Notes to the Financial Statements

GENERAL INFORMATION

The Company is a limited liability company incorporated in Hong Kong and its shares are listed on The Stock Exchange of Hong Kong Limited. The principal activity of the Company is that of a holding company. The principal activities of its major subsidiary, joint venture and associated companies are shown on pages 197 to 208.

1. Changes in Accounting Policies and Disclosures

(a) The following amendments to standards were required to be adopted by the Group effective from 1st January 2016:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 1 (Amendment)	Disclosure Initiative
HKFRS 11 (Amendment)	Accounting for Acquisitions of Interests in Joint Operations

The adoption of these amendments has had no significant impact on the Group's financial statements.

(b) The Group has not early adopted the following relevant new and revised standards that have been issued but are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements:

HKAS 7 (Amendment)	Disclosure Initiative[1]
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses[1]
HKFRS 2	Classification and Measurement of Share-Based Payment Transactions[2]
HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4]

1. To be applied by the Group from 1st January 2017
2. To be applied by the Group from 1st January 2018
3. To be applied by the Group from 1st January 2019
4. The mandatory effective date has been postponed indefinitely

None of these new and revised standards is expected to have a significant effect on the Group's financial statements, except the following set out below:

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The new standard replaces HKAS 18 and HKAS 11 and related interpretations and provides a comprehensive revenue recognition model that can be applied to a wide range of transactions and industries. The model uses a five-step analysis of transactions to determine whether, how much and when revenue is recognised. The Group is assessing the impact of the new standard.

1. Changes in Accounting Policies and Disclosures (continued)

The complete version of HKFRS 9 replaces the guidance in HKAS 39. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. There are no changes to classification and measurement of financial liabilities except for the recognition of changes relating to an entity's own credit risk, which are recognised in other comprehensive income for liabilities designated at fair value through profit or loss. Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under the current standard. The Group is assessing the impact of the new standard.

HKFRS 16 replaces HKAS 17 and related interpretations and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the balance sheet for all leases by lessees. The standard does not significantly change the accounting of lessors. Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's operating lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments in the financial statements. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses. The Group is assessing the impact of the new standard.

2. Financial Risk Management

The Group's approach to financial risk management is discussed on pages 98 and 99 under the heading "Audited Financial Information".

Interest rate exposure
The impact on the Group's profit or loss and other comprehensive income of a 100 basis-points increase or decrease in market interest rates from the rates applicable at 31st December, with all other variables held constant, would have been:

	100 basis-points increase in interest rates HK$M	100 basis-points decrease in interest rates HK$M
At 31st December 2016		
Impact on profit or loss: (loss)/gain	(137)	129
Impact on other comprehensive income: gain	3	3
At 31st December 2015		
Impact on profit or loss: (loss)/gain	(126)	126
Impact on other comprehensive income: gain/(loss)	74	(66)

This analysis is based on a hypothetical situation, as in practice market interest rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

- Changes in market interest rates affect the interest income or expense of floating rate financial instruments
- Changes in market interest rates only affect interest income or expense in relation to fixed rate financial instruments if these are recognised at fair value
- Changes in market interest rates affect the fair value of derivative financial instruments
- All other financial assets and liabilities are held constant

2. Financial Risk Management (continued)

Currency exposure

The following analysis details the Group's exposure to currency risk from recognised financial assets or financial liabilities denominated in a currency other than the functional currency.

The impact on the Group's profit or loss and other comprehensive income of a weakening or strengthening in the US dollar against the Hong Kong dollar from the year-end rate of 7.7557 (2015: 7.7512), with all other variables held constant, would have been:

	Weakening in USD to lower peg limit (7.750) HK$M	Strengthening in USD to upper peg limit (7.850) HK$M
At 31st December 2016		
Impact on profit or loss: gain/(loss)	7	(129)
Impact on other comprehensive income: (loss)/gain	(2)	31
At 31st December 2015		
Impact on profit or loss: gain/(loss)	2	(153)
Impact on other comprehensive income: gain	3	40

The impact on the Group's profit or loss and other comprehensive income of a weakening or strengthening in the Renminbi against the Hong Kong dollar from the year-end rate of 1.1159 (2015: 1.1937), with all other variables held constant, would have been:

	Weakening in RMB by 5% HK$M	Strengthening in RMB by 5% HK$M
At 31st December 2016		
Impact on profit or loss: gain/(loss)	20	(20)
Impact on other comprehensive income	–	–
At 31st December 2015		
Impact on profit or loss: (loss)/gain	(9)	9
Impact on other comprehensive income	–	–

This analysis is based on a hypothetical situation, as in practice market exchange rates rarely change in isolation, and should not be considered a projection of likely future profits or losses. The analysis assumes the following:

- All foreign currency cash flow hedges are expected to be highly effective
- Currency risk does not arise from financial assets or liabilities denominated in the functional currencies of the Company and its subsidiary companies
- Currency risk does not arise from financial instruments that are non-monetary items

2. Financial Risk Management (continued)

Liquidity risk

The tables below analyse the contractual undiscounted cash flows of the Group's non-derivative financial liabilities and net-settled derivative financial liabilities by relevant maturity groupings based on the remaining period at the year-end date to the earliest contractual maturity date.

At 31st December 2016

	Note	Carrying amount HK$M	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	More than 1 year but less than 2 years HK$M	More than 2 years but less than 5 years HK$M	More than 5 years HK$M
Trade and other payables	27	20,875	26,317	15,841	1,592	2,090	6,794
Borrowings (including interest obligations)	28 & 29	70,570	81,922	10,896	10,938	27,129	32,959
Derivative financial instruments	22	66	66	32	8	–	26
Financial guarantee contracts	39	–	2,135	2,135	–	–	–
		91,511	110,440	28,904	12,538	29,219	39,779

At 31st December 2015

	Note	Carrying amount HK$M	Total contractual undiscounted cash flow HK$M	Within 1 year or on demand HK$M	More than 1 year but less than 2 years HK$M	More than 2 years but less than 5 years HK$M	More than 5 years HK$M
Trade and other payables	27	20,086	21,182	17,151	610	1,930	1,491
Borrowings (including interest obligations)	28 & 29	68,617	80,922	10,388	13,769	27,613	29,152
Derivative financial instruments	22	224	224	23	1	25	175
Financial guarantee contracts	39	–	3,948	3,948	–	–	–
		88,927	106,276	31,510	14,380	29,568	30,818

3. Critical Accounting Estimates and Judgement

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, inevitably, seldom be equal to the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities are discussed in the relevant notes as follows:

(a) Taxation (Note 10)
(b) Impairment of assets (Notes 14 and 17)
(c) Estimates of fair value of investment properties (Note 15)
(d) Accounting for Cathay Pacific Airways Limited (Note 19(b))
(e) Retirement benefits (Note 31)
(f) Provisions and contingencies for Cathay Pacific Airways Limited (Note 39(b))

4. Revenue

Accounting Policy

Provided the collectability of the related receivable is reasonably assured, revenue recognised as follows:

(a) Rental income recognised on a straight-line basis over the shortest of (i) the remaining lease term, (ii) the period to the next rent review date and (iii) the period from the commencement date of the lease to the first break option date (if any), exclusive of any turnover rent (if applicable) and other charges and reimbursements (if any). Where the lease includes a rent-free period, the rental income foregone is allocated evenly over the lease term. Turnover rent is recognised when the lessee's revenue transaction is recognised.

(b) Sales of properties are recognised when effective control of ownership of the properties is transferred to the buyers.

(c) Sales of services, including aircraft and engine maintenance services and services provided by hotel operations, are recognised when the services are rendered.

(d) Sales of goods are recognised when the goods are delivered to the customer and the customer has accepted the related risks and rewards of ownership.

(e) Revenue from vessel charter hire services is recognised over the period of charter hire in accordance with the vessel charter hire agreements.

Revenue represents sales by the Company and its subsidiary companies to external customers and comprises:

	2016 HK$M	2015 HK$M
Gross rental income from investment properties	10,675	10,654
Property trading	4,760	4,463
Hotels	1,129	1,127
Aircraft and engine maintenance services	12,242	10,815
Sales of goods	28,385	27,083
Charter hire	3,574	5,161
Rendering of other services	1,624	1,582
Total	62,389	60,885

5. Other Net Losses

Other net losses include the following:

	Note	2016 HK$M	2015 HK$M
Loss on disposal of four hotels in the UK		–	(229)
Loss on disposal of a subsidiary		(118)	–
Profit/(loss) on sale of investment properties		76	(135)
Profit on sale of property, plant and equipment		114	–
Profit on sale of available-for-sale assets		9	105
Net foreign exchange gains/(losses)		7	(182)
Fair value gains/(losses) on cross-currency swaps transferred from cash flow hedge reserve		15	(7)
Fair value gains/(losses) on forward foreign exchange contracts transferred from cash flow hedge reserve		22	(32)
Fair value gains on forward foreign exchange contracts not qualifying as hedges		3	8
Impairment losses recognised on*			
– property, plant and equipment	14	(2,362)	(1,302)
– intangible assets	17	(286)	(104)
Dividend income on available-for-sale assets		14	11
Other income		225	295
Total		(2,281)	(1,572)

* Impairment losses recognised on property, plant and equipment and intangible assets have been reclassified in the prior year from administrative expenses to other net losses. This has had no impact on the Group's results and financial position.

