finance Director and the Investor Relations Officer held 71 meetings with analysts and investors in Hong Kong, conducted three analyst briefings, five investor group briefings, four overseas roadshows, spoke at four

investor conferences and were interviewed by Bloomberg and CNBC on three occasions.

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's total issued share capital is held by the public at all times. As at 31st December 2004, there were 5,715 holders of 'A' shares and 2,130 holders of 'B' shares on the Company's registers of shareholders.

## Board of Directors

Swire Pacific is governed by a Board of Directors which has the responsibility for leadership and control of the Company. These Directors are collectively responsible for promoting the success of Swire Pacific by directing and supervising the Company's affairs.

The Board is accountable to shareholders for the strategic development of the group with the goal of maximising long-term shareholder value, while balancing broader stakeholder interests.

Currently the Board comprises the Chairman, three other Executive Directors, and nine Non-Executive Directors. All Directors are subject to re-election by shareholders every three years. New Directors, being individuals who are suitably qualified and expected to make a positive contribution to the performance of the Board, are identified by existing Directors and submitted to the Board for approval. A Director appointed by the Board is subject to election by shareholders at the first general meeting after his appointment.

J W J Hughes-Hallett, Chairman since June 1999, retired from that position on 31st December 2004. D M Turnbull became Swire Pacific's Chairman on 1st January 2005. With the exception of M C C Sze, an independent Non-Executive Director who joined the Board on 1st November 2004, all Directors served for the whole of 2004. The Directors' biographical details are set out on pages 50 and 51 of this report.

The Non-Executive Directors bring a wide range of skills and experience to the group. They bring independent judgement on issues of strategy, performance, risk and people through their contribution at Board and committee meetings. The Board considers that five of the nine Non-Executive Directors – more than one third of the Board – are independent in character and judgement and fulfil the independence guidelines set out in rule 3.13 of the Listing Rules.

The Board reviews the performance of the operating divisions against their agreed budgets and targets on a regular basis and also exercises a number of reserved powers which include:

- formulation of long-term strategy;
- approving significant changes in accounting policy, or capital structure;
- approving public announcements including the financial statements;
- committing to major acquisitions, disposals and major capital projects;
- approving material borrowings and any issuing, or buying back, of equity securities;
- setting group remuneration policy;
- agreeing the annual budget;
- setting the dividend policy;
- formulating the risk management strategy; and
- approving treasury policy.

The Board is also responsible for the integrity of financial information and the effectiveness of the group's systems of internal control and risk management processes. The Directors acknowledge their responsibility for preparing the accounts of Swire Pacific. This responsibility extends to both the annual and interim reports. Responsibility for delivering Swire Pacific's objectives and running the business on a day-to-day basis is delegated to the divisional Advisory Boards and divisional management.

The Board is accountable for the proper stewardship of Swire Pacific's affairs, and is responsible for ensuring that Swire Pacific keeps fair and accurate accounting records which disclose its financial position, and which comply with requirements of the Hong Kong Companies Ordinance.

The CG Code requires the roles of Chairman and Chief Executive to be separate and not performed by the same individual. The Chairman of Swire Pacific is D M Turnbull. The role of Chief Executive is split among five senior executives who are each responsible for the day to day management of Swire Pacific's individual businesses: K G Kerr (Properties), P N L Chen (Aviation, in his capacity as the chief executive of Cathay Pacific Airways Limited), J R Slosar (Beverages), C D Pratt (Trading & Industrial, and

Marine Services) and D Ho (various shipping-related and logistics interests). Accordingly, there is a clear division of responsibilities between the Chairman and these five senior executives.

The Chairman is responsible for the leadership of the Board, ensuring its effectiveness in all aspects of its role and for setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda. Agendas and accompanying board papers are circulated where possible at least 48 hours before the time of a board or committee meeting. The Chairman is also responsible for making sure all Directors are properly briefed on issues arising at board meetings.

