

Corporate Governance

Corporate Governance Practices

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 of its activities. The Company's commitment in terms of corporate governance is to:

- provide high-quality products and services to the satisfaction of its customers;
- maintain high standards of business ethics; and
- 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 72 to 76 and sees this as part of its overall commitment to good corporate governance.

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

The Code on Corporate Governance Practices ("the CG Code") as promulgated by The Stock Exchange of Hong Kong Limited came into effect for the 2005 reporting year. The CG Code sets out the principles of good corporate governance and two categories of recommendations:

- Code Provisions, which issuers are expected to comply with, but may choose to deviate from, provided they give considered reasons for non-compliance; and
- Recommended Best Practices, which issuers are encouraged to comply with, but which are provided for guidance only.

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, provided they have good reasons to make this choice.

Swire Pacific has complied throughout the year with all the Code Provisions of the CG Code and most of its recommended best practices.

Code Provision C.2.2 of the Stock Exchange Code requires the Boards of all listed companies to undertake a review of the effectiveness of their systems of internal control and to report to shareholders that they have done so. In the interests of good corporate governance, Swire Pacific has complied with this provision, even though it is only applicable to accounting periods commencing on or after 1 July 2005, and is therefore not applicable to this annual report.

Swire Pacific has, however, deviated from Section C.1.4 of the CG Code, recommending the production of quarterly statements. The Company has chosen not to comply with this recommended reporting practice because it is its judgement that, as a matter of principle and practice, quarterly reports do not bring significant benefits to shareholders. Swire Pacific would review its position if and when there was a clear demand from shareholders for quarterly reporting.

The Board

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 met six times in 2005. The attendance of individual directors at these board meetings and at two other board committees (the Audit Committee and the Remuneration Committee) is set out in the following table.

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	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
Directors			
Executive Directors			
D M Turnbull – Chairman	5/6		
P N L Chen	3/3		
M Cubbon	6/6		
D Ho	6/6		
K G Kerr	5/6		
Non-Executive Directors			
The Baroness Dunn	3/6		
J W J Hughes-Hallett	4/6		
P A Johansen	6/6	4/4	2/2
Sir Adrian Swire	4/6		
Independent Non-Executive Directors			
V H C Cheng	1/3		
D G Eldon	2/2		
C K M Kwok	5/6	4/4	2/2
C Lee	5/6	4/4	2/2
M C C Sze	6/6		
M M T Yang	3/6		

Directors actively participate in each meeting, giving and receiving reports on the activities of the operating divisions, presenting papers supporting decisions which require Board approval, and reviewing the progress of business units against budget. Whilst Directors may participate in meetings via telephone or video-conferencing link, all Directors attended in person during the year. Board consents are given by-vote at the Board meeting and supplemented via the circulation of written resolutions between Board meetings.

The dates of the 2005 Board meetings were determined in 2004 and any amendments to this schedule were notified to Directors at least 14 days before a regular meeting. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

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.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting board papers, are available to all Board members.

The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and record respectively.

If a substantial shareholder or a Director has a conflict of interest in a transaction or proposal to be considered by the Board and which the Board has determined to be material, the individual declares his interest and is required to abstain from voting. The matter is considered at a Board meeting attended by Independent Non-Executive Directors who have no material interest in the transaction.

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.

Board Committees

In furtherance of good corporate governance, the Board has established two committees, the Audit Committee and the Remuneration Committee, which adhere to the principles, procedures and arrangements set out above. 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.

Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separated and not performed by the same individual.

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. Through the Board, he is responsible for ensuring that good corporate governance practices and procedures are followed by the operating companies. Throughout 2005 and up to 31st January 2006, the Chairman of Swire Pacific was D M Turnbull. C D Pratt was appointed Chairman on 1st February 2006.

The role of Chief Executive is split among the five senior divisional executives responsible for day-to-day management of Swire Pacific's individual businesses: K G Kerr (Property), P N L Chen (Aviation, in his capacity as the Chief Executive Officer of Cathay Pacific Airways Limited), J R Slosar (Beverages), C D Pratt (Industrial & Trading, and Marine Services) and D Ho (various shipping-related and logistics interests). Accordingly for 2005, there was a clear division of responsibilities between the Chairman and these five senior executives.