6. Expenses by Nature

Expenses included in cost of sales, distribution costs, administrative expenses and other operating expenses are analysed as follows:

	Note	2016 HK$M	2015 HK$M
Direct operating expenses of investment properties that			
– generated rental income		1,879	1,762
– did not generate rental income		249	210
Cost of goods sold		25,157	22,969
Write-down of stocks and work in progress		66	102
Impairment losses recognised on trade receivables		26	28
Depreciation of property, plant and equipment	14	2,944	2,833
Amortisation of			
– leasehold land and land use rights	16	37	34
– intangible assets	17	171	138
– initial leasing costs on investment properties		60	67
– others		–	87
Staff costs		12,251	11,578
Operating lease rentals			
– properties		1,086	1,029
– vessels		125	142
– plant and equipment		42	41
Auditors' remuneration			
– audit services		43	42
– tax services		8	12
– other services		12	5
Other expenses		9,013	8,826
Total cost of sales, distribution costs, administrative expenses and other operating expenses		53,169	49,905

7. Segment Information

The Group is organised on a divisional basis: Property, Aviation, Beverages, Marine Services and Trading & Industrial.

Accounting Policy

Segment information is reported in a manner consistent with the Group's internal financial reporting provided to the executive directors for making strategic decisions. A reportable segment comprises either one or more operating segments which can be aggregated together because they share similar economic characteristics or single operating segments which are disclosable separately because they cannot be aggregated or because they exceed certain quantitative thresholds.

The reportable segments within each of the five divisions are classified according to the nature of the business. The Head Office is also considered to be a reportable segment as discrete financial information is available for the Head Office activities and regularly provided to the executive directors of the Board.

The Beverages Division is considered to be a single reportable segment as the nature of its operations in different geographical locations is similar. The analysis of the consolidated statement of profit or loss in note 7(a) presents the results of the Beverages Division by geographical location in order to provide further information to the user of the Annual Report.

7. Segment Information (continued)

(a) Information about reportable segments

Analysis of Consolidated Statement of Profit or Loss

Year ended 31st December 2016

	External revenue HK$M	Inter-segment revenue HK$M	Operating profit/(loss) HK$M	Finance charges HK$M	Finance income HK$M	Share of profits less losses of joint venture companies HK$M	Share of profits less losses of associated companies HK$M	Tax (charge)/credit HK$M	Profit/(loss) for the year HK$M	Profit/(loss) attributable to the Company's shareholders HK$M	Underlying profit/(loss) attributable to the Company's shareholders HK$M	Depreciation and amortisation charged to operating profit HK$M
Property												
Property investment	10,802	100	7,743	(1,158)	94	339	–	(1,086)	5,932	4,864	4,889	(167)
Change in fair value of investment properties	–	–	8,445	–	–	982	–	(1,249)	8,178	6,606	–	–
Property trading	4,760	–	1,332	(22)	3	(6)	–	(70)	1,237	983	983	–
Hotels	1,129	1	(182)	(36)	–	(35)	139	(5)	(119)	(96)	(96)	(216)
	16,691	**101**	**17,338**	**(1,216)**	**97**	**1,280**	**139**	**(2,410)**	**15,228**	**12,357**	**5,776**	**(383)**
Aviation												
Cathay Pacific group	–	–	–	–	–	–	(259)	–	(259)	(259)	(259)	–
HAECO group	13,760	–	127	(98)	9	267	–	(17)	288	127	127	(624)
Sale of HAESL's interest in SAESL	–	–	–	–	–	805	–	–	805	604	604	–
Others	–	–	(54)	–	–	5	(10)	–	(59)	(31)	(31)	(54)
	13,760	**–**	**73**	**(98)**	**9**	**1,077**	**(269)**	**(17)**	**775**	**441**	**441**	**(678)**
Beverages												
Mainland China	6,873	–	291	(78)	16	141	77	(117)	330	288	288	(292)
Hong Kong	2,211	1	247	–	–	–	–	(20)	227	205	205	(70)
Taiwan	1,323	–	47	(6)	–	–	–	(8)	33	33	33	(49)
USA	8,013	–	434	(9)	–	–	–	(119)	306	306	306	(300)
Central costs	–	–	(16)	–	–	–	–	(3)	(19)	(19)	(19)	(3)
	18,420	**1**	**1,003**	**(93)**	**16**	**141**	**77**	**(267)**	**877**	**813**	**813**	**(714)**
Marine Services												
Swire Pacific Offshore group	4,237	1	(2,596)	(326)	3	–	1	(95)	(3,013)	(3,033)	(3,033)	(1,236)
HUD group	–	–	–	–	–	20	–	–	20	20	20	–
	4,237	**1**	**(2,596)**	**(326)**	**3**	**20**	**1**	**(95)**	**(2,993)**	**(3,013)**	**(3,013)**	**(1,236)**
Trading & Industrial												
Swire Retail group	3,216	–	27	(2)	17	3	56	(18)	83	83	83	(25)
Taikoo Motors group	4,514	–	18	(2)	2	–	–	(3)	15	15	15	(70)
Swire Foods group	1,466	74	61	(1)	3	(7)	–	2	58	59	59	(58)
Swire Pacific Cold Storage group	80	–	(102)	(20)	–	(1)	–	(3)	(126)	(126)	(126)	(46)
Akzo Nobel Swire Paints	–	–	(8)	–	–	216	–	(10)	198	198	198	–
Swire Environmental Services group	–	–	(7)	–	–	2	(74)	–	(79)	(79)	(79)	–
Other activities	–	–	(36)	–	–	–	–	–	(36)	(36)	(36)	–
	9,276	**74**	**(47)**	**(25)**	**22**	**213**	**(18)**	**(32)**	**113**	**114**	**114**	**(199)**
Head Office												
Net income/(expenses)	**5**	**31**	**(387)**	**(1,635)**	**949**	**–**	**–**	**5**	**(1,068)**	**(1,068)**	**(1,068)**	**(2)**
Inter-segment elimination	**–**	**(208)**	**–**	**935**	**(935)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**62,389**	**–**	**15,384**	**(2,458)**	**161**	**2,731**	**(70)**	**(2,816)**	**12,932**	**9,644**	**3,063**	**(3,212)**

Notes: Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services. Interest charged by Head Office to the business segments is based on market interest rates and the Group's cost of debt.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of Consolidated Statement of Profit or Loss (continued)

Year ended 31st December 2015

	External revenue HK$M	Inter-segment revenue HK$M	Operating profit/(loss) HK$M	Finance charges HK$M	Finance income HK$M	Share of profits less losses of joint venture companies HK$M	Share of profits less losses of associated companies HK$M	Tax (charge)/credit HK$M	Profit/(loss) for the year HK$M	Profit/(loss) attributable to the Company's shareholders HK$M	Underlying profit/(loss) attributable to the Company's shareholders HK$M	Depreciation and amortisation charged to operating profit HK$M
Property												
Property investment	10,761	96	8,090	(1,242)	92	274	–	(965)	6,249	5,104	5,131	(160)
Change in fair value of investment properties	–	–	7,067	–	–	828	–	(848)	7,047	5,745	–	–
Property trading	4,463	–	1,328	(6)	3	57	–	(231)	1,151	893	908	–
Hotels	1,127	–	(334)	(43)	1	(59)	141	(12)	(306)	(248)	(248)	(192)
	16,351	**96**	**16,151**	**(1,291)**	**96**	**1,100**	**141**	**(2,056)**	**14,141**	**11,494**	**5,791**	**(352)**
Aviation												
Cathay Pacific group	–	–	–	–	–	–	2,700	–	2,700	2,700	2,700	–
HAECO group	12,095	–	415	(96)	20	246	–	(33)	552	349	349	(601)
Others	–	–	(52)	–	–	4	(11)	–	(59)	(32)	(32)	(52)
	12,095	**–**	**363**	**(96)**	**20**	**250**	**2,689**	**(33)**	**3,193**	**3,017**	**3,017**	**(653)**
Beverages												
Mainland China	7,617	–	405	(65)	28	203	59	(116)	514	391	391	(287)
Hong Kong	2,198	2	246	–	–	–	–	(20)	226	204	204	(73)
Taiwan	1,392	–	48	(6)	–	–	–	(8)	34	34	34	(49)
USA	5,965	–	392	(1)	–	–	–	(118)	273	273	273	(228)
Central costs	–	–	73	–	–	–	–	–	73	74	74	(3)
	17,172	**2**	**1,164**	**(72)**	**28**	**203**	**59**	**(262)**	**1,120**	**976**	**976**	**(640)**
Marine Services												
Swire Pacific Offshore group	5,988	2	(846)	(335)	34	–	(1)	(131)	(1,279)	(1,285)	(1,285)	(1,262)
HUD group	–	–	–	–	–	30	–	–	30	30	30	–
	5,988	**2**	**(846)**	**(335)**	**34**	**30**	**(1)**	**(131)**	**(1,249)**	**(1,255)**	**(1,255)**	**(1,262)**
Trading & Industrial												
Swire Retail group	3,208	–	53	(1)	20	5	42	(26)	93	93	93	(27)
Taikoo Motors group	4,498	–	38	(4)	1	–	–	(32)	3	3	3	(71)
Swire Foods group	1,505	84	105	–	4	(3)	–	(44)	62	41	41	(118)
Swire Pacific Cold Storage group	34	–	(94)	(11)	–	6	–	(3)	(102)	(102)	(102)	(30)
Akzo Nobel Swire Paints	–	–	–	–	–	204	–	(7)	197	197	197	–
Swire Environmental Services group	–	–	(1)	–	–	–	(43)	–	(44)	(44)	(44)	–
Other activities	–	–	(33)	–	–	–	–	–	(33)	(33)	(33)	–
	9,245	**84**	**68**	**(16)**	**25**	**212**	**(1)**	**(112)**	**176**	**155**	**155**	**(246)**
Head Office												
Net income/(expenses)	34	26	(425)	(1,684)	1,145	–	–	20	(944)	(944)	1,208	(6)
Change in fair value of investment properties	–	–	(14)	–	–	–	–	–	(14)	(14)	–	–
	34	**26**	**(439)**	**(1,684)**	**1,145**	**–**	**–**	**20**	**(958)**	**(958)**	**1,208**	**(6)**
Inter-segment elimination	–	(210)	–	1,121	(1,121)	–	–	–	–	–	–	–
Total	60,885	–	16,461	(2,373)	227	1,795	2,887	(2,574)	16,423	13,429	9,892	(3,159)