The Chairman ensures that the Directors receive accurate, timely and clear information. Directors are encouraged to update their skills, knowledge and familiarity with the group through their initial induction, ongoing participation at board and committee meetings, and through meeting key people at Head Office and in the divisions.

All Directors have access to the services of the Company Secretary who regularly updates the Board on governance and regulatory matters. Any Director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Chairman at Swire Pacific's expense. The availability of professional advice extends to the Audit and Remuneration Committees.

Swire Pacific has arranged appropriate insurance cover in respect of legal actions against its Directors and officers. The Board reviews the extent of this insurance each year.

Minutes of board meetings are taken by the Company Secretary and, together with any supporting board papers, are available to all board members. Board meetings are structured to encourage open discussion and frank debate to ensure the Non-Executive Directors provide an effective challenge to each Executive Director. When necessary, the independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2004.

# Corporate Governance

In furtherance of good corporate governance, the Board has established two sub-committees: an Audit Committee and a Remuneration Committee. Both these have terms of reference which accord with the principles set out in the CG Code. The Company Secretary takes full minutes of the meetings of these committees and the work of these committees is reported to the Board.

In addition, the Board has established a Finance Committee consisting of the Group Finance Director, the Treasurer and four divisional finance directors to develop company policy on all areas of finance, including financial risk and management of invested funds, and to develop the group's treasury policies.

All Directors disclose to the Board on their first appointment their interests as a director or otherwise in other companies or organisations and such declarations of interests are updated annually. When the Board considers any proposal or transaction in which a Director has a conflict of interest, the Director declares his interest and is required to abstain from voting.

The Board met six times during 2004. The attendance of individual directors at the board meetings and the two other board committees (the Audit Committee and the Remuneration Committee) is set out in the table below.

	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
<b>Directors</b>			
<b>Executive Directors</b>			
J W J Hughes-Hallett			
– Chairman	6/6		
M Cubbon	6/6		
D Ho	6/6		
K G Kerr	5/6		
D M Turnbull	6/6		
<b>Non-Executive Directors</b>			
Baroness Dunn	4/6		
P A Johansen	5/6	3/3	1/1
Sir Adrian Swire	4/6		
<b>Independent Non-Executive Directors</b>			
D G Eldon	5/6		
C K M Kwok	6/6	3/3	1/1
C Lee	5/6	3/3	1/1
M C C Sze	1/1		
M M T Yang	5/6		

The Company has laid down a code of conduct ("the Securities Code") regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("the Model Code") contained in Appendix 10 of the Listing Rules. A copy of the Securities Code is sent to each Director of the Company first on his appointment and thereafter twice annually, one month before the date of the board meetings to approve the Company's half-year result and annual result, with a reminder that the Director cannot deal in the securities and derivatives of the Company until after such results have been published, and that all his dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company, and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

All the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests as at 31st December 2004 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out on pages 55 and 56. In addition, of the executive officers of the Company, C D Pratt has beneficial interests in 21,000 'A' shares and 50,000 'B' shares of the Company.

## Audit Committee

The Audit Committee assists the Board in discharging its responsibilities for corporate governance, financial reporting, and corporate control. The Committee consists of three Non-Executive Directors, identified in the table on the left, two of whom are independent and one of whom, C K M Kwok, chairs the Committee. All the members served for the whole of 2004 and the Company Secretary acts as secretary.

Regular attendees at the Audit Committee meetings are the Group Finance Director, Head of Internal Audit, and the external auditors. The Committee meets regularly with the external auditors without the presence of company management.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants, and have recently been updated to comply with the CG Code. The current terms of reference are available on the Swire Pacific website.

The Audit Committee met three times in 2004. Each meeting receives written reports from the external and internal auditors, which deal with matters of significance arising from the work conducted since the previous meeting. The work of the Committee during 2004 included consideration of the following matters:

- the completeness and accuracy of the 2003 annual and 2004 interim financial statements;
- recommendations to the Board, for the approval by shareholders, of the reappointment of PricewaterhouseCoopers as the external auditors and approval of the 2004 audit plan and the auditors' remuneration;
- approval of the annual internal audit programme, review of the progress against the programme and discussion of matters arising;
- Swire Pacific's policy regarding connected party transactions and the nature of such transactions;
- reviewing the Company's compliance with regulatory and statutory requirements;
- Swire Pacific's risk management processes; and
- developments in accounting standards and Swire Pacific's response, including the preparation for adoption of Hong Kong Financial Reporting Standards.