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. The Chairman takes the lead to ensure the Board acts in the best interests of Swire Pacific.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2005. In addition, the Chairman holds an annual meeting with the Non-Executive Directors, including the Independent Non-Executive Directors, without the Executive Directors being present.

The Chairman ensures that there is effective communication with the shareholders and that the views of the shareholders are communicated to the Board as a whole.

Board Composition

Currently the Board comprises the Chairman, three other Executive Directors, and nine Non-Executive Directors. 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. Although one of the Independent Non-Executive Directors has served in this capacity for more than nine years, the Directors are of the opinion that this Director continues to bring relevant experience and knowledge to the Board and that, notwithstanding his long service, maintains an independent view of the Company's affairs.

V H C Cheng was elected as an Independent Non-Executive Director at the 2005 AGM held on 12th May 2005. P N L Chen was appointed an Executive Director on 13th May 2005 and C D Pratt was appointed an Executive Director and elected Chairman of the Board on 1st February 2006. All the remaining Directors served throughout the calendar year 2005 and still hold office at the date of this report. The Directors' biographical details are set out on pages 63 to 64 of this report and posted on the company website www.swirepacific.com.

K G Kerr served as Alternate Director to Sir Adrian Swire during the year. In addition, D M Turnbull served as an Executive Director and Chairman of the Board and Alternate Director to Baroness Dunn during the year and until his resignation with effect from 1st February 2006. D G Eldon served as an Independent Non-Executive Director until his resignation with effect from 11th May 2005.

D G Eldon retired as a Director of Swire Pacific following his retirement from the HSBC Group. D M Turnbull resigned for personal reasons.

Directors' interests as at 31st December 2005 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 69 to 70.

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Appointments, Re-election and Removal

Potential new Directors are identified and submitted to the Board for approval. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his appointment. All Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified based on skills and experience that, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board. The use of an independent search firm was not considered necessary for the appointment of V H C Cheng and P N L Chen because, in the opinion of the Directors, it was unlikely that an independent agency or open advertising would produce additional candidates who matched the detailed profiles set down by the Board.

Responsibilities of Directors

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.

Each Director ensures that he or she can give sufficient time and attention to the affairs of the Swire Pacific group. 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. 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.

Non-Executive Directors serve on both the Audit Committee and the Remuneration Committee and five of the Non-Executive Directors, including four Independent Non-Executive Directors, attended the annual general meeting.

The Company has adopted a code of conduct ("the Securities Code") regarding securities transactions by Directors and officers 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. These rules are available on Swire Pacific's website www.swirepacific.com.

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 and Senior Executives 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.

Supply of and Access to Information

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 and ensuring that the Directors receive accurate, timely and clear information from the monthly management reports.

All Directors have access to Board papers and related materials that will assist them to make an informed decision on matters placed before the Board. Queries raised by Directors are answered fully and promptly.

Remuneration of Directors and Senior Management

The Remuneration Committee comprises three Non-Executive Directors, two of whom – C K M Kwok and C Lee - are Independent Non-Executive Directors. The committee 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.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited ("Swire"), which has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of this agreement, staff at various levels, including Executive Directors, are seconded to the Company. These 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-passages and education allowances and, after three years' service, a bonus related to the profit of the overall Swire group. The provision of housing allowances 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 within the Company. Furthermore, as a substantial shareholder of Swire Pacific, 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 November, 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 2006.

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

The fees received by the Independent Non-Executive Directors were reviewed by the Remuneration Committee at its November meeting and compared to the fees paid at 29 other Hong Kong listed companies. The Committee found the fees reasonable in light of the Directors' responsibilities and, on its recommendation, the Board approved the fees remaining at the same level for 2006:

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

Accountability and Audit

Financial Reporting

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 management of individual businesses within the Swire Pacific group provides the Directors with such information and explanations necessary to enable them to make an informed assessment of the financial and other information put before the Board for approval.