Notes: Sales between business segments are accounted for at competitive market prices charged to unaffiliated customers for similar goods and services. Interest charged by Head Office to the business segments is based on market interest rates and the Group's cost of debt.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group

At 31st December 2016

	Segment assets HK$M	Joint venture companies HK$M	Associated companies HK$M	Bank deposits and securities HK$M	Total assets HK$M	Additions to non-current assets (note) HK$M
Property						
Property investment	245,337	18,476	–	1,399	265,212	6,469
Property trading and development	7,656	493	–	161	8,310	34
Hotels	6,355	1,016	361	121	7,853	253
	259,348	**19,985**	**361**	**1,681**	**281,375**	**6,756**
Aviation						
Cathay Pacific group	–	–	25,386	–	25,386	–
HAECO group	11,422	1,607	–	1,321	14,350	710
Others	4,516	2,817	–	–	7,333	–
	15,938	**4,424**	**25,386**	**1,321**	**47,069**	**710**
Beverages						
Swire Beverages	**12,690**	**630**	**1,352**	**858**	**15,530**	**949**
Marine Services						
Swire Pacific Offshore group	18,991	–	57	445	19,493	953
HUD group	–	(49)	–	–	(49)	–
	18,991	**(49)**	**57**	**445**	**19,444**	**953**
Trading & Industrial						
Swire Retail group	882	35	196	162	1,275	27
Taikoo Motors group	1,990	–	–	167	2,157	239
Swire Foods group	1,264	35	–	224	1,523	119
Swire Pacific Cold Storage group	1,617	328	–	106	2,051	293
Akzo Nobel Swire Paints	–	474	–	–	474	–
Swire Environmental Services group	121	46	194	–	361	–
Other activities	228	–	–	–	228	–
	6,102	**918**	**390**	**659**	**8,069**	**678**
Head Office	**451**	**–**	**–**	**1,560**	**2,011**	**3**
	313,520	**25,908**	**27,546**	**6,524**	**373,498**	**10,049**

Note: In this analysis, additions to non-current assets during the year exclude joint venture and associated companies, financial instruments, deferred tax assets and retirement benefit assets and non-current assets acquired in business combinations.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group (continued)

At 31st December 2015

	Segment assets HK$M	Joint venture companies HK$M	Associated companies HK$M	Bank deposits and securities HK$M	Total assets HK$M	Additions to non-current assets (note) HK$M
Property						
Property investment	232,503	17,307	–	3,901	253,711	4,677
Property trading and development	9,093	815	–	401	10,309	42
Hotels	6,333	1,270	534	84	8,221	490
	247,929	**19,392**	**534**	**4,386**	**272,241**	**5,209**
Aviation						
Cathay Pacific group	–	–	22,048	–	22,048	–
HAECO group	11,958	1,262	–	1,427	14,647	737
Others	4,571	2,816	–	–	7,387	–
	16,529	**4,078**	**22,048**	**1,427**	**44,082**	**737**
Beverages						
Swire Beverages	**9,037**	**725**	**1,366**	**940**	**12,068**	**835**
Marine Services						
Swire Pacific Offshore group	23,503	–	6	497	24,006	1,513
HUD group	–	(78)	–	–	(78)	–
	23,503	**(78)**	**6**	**497**	**23,928**	**1,513**
Trading & Industrial						
Swire Retail group	932	31	140	169	1,272	25
Taikoo Motors group	1,949	–	–	279	2,228	190
Swire Foods group	1,205	48	–	428	1,681	165
Swire Pacific Cold Storage group	1,472	254	–	68	1,794	401
Akzo Nobel Swire Paints	–	519	–	–	519	–
Swire Environmental Services group	121	19	227	–	367	–
Other activities	222	–	–	1	223	–
	5,901	**871**	**367**	**945**	**8,084**	**781**
Head Office	**1,124**	**–**	**–**	**838**	**1,962**	**51**
	304,023	**24,988**	**24,321**	**9,033**	**362,365**	**9,126**

Note: In this analysis, additions to non-current assets during the year exclude joint venture and associated companies, financial instruments, deferred tax assets and retirement benefit assets and non-current assets acquired in business combinations.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total liabilities and non-controlling interests of the Group

At 31st December 2016

	Segment liabilities HK$M	Current and deferred tax liabilities HK$M	Inter-segment borrowings/ (advances) HK$M	External borrowings HK$M	Total liabilities HK$M	Non-controlling interests HK$M
Property						
Property investment	7,474	8,087	4,809	26,864	47,234	40,523
Property trading and development	1,510	23	2,783	1,669	5,985	636
Hotels	212	–	12	1,021	1,245	1,207
	9,196	**8,110**	**7,604**	**29,554**	**54,464**	**42,366**
Aviation						
HAECO group	**2,806**	**336**	**–**	**3,689**	**6,831**	**4,149**
Beverages						
Swire Beverages	**6,730**	**97**	**2,220**	**1,187**	**10,234**	**752**
Marine Services						
Swire Pacific Offshore group	**802**	**27**	**8,396**	**–**	**9,225**	**22**
Trading & Industrial						
Swire Retail group	843	41	(127)	–	757	–
Taikoo Motors group	662	(21)	6	–	647	–
Swire Foods group	336	8	(43)	–	301	–
Swire Pacific Cold Storage group	242	3	660	–	905	–
Other activities	31	19	21	–	71	–
	2,114	**50**	**517**	**–**	**2,681**	**–**
Head Office	**433**	**59**	**(18,737)**	**36,140**	**17,895**	**–**
	22,081	**8,679**	**–**	**70,570**	**101,330**	**47,289**

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total liabilities and non-controlling interests of the Group (continued)

At 31st December 2015

	Segment liabilities HK$M	Current and deferred tax liabilities HK$M	Inter-segment borrowings/ (advances) HK$M	External borrowings HK$M	Total liabilities HK$M	Non-controlling interests HK$M
Property						
Property investment	6,886	7,078	10,546	22,048	46,558	38,432
Property trading and development	2,217	239	1,996	2,659	7,111	810
Hotels	209	–	–	867	1,076	1,303
	9,312	**7,317**	**12,542**	**25,574**	**54,745**	**40,545**
Aviation						
HAECO group	**3,069**	**275**	**–**	**4,117**	**7,461**	**4,064**
Beverages						
Swire Beverages	**4,792**	**503**	**1,776**	**–**	**7,071**	**750**
Marine Services						
Swire Pacific Offshore group	**1,109**	**29**	**9,822**	**77**	**11,037**	**18**
Trading & Industrial						
Swire Retail group	823	45	(272)	–	596	–
Taikoo Motors group	615	(2)	137	–	750	–
Swire Foods group	911	31	–	–	942	160
Swire Pacific Cold Storage group	228	3	535	–	766	–
Other activities	30	10	12	–	52	–
	2,607	**87**	**412**	**–**	**3,106**	**160**
Head Office	**606**	**56**	**(24,552)**	**38,849**	**14,959**	**–**
	21,495	**8,267**	**–**	**68,617**	**98,379**	**45,537**

(b) Information about geographical areas

The activities of the Group are principally based in Hong Kong. Ship owning and operating activities are carried out internationally and cannot be attributed to specific geographical areas.

An analysis of revenue and non-current assets of the Group by principal markets is outlined below:

	Revenue		Non-current assets (Note)	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
Hong Kong	20,415	23,715	220,580	209,501
Asia (excluding Hong Kong)	23,268	23,026	37,507	37,606
USA	14,610	8,049	15,607	10,944
Others	150	531	–	1
Ship owning and operating activities	3,946	5,564	17,986	21,648
	62,389	60,885	291,680	279,700

Note: In this analysis, the total of non-current assets excludes joint venture and associated companies, financial instruments, deferred tax assets and retirement benefit assets.

