

# DIRECTORS' REPORT

The Directors submit their report together with the audited accounts for the year ended 31st December 2010, which are set out on pages 105 to 178.

## 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 169 to 178. An analysis of the Group’s performance for the year by reportable business segment and geographical area is set out in note 8 to the accounts.

## Dividends

The Directors recommend the payment of final dividends for 2010 of HK¢250.0 per ‘A’ share and HK¢50.0 per ‘B’ share which, together with the interim dividends paid on 4th October 2010 of HK¢100.0 per ‘A’ share and HK¢20.0 per ‘B’ share, make total dividends for the year of HK¢350.0 per ‘A’ share and HK¢70.0 per ‘B’ share: an increase of 25% from those for 2009. This represents a total distribution for the year of HK\$5,266 million. Subject to the approval of the 2010 final dividends by the shareholders at the Annual General Meeting on 19th May 2011, it is expected that those dividends will be paid on 2nd June 2011 to shareholders registered on the record date, being 19th May 2011. The share registers will be closed from 16th May 2011 to 19th May 2011, 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, 13th May 2011.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in note 37 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 160 to 168.

## 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 62 to 70. A ten-year financial summary of the results and of the assets and liabilities of the Group is shown on pages 3 to 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 80 to 88.

## Donations

During the year, the Group made donations for charitable purposes of HK\$34 million and donations towards various scholarships of HK\$2.4 million.

## Fixed Assets

For details of movements in fixed assets refer to notes 15 and 16 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 2010. This valuation resulted in an increase of HK\$21,344 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 183 to 193.

## Borrowings

For details of the Group's borrowings refer to pages 71 to 79.

## Interest

Refer to page 75 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 92 and 93. With the exception of I S C Shiu, who was appointed as an Executive Director on 1st August 2010, all the Directors at the date of this report served throughout the calendar year 2010. A N Tyler has resigned as an Executive Director with effect from 31st March 2011. During the year, D Ho and P N L Chen served as Executive Directors until their resignations with effect from 1st April 2010 and 1st July 2010 respectively.

### Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors listed on pages 92 and 93 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 pages 92 and 93.

### 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, M Cubbon, Baroness Dunn, T G Freshwater, C Lee, M C C Sze and M Leung will retire this year and being eligible, will offer themselves for re-election.

I S C Shiu, having been appointed to the Board under Article 91 since the last Annual General Meeting, also retires and offers himself 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 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 9 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 2010, 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.<br>of shares | Percentage<br>of issued<br>capital (%) | Note |
|-----------------------|---------------------|--------|-------------------|------------------------|--|------|
|                       | Beneficial interest |        |                   |                        |  |      |
|                       | Personal            | Family | Trust<br>interest |                        |  |      |
| Swire Pacific Limited |                     |        |                   |                        |  |      |
| 'A' shares            |                     |        |                   |                        |  |      |
| P A Johansen          | 31,500              | —      | —                 | 31,500                 | 0.0035                                 | —    |
| P A Kilgour           | 5,000               | —      | —                 | 5,000                  | 0.0006                                 | —    |
| C D Pratt             | 41,000              | —      | —                 | 41,000                 | 0.0045                                 | —    |
| M B Swire             | 58,791              | —      | —                 | 58,791                 | 0.0065                                 | —    |
| M C C Sze             | 6,000               | —      | —                 | 6,000                  | 0.0007                                 | —    |
|                       |                     |        |                   |                        |  |      |
| 'B' shares            |                     |        |                   |                        |  |      |
| 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                                 | —    |
| I S C Shiu            | —                   | 20,000 | —                 | 20,000                 | 0.0007                                 | —    |
| M B Swire             | 2,241,483           | —      | 3,938,554         | 6,180,037              | 0.2063                                 | 2    |

|                                 | Capacity            |        |                   | Total no.<br>of shares | Percentage<br>of issued<br>capital (%) | Note |
|---------------------------------|---------------------|--------|-------------------|------------------------|--|------|
|                                 | Beneficial interest |        |                   |                        |  |      |
|                                 | Personal            | Family | Trust<br>interest |                        |  |      |
| John Swire & Sons Limited       |                     |        |                   |                        |  |      |
| Ordinary Shares of £1           |                     |        |                   |                        |  |      |
| Baroness Dunn                   | 8,000               | –      | –                 | 8,000                  | 0.01                                   |      |
| M B Swire                       | 3,040,523           | –      | 19,222,920        | 22,263,443             | 22.26                                  | 2    |
| 8% Cum. Preference Shares of £1 |                     |        |                   |                        |  |      |
| Baroness Dunn                   | 2,400               | –      | –                 | 2,400                  | 0.01                                   |      |
| M B Swire                       | 846,476             | –      | 5,655,441         | 6,501,917              | 21.67                                  | 2    |