The Audit Committee assesses the independence of the external auditors during the year through a series of questions and the external auditors also formally communicate to the Audit Committee their business relationship with Swire Pacific both in Hong Kong and overseas and any other independence matters.

An analysis of the fees paid to PricewaterhouseCoopers showing the split between audit work and non-audit work is given in note 2 to the accounts on page 69.

## Audit and Internal Control

The Board has overall responsibility for the system of internal control and conducts regular reviews of its effectiveness. Swire Pacific's system of internal control plays a key role in the management of risks that are significant to the fulfilment of its business objectives. A sound system of internal control contributes to safeguarding shareholders' investment and Swire Pacific's assets. Since profits are, in part, the reward for successful risk-taking in business, the purpose of internal control is to help manage and control risk appropriately, rather than to eliminate the risk of failing to achieve business objectives. Swire Pacific's internal controls can only provide reasonable and not absolute assurance against misstatement or loss.

The Board confirms that there is a process for identifying, evaluating, and managing the significant risks to the achievement of Swire Pacific's strategic objectives. The process has been in place throughout 2004 and up to the date of approval of the Annual Report, and also accords with the guidance set out in the CG Code. The effectiveness of this process has been reviewed by the Audit Committee which reports its findings for consideration by the Board.

The process used by the Audit Committee to review the effectiveness of the system of internal control includes:

- discussions with management on risk areas identified by management and/or in the audit process;
- the review of internal and external audit plans;
- the review of significant issues arising from internal and external audit reports; and
- the review of significant group risks reported by the Group Internal Audit Department in conjunction with the Group Risk Manager.

The Group Internal Audit Department, staffed by 11 qualified professionals, conducts audits of Swire Pacific, its subsidiaries and associates, typically over a three-year cycle. The frequency of each audit is determined by the Department's own risk assessment which is carried out annually. The audits are designed to provide the Board with reasonable assurance that the internal control systems of Swire Pacific are effective, and that the risks associated with the achievement of business objectives are being managed properly.

# Corporate Governance

The annual work plan, manning levels and qualifications of the Department's staff are discussed and agreed with the Audit Committee. In addition to its agreed schedule of work, the Department conducts other projects and investigative work as may be required. The Department works closely with the Group Risk Manager.

The Department's primary reporting line is to the Chairman of the Board. There is also open access to the Chairman of the Audit Committee. Copies of internal audit reports are sent to the Chairman, the Group Finance Director, the auditee and the external auditors. The results of each review are also discussed with the Audit Committee.

The Department acts as a service to the businesses by assisting with the continuous improvement of controls and procedures. Actions are agreed in response to recommendations and these are followed up to ensure that satisfactory control is maintained.

## Remuneration Committee

The Remuneration Committee comprises three Non-Executive Directors two of whom – C K M Kwok and C Lee – are independent Non-Executive Directors. It is chaired by P A Johansen.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on Swire Pacific's website.

Under the Services Agreement between the Company and John Swire & Sons (HK) Limited which was considered in detail and approved by the independent Non-Executive Directors of the Company, staff at various levels, including Executive Directors, are seconded to the Company. Those staff report to and take instructions from the Board of the Company but remain employees of the Swire group.

In order to be able to attract and retain international staff of suitable calibre, the Swire group provides a competitive remuneration package. This comprises salary, housing, provident fund, leave-passage and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The provision of housing affords ease of relocation either within Hong Kong or elsewhere, and payment of bonuses on a group-wide basis enables

postings to be made to group companies with very different profitability profiles. Whilst bonuses are calculated by reference to the profits of the Swire group overall, the predominant part of such profits is derived from the Swire Pacific group.