8. Directors' and Executive Officer's Emoluments

The total emoluments of Directors which are disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and the Companies (Disclosure of Information about Benefits of Directors) Regulation and of an Executive Officer are as follows:

	Cash			Non cash				
	Salary/ fees (note i) HK$'000	Bonus (note ii) HK$'000	Allowance and benefits HK$'000	Retirement scheme contributions HK$'000	Bonus paid into retirement scheme (note ii) HK$'000	Housing benefits HK$'000	Total 2016 HK$'000	Total 2015 HK$'000
Executive Directors								
J R Slosar	10,190	9,304	170	3,362	2,755	8,467	34,248	27,929
GMC Bradley	4,464	3,378	742	1,473	1,411	3,028	14,496	11,778
I K L Chu	800	722	382	181	–	–	2,085	1,345
M Cubbon	5,918	5,910	1,795	1,953	1,880	820	18,276	19,690
J B Rae-Smith (until 26th August 2016)	1,789	2,567	384	590	1,169	2,184	8,683	10,571
I S C Shiu (until 31st December 2016)	1,178	2,057	1,114	266	–	–	4,615	4,238
A K W Tang	3,794	5,657	2,175	858	–	–	12,484	11,485
C D Pratt (until 13th March 2014)	–	–	–	–	–	–	–	2,039
P A Kilgour (until 31st December 2014)	–	–	–	–	–	–	–	5,150
Non-Executive Directors								
P A Johansen (until 11th May 2016)	337	–	–	–	–	–	337	928
M B Swire	–	–	–	–	–	–	–	–
S C Swire	–	–	–	–	–	–	–	–
Independent Non-Executive Directors								
T G Freshwater	950	–	–	–	–	–	950	850
C Lee	950	–	–	–	–	–	950	950
R W M Lee	748	–	–	–	–	–	748	725
G R H Orr (from 21st August 2015)	805	–	–	–	–	–	805	251
M C C Sze	690	–	–	–	–	–	690	690
M M T Yang	690	–	–	–	–	–	690	690
C K M Kwok (until 20th May 2015)	–	–	–	–	–	–	–	389
Total 2016	**33,303**	**29,595**	**6,762**	**8,683**	**7,215**	**14,499**	100,057	
Total 2015	32,024	29,727	5,651	8,751	5,845	17,700		99,698
Executive Officer								
P Healy	**3,135**	**2,580**	**1,140**	**1,034**	**1,157**	**3,931**	12,977	
Total 2015	2,679	1,621	1,056	905	952	3,386		10,599

i. Independent Non-Executive Directors and P A Johansen receive fees as members of the Board and its committees. Executive Directors and the Executive Officer receive salaries.
ii. Bonuses are not yet approved for 2016. The amounts disclosed above are related to services as Executive Directors and as an Executive Officer for 2015 but paid and charged to the Group in 2016.
iii. The total emoluments of Executive Directors and the Executive Officer are charged to the Group in accordance with the amount of time spent on its affairs.

The five highest paid individuals in the Group in both 2016 and 2015 were Executive Directors and the Executive Officer, as disclosed above.

9. Net Finance Charges

Accounting Policy

Interest costs incurred are charged to the statement of profit or loss except for those interest charges attributable to the acquisition, construction or production of qualifying assets (i.e. assets that necessarily take a substantial period of time to get ready for their intended use or sale) which are capitalised as part of the cost of those assets. Capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Interest income is recognised on a time-proportion basis using the effective interest method.

Refer to the table with the heading "Audited Financial Information" on page 84 for details of the Group's net finance charges.

10. Taxation

Accounting Policy

The tax charge comprises current and deferred tax. The tax charge is recognised in the statement of profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly to equity.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Critical Accounting Estimates and Judgements

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are transactions and calculations relating to the Group's ordinary business activities for which the ultimate tax determination is uncertain. The Group recognises liabilities for potential tax exposures based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will affect the income tax and deferred tax provisions in the year in which the outcomes become known.

	Note	2016 HK$M	2015 HK$M
Current taxation			
Hong Kong profits tax		911	1,190
Overseas taxation		763	741
Under/(over)-provisions in prior years		45	(14)
		1,719	1,917
Deferred taxation	30		
Changes in fair value of investment properties		902	592
Origination and reversal of temporary differences		195	65
		1,097	657
		2,816	2,574

Hong Kong profits tax is calculated at 16.5% (2015: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

10. Taxation (continued)

The tax charge on the Group's profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate of the Company as follows:

	2016 HK$M	2015 HK$M
Profit before taxation	15,748	18,997
Calculated at a tax rate of 16.5% (2015: 16.5%)	2,598	3,135
Share of profits less losses of joint venture and associated companies	(439)	(773)
Effect of different tax rates in other countries	458	340
Fair value gains on investment properties	(909)	(786)
Income not subject to tax	(66)	(61)
Expenses not deductible for tax purposes	922	510
Unused tax losses not recognised	283	276
Utilisation of previously unrecognised tax losses	(64)	(6)
Deferred tax assets written off	1	(16)
Under/(over)-provisions in prior years	45	(14)
Recognition of previously unrecognised tax losses	(67)	(54)
Others	54	23
Tax charge	2,816	2,574

The Group's share of joint venture and associated companies' tax charges of HK$400 million (2015: HK$445 million) and HK$276 million (2015: HK$489 million) respectively is included in the share of profits less losses of joint venture and associated companies shown in the consolidated statement of profit or loss.

11. Underlying Profit Attributable to the Company's Shareholders

Accounting Policy

Underlying profit attributable to the Company's shareholders is provided for greater understanding of the Group's underlying business performance. Underlying profit principally adjusts for net revaluation movements on investment properties and the associated deferred tax and for other deferred tax provisions in relation to investment properties.

Refer to the table with the heading "Audited Financial Information" on page 72 for details of the Group's underlying profit attributable to the Company's shareholders.

12. Dividends

Accounting Policy

Dividend distributions to the Company's shareholders are recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

	2016 HK$M	2015 HK$M
First interim dividend paid on 6th October 2016 of HK¢100.0 per 'A' share and HK¢20.0 per 'B' share (2015: HK¢112.0 and HK¢22.4)	1,504	1,685
Second interim dividend declared on 16th March 2017 of HK¢110.0 per 'A' share and HK¢22.0 per 'B' share (2015 actual dividend paid: HK¢278.0 and HK¢55.6)	1,655	4,182
	3,159	5,867

The second interim dividend is not accounted for in 2016 because it had not been declared at the year end date. The actual amount payable in respect of 2016 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2017.

13. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$9,644 million (2015: HK$13,429 million) by the weighted average number of 905,206,000 'A' shares and 2,995,220,000 'B' shares in issue during the year (2015: 905,397,863 'A' shares and 2,995,220,000 'B' shares), in the proportion five to one.

14. Property, Plant and Equipment

Accounting Policy

Property, plant and equipment is carried at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably.

Major renovation costs and modifications that extend the life or usefulness of vessels are capitalised and depreciated over the period until the next drydocking. All other repairs and maintenance are expensed in the statement of profit or loss during the financial period in which they are incurred. Vessels under construction are not depreciated until they are completed.

Leasehold land can be classified as held under finance lease and recorded as property, plant and equipment if the lessee is exposed to substantially all the risks and rewards of ownership of that piece of land.

With the exception of freehold land, all other items of property, plant and equipment are depreciated at rates sufficient to write off their original costs to estimated residual values using the straight-line method over their anticipated useful lives in the following manner:

Leasehold land	Over the lease term
Property	2% to 5% per annum
Plant and machinery	7% to 34% per annum
Vessels	4% to 7% per annum
Drydocking costs	20% to 50% per annum

The assets' expected useful lives and residual values are regularly reviewed and adjusted, if appropriate, at the end of each reporting period to take into account operational experience and changing circumstances.

On the transfer of owner occupied property to investment property, increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as property revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against property revaluation reserve directly in equity; all other decreases are charged to the statement of profit or loss.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amounts and are recognised within 'Other net gains/(losses)' in the statement of profit or loss. When revalued assets are sold, the amounts included in the property revaluation reserve are transferred to revenue reserve.

14. Property, Plant and Equipment (continued)

Critical Accounting Estimates and Judgements

At each period-end date or whenever a change in circumstances occurs, both internal and external sources of information are considered to assess whether there is an indication that assets are impaired. If such an indication exists, the recoverable amount of the asset is estimated using fair value less costs to sell and/or value in use calculations as appropriate. If the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the statement of profit or loss within other net gains/losses.

During the year, the carrying amounts of certain property, plant and equipment have been written down by HK$2,362 million to their recoverable amount.

Swire Pacific Offshore ("SPO") has vessels with aggregate carrying values of HK$17,717 million. Following a review of the business, which assumes a more prudent outlook for the offshore oil services industry under a lower oil price for some time and SPO's consequent operating plans, management has reassessed these carrying values. An impairment provision of HK$2,313 million has been recorded to reduce the carrying value of certain vessels to their estimated recoverable value, which is the higher of fair value less cost to sell, and value in use. The recoverable amount of vessels subject to impairment provisions amounts to HK$13,146 million. Fair value less costs to sell is based on management estimates having regard to estimated resale values provided by an external valuer. Fair value less costs to sell is a level 3 fair value measurement. Value in use is determined using cash flow projections based on financial budgets prepared by management. The key assumptions include utilisation, charter hire rates, disposal values and discount rates applied to future cash flows. The discount rate used at 31st December 2016 was 8.5% (2015: 8.0%). Changes in any or all of the key assumptions could result in a material change in the carrying value of vessels.