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.

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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 divisional Advisory Boards and divisional management who have been given clear guidelines and directions as to their powers and, in particular, the circumstances under which they should report back to the Board and obtain prior approval from the Board before making any commitments on behalf of Swire Pacific.

Internal Controls

The Board acknowledges its responsibility for maintaining and reviewing the effectiveness of the group's system of internal controls. Swire Pacific's internal control systems are designed to meet the particular needs of the business and play a key role in the management of the risks that are significant to the fulfilment of its business objectives.

A sound system of internal control contributes to safeguarding shareholders' investments and Swire Pacific's assets. Since profits are, in part, the reward for successful risk taking in business, the purpose of the internal controls is to help manage and control appropriately, rather than eliminate, the risk to the achievement of business objectives, and they can only provide reasonable, and not absolute, assurance against misstatement or loss.

In accordance with the guidelines published by the Hong Kong Institute of Certified Public Accountants on internal controls, the Board confirms that there is a process for identifying, evaluating, and managing the significant risks to the achievement of the group's strategic objectives. This process is subject to continuous improvement and was in place throughout 2005 and up to the date of approval of the annual report and accounts.

Swire Pacific has a well-established and demonstrable risk management structure, and its effectiveness is reviewed annually by the Audit Committee on behalf of the Board. This incorporates risk management, internal control procedures and disclosure controls and procedures. Swire Pacific's risk

management procedures cover financial, operational, and legal and regulatory matters. There were no significant control failings during the financial year and up to the date of the financial statements.

The Board has established a clear organisational structure, including the delegation of appropriate responsibilities. Swire Pacific's control framework is supported by a Code of Conduct, a revised version of which is currently under consideration by the Board and is expected to be published in 2006. This Code of Conduct sets standards of integrity and professionalism for the Company's operations worldwide, through a Control Self Assessment process.

The Board has overall responsibility for establishing key procedures designed to achieve systems of internal control and disclosure control and for reviewing and evaluating their effectiveness. The day-to-day responsibility for implementation of these procedures and ongoing monitoring of risk and the effectiveness of risk control rests with the Senior Management of each business unit.

The Control Self Assessment process requires the Senior Management in each material business unit to assess the effectiveness of controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations.

The Group Risk Management Committee reviews, on an ongoing basis, the risks faced by the group and the related internal control arrangements and provides written reports to the group audit committee.

In 2005, Swire Pacific embarked on an Enterprise Risk Management Project using the services of a third-party agency to standardise the assessment of the major risks facing its business units. This process is being undertaken at the operating unit level, and will form the basis of the divisional, and group-wide risk registers.

Senior Management of the operating units are responsible for updating their individual risk registers annually and ensuring that the necessary risk management processes are in place.

Assessing the Effectiveness of Internal Controls

On behalf of the Board, the Audit Committee examines the effectiveness of the Group's:

- assessment of risk, by reviewing evidence of risk assessment activity and internal audit reports on the processes undertaken; and
- systems of internal control, including the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. This is achieved primarily through approving the internal audit plan and reviewing the findings of internal audit work, in addition to reviewing the annual and interim financial statements, and the nature, scope, and reports of the external auditor.

In particular, the Audit Committee's annual review considers:

- the changes in the nature and extent of significant risks since the previous review and Swire Pacific's ability to respond to changes in its business and external environment;
- the scope and quality of management's ongoing monitoring of risks and of the system of internal control, the work of its internal audit function, and the assurances provided by the Group Finance Director;
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the company and the effectiveness with which risk is being managed;
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the company's financial performance or condition; and
- the effectiveness of the company's processes in relation to financial reporting and statutory and regulatory compliance.

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

- discussions with management on areas of risk 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 reports;
- the review of significant risks reported by the Group Internal Audit Department in conjunction with the Group Risk Manager; and
- the review of the results of the group-wide Control Self Assessment exercise.

Internal Audit

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.

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, and the external auditors. The results of each review are also discussed with the Audit Committee.

