

Independent Auditor's Report



To the Shareholders of Swire Pacific Limited
(incorporated in Hong Kong with limited liability)

Opinion

We have audited the consolidated financial statements of Swire Pacific Limited ("the Group financial statements") and its subsidiaries ("the Group") set out on pages 127 to 210, which comprise the consolidated statement of financial position as at 31st December 2015, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2015, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Group Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Group financial statements as at and for the year ended 31st December 2015. These matters were addressed in the context of our audit of the Group financial statements as a whole and, in forming our opinion thereon, we do not provide a separate opinion on these matters.

Key Audit Matter

Valuation and impairment of property, plant and equipment

Refer to note 14 in the Group financial statements.

Swire Pacific Offshore ("SPO") has vessels with aggregate carrying values of HK\$21,348 million as at 31st December 2015. Following a review of the business, the outlook for the industry and SPO's operating plans, management has assessed these carrying values. An impairment provision of HK\$743 million has been recorded to reduce the carrying values of certain vessels to their estimated recoverable values, which is the higher of fair value less costs of disposal and value in use. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required. These conclusions are dependent upon significant management judgement, including in respect of:

- Estimated resale values, provided by an independent external valuer; and
- Estimated utilisation, disposal values, charter hire rates and discount rates applied to future cash flows.

The HAECO group has assets of HK\$1,494 million located at Xiamen Airport, Mainland China. The Municipal Government of Xiamen has announced its proposal to build a new airport with a planned opening date of 2020. The proposal is subject to the approval of the National Development and Reform Commission of the People's Republic of China. If the proposal is implemented, the HAECO group expects to receive compensation. If the present value of the compensation together with the present value of future cash flows from the relevant assets were assessed to be less than the carrying value of the relevant assets, impairment would arise.

Management has concluded that there is no impairment in respect of these assets of the proposed airport relocation. This conclusion required significant management judgement and was based on the current status of the approval process, discussions with representatives from the Municipal Government of Xiamen and preliminary compensation assessments performed by management with the assistance of an independent consultant.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's impairment assessment of vessels included:

- Assessing the methodologies used by the external valuer to estimate resale values and by management to estimate values in use;
- Evaluating the independent external valuer's competence, capabilities and objectivity;
- Checking, on a sample basis, the accuracy and relevance of the input data provided by management to the external valuer;
- Considering the appropriateness of the resale values estimated by the external valuer based on our knowledge of the offshore oil services industry and values obtained by the group in respect of vessels that have been disposed of during the year;
- Checking on a sample basis the accuracy and relevance of the input data used by management to estimate values in use;
- Assessing management's key assumptions used to estimate values in use based on our knowledge of the offshore oil services industry; and
- Considering the potential impact of reasonably possible downside changes in these key assumptions.

Based on available evidence we found management's assumptions in relation to the fair value less costs of disposal and value in use calculations to be reasonable. We found the disclosures in note 14 to be appropriate.

Our procedures in relation to management's assessment of the carrying value of the assets included:

- Evaluating management's preliminary compensation assessment;
- Discussing the status of the airport relocation with the HAECO group's project team;
- Assessing correspondence between the HAECO group and the Xiamen Municipal Government; and
- Assessing the terms of the existing land use rights.

We consider management's conclusion to be consistent with the available information.

Key Audit Matter
Valuation of investment properties

Refer to note 15 in the Group financial statements.

Management has estimated the fair value of the Group's investment properties to be HK\$227,300 million as at 31st December 2015 with a revaluation gain for the year ended 31st December 2015 recorded in the consolidated statement of profit or loss of HK\$7,053 million. Independent external valuations were obtained in respect of 96% of the portfolio in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement including capitalisation rates and fair market rents. Capitalisation rates were substantially unchanged since 31st December 2014 and the increase in fair values mainly relates to movements in fair market rents. The valuations of investment properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's valuation of investment properties included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry and using our in-house valuation experts; and
- Checking, on a sample basis, the accuracy and relevance of the input data used.