The HAECO group has property, plant and equipment and land use rights at Xiamen Airport with a net book value totalling HK$1,321 million at 31st December 2016 (2015 HK$1,494 million). The municipal government of Xiamen has announced that the proposed new airport at Xiang'an will commence operations in 2020. This is subject to the National Development and Reform Committee's approval. The HAECO group engaged an independent consultant to perform preliminary compensation assessments in order to evaluate the recoverable amounts of property, plant and equipment and land use rights at the existing Xiamen airport which might be affected by the proposal to develop a new airport, and has concluded that the carrying value remains appropriate at 31st December 2016. The HAECO group maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO group in Xiamen.

14. Property, Plant and Equipment (continued)

	Note	Leasehold land held for own use under finance leases HK$M	Property HK$M	Plant and machinery HK$M	Vessels HK$M	Total HK$M
Cost						
At 1st January 2016		4,033	17,069	14,337	27,841	63,280
Translation differences		–	(399)	(296)	15	(680)
Acquisition of new businesses	37	–	201	268	–	469
Disposal of a subsidiary company		–	(23)	(58)	–	(81)
Additions		–	876	1,776	900	3,552
Disposals		–	(24)	(747)	(2,707)	(3,478)
Net transfers from investment properties	15	685	120	1	–	806
Other transfers		–	(22)	30	–	8
Revaluation surplus		–	120	–	–	120
At 31st December 2016		4,718	17,918	15,311	26,049	63,996
Accumulated depreciation and impairment						
At 1st January 2016		164	4,865	8,823	6,493	20,345
Translation differences		–	(114)	(157)	1	(270)
Disposal of a subsidiary company		–	(16)	(45)	–	(61)
Depreciation for the year	6	28	570	1,165	1,181	2,944
Impairment losses	5	–	–	49	2,313	2,362
Disposals		–	(14)	(558)	(1,656)	(2,228)
Net transfers to investment properties	15	(9)	(11)	–	–	(20)
Other transfers		–	–	2	–	2
At 31st December 2016		183	5,280	9,279	8,332	23,074
Net book value						
At 31st December 2016		4,535	12,638	6,032	17,717	40,922

14. Property, Plant and Equipment (continued)

	Note	Leasehold land held for own use under finance leases HK$M	Property HK$M	Plant and machinery HK$M	Vessels HK$M	Total HK$M
Cost						
At 1st January 2015		3,539	16,701	13,723	27,360	61,323
Translation differences		–	(331)	(271)	(15)	(617)
Acquisition of a subsidiary company						
– measurement period adjustment		–	69	–	–	69
Disposal of subsidiary companies		–	(679)	(84)	–	(763)
Additions		–	1,127	1,640	1,483	4,250
Disposals		–	(27)	(589)	(987)	(1,603)
Transfer between categories		26	(26)	–	–	–
Net transfers from investment properties	15	448	174	–	–	622
Other transfers		–	51	(82)	–	(31)
Revaluation surplus		20	10	–	–	30
At 31st December 2015		4,033	17,069	14,337	27,841	63,280
Accumulated depreciation and impairment						
At 1st January 2015		141	4,662	8,280	4,639	17,722
Translation differences		–	(94)	(149)	(3)	(246)
Disposal of subsidiary companies		–	(202)	(63)	–	(265)
Depreciation for the year	6	23	515	1,080	1,215	2,833
Impairment losses	5	–	–	74	1,228	1,302
Disposals		–	(14)	(369)	(586)	(969)
Net transfers to investment properties	15	–	(2)	–	–	(2)
Other transfers		–	–	(30)	–	(30)
At 31st December 2015		164	4,865	8,823	6,493	20,345
Net book value						
At 31st December 2015		3,869	12,204	5,514	21,348	42,935

Property, plant and machinery and vessels include costs of HK$316 million (2015: HK$1,340 million), HK$172 million (2015: HK$101 million) and HK$429 million (2015: HK$356 million) respectively, including advance payments and deposits under contracts with third parties, in respect of assets under construction.

15. Investment Properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

Accounting Policy

Investment property comprises freehold land, leasehold land and buildings. Land held under an operating lease and classified as an investment property is accounted for as if it was a finance lease. Any premium paid for a lease is treated as part of the minimum lease payments and is included in the cost of the asset, but is excluded from the liability.

Investment properties (including those under construction) are carried at fair value and are valued twice a year. The majority of investment properties are valued by independent valuers. The valuations are performed in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors and are on an open market basis, related to individual properties, and separate values are not attributed to land and buildings. These values represent their fair values in accordance with HKFRS 13. Land and buildings that are being developed for future use as investment properties and investment properties that are being redeveloped for continuing use as investment properties are measured at fair value and included as under development. Changes in fair values are recognised in the statement of profit or loss.

Subsequent expenditure is charged to an investment property's carrying amount only when it is probable that future economic benefits associated with that expenditure will flow to the Group and the cost of the item can be measured reliably. All other repair and maintenance costs in respect of an investment property are expensed in the statement of profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes.

Expenditure incurred in leasing the Group's investment property during construction is deferred and amortised on a straight-line basis to the statement of profit or loss upon occupation of the property over a period not exceeding the terms of the lease.

Critical Accounting Estimates and Judgements

DTZ Cushman & Wakefield Limited, an independent property valuer, was engaged to carry out a valuation of the major portion of the Group's investment property portfolio at 31st December 2016. This valuation was carried out in accordance with the Valuation Standards on Properties issued by the Hong Kong Institute of Surveyors, which define market value as "the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties each acted knowledgeably, prudently and without compulsion". The assumptions are principally in respect of open market rents and yields.

Management has reviewed the independent property valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the independent property valuation of the Group's investment property portfolio is reasonable.

15. Investment Properties (continued)

	Note	Completed HK$M	Under Development HK$M	Total HK$M
At 1st January 2016		198,161	28,948	227,109
Translation differences		(1,690)	(20)	(1,710)
Additions		294	5,648	5,942
Disposals		(6)	–	(6)
Transfer between categories		2,234	(2,234)	–
Transfer to properties held for development		–	(303)	(303)
Transfer to other non-current assets	32	–	(5,200)	(5,200)
Net transfers to property, plant and equipment	14	(563)	(263)	(826)
Fair value gains		5,646	2,799	8,445
		204,076	29,375	233,451
Add: Initial leasing costs		267	–	267
At 31st December 2016		204,343	29,375	233,718
At 1st January 2015		197,013	23,621	220,634
Translation differences		(1,203)	(36)	(1,239)
Additions		239	4,285	4,524
Disposals		(3,237)	(21)	(3,258)
Transfer from properties under development and for sale		–	19	19
Net transfers to property, plant and equipment	14	(558)	(66)	(624)
Fair value gains		5,907	1,146	7,053
		198,161	28,948	227,109
Add: Initial leasing costs		126	65	191
At 31st December 2015		198,287	29,013	227,300

The fair value gains on investment properties under development of HK$2,799 million include a valuation gain of HK$1,170 million on an uncompleted property in Kowloon Bay, Hong Kong from 30th June 2016 to 28th October 2016 (being the date of its transfer, at fair value of HK$5,200 million, to other non-current assets) (note 32). The transfer occurred on the signing of a conditional agreement dated 28th October 2016 between Swire Properties and a third party for the sale of Swire Properties' 100% interest in a subsidiary company owning the property.

15. Investment Properties (continued)

Geographical Analysis of Investment Properties

	2016 HK$M	2015 HK$M
Held in Hong Kong		
On medium-term leases (10 to 50 years)	29,269	31,125
On long-term leases (over 50 years)	171,771	165,229
	201,040	196,354
Held in Mainland China		
On medium-term leases (10 to 50 years)	25,357	25,145
Held in USA and others		
Freehold	7,054	5,610
	233,451	227,109

Valuation processes and techniques underlying management's estimate of fair value

The Group's investment properties were valued at their fair values at 31st December 2016. 93% by value were valued by DTZ Cushman & Wakefield Limited and 2% by value were valued by another independent valuer, in each case on the basis of open market value. The independent professionally qualified valuers hold recognised relevant professional qualifications in the jurisdictions in which they valued the Group's investment properties and have recent experience in the locations and types of investment properties valued. The remaining properties were valued by management. The current use of the investment properties equates to the highest and best use.

The valuation of the Group's completed investment property portfolio is derived by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential and by making reference to recent comparable sales transactions available in the relevant property market.

The valuation of the Group's investment properties under development is derived by making reference to market capitalisation rates and recent comparable sales transactions in the relevant property market (on the assumption that the property had already been completed at the valuation date). It also takes into account the construction cost already incurred as well as the estimated cost to be incurred to complete the project plus the developer's estimated profit and margin for risk.

The fair values of the Group's investment properties are sensitive to changes in both observable and unobservable inputs. If capitalisation rates increase, the fair values decrease. If fair market rents increase, the fair values increase. If estimated costs to complete or the developer's estimated profit and margin for risk increase, the fair values decrease. The opposite is true for decreases in these inputs.

There are inter-relationships between observable and unobservable inputs. Expected vacancy rates may have an impact on yields, with higher vacancy rates resulting in higher yields. For investment properties under development, increases in construction costs that enhance the properties' features may result in an increase in future rental values. An increase in the future rental income may be linked with higher costs.

