

## Corporate Governance Report

### Governance Culture

Swire Pacific is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, Swire Pacific believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained.

### Corporate Governance Statement

The Corporate Governance Code (the “CG Code”) as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

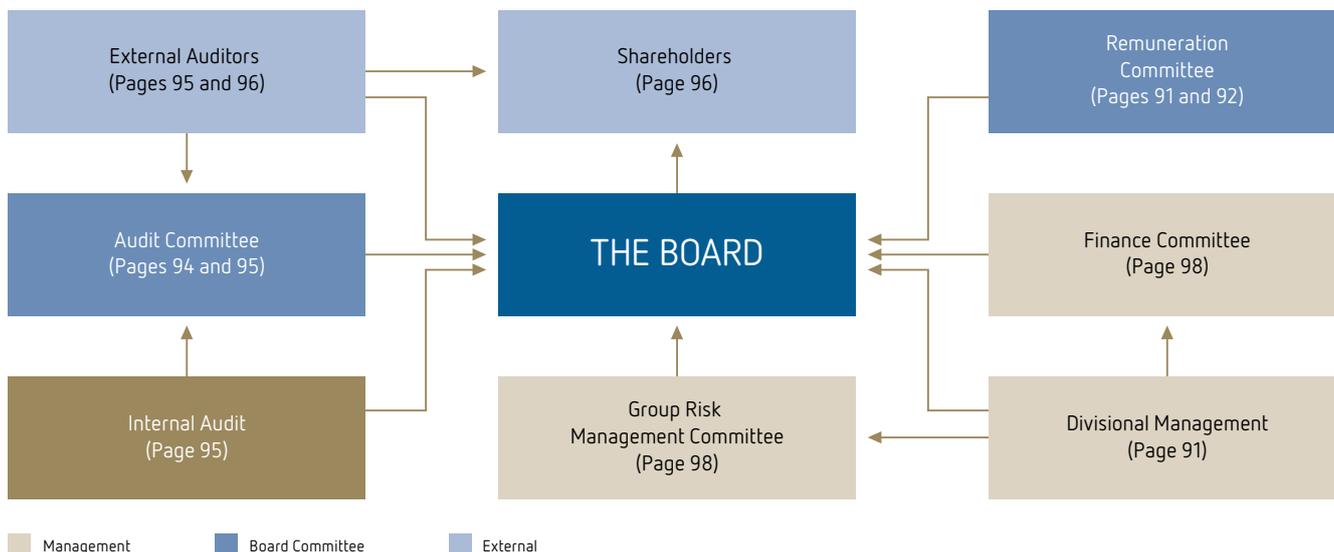
- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. Swire Pacific has adopted its own corporate governance code which is available on its website [www.swirepacific.com](http://www.swirepacific.com). Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices. As part of its commitment to enhance corporate governance standards within the region, Swire Pacific is a member of the Asian Corporate Governance Association.

The Company complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”) throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- **Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee.** The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role.

## Governance Structure



Note: The Group Risk Management Committee reports to the Board through the Audit Committee. The Finance Committee reports to the Board through the Finance Director.

## The Board of Directors

### Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to divisional management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy

- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions.

To assist it in fulfilling its duties, the Board has established two primary committees, the Audit Committee (see pages 94 and 95) and the Remuneration Committee (see pages 91 and 92).

### Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

M B Swire, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed.

Each division of the Group has one or more executive directors who are responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's individual businesses (see page 91).

Throughout the year, there was a clear division of responsibilities between the Chairman and the management executives responsible for the divisions of the Group.

### Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, three other Executive Directors and seven Non-Executive Directors. Their biographical details are set out in the section of this annual report headed Directors and Officers and are posted on the Company's website.

I K L Chu, D P Cogman, M Cubbon and M M S Low are directors and/or employees of the John Swire & Sons Limited ("Swire") group. M B Swire and S C Swire are shareholders, directors and employees of Swire. Before he ceased to be a director of the Company, J R Slosar was a director and an employee of the Swire group.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that five of the seven Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. T G Freshwater and C Lee have served as Non-Executive Directors for more than nine years. The Directors are of the opinion that they remain independent, notwithstanding their length of tenure. T G Freshwater and C Lee continue to demonstrate the attributes of an Independent Non-Executive Director noted above and there is no evidence that their tenure has had any impact on their independence. The Board believes that their detailed knowledge and experience of the Group's business and their external experience continue to be of significant benefit to the Company, and that they maintain an independent view of its affairs.

Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. None of the Independent Non-Executive Directors holds cross-directorships or has significant links with other Directors through involvements in other companies or bodies.

The Independent Non-Executive Directors:

- provide open and objective challenge to management and other Board members
- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management.

The number of Independent Non-Executive Directors represents at least one-third of the Board of Directors.

### Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

On 14th March 2019, the Board, having reviewed the Board's composition, nominated M Cubbon, R W M Lee and G R H Orr for recommendation to shareholders for election/re-election at the 2019 Annual General Meeting. The nominations were made in accordance with objective criteria (including gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders), with due regard for the benefits of diversity, as set out in the board diversity policy. The Board also took into account the respective contributions of M Cubbon, R W M Lee and G R H Orr to the Board and their firm commitment to their roles. The Board is satisfied with the independence of R W M Lee and G R H Orr having regard to the criteria laid down in the Listing Rules. The particulars of the Directors standing for election/re-election are set out in the section of this annual report headed Directors and Officers and will also be set out in the circular to shareholders to be distributed with this annual report and posted on the Company's website.

Full details of changes in the Board during the year and to the date of this report are provided in the section of this annual report headed Directors' Report.

### Board Diversity

The Board has adopted a board diversity policy, which is available on the Company's website. The Board's composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's strategy, governance and business and contribute to the Board's effectiveness. A summary is set out in the table below:

Age	Gender	Ethnicity	Years of service as Director	Skills, expertise and experience
39-50 years (27%)	Male (82%)	American (9%)	1-5 years (55%)	company executive (55%)
51-62 years (36%)		British (64%)	6-10 years (18%)	accounting, banking and finance (27%)
63-74 years (36%)	Female (18%)	Chinese (27%)	over 10 years (27%)	management consultancy (18%)

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

### Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information.

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the 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 regularly.

Details of Directors' other appointments are shown in their biographies in the section of this annual report headed Directors and Officers.

### Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2018 Board meetings were determined in 2017 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met six times in 2018. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 90. Average attendance at Board meetings was 95%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. 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 records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

A typical Board meeting would consist of:

- review by the Finance Director of quarterly and annual financial results, the operating environment for the businesses and the budget outlook for their performance

- review and discussion of longer-term financial plans for the Group, including discussion of capital allocation and portfolio investment plans over a ten-year horizon
- discussion of group strategy, including major investments, divestments and strategic initiatives within the businesses
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for the Board's consideration
- any declarations of interest.

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility. One such meeting was held in 2018.

The Chairman meets at least annually with the Independent Non-Executive Directors without the presence of other Directors.

Directors	Meetings Attended/Held				Continuous Professional Development
	Board	Audit Committee	Remuneration Committee	2018 Annual General Meeting	Type of Training (Note)
<b>Executive Directors</b>					
M B Swire – Chairman (elected on 1st July 2018)	5/6		1/1	√	A
J R Slosar – Chairman (retired on 30th June 2018)	4/4			√	A
I K L Chu	6/6			√	A
D P Cogman	6/6			√	A
M M S Low	6/6			√	A
<b>Non-Executive Directors</b>					
M Cubbon (appointed on 1st November 2018)	1/1			N/A	A
S C Swire	5/6		1/1	√	A
<b>Independent Non-Executive Directors</b>					
P K Etchells	6/6	3/3		√	A
T G Freshwater	6/6			√	A
C Lee	6/6	3/3	2/2	√	A
R W M Lee	5/6		2/2	x	A
G R H Orr	6/6	3/3		√	A
Average attendance	95%	100%	100%	91%	

Note:

A: All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

### Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with “A Guide on Directors’ Duties” issued by the Companies Registry and “Guidelines for Directors” and “Guide for Independent Non-Executive Directors” issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

### Directors’ and Officers’ Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

### Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

### Delegation by the Board

Responsibility for delivering the Company’s strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the head of each business unit. These individuals have been given clear guidelines and directions as to their powers and, in particular, the circumstances under which they should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management’s performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of statements of profit or loss, financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers.

### Securities Transactions

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 contained in Appendix 10 to the Listing Rules. These rules are available on the Company’s website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group’s interim and annual results have been published, and that all their 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.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors’ interests at 31st December 2018 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 in the section of this annual report headed Directors’ Report.

### Remuneration Committee

Full details of the remuneration of the Directors are provided in note 8 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors, C Lee, R W M Lee and S C Swire. Two of the Committee members are Independent Non-Executive Directors, one of whom, C Lee is Chairman. S C Swire succeeded M B Swire as a member of the Remuneration Committee with effect from 18th May 2018. All the other members served for the whole of 2018.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the Group.

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

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave-passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific Group. Although the remuneration of executives is not entirely linked to the profits of the businesses in which they are working, it is considered that, given the different profitability profiles of businesses within the Group, these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre management team within the Group.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors at its meeting in October 2018. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 8 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

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

The following fee levels have been approved by the Board:

Fee	2018 HK\$	2019 HK\$
Director's Fee	690,000	690,000
Fee for Audit Committee Chairman	268,000	268,000
Fee for Audit Committee Member	186,000	186,000
Fee for Remuneration Committee Chairman	83,000	83,000
Fee for Remuneration Committee Member	60,000	60,000

## Accountability and Audit

### Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate.

### Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 94 and 95.

The foundation of strong risk management and internal control systems is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key components of the Group's control structure are as follows:

**Culture:** The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

**Risk assessment:** The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

There are two key management committees which monitor risk processes throughout the Group; the Group Risk Management Committee (GRMC) and the Finance Committee. These primarily comprise senior management and both are chaired by the Finance Director, who reports to the Board on matters of significance that arise.

The GRMC, discussed further in the section of this annual report headed Risk Management, focuses on business, operational, safety, security, legal and reputational risks. The Finance Committee, discussed further in the section of this annual report headed Risk Management, focuses on broad financial and treasury risks.

**Management structure:** The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires the management in each material business unit to assess, through the use of detailed questionnaires, the adequacy and effectiveness of risk management and internal controls over the reliability

of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

**Controls and review:** The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities adopted by Group companies include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

**Internal audit:** Independent of management, the Internal Audit department reports directly to the Audit Committee and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on page 95.

## Audit Committee

The Audit Committee, consisting of three Independent Non-Executive Directors, P K Etchells, C Lee and G R H Orr, assists the Board in discharging its responsibilities for corporate governance and financial reporting. P K Etchells is the Chairman of the Audit Committee. All the members served for the whole of 2018.

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. They are available on the Company's website.

The Audit Committee met three times in 2018. Regular attendees at the meetings are the Finance Director, the Head of Internal Audit and the external auditors. The Audit Committee meets at least twice a year with the external auditors, and at least once a year with the Head of Internal Audit, without the presence of management. Each meeting receives written reports from the GRMC, the external auditors and Internal Audit. Other attendees during the year included the Group Finance Manager and the Head of Group Risk Management.

The work of the Committee during 2018 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2017 annual and 2018 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2019 annual Internal Audit programme and review of progress on the 2018 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 95
- the Company's compliance with the CG Code.

In 2019, the Committee has reviewed, and recommended to the Board for approval, the 2018 financial statements.

## Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness of Internal Audit and the assurances provided by the Finance Director
- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- 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 Group 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
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit and the Group Risk Management Committee
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise.

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and internal control throughout the year and up to the date of this annual report.

## Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

## Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 23 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 25 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 25 professionals include a team based in Mainland China which reports to IA in Hong Kong.

IA reports directly to the Audit Committee without the need to consult with management, and via the Audit Committee to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

### Scope of Work

Business unit audits are designed to provide assurance that the risk management and internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the GRMC and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. 43 assignments were conducted for Swire Pacific in 2018.

IA specifically assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems through its review of the process by which management has completed the annual Control Self Assessment, and the results of this assessment.

IA conducts ad-hoc projects and investigative work as may be required by management or the Audit Committee.

### Audit Conclusion and Response

Copies of IA reports are sent to the Chairman of the Board, the Finance Director and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations, including those aimed at resolving material internal control defects. These are agreed by IA, included in its reports and followed up with a view to ensuring that they are satisfactorily undertaken.

## External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). PricewaterhouseCoopers, the auditors, have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity are not, and are not seen to be, compromised
- approval of audit and non-audit fees.

### Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

### Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service.

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

The fees in respect of audit and non-audit services provided to the Group by the auditors for 2018 amounted to approximately HK\$53 million and HK\$17 million respectively. Fees paid to the auditors are disclosed in note 6 to the financial statements.

### Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules

- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

### Shareholders

#### Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The methods used to communicate with shareholders include the following:

- The Finance Director is available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In 2018 the Finance Director held meetings or calls with analysts and investors, conducted analyst briefings and overseas roadshows and spoke at investor conferences
- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the annual general meeting as discussed below.

Shareholders may send their enquiries and concerns to the Board by post or email at [ir@swirepacific.com](mailto:ir@swirepacific.com). The relevant contact details are set out in the Financial Calendar and Information for Investors section of this Annual Report.

### The Annual General Meeting

The annual general meeting is an important forum in which to engage with shareholders. The most recent annual general meeting was held on 10th May 2018. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 90.

At the annual general meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2017
- electing/re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares of any class then in issue, provided that the aggregate number of the shares of any class so allotted wholly for cash would not exceed 5% of the number of the shares of that class then in issue.

Minutes of the meeting together with voting results are available on the Company's website.

### Dividend Policy

The Company has a policy on the payment of dividends, which is set out in the section of this annual report headed Directors' Report.

### Shareholder Engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

### Other Information for Shareholders

Key shareholder dates for 2019 are set out in the section of this annual report headed Financial Calendar and Information for Investors and in the Financial Calendar on the Company's website.

No amendment has been made to the Company's Articles of Association during the year.

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. Details of substantial shareholders' and other interests are included in the section of this annual report headed Directors' Report.