We found the key assumptions were supported by the available evidence. The fair market rents were supported by recent renewals and capitalisation rates were in line with our expectations. We found the disclosures in note 15 to be appropriate.

Key Audit Matter
Goodwill and other asset impairment assessment – HAECO Americas

Refer to note 17 in the Group financial statements.

The HAECO group has goodwill of HK\$1,387 million relating to HAECO USA Holdings, Inc.'s acquisition of TIMCO Aviation Services, Inc. (together "HAECO Americas") in 2014 for HK\$2,876 million. HAECO Americas incurred losses in the year ended 31st December 2015. This has increased the risk that the carrying values of goodwill and other assets may be impaired.

Management has concluded that there is no impairment in respect of the HAECO Americas goodwill and other assets. This conclusion was based on a value in use model that required significant management judgement with respect to the discount rate and the underlying cash flows, in particular future revenue growth.

How our audit addressed the Key Audit Matter

Our procedures in relation to management's impairment assessment included:

- Assessing the valuation methodology;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets.

We found the assumptions made by management in relation to the value in use calculations to be reasonable based on available evidence. The significant inputs have been appropriately disclosed in note 17.

Key Audit Matter

Key Audit Matters in relation to Cathay Pacific Airways Limited, ("Cathay Pacific")

Refer to note 19 in the Group financial statements and the abridged financial statements of Cathay Pacific on pages 197 and 198.

The Group's 45% interest in Cathay Pacific is accounted for under the equity method. The Group's share of the profit after tax from Cathay Pacific for the year ended 31st December 2015 was HK\$2,700 million and the Group's share of Cathay Pacific's net assets was HK\$22,048 million as at 31st December 2015. The amounts noted below are those in the Cathay Pacific financial statements (i.e. on a 100% basis).

In the context of our audit of the Group's financial statements, the key audit matters relating to the Group's share of the profits and net assets of Cathay Pacific are summarised below:

How our audit addressed the Key Audit Matter

Cathay Pacific is a significant associate of the Group and is audited by a non-PwC auditor ("the CX Auditor"). We have met with the CX Auditor and discussed their identified audit risks and audit approach and have reviewed their working papers and discussed with them the results of their work. Together with their reporting to us in accordance with our instructions we have determined that the audit work performed and evidence obtained were sufficient for our purpose. We have met with the CX Auditor and Swire Pacific management and have discussed with them and evaluated the impact on the Group financial statements of the key audit matters relating to Cathay Pacific.

The procedures performed on the respective key audit matters included:

Revenue recognition – Cathay Pacific's revenue amounted to HK\$102,342 million for the year ended 31st December 2015. Revenue from passenger and cargo sales is recorded when the related transportation service is provided, using complex information technology systems to track the point of service delivery and, where necessary, estimates of fair values for the services provided that involve a significant degree of management judgement.

- Testing controls over Cathay Pacific's information technology revenue systems;
- Conducting substantive analytical procedures on revenue; and
- Scrutinising manual journals related to revenue to assess the timing and fair values of revenues recorded.

Derivative instruments and hedge accounting – Cathay Pacific enters into a high volume of derivative financial instrument contracts to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. These contracts gave rise to derivative financial assets of HK\$2,778 million and liabilities of HK\$21,871 million as at 31st December 2015. These contracts are recorded at fair value and for the majority of them hedge accounting is applied, such that gains and losses arising from fair value changes are deferred in equity and recognised in the consolidated statement of profit or loss when hedges mature. The high volume of contracts necessitates a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and are subject to an inherent risk of error.

- Testing Cathay Pacific's management's controls over derivative financial instruments and hedge accounting;
- Inspecting, on a sample basis, Cathay Pacific's management's hedge documentation and contracts;
- Re-performing the year end valuations of derivative financial instruments and calculations of hedge effectiveness; and
- Obtaining confirmation of year end derivative financial instruments from counterparties.