The Group reviews the valuations performed by the independent valuer for financial reporting purposes. Discussions of valuation processes and results are held between management and the independent valuer at least once every half year, in line with the Group's half year reporting dates.

15. Investment Properties (continued)

Fair value hierarchy

The Group's investment properties are measured at fair value and categorised within the fair value hierarchy as follows:

	Completed				Under Development			
	Hong Kong HK$M	Mainland China HK$M	USA HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	2016 Total HK$M
Level 2	3,127	173	–	3,300	13,023	–	13,023	16,323
Level 3	169,494	25,184	6,098	200,776	15,396	956	16,352	217,128
Total	172,621	25,357	6,098	204,076	28,419	956	29,375	233,451
Add: initial leasing costs								267
At 31st December								233,718

	Completed			Under Development			
	Hong Kong HK$M	Mainland China HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	2015 Total HK$M
Level 2	3,093	189	3,282	11,576	–	11,576	14,858
Level 3	169,924	24,955	194,879	11,762	5,610	17,372	212,251
Total	173,017	25,144	198,161	23,338	5,610	28,948	227,109
Add: initial leasing costs							191
At 31st December							227,300

The change in level 3 investment properties during the year is as follows:

	Completed				Under Development			
	Hong Kong HK$M	Mainland China HK$M	USA HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	Total HK$M
At 1st January 2016	169,924	24,955	–	194,879	11,762	5,610	17,372	212,251
Translation differences	–	(1,676)	(1)	(1,677)	–	(19)	(19)	(1,696)
Additions/(cost written back)	291	(57)	73	307	2,120	810	2,930	3,237
Transfer to properties held for development	–	–	–	–	–	(303)	(303)	(303)
Transfer between categories	(3,713)	–	5,947	2,234	3,713	(5,947)	(2,234)	–
Transfer to other non-current assets	–	–	–	–	(5,200)	–	(5,200)	(5,200)
Net transfers to property, plant and equipment	(490)	19	(91)	(562)	–	–	–	(562)
Fair value gains	3,482	1,943	170	5,595	3,001	805	3,806	9,401
At 31st December 2016	169,494	25,184	6,098	200,776	15,396	956	16,352	217,128

15. Investment Properties (continued)

	Completed			Under Development			
	Hong Kong HK$M	Mainland China HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	Total HK$M
At 1st January 2015	169,043	24,880	193,923	10,178	3,237	13,415	207,338
Translation differences	–	(1,194)	(1,194)	–	(36)	(36)	(1,230)
Additions	224	13	237	771	2,052	2,823	3,060
Disposals	(3,237)	–	(3,237)	–	–	–	(3,237)
Transfer from properties under development and for sale	–	–	–	–	19	19	19
Net transfers to property, plant and equipment	(494)	(64)	(558)	–	–	–	(558)
Fair value gains	4,388	1,320	5,708	813	338	1,151	6,859
At 31st December 2015	169,924	24,955	194,879	11,762	5,610	17,372	212,251

Notes:
The levels in the hierarchy represent the following:
Level 2 – Investment properties measured at fair value using inputs other than quoted prices but where those inputs are based on observable market data.
Level 3 – Investment properties measured at fair value using inputs not based on observable market data.

In 2016 and 2015, there were no transfers between different levels within the fair value hierarchy.

Information about level 3 fair value measurements using significant unobservable inputs is as follows:

At 31st December 2016	Valuation method	Fair market rent per month HK$ per sq. ft. (lettable) 2016	Capitalisation rates 2016
Completed			
Hong Kong	Income capitalisation	Less than 10-Low 500's	2.50%-4.88%
Hong Kong	Residual	Low 50's	2.00%
Mainland China	Income capitalisation	Less than 10-High 100's	6.50%-7.00%
USA	Income capitalisation	Low 10's-Low 100's	4.75%-5.50%
USA	Sales comparison	–	–
Under development			
Hong Kong	Residual	High 50's-Low 60's	4.13%
Others	Sales comparison	–	–

At 31st December 2015	Valuation method	Fair market rent per month HK$ per sq. ft. (lettable) 2015	Capitalisation rates 2015
Completed			
Hong Kong	Income capitalisation	Mid 10's-Mid 500's	2.50%-4.88%
Hong Kong	Residual	Low 50's-Mid 50's	2.00%-4.25%
Mainland China	Income capitalisation	Less than 10-Low 200's	6.50%-7.00%
Under development			
Hong Kong	Residual	Low 30's-Low 60's	2.50%-4.25%
Others	Residual	High 20's-High 70's	5.00%-7.50%

Note 1: Fair market rent is determined in accordance with the definition of that term in the Valuation Standards of The Hong Kong Institute of Surveyors, which is "the estimated amount for which a property would be leased on the valuation date between a willing lessor and a willing lessee on appropriate lease terms in an arm's-length transaction, after proper marketing and where the parties had each acted knowledgeably, prudently, and without compulsion". It is in effect the rental income (exclusive of usual outgoings) which a property would be expected to earn if it were vacant and available to let. It is not necessarily the same as the rent which a tenant is actually committed to pay.

Note 2: In using the residual method to make fair value measurements of investment properties, two additional unobservable inputs have been used. These are the estimated costs to complete the development and the developer's estimated profit and margin for risk. The fair values of the Group's investment properties are not significantly affected by these unobservable inputs.

Note 3: Fair market rents and capitalisation rates in Mainland China for the year ended 31st December 2015 have been restated to reflect the "net of tax" basis under the new VAT Regime effective from 2016.

16. Leasehold Land and Land Use Rights

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments, the net book value of which is analysed as follows:

	Note	2016 HK$M	2015 HK$M
At 1st January		1,146	1,170
Translation differences		(41)	(26)
Acquisition of a subsidiary company		–	6
Additions		15	30
Other transfers		4	–
Amortisation for the year	6	(37)	(34)
At 31st December		1,087	1,146
Held in Hong Kong			
On medium-term leases (10 to 50 years)		18	19
Held outside Hong Kong			
On medium-term leases (10 to 50 years)		1,066	1,127
On long-term leases (over 50 years)		3	–
		1,087	1,146

Refer to note 40 for details of the accounting policy.

17. Intangible Assets

Accounting Policy

(a) Goodwill

Goodwill represents the excess of consideration transferred over the fair value of the Group's share of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. Goodwill is treated as an asset of the entity acquired and where attributable to a foreign entity will be translated at the period-end closing rate.

Goodwill is stated at cost less accumulated impairment. Goodwill is allocated to cash-generating units for the purpose of impairment testing, which is performed annually, or more often if an impairment indicator exists. Impairment losses recognised on goodwill are not reversed.

Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

(b) Computer software

Computer software licences acquired are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to ten years).

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads. Computer software costs recognised as assets are amortised over their estimated useful lives (three to ten years).

17. Intangible Assets (continued)

Accounting Policy (continued)

(c) Service, franchise and operating rights
Service, franchise and operating rights acquired are shown at historical cost. Service, franchise and operating rights acquired in a business combination are recognised at fair value at the acquisition date. Service, franchise and operating rights have a finite useful life and are subsequently carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of service, franchise and operating rights over their estimated useful lives of twenty years to forty years.

(d) Customer relationships
Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Customer relationships have a finite useful life and are subsequently carried at cost less accumulated amortisation. Customer relationships are amortised over their estimated useful lives of fifteen years.

	Note	Goodwill HK$M	Computer software HK$M	Service, franchise and operating rights HK$M	Customer relationships HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2016		6,028	500	764	767	153	8,212
Translation differences		(15)	(10)	–	–	1	(24)
Acquisition of new businesses	37	114	–	1,957	127	–	2,198
Additions		–	65	–	–	25	90
Other transfers		–	(5)	–	–	3	(2)
Disposals		–	(1)	–	–	(9)	(10)
At 31st December 2016		6,127	549	2,721	894	173	10,464
Accumulated amortisation and impairment							
At 1st January 2016		223	341	157	96	18	835
Translation differences		(4)	(6)	–	–	(1)	(11)
Amortisation for the year	6	–	55	54	55	7	171
Impairment losses	5	286	–	–	–	–	286
Other transfers		–	(3)	–	–	–	(3)
Disposals		–	–	–	–	(9)	(9)
At 31st December 2016		505	387	211	151	15	1,269
Net book value							
At 31st December 2016		5,622	162	2,510	743	158	9,195

17. Intangible Assets (continued)

	Note	Goodwill HK$M	Computer software HK$M	Service, franchise and operating rights HK$M	Customer relationships HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2015		5,964	414	764	768	132	8,042
Translation differences		(16)	(9)	–	(1)	–	(26)
Acquisition of a subsidiary company							
– measurement period adjustment		80	–	–	–	–	80
Additions		–	58	–	–	–	58
Other transfers		–	49	–	–	38	87
Disposals		–	(12)	–	–	(17)	(29)
At 31st December 2015		6,028	500	764	767	153	8,212
Accumulated amortisation and impairment							
At 1st January 2015		127	282	124	45	22	600
Translation differences		1	(8)	–	–	–	(7)
Amortisation for the year	6	–	50	33	51	4	138
Impairment losses	5	95	–	–	–	9	104
Other transfers		–	28	–	–	–	28
Disposals		–	(11)	–	–	(17)	(28)
At 31st December 2015		223	341	157	96	18	835
Net book value							
At 31st December 2015		5,805	159	607	671	135	7,377

Amortisation of HK$171 million (2015: HK$138 million) is included in administrative expenses in the statement of profit or loss.

