

# Directors' Report

The Directors submit their report together with the audited accounts for the year ended 31st December 2009, which are set out on pages 103 to 174.

## Principal Activities

The principal activity of Swire Pacific Limited (the "Company") is that of a holding company, and the principal activities of its major subsidiary, jointly controlled and associated companies are shown on pages 164 to 174. 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 accounts.

## Dividends

The Directors recommend the payment of final dividends for 2009 of HK\$220.0 per 'A' share and HK\$44.0 per 'B' share which, together with the interim dividends paid on 5th October 2009 of HK\$60.0 per 'A' share and HK\$12.0 per 'B' share, make total dividends for the year of HK\$280.0 per 'A' share and HK\$56.0 per 'B' share: an increase of 17.6% from those for 2008. This represents a total distribution for the year of HK\$4,213 million. Subject to the approval of the 2009 final dividends by the shareholders at the Annual General Meeting on 13th May 2010, it is expected that those dividends will be paid on 2nd June 2010 to shareholders registered on the record date, being 13th May 2010. The share registers will be closed from 10th May 2010 to 13th May 2010, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement to the final 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 Friday, 7th May 2010.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 36 to the accounts.

## Share Capital

During the year under review and up to the date of this report, the Company did not purchase, sell or redeem any of its shares and the Group has not adopted any share option scheme.

## Accounting Policies

The principal accounting policies of the Group are set out on pages 155 to 163.

## 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 is shown on pages 56 to 63. A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 4 and 5.

## Corporate Governance

The Company has complied throughout the year with all the code provisions and most of the recommended best practices in the Code on Corporate Governance Practices as set out in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") with the exceptions of Section C.1.4, the production of quarterly statements, and Section A.4.4, the establishment of a nomination committee. Details of the Company's corporate governance practices are set out on pages 73 to 84.

## Donations

During the year, the Group made donations for charitable purposes of HK\$30 million and donations towards various scholarships of HK\$1 million.

## Fixed Assets

For details of movements in fixed assets refer to notes 14 and 15 to the accounts.

The annual valuation of the Group's investment property portfolio, whether complete or in the course of development, was carried out by professionally qualified valuers (98% by value having been valued by DTZ Debenham Tie Leung) on the basis of open market value at 31st December 2009. This valuation resulted in an increase of HK\$14,406 million in the carrying value of the investment property portfolio.

A schedule of the principal properties of the Group and its jointly controlled and associated companies is given on pages 179 to 189.

## Borrowings

For details of the Group's borrowings refer to pages 64 to 72.

## Interest

Refer to page 68 for details of the amount of interest capitalised by the Group.

## 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

The Directors of the Company as at the date of this report are listed on pages 89 and 90. With the exception of P A Kilgour, who was appointed as an Executive Director on 1st April 2009, all the Directors at the date of this report served throughout the calendar year 2009. K G Kerr served as an Executive Director until his retirement on 14th May 2009.

### Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors listed on page 90 confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent. The confirmation from T G Freshwater refers to his directorship of Goldman Sachs (Asia) L.L.C. and the confirmations from M Leung and M M T Yang refer to their directorships of The Hongkong and Shanghai Banking Corporation Limited. These directorships are mentioned under "Directors and Officers – Independent Non-Executive Directors" on page 90.

### 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 A Johansen and J R Slosar will retire this year and being eligible, will offer themselves for re-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 accounts.

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK\$4,050,000. They received no other emoluments from the Group.