Although the remuneration of these executives is not entirely linked to the profits of the company or division in which they are working, it is considered that, given the volatility of various businesses within the Swire Pacific group, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company. Furthermore, as a substantial shareholder of the Company, it is in the best interest of Swire to see that executives of high quality are seconded to and retained within the Company.

The Remuneration Committee has reviewed this policy and the levels of remuneration paid to Executive Directors of the Company. At its meeting in December, the Committee considered a report prepared for it by Mercer Human Resource Consulting Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors was in line with comparators in peer group companies. The Committee approved individual Directors' remuneration packages to be paid in respect of 2005.

No Director takes part in any discussion about his or her own remuneration.

## Fees of Independent Non-Executive Directors

The independent Non-Executive Directors receive fees determined by the Board as follows (per annum):

Director's fee	HK\$200,000
Fee for serving on Audit Committee	HK\$150,000
Fee for serving on Remuneration Committee	HK\$50,000

## Risk Management

Risk management is concerned with the identification and effective management of business risks, including safety and security, legal, environmental and reputational risks.



### Group Risk Management Committee

The group maintains a Risk Management Committee which coordinates the proper application of operational risk management procedures throughout the group.

The Committee focuses on business, safety, security and reputational risks. Financial risk management and the coordination of group policy on environmental issues are outside its terms of reference.

This Committee is chaired by the Group Finance Director and includes senior representatives from each division as well as the Staff Director and the Head of Internal Audit. The Committee reports to the Swire Pacific Audit Committee on a regular basis.

Two specialist sub-committees focus on insurance matters and loss prevention initiatives. The insurance sub-committee is chaired by the Group Finance Director and it reviews and approves the group's general insurance programmes. The loss prevention sub-committee is chaired by the Head of Corporate Safety, Cathay Pacific Airways Limited, and its main focus is to promote effective loss prevention through the sharing of divisional best practices and regular reviews of the root causes of losses. The same sub-committee also oversees risk surveys conducted by third parties and closely monitors the implementation of risk mitigation recommendations derived from such surveys. Both sub-committees work closely with the group's risk management consultants and with the group's lead insurers and reinsurers.

In 2004, the Group Risk Management Committee and its sub-committees met a total of nine times.

### Objectives

The Committee's aim is continually to strengthen the risk management culture throughout the group, by overseeing the development of risk management processes, identifying divisional best practices, drawing up group guidelines, monitoring divisional performance, promoting education and using group leverage to reduce the overall cost of risk.

### Achievements in 2004

During 2004, the Committee's work included:

- continuing to develop, in close co-ordination with the Group Internal Audit Department, a group risk register to track the key risks identified and assessed by operating companies;
- arranging 70 risk surveys at various locations in Hong Kong, Taiwan, Mainland China and the United States, with a focus on key operational risk exposures including employee safety, property, general liability, motor, security, business continuity planning and legal risk management;
- introducing enhanced accident reporting procedures that resulted in improved identification of loss trends and their underlying root causes;
- achieving a further reduction in overall losses under the group's Hong Kong general insurance programme;
- issuing group guidelines on injury management and rehabilitation procedures so as to reduce the overall impact of workplace injuries, assist injured employees and increase operational efficiency for group companies;
- making further progress in developing a programme to track and control the group's cost of risk;
- appointing new group risk management consultants, who assumed their role from the beginning of 2005;
- consolidating insurance procurement for Taiwan-based operating companies resulting in reduced costs and enhanced insurance coverage;
- establishing Hong Kong and international pooling structures to leverage the group's procurement of employee benefits insurance with the result that the majority of Hong Kong-based group companies now participate in the scheme;
- commencing studies to evaluate increased participation of Spaciom Ltd, the group's captive insurance company, in the group's insurance programme following satisfactory results from Spaciom's first full year of operation; and
- holding a roadshow presentation and individual meetings with insurers and reinsurers to demonstrate the group's commitment to risk management and to highlight the risk management processes already in place in each division.