Impairment test of goodwill

Critical Accounting Estimates and Judgements

At each reporting date, an assessment is made as to whether there is any indication that goodwill may be impaired. These tests require the use of estimates to calculate recoverable amounts.

The recoverable amount of goodwill attributable to cash-generating units is determined based on value-in-use calculations. These calculations use financial budgets and plans covering five-year periods unless a longer period can be justified. Key assumptions used in the financial budgets and plans are revenue growth and margins. Cash flows beyond these periods are extrapolated using rates of growth and profitability not exceeding historic results. The discount rates used at 31st December 2016 were between 6.5% and 14.0% (2015: 7.0% and 14.0%). These discount rates are pre-tax and reflect the specific risks relating to the relevant cash-generating unit.

17. Intangible Assets (continued)

Goodwill is allocated to the Group's cash-generating units ("CGUs"), after impairment, identified by divisional business segment and geographic location.

	2016 HK$M	2015 HK$M
HAECO – Hong Kong and Mainland China	3,510	3,511
HAECO – USA	1,105	1,387
Beverages – Hong Kong and Mainland China	191	204
Beverages – USA	164	50
Marine Services	85	86
Trading & Industrial	567	567
	5,622	5,805

Goodwill attributable to HAECO's businesses in Hong Kong and Mainland China relates to the transaction to acquire majority control of HAECO and arose from its highly skilled workforce in the aircraft engineering and maintenance business. It also represents the premium paid over the traded market price to obtain control of the business. The recoverable amount of HAECO's businesses in Hong Kong and Mainland China has been determined using a value in use calculation. That calculation uses cash flow projections based on financial budgets prepared by management covering a five-year period and a weighted average pre-tax discount rate of 9.1% (2015: 9.0%). Cash flows beyond the five-year period are assumed not to grow by more than 2% per annum (2015: 2%).

Goodwill attributable to HAECO's business in the USA relates to the acquisition of TIMCO Aviation Services, Inc. and arose from its highly skilled workforce, management expertise and the synergies expected to be derived from improved services to a wider range of customers. The recoverable amount of HAECO's businesses in the USA has been determined using a value in use calculation on its airframe services and cabin solutions CGUs. That calculation uses cash flow projections based on financial budgets prepared by management covering a five-year period for airframe services and a nine-year (2015: ten-year) period until 2025 for cabin solutions. A nine-year period (until 2025) is considered appropriate for cabin solutions in order to take into account the expected significant growth in the business from the development of new product models over the next three to five years.

The carrying amount of the cabin solutions CGU has been reduced to its recoverable amount of HK$619 million through recognition of an impairment charge of HK$285 million against goodwill following a reduction in the expected profitability of the seats business and a weak cabin integration order book. This loss has been included in other net losses in the statement of profit or loss.

The airframe services CGU recoverable amount exceeded its carrying value by HK$927 million (2015: HK$347 million).

The key assumptions used for the airframe services and cabin solutions CGUs are as follows:

	Airframe Services		Cabin Solutions	
	2016	2015	2016	2015
Discount rate	8.5%	8.5%	8.5%	8.5%
Revenue growth – cumulative average growth rate per annum	3.4%	5.9%	16.9%	16.8%

Revenue growth is based on past performance, current industry trends and management's expectations of market development. Assumptions of no growth in cash flows after year five of airframe services and year nine of cabin solutions have been made respectively.

The below changes in key assumptions taken in isolation, would remove the remaining headroom in the airframe services CGU.

	Airframe Services	
	2016	2015
Discount rate	12.9%	10.1%
Revenue growth – cumulative average growth rate per annum	-0.6%	4.3%

18. Subsidiary Companies

Accounting Policy

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights, to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The principal subsidiary companies of Swire Pacific Limited are shown on pages 197 to 208.

Swire Pacific Limited has two subsidiaries with material non-controlling interests; Swire Properties Limited ("Swire Properties") (18%) and Hong Kong Aircraft Engineering Company Limited ("HAECO") (25%). Except for goodwill and other assets of HK$7,303 million included in the Group consolidated statement of financial position (2015: HK$7,357 million) in respect of HAECO, there are no significant differences between the summarised financial information presented in the table below and the amounts in the separate consolidated financial statements of Swire Properties and HAECO.

Summarised Statement of Financial Position

	Swire Properties		HAECO	
	At 31st December		At 31st December	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
Current				
Assets	10,310	14,921	4,621	4,962
Liabilities	15,597	16,701	2,534	2,671
Total current net (liabilities)/assets	(5,287)	(1,780)	2,087	2,291
Non-current				
Assets	271,065	257,320	9,729	9,685
Liabilities	38,867	38,044	4,297	4,790
Total non-current net assets	232,198	219,276	5,432	4,895
Net assets	226,911	217,496	7,519	7,186

Summarised Statement of Profit or Loss

	Swire Properties		HAECO	
	For the year ended 31st December		For the year ended 31st December	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
Revenue	16,792	16,447	13,760	12,095
Profit for the year attributable to shareholders	15,069	14,017	975	464
Other comprehensive income	(1,656)	(1,599)	(3)	(311)
Total comprehensive income attributable to shareholders	13,413	12,418	972	153
Total comprehensive income allocated to non-controlling interests	2,414	2,235	243	38
Dividends paid to non-controlling interests	748	706	170	85

18. Subsidiary Companies (continued)

Summarised Statement of Cash Flows

	Swire Properties		HAECO	
	For the year ended 31st December		For the year ended 31st December	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
Net cash generated from operating activities	8,625	8,170	1,023	696
Net cash (used in)/generated from investing activities	(6,627)	(4,425)	39	(415)
Net cash used in financing activities	(4,604)	(2,179)	(1,139)	(1,141)
Net (decrease)/increase in cash and cash equivalents	(2,606)	1,566	(77)	(860)
Cash and cash equivalents at 1st January	4,358	2,874	1,413	2,310
Currency adjustment	(71)	(82)	(37)	(37)
Cash and cash equivalents at 31st December	1,681	4,358	1,299	1,413

19. Joint Venture and Associated Companies

Accounting Policy

Joint venture companies are those companies held for the long-term, over which the Group is in a position to exercise joint control with other venturers in accordance with contractual arrangements, and where the Group has rights to the net assets of those companies.

Associated companies are those companies over which the Group has significant influence, but not control or joint control, over their management including participation in financial and operating policy decisions, generally accompanying a shareholding representing between 20% and 50% of the voting rights.

In the Group's consolidated statement of financial position, its investments in joint venture and associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in joint venture and associated companies over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition represents goodwill. The Group's investments in joint venture and associated companies include goodwill identified on acquisitions, net of any accumulated impairment loss.

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in joint venture and associated companies are impaired. Such objective evidence includes whether there have been any significant adverse changes in the technological, market, economic or legal environment in which the joint venture and associated companies operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in a joint venture or associate is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount is higher than the higher of the investment's fair value less costs to sell or value in use. Any reversal of such impairment loss in subsequent periods is credited to profit or loss.

(a) Joint venture companies

	2016 HK$M	2015 HK$M
Unlisted shares at cost		
Share of net assets, unlisted	11,582	11,183
Goodwill	471	106
	12,053	11,289
Loans due from joint venture companies less provisions		
– Interest-free	12,501	12,377
– Interest-bearing at 1.71% to 7.50% (2015: 1.71% to 7.50%)	1,354	1,322
	25,908	24,988

19. Joint Venture and Associated Companies (continued)

(a) Joint venture companies (continued)

The loans due from joint venture companies are unsecured and have no fixed terms of repayment.

The principal joint venture companies of the Group are shown on pages 197 to 208. There are no joint venture companies that are considered individually material to the Group.

The Group's share of assets and liabilities and results of joint venture companies is summarised below:

	2016 HK$M	2015 HK$M
Non-current assets	36,072	34,233
Current assets	5,231	5,919
Current liabilities	(6,941)	(7,892)
Non-current liabilities	(22,780)	(21,077)
Net assets	11,582	11,183
Revenue	13,687	14,636
Expenses	(11,361)	(12,396)
Gain on disposal of SAESL	805	–
Profit before taxation	3,131	2,240
Taxation	(400)	(445)
Profit for the year	2,731	1,795
Other comprehensive income	(680)	(559)
Total comprehensive income for the year	2,051	1,236

Capital commitments and contingencies in respect to joint venture companies are disclosed in notes 38(a) and 39(a), respectively.

Disposal of Hong Kong Aero Engine Services Limited's ("HAESL") interest in Singapore Aero Engine Services Pte. Limited ("SAESL")

In June 2016, HAESL completed the disposal of its 20% shareholding in SAESL for a cash consideration of HK$2,106 million. The gain to HAESL arising from the disposal was HK$1,789 million. The gain included in the share of profits less losses of joint venture companies shown in the consolidated statement of profit or loss is HK$805 million, of which HK$604 million is attributable to the Group after deducting the portion attributable to the non-controlling interests in the HAECO group.