Any significant internal audit findings or identified risks are closely examined so that appropriate action can be taken. Management is called upon to present action plans which are agreed in response to the Department's recommendations and these are followed up to ensure that satisfactory control is maintained.

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In 2005, to assist in assessing the effectiveness of the group's internal controls, the Group Internal Audit Department produced Control Self-Assessment checklists for the business units to complete as a basis for the group-wide Control Self Assessment exercise. The Control Self Assessment process will be carried out annually, the first such assessment took place at the end of 2005. The results obtained from the individual business units are fed into a Divisional Assessment, which, in turn, forms the basis of the Group Assessment.

The Group Internal Audit Department reviews the results of this exercise and the process by which the operating companies and divisions determine their overall degree of internal control. The results of this review and the Control Self Assessment exercise are reported to the Audit Committee for onward communication to the Board.

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 page 62, two of whom are independent and one of whom, C K M Kwok, chairs the Committee. All the members served for the whole of 2005. The Company Secretary acts as Secretary.

Full minutes of Audit Committee meetings are kept and draft and final versions are sent to members for their comment and record within reasonable time after the relevant meeting.

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 comply with the CG Code. The current terms of reference are available on the Swire Pacific website.

The Audit Committee met four times in 2005. 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 2005 included consideration of the following matters:

- the completeness and accuracy of the 2004 annual and 2005 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 2005 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;
- developments in accounting standards and Swire Pacific's response, including preparation for adoption of Hong Kong Financial Reporting Standards;
- major accounting issues;
- monitoring non-audit services, principally tax advisory services, undertaken by the auditors such that the auditors' independence and objectivity would not be compromised;
- review of the Company's internal controls and risk management systems; and
- review of the Company's Code of Conduct in light of the CG Code.

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 6 to the accounts on page 95.

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 scope.

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. This 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 2005, the Group Risk Management Committee and its sub-committees met a total of seven 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.

During 2005, the Committee's work included:

- commencement of an Enterprise Risk Management project, the first stage of which is to produce updated risk registers which summarise the major risks faced by the group;
- arranging 42 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 and legal risk management;
- consolidating insurance procurement for Mainland China-based operating companies resulting in reduced costs and enhanced insurance coverage;
- expanded participation in pooling structures to leverage the group's procurement of employee benefits insurance with the result that most Hong Kong-based group companies now participate in the same scheme;
- increased use of Spaciom Limited, the group's insurance captive, in terms of lines of insurance written, the level of risk retained and the number of group companies taking up coverage offered;
- holding roadshow presentations 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; and
- development of business continuity planning guidelines for infectious diseases and pandemics as part of its preparations to reduce the potential impact of an avian flu pandemic on the group's activities.

Delegation by the Board

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.

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 financial statements;

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- 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.

Communication with Shareholders

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.

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 2005, the Group Finance Director held 56 meetings with analysts and investors in Hong Kong, conducted two analyst briefings, two investor group briefings, two overseas roadshows, spoke at three investor conferences and was interviewed by Bloomberg and CNBC on three occasions.

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 12th May 2005 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 60 shareholders personally present or by proxy. The following Directors also attended:

Executive Directors

D M Turnbull (Chairman of the Board in 2005)

M Cubbon

D Ho

K G Kerr

Non-Executive Director

P A Johansen (Chairman, Remuneration Committee)

Independent Non-Executive Directors

C K M Kwok (Chairman, Audit Committee)

C Lee

M C C Sze

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 2004, declaring final dividends, re-electing Directors, re-appointing auditors and authorising the Directors to fix their remuneration, the meeting approved, as special business, an ordinary resolution giving Directors a general mandate to make on-market share repurchases. A further ordinary resolution was passed to give Directors a general mandate to allot and issue shares up to 20% of the then issued share capital, provided that the aggregate nominal amount of the shares of any class so allotted wholly for cash shall not exceed 5% of the aggregate nominal amount of the share class then in issue. Minutes of the meeting together with voting results are available on Swire Pacific's website, www.swirepacific.com.

Key shareholder dates for 2006 are set out on the last page of this report and on the Company's website.

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.