|                                | Capacity            |        | Total no.<br>of shares | Percentage<br>of issued<br>capital (%) |
|--------------------------------|---------------------|--------|------------------------|--|
|                                | Beneficial interest |        |                        |  |
|                                | Personal            | Family |                        |  |
| Cathay Pacific Airways Limited |                     |        |                        |  |
| Ordinary Shares                |                     |        |                        |  |
| A N Tyler                      | 5,000               | –      | 5,000                  | 0.00013                                |
| I S C Shiu                     | 1,000               | –      | 1,000                  | 0.00003                                |

|  | Capacity            |        | Total no.<br>of shares | Percentage<br>of issued<br>capital (%) |
|--|---------------------|--------|------------------------|--|
|  | Beneficial interest |        |                        |  |
|  | Personal            | Family |                        |  |
| Hong Kong Aircraft Engineering Company Limited |                     |        |                        |  |
| Ordinary Shares                                |                     |        |                        |  |
| T G Freshwater                                 | 10,000              | 1,200  | 11,200                 | 0.0067                                 |
| I S C Shiu                                     | 1,600               | —      | 1,600                  | 0.0010                                 |
| 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 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, 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 2010, the Company had been notified of the following interests in the Company's shares:

| Long position                    | 'A' shares  | Percentage<br>of issued<br>capital (%) | 'B' shares    | Percentage<br>of issued<br>capital (%) | Note |
|----------------------------------|-------------|--|---------------|--|------|
| <b>Substantial Shareholders</b>  |             |  |               |  |      |
| John Swire & Sons Limited        | 202,237,519 | 22.33                                  | 2,045,353,690 | 68.29                                  | 1    |
| Aberdeen Asset Management plc    | 63,674,151  | 7.03                                   | 391,066,362   | 13.06                                  | 2    |
| The Northern Trust company (ALA) | 54,309,430  | 5.99                                   | –             | –                                      | 3    |

Notes:

1. John Swire & Sons Limited is deemed to be interested in a total of 202,237,519 'A' shares and 2,045,353,690 'B' shares of the Company as at 31st December 2010, comprising:
  - (a) 885,861 'A' shares and 7,187,925 'B' shares held directly;
  - (b) 12,632,302 'A' shares and 37,597,019 'B' shares held directly by its wholly-owned subsidiary Taikoo Limited;
  - (c) 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
  - (d) the following shares held directly by wholly-owned subsidiaries of John Swire & Sons (H.K.) Limited: 142,707,000 '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, 99,221,635 'B' shares held by Tai-Koo Limited and 1,042,000 'A' shares held by Waltham Limited.
2. Aberdeen Asset Management plc is interested in the 'A' shares in its capacity as investment manager. These include shares in which wholly-owned controlled corporations of Aberdeen Asset Management plc are interested. The interests in the 'B' share 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.
3. 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.

At 31st December 2010, the Swire group owned interests in shares of the Company representing 40.63% of the issued capital and 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.

### Continuing Connected Transactions

There are agreements for services ("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 non-controlling interests after certain adjustments. The fees for each year were payable in cash in arrear 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 Services Agreements, which took effect from 1st January 2005 and were renewed on 1st October 2007, were renewed again on 1st October 2010 for a term of three years from 1st January 2011 to 31st December 2013. 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 Services 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 procurator obligation or such use. This procurator obligation would fall away if the Services Agreement between JSSHK and the Company were terminated or not renewed.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2010 are given in note 43 to the accounts.

The Company and JSSHK entered into a Tenancy Framework Agreement ("the JSSHK Tenancy Framework Agreement") on 5th August 2010 to govern existing and future tenancy agreements between members of the Group and members of the JSSHK group for a term of six years from 1st January 2010 to 31st December 2015. Pursuant to the JSSHK Tenancy Framework Agreement, members of the Group will enter into tenancy agreements with members of the JSSHK group from time to time on normal commercial terms based on prevailing market rentals. The JSSHK Tenancy Framework Agreement is renewable for successive periods of six years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Particulars of the aggregate rentals payable to the Group under the tenancies pursuant to the JSSHK Tenancy Framework Agreement for the year ended 31st December 2010 are given in note 43 to the accounts.