### Directors' Interests

At 31st December 2009, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited, Cathay Pacific Airways Limited and Hong Kong Aircraft Engineering Company Limited:

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
Swire Pacific Limited						
‘A’ shares						
P N L Chen	–	2,000	–	2,000	0.0002	
P A Johansen	31,500	–	–	31,500	0.0035	
C D Pratt	41,000	–	–	41,000	0.0045	
M B Swire	58,791	–	1,256,539	1,315,330	0.1452	
M C C Size	6,000	–	–	6,000	0.0007	
‘B’ shares						
P N L Chen	65,000	10,142	–	75,142	0.0025	
D Ho	100,000	–	–	100,000	0.0033	
P A Johansen	200,000	–	–	200,000	0.0067	
C Lee	750,000	–	21,605,000	22,355,000	0.7464	1
C D Pratt	100,000	–	–	100,000	0.0033	
M B Swire	2,241,483	–	4,044,427	6,285,910	0.2099	2

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest					
	Personal	Family	Trust interest			
John Swire & Sons Limited						
Ordinary Shares of £1						
Baroness Dunn	8,000	—	—	8,000	0.01	
M B Swire	2,759,273	—	18,421,869	21,181,142	21.18	2
8% Cum. Preference Shares of £1						
Baroness Dunn	2,400	—	—	2,400	0.01	
M B Swire	837,101	—	5,415,441	6,252,542	20.84	2

	Capacity		Total no. of shares	Percentage of issued capital (%)
	Beneficial interest			
	Personal	Family		
Cathay Pacific Airways Limited				
Ordinary Shares				
P N L Chen	9,000	—	9,000	0.00023
A N Tyler	5,000	—	5,000	0.00013

	Capacity		Total no. of shares	Percentage of issued capital (%)
	Beneficial interest			
	Personal	Family		
Hong Kong Aircraft Engineering Company Limited				
Ordinary Shares				
T G Freshwater	10,000	1,200	11,200	0.0067
M C C Sze	12,800	–	12,800	0.0077

Notes:

1. All the Swire Pacific Limited 'B' shares held by C Lee under "Trust interest" are held by him as beneficiary of trusts.
2. M B Swire is a trustee of trusts which hold 9,965,029 ordinary shares and 2,881,716 preference shares in John Swire & Sons Limited and 1,256,539 'A' shares and 3,143,695 'B' shares in Swire Pacific Limited included under "Trust interest" and does 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.

At no time during the year did any Director, other than as stated in this report, have a beneficial interest, whether directly or indirectly, in a contract to which the Company or any of its associated corporations was a party, being a contract which was of significance and in which the Director's interest was material.

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 associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## Substantial Shareholders' and Other Interests

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2009, the Company had been notified of the following interests and short position in the Company's shares:

Long position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
<b>Substantial shareholders</b>					
John Swire & Sons Limited	179,041,158	19.77	2,038,165,765	68.05	1
Commonwealth Bank of Australia	72,548,000	8.01	–	–	2
J.P. Morgan Chase & Company	63,343,562	6.99	–	–	3
The Northern Trust company (ALA)	54,506,860	6.02	–	–	4
Aberdeen Asset Management plc	61,717,564	6.82	391,066,362	13.06	5

Short position	'A' shares	Percentage of issued capital (%)	'B' shares	Percentage of issued capital (%)	Note
J.P. Morgan Chase & Company	150,610	0.02	–	–	6

Notes:

- John Swire & Sons Limited is deemed to be interested in a total of 179,041,158 'A' shares and 2,038,165,765 'B' shares of the Company as at 31st December 2009, comprising:
  - 12,632,302 'A' shares and 37,597,019 'B' shares held directly by its wholly-owned subsidiary Taikoo Limited;
  - 39,580,356 'A' shares and 1,482,779,167 '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: 121,438,500 'A' shares and 95,272,500 'B' shares held by Elham Limited, 2,055,000 'B' shares held by Canterbury Holdings Limited, 5,390,000 'A' shares and 321,240,444 'B' shares held by Shrewsbury Holdings Limited and 99,221,635 'B' shares held by Tai-Koo Limited.
- The interest in these shares was attributable to wholly-owned controlled corporations of Commonwealth Bank of Australia.
- The shares held by J.P. Morgan Chase & Company are held in the following capacities:

Capacity	No. of shares
Beneficial owner	628,578
Investment manager	11,612,020
Custodian Corporation/Lending agent	51,102,964

- This notification was filed as a notice under Section 5(4) of the Securities and Futures (Disclosure of Interests – Securities Borrowing and Lending) Rules. Details of the capacities in which the shares are held were not given.
- The interests in these shares were reported by Aberdeen Asset Management plc under Section 329 of the SFO. Details of the capacities in which the shares are held were not given.
- This short position is held in the capacity as beneficial owner, and includes holdings in the following categories of derivatives:

Categories of derivatives	No. of shares
Physically settled unlisted derivatives	42,610

At 31st December 2009, the Swire group owned interests in shares of the Company representing 38.99% of the issued capital and 56.84% of the voting rights.

