

Directors' Report

The Directors submit their report and the audited accounts for the year ended 31st December 2010, which are set out on pages 40 to 87. Details of the following items are set out in the accounts as follows:

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Ten-year Financial Summary

A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 88 and 89.

Dividends

The Directors recommend the payment of final dividend for 2010 of HK\$1.65 per share which, together with the interim dividend paid on 21st September 2010 of HK\$0.45 per share, makes total dividends for the year of HK\$2.10, an increase of 5% from that for 2009. This represents a total distribution for the year of HK\$349 million. Subject to the approval of the 2010 final dividend by the shareholders at the Annual General Meeting on 17th May 2011, it is expected that the final dividend will be paid on 26th May 2011 to shareholders registered at the close of business on the record date, being 17th May 2011. The share register will be closed from 11th May 2011 to 17th May 2011, both dates inclusive, during which period no transfer of shares will be effected. In order to qualify for entitlement to the final dividend, 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 Monday, 9th May 2011.

Donations

During the year the Company and its subsidiary companies made donations for charitable and community purposes totalling HK\$3.1 million.

Agreement for Services

The Company has an agreement for services with John Swire & Sons (H.K.) Limited ("JSSHK"), the particulars of which are set out in note 35 to the accounts, on continuing connected transactions.

As directors and/or employees of the John Swire & Sons Limited ("Swire") group, F.N.Y. Lung, C.D. Pratt, M.B. Swire and A.K.W. Tang are interested in the JSSHK Services Agreement (as defined below). D.C.Y. Ho and M.M.S. Low were interested as directors and/or employees of the Swire group until their resignation with effect from 1st April 2010 and 4th August 2010 respectively. M.B. Swire is also interested as a shareholder of Swire.

Particulars of the fees paid and expenses reimbursed for the year ended 31st December 2010 are set out in note 35 to the accounts.

Major Customers and Suppliers (Significant Contracts)

62.2 % of sales and 24.0 % of purchases during the year were attributable to the Group's five largest customers and suppliers respectively. 42.6 % of sales were made to the Group's largest customers, Cathay Pacific Airways Limited ("CX"), its subsidiary companies Hong Kong Dragon Airlines Limited ("KA") and AHK Air Hong Kong Limited, while 10.1 % of purchases were from the largest suppliers, Boeing Commercial Airplanes and Boeing International Logistics Spares, Inc.

In respect of the Company's transactions with CX and KA:

1. CX is interested as an associate of Swire Pacific Limited, the Company's holding company;
2. M.M.S. Low was interested as a shareholder of CX;
3. C.P. Gibbs is interested as an employee of CX; and
4. C.D. Pratt and M.B. Swire are interested as directors of CX.

Save as disclosed above, no Director, any of their associates or any shareholder who, to the knowledge of the Directors, owns more than 5 % of the Company's issued share capital has an interest in the customers or suppliers disclosed above.

Connected Transaction

On 1st April 2010, the Company accepted an offer by Kin Kuen Development Company Limited ("Kin Kuen") to sell 2 % of the registered capital of Taikoo (Xiamen) Aircraft Engineering Company Limited ("TAECO") to the Company for a consideration of US\$8.0 million (HK\$62.4 million). On completion of the transaction on 9th September 2010, the Company's interest in TAECO increased from 56.55 % to 58.55 % and Kin Kuen ceased to be a shareholder of TAECO.

As Kin Kuen is an associate of P.K. Chan, a former Director of the Company, the transaction constituted a connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 1st April 2010 was published.

Continuing Connected Transactions

The Independent Non-Executive Directors, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out in note 35 have been entered into by the Group:

- (a) in the ordinary and usual course of business of the Group;
- (b) either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Group than terms available to or from (as appropriate) independent third parties; and
- (c) in accordance with the relevant agreement 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:

- (a) they have been approved by the Board of the Company;
- (b) they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group);
- (c) they have been entered into in accordance with the relevant agreements governing the transactions; and
- (d) they have not exceeded the relevant annual caps disclosed in previous announcements.