Key Audit Matter
How our audit addressed the Key Audit Matter

Key Audit Matters in relation to Cathay Pacific Airways Limited, ("Cathay Pacific") (continued)

Refer to note 19 in the Group financial statements and the abridged financial statements of Cathay Pacific on pages 197 and 198.

Provisions for taxation, litigation and claims – As at 31st December 2015, Cathay Pacific had provisions in respect of taxation disputes, litigation (including anti-trust proceedings in various jurisdictions) and claims amounting to HK\$1,338 million. These provisions are estimated using a significant degree of management judgement.

- Assessing the adequacy of Cathay Pacific's tax provisions by reviewing correspondence with the tax authorities;
- Reviewing previous judgements made by the taxation authorities in the relevant jurisdictions; and relevant opinions given by Cathay Pacific's third party advisers;
- Discussing significant litigation and claims with Cathay Pacific's internal legal counsel; and
- Obtaining letters from Cathay Pacific's external legal advisors regarding the likely outcome and magnitude of and exposure to the relevant litigation and claims.

Carrying value of aircraft and related equipment – The carrying value of Cathay Pacific's aircraft and related equipment as at 31st December 2015 was HK\$89,299 million and the related depreciation charge for the year ended 31st December 2015 was HK\$7,565 million. The carrying value and depreciation rates are reviewed annually by management with reference to fleet composition, current and forecast market values and relevant technical factors. This involves a significant degree of management judgement.

- Assessing the reasonableness of Cathay Pacific's management's assertions and estimates regarding estimated useful lives and residual values using valuation reports published by third party specialists, the policies of other comparable airlines and Cathay Pacific's historical experience and future operating plans;
- Discussing indicators of possible impairment with Cathay Pacific's management and, where such indicators were identified, assessing Cathay Pacific's management's impairment testing; and
- Challenging the assumptions and critical judgements used by Cathay Pacific's management by assessing the reliability of Cathay Pacific's management's past estimates and taking into account recent industry developments and Cathay Pacific's future operating plans.

Aircraft maintenance provisions – Cathay Pacific is contractually committed to return 55 aircraft held under operating leases to the lessors in a physical condition agreed at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts and accrues such costs over the lease term on a systematic basis. The associated provisions amounted to HK\$1,561 million as at 31st December 2015. Determining the provisions requires significant management judgement and complex estimates, including the utilisation of the aircraft, the expected cost of maintenance and the estimated lifespans of life-limited parts.

- Testing Cathay Pacific's management's controls over recording provisions for maintenance of aircraft held under operating leases;
- Performing substantive procedures relating to the provisioning;
- Recalculating the provision; and
- Evaluating key assumptions adopted by Cathay Pacific's management through reviewing the terms of the operating leases and comparing assumptions to contract terms, information from lessors and Cathay Pacific's maintenance cost experience by having regard to the expected useful lives of life-limited parts of the aircraft and assessing the reliability of Cathay Pacific's management's past assumptions.

Key Audit Matter

How our audit addressed the Key Audit Matter

Key Audit Matters in relation to Cathay Pacific Airways Limited, ("Cathay Pacific") (continued)

Refer to note 19 in the Group financial statements and the abridged financial statements of Cathay Pacific on pages 197 and 198.

We found that, in the context of our audit of the consolidated financial statements of Swire Pacific Limited, Cathay Pacific's management judgements and estimates associated with the key audit matters noted in respect of the Group's share of the profit and net assets of Cathay Pacific were supported by the available evidence.

Other Information in the Annual Report

The directors are responsible for the Other Information. The Other Information comprises all the information in the Swire Pacific 2015 annual report other than the Group financial statements and our auditor's report thereon ("the Other Information").

Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Group Financial Statements

The directors are responsible for the preparation of Group financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Group Financial Statements

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the Group financial statements, whether due to fraud or error; design and perform audit procedures responsive to those risks; and, obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the Group financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the Group financial statements, including the disclosures, and whether the Group financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the Group financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 10th March 2016