The Swire group owned approximately 40.63% of the issued capital of the Company and approximately 57.62% of voting rights attached to such issued share capital as at 31st December 2010. JSSHK, as a wholly-owned subsidiary of Swire, is therefore a connected person of the Company under the Listing Rules. The transactions under the Services Agreements and the JSSHK Tenancy Framework Agreement are continuing connected transactions in respect of which announcements dated 1st October 2010 and 5th August 2010 were published respectively.

As directors and employees of the Swire group, M Cubbon, J W J Hughes-Hallett, P A Kilgour, C D Pratt, I S C Shiu, A N Tyler and J R Slosar are interested in the Services Agreements and the JSSHK Tenancy Framework Agreement. P N L Chen and D Ho were interested as directors and employees of the Swire group. 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; that they are in accordance with the pricing policies of the Group (if the transactions involve provision of goods or services by the Group); and that they have not exceeded the relevant annual caps disclosed in previous announcements.

### Connected Transaction

The Company, Swire Aviation Limited, Swire Finance Limited, Cathay Pacific Airways Limited ("Cathay Pacific"), CITIC Pacific Limited (as sellers) entered into a sale and purchase agreement with Jardine Matheson & Co. Limited, The Wharf (Holdings) Limited, Mosgen Limited, Hutchison Port Holdings Limited and China National Aviation Corporation (Group) Limited (as purchasers) on 25th May 2010 for the Company to sell its entire 19.998% interests in Hong Kong Air Cargo Terminals Limited ("Hactl") and Hactl Investment Holdings Limited ("HIHL") for a consideration of HK\$1,280 million.

CITIC Pacific Limited was a connected person of the Company because it was a substantial shareholder of Swire Aviation Limited, a subsidiary of the Company. The sale of the Company's interests in Hactl and HIHL constituted a connected transaction of the Company under the Listing Rules, in respect of which an announcement dated 25th May 2010 was published. The transaction was completed on 31st May 2010.

### Discloseable and Connected Transaction

On 7th June 2010, the Company entered into a sale and purchase agreement with Cathay Pacific for the purchase of 24,948,728 ordinary shares of HK\$1 each in Hong Kong Aircraft Engineering Company Limited ("HAECO") for an aggregate cash consideration of HK\$2,620 million (equivalent to HK\$105 per HAECO share). The purchase was completed on 14th June 2010 and the Company's direct interest in HAECO increased by 15% from 45.96% to 60.96%.

Pursuant to Rule 26.1 of the Takeovers Code, the Company made a mandatory unconditional cash offer ("the Offer") to acquire all of the issued shares in the capital of HAECO not already owned by the Company or its subsidiaries at HK\$105 per HAECO share. The Offer closed on 27th July 2010. The Company received valid acceptances in respect of a total of 24,766,659 HAECO shares under the Offer, so increasing the Company's direct interest in HAECO by 14.89% from 60.96% as at 14th June 2010 to 75.85% as at 27th July 2010. The aggregate cash consideration payable under the Offer was HK\$2,600 million. The Offer constituted a discloseable and connected transaction for the Company under the Listing Rules, in respect of which an announcement dated 7th June 2010 was published. (On 13th August 2010, the Company completed the disposal of 1,440,925 HAECO shares at HK\$103 per HAECO share and reduced its direct interest in HAECO from 75.85% to 74.99%.)

### Other Transaction

Swire Industrial Limited and Banyan Limited, wholly owned subsidiaries of the Company, entered into sale and purchase agreements with Crown Packaging Investment (H.K.) Limited on 7th September 2010 for the disposal of the Company's interests in CROWN Beverage Cans Hong Kong Limited and Crown Swire Investment Company Limited, being the Company's interests in joint ventures with Crown Holdings, Inc. for the manufacture of aluminium beverage cans in Mainland China and Vietnam, for a consideration of US\$150 million (equivalent to approximately HK\$1,170 million). The disposal was completed on 15th September 2010.

On behalf of the Board

**Christopher Pratt**

Chairman

Hong Kong, 10th March 2011