Directors

The names of the present Directors are listed on pages 31 to 32. F.N.Y. Lung was appointed as Director Finance on 4th August 2010. All the remaining Directors served throughout the year and still hold office at the date of this report.

In addition, P.K. Chan served as Deputy Chairman and Executive Director of the Company until his resignation on 19th March 2010. D.C.Y. Ho served as Non-Executive Director of the Company until his resignation on 1st April 2010. A.K.Y. Lam served as Independent Non-Executive Director of the Company until his resignation on 6th June 2010. M.M.S. Low served as Director Finance until her resignation on 4th August 2010.

The Hon. Sir Michael Kadoorie served as Alternate Director to D.C.L. Tong during the year.

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 M. Hayman and R.E. Adams retire at the forthcoming Annual General Meeting of the Company and, being eligible, offer themselves for re-election. F.N.Y. Lung, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and offers herself for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until his 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/re-election. No Director has a service contract with the Company that is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

Fees totalling HK\$1.3 million were paid to the Independent Non-Executive Directors during the year; they received no other emoluments from the Company or any of its subsidiary companies.

Directors' Interests

At 31st December 2010, the registers maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that the following Directors held beneficial interests in the shares of the Company and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Hong Kong Aircraft Engineering Company Limited						
The Hon. Sir Michael David Kadoorie (Alternate Director)	–	–	5,223,811	5,223,811	3.14	1
D.C.L. Tong	20,000	–	–	20,000	0.01	

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
John Swire & Sons Limited						
Ordinary Shares of £1						
M.B. Swire	3,040,523	–	19,222,920	22,263,443	22.26	2
8% Cum. Preference Shares of £1						
M.B. Swire	846,576	–	5,655,441	6,501,917	21.67	2

	Capacity			Total no. of shares	Percentage of issued capital (%)	Note
	Beneficial interest		Trust interest			
	Personal	Family				
Swire Pacific Limited						
‘A’ shares						
P.A. Johansen	31,500	–	–	31,500	0.0035	
C.D. Pratt	41,000	–	–	41,000	0.0045	
M.B. Swire	58,791	–	–	58,791	0.0065	2
‘B’ shares						
P.A. Johansen	200,000	–	–	200,000	0.0067	
C.D. Pratt	100,000	–	–	100,000	0.0033	
M.B. Swire	2,241,483	–	3,938,554	6,180,037	0.2063	2

Notes:

1. The Hon. Sir Michael David Kadoorie is one of the beneficiaries and the founder of a discretionary trust which ultimately holds these shares.
2. M.B. Swire is a trustee of trusts which held 10,766,080 ordinary shares and 3,121,716 preference shares in John Swire & Sons Limited and 3,037,822 '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, 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 Business

None of the Directors and 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 interests in shares and short positions maintained under Section 336 of the SFO shows that as at 31st December 2010 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

	Number of shares	Percentage of issued capital (%)	Type of interest	Note
1. Swire Pacific Limited	124,723,637	74.99	Beneficial owner and attributable interest	(1)
2. John Swire & Sons Limited	124,723,637	74.99	Attributable interest	(2)

Notes:

At 31st December 2010:

(1) Swire Pacific Limited was interested in 124,723,637 shares of the Company as the beneficial owner;

(2) John Swire & Sons Limited ("Swire") and its wholly owned subsidiary John Swire & Sons (H.K.) Limited are deemed to be interested in the 124,723,637 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the Swire group's interests in shares of Swire Pacific Limited representing approximately 40.63% of the issued share capital and approximately 57.62% of the voting rights.

Public Float

From information that is publicly available to the Company and within the knowledge of its Directors as at the date of this report, at least 25 % of the Company's total issued share capital is held by the public.

Auditors

A resolution for the re-appointment of PricewaterhouseCoopers as Auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Christopher Pratt

Chairman

Hong Kong, 8th March 2011