## Public Float

From information publicly available to the Company and within the knowledge of its Directors, at least 25% of the Company's issued share capital was held by the public at all times during the period under review.

## Agreements for Services

There are agreements for 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, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may have been agreed from time to time, and procured for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire.

In return for these services, JSSHK received annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from associated and jointly controlled companies of the Company, where there were no agreements for services with such companies, and (B) in the case of its subsidiary and associated companies with such agreements, as 2.5% of their relevant consolidated profits before taxation and minority interests after certain adjustments. The fees for each year were payable in cash in arrears 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 reimbursed the Swire group at cost for all expenses incurred in the provision of the services.

The Agreements took effect from 1st January 2005 and were renewed on 1st October 2007 for a term of three years from 1st January 2008 to 31st December 2010. 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 Agreement between JSSHK and the Company, JSSHK is obliged to procure for the Company and its subsidiary, jointly controlled and associated companies the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procurement obligation or such use.

The Swire group owned approximately 38.99% of the issued capital of the Company and approximately 56.84% of voting rights attached to such issued share capital as at 31st December 2009. JSSHK, as a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the Agreements are continuing connected transactions in respect of which announcements dated 1st December 2004 and 1st October 2007 were published.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2009 are given in note 41 to the accounts.

As directors and employees of the Swire group, P N L Chen, M Cubbon, D Ho, J W J Hughes-Hallett, P A Kilgour, C D Pratt, J R Slosar and A N Tyler are interested in the Agreements. Baroness Dunn and M B Swire are interested as shareholders, directors and employees of Swire.

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, on normal commercial terms, and in accordance with the relevant 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 these transactions have been approved by the Board of the Company and have been entered into in accordance with the relevant agreements governing the transactions; and that they have not exceeded the relevant annual caps disclosed in previous announcements.

## Connected Transactions

The Company's wholly-owned subsidiary Redhill Properties Limited entered into a sale and purchase agreement with Fine Bloom Limited on 26th June 2009 for the sale of the house located at 36A Island Road, Hong Kong to Fine Bloom Limited for an aggregate cash consideration of HK\$117.5 million. As Fine Bloom Limited was wholly-owned by K G Kerr, a former Director of the Company, the transaction under the sale and purchase agreement constituted a connected transaction for the Company, in respect of which an announcement dated 26th June 2009 was published.

The Company entered into a share purchase agreement with CITIC Pacific Limited on 17th August 2009 for the purchase of 78,676,891 ordinary shares of HK\$0.20 each of Cathay Pacific Airways Limited ("Cathay Pacific") for an aggregate cash consideration of approximately HK\$1,013 million. CITIC Pacific Limited is a substantial shareholder of the Company's subsidiary Swire Aviation Limited and therefore a connected person of the Company. The transaction under the share purchase agreement constituted a connected transaction in respect of which an announcement dated 17th August 2009 was published. The purchase was completed on 28th September 2009 and the Company's interest in Cathay Pacific increased by 2% from approximately 39.97% to approximately 41.97%.

## Other Transaction

The Company entered into a sale and purchase agreement with Cathay Pacific on 16th September 2009 for the purchase of 20,700,958 ordinary shares of HK\$1 each in Hong Kong Aircraft Engineering Company Limited ("HAECO") for an aggregate cash consideration of approximately HK\$1,901 million. The purchase was completed on 22nd October 2009 and the Company's direct interest in HAECO increased by 12.45% from approximately 33.52% to approximately 45.96%.

On behalf of the Board

**Christopher Pratt**

Chairman

Hong Kong, 11th March 2010