Acquisition of an additional 5% shareholding in HAESL

In June 2016, the HAECO group completed the acquisition of an additional 5% shareholding in HAESL for a cash consideration of HK$452 million, increasing its interest to 50%.

Details of net assets acquired and goodwill are as follows:

	HK$M
Purchase consideration	452
Share of fair value of net assets acquired	(87)
Goodwill	365

19. Joint Venture and Associated Companies (continued)

(b) Associated companies

Critical Accounting Estimates and Judgements

Under HKFRS 10, the Company is required to consolidate as subsidiaries in its financial statements, companies which it controls. The Company controls another company if it has (i) power over the other company, (ii) exposure or rights to variable returns from its involvement with the other company and (iii) ability to use its power over the other company to affect the amount of the Company's returns. All three of these requirements must be met. The Company has considered whether to consolidate Cathay Pacific as a subsidiary in its financial statements in the light of the provisions of HKFRS 10.

Under HKFRS 10, the Company will be taken to have power over Cathay Pacific if the Company has rights which give the Company the current ability to direct the activities of Cathay Pacific which significantly affect the Company's returns from Cathay Pacific.

As the Company holds less than half (45%) of the voting rights in Cathay Pacific, the Company does not have power over Cathay Pacific by virtue of holding a majority of those voting rights. The Company has accordingly considered other relevant factors in order to determine whether it has such power. The Company is party to a shareholders agreement dated 8th June 2006 (the "Shareholders Agreement") between itself, Air China Limited ("Air China") and others in relation to the affairs of Cathay Pacific, as subsequently amended. The Shareholders Agreement contains provisions relating to the composition of the board of Cathay Pacific (including Air China being obliged to use its votes as a shareholder of Cathay Pacific to support the Company appointing a majority of the board of directors of Cathay Pacific). The Company is of the view, having considered the terms of the Shareholders Agreement, the terms of an operating agreement dated 8th June 2006 between Cathay Pacific and Air China and the way in which the board of Cathay Pacific governs the affairs of Cathay Pacific in practice, that the Company does not have power over Cathay Pacific for the purposes of HKFRS 10. It follows that, as one of the three requirements in HKFRS 10 for consolidation has not been met, the Company should not consolidate Cathay Pacific as a subsidiary in the Company's financial statements and should account for its interest in Cathay Pacific as an associated company.

	2016 HK$M	2015 HK$M
Share of net assets		
– Listed in Hong Kong	24,629	21,291
– Unlisted	1,987	2,171
	26,616	23,462
Goodwill	855	855
	27,471	24,317
Interest-bearing loans at 4.0%-6.0% (2015: 4.0%-6.0%)	75	4
	27,546	24,321

The loans due from associated companies are unsecured and have no fixed terms of repayment.

The market value of the shares in the listed associated company, Cathay Pacific at 31st December 2016 was HK$18,056 million (2015: HK$23,757 million). The forecast cash flows of Cathay Pacific indicate that no impairment exists.

19. Joint Venture and Associated Companies (continued)

(b) Associated companies (continued)

The principal associated companies of the Group are shown on pages 197 to 208. In addition, Cathay Pacific is considered individually material to the Group and abridged financial statements are shown on pages 195 and 196.

The Group's share of assets and liabilities and results of associated companies is summarised below:

	2016 HK$M	2015 HK$M
Non-current assets	69,575	67,481
Current assets	13,313	13,927
Current liabilities	(15,968)	(17,394)
Non-current liabilities	(40,227)	(40,483)
Non-controlling interests	(77)	(69)
Net assets	26,616	23,462
Revenue	45,588	50,462
Expenses	(45,382)	(47,086)
Profit before taxation	206	3,376
Taxation	(276)	(489)
Profit for the year	(70)	2,887
Other comprehensive income	4,079	(3,549)
Total comprehensive income for the year	4,009	(662)

Contingencies in respect of Cathay Pacific are disclosed in note 39(b).

20. Financial Instruments by Category

Accounting Policy

Classification
The Group classifies its financial instruments in the following categories: at fair value through profit or loss, derivatives used for hedging, available-for-sale, loans and receivables and amortised cost. The classification depends on the purpose of the financial instrument. The Group determines the classification of its financial instruments at initial recognition.

(a) At fair value through profit or loss
A financial instrument is classified within this category if the intention is to settle it in the short-term or if it is designated as at fair value through profit or loss by management. Derivatives are included within this category unless they are designated as hedges. Put options over non-controlling interests in subsidiary companies and contingent consideration included in trade and other payables are measured at fair value through profit or loss. Assets in this category are classified as current if they are either held for trading or are expected to be realised within 12 months of the period-end date.

(b) Derivatives used for hedging
Derivative instruments are classified within this category if they qualify for hedge accounting.

(c) Available-for-sale
Available-for-sale assets are non-derivative investments and other assets that are either designated in this category or not classified in any of the other categories. Available-for-sale assets are included in non-current assets unless management intends to dispose of them within 12 months of the period-end date.

20. Financial Instruments by Category (continued)

Accounting Policy (continued)

(d) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the period-end date where these are classified as non-current assets.

(e) Amortised cost
The amortised cost category comprises instruments that are non-derivative financial liabilities with fixed or determinable payments and fixed maturities. They are included in non-current liabilities, except for maturities less than 12 months after the period-end date where these are classified as current liabilities.

Recognition and measurement

Purchases and sales of financial instruments are recognised on their trade date, which is the date when the Group contracts with the purchaser or seller. Financial instruments are initially recognised at fair value. Transaction costs are included for all financial instruments not carried at fair value through profit or loss. Financial instruments are derecognised when the rights to receive or obligations to pay cash have expired or have been transferred and the Group has transferred substantially all the relevant risks and rewards.

Financial instruments classified as at fair value through profit and loss are subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in fair value are included in the statement of profit or loss in the period in which they arise.

Derivatives used for hedging are subsequently carried at fair value. The accounting for realised and unrealised gains and losses arising from changes in the fair value of derivatives is set out in note 22.

Financial assets classified as available-for-sale are subsequently carried at fair value. Unrealised gains and losses arising from changes in fair value are recognised in other comprehensive income. When available-for-sale assets are sold or impaired, the accumulated fair value adjustments are included in the statement of profit or loss as gains and losses from investments.

Financial instruments classified as loans and receivables and amortised cost are subsequently measured using the effective interest method.

The Group assesses at each period-end date whether there is objective evidence that a financial asset is impaired. A financial asset is impaired and impairment losses are recognised only if there is objective evidence of impairment as a result of one or more events that occur after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset that can be reliably measured.

20. Financial Instruments by Category (continued)

The accounting policies applied to financial instruments are shown below by line item:

	Note	At fair value through profit or loss HK$M	Derivatives used for hedging HK$M	Available-for-sale HK$M	Loans and receivables HK$M	Amortised cost HK$M	Total carrying amount HK$M	Fair value HK$M
Assets as per consolidated statement of financial position								
At 31st December 2016								
Available-for-sale assets	21	–	–	457	–	–	457	457
Derivative financial assets	22	–	548	–	–	–	548	548
Trade and other receivables excluding prepayments	25	–	–	–	8,300	–	8,300	8,300
Bank balances and short-term deposits	26	–	–	–	6,477	–	6,477	6,477
Total		–	548	457	14,777	–	15,782	15,782
At 31st December 2015								
Available-for-sale assets	21	–	–	508	–	–	508	508
Derivative financial assets	22	–	298	–	–	–	298	298
Trade and other receivables excluding prepayments	25	–	–	–	9,105	–	9,105	9,105
Bank balances and short-term deposits	26	–	–	–	8,985	–	8,985	8,985
Total		–	298	508	18,090	–	18,896	18,896
Liabilities as per consolidated statement of financial position								
At 31st December 2016								
Trade and other payables	27	2,517	–	–	–	18,358	20,875	20,875
Derivative financial liabilities	22	–	66	–	–	–	66	66
Short-term loans	29	–	–	–	–	595	595	595
Long-term loans and bonds due within one year	29	–	–	–	–	5,357	5,357	5,357
Perpetual capital securities	28	–	–	–	–	2,327	2,327	2,327
Long-term loans and bonds due after one year	29	–	–	–	–	62,291	62,291	63,927
Total		2,517	66	–	–	88,928	91,511	93,147
At 31st December 2015								
Trade and other payables	27	1,515	–	–	–	18,571	20,086	20,086
Derivative financial liabilities	22	7	217	–	–	–	224	224
Short-term loans	29	–	–	–	–	669	669	669
Long-term loans and bonds due within one year	29	–	–	–	–	6,841	6,841	6,841
Perpetual capital securities	28	–	–	–	–	2,325	2,325	2,575
Long-term loans and bonds due after one year	29	–	–	–	–	58,782	58,782	60,843
Total		1,522	217	–	–	87,188	88,927	91,238

The fair values of financial instruments traded in active markets are based on quoted market prices at the year-end date. The quoted market prices used for financial assets held by the Group are the current bid prices.

The fair values of financial instruments that are not traded in active markets are determined by using valuation techniques such as estimated discounted cash flows or based on quotes from market makers, which use assumptions that are based on market conditions existing at each year-end date.

20. Financial Instruments by Category (continued)

The book values of trade and other receivables, trade and other payables and provisions approximate their fair values.

The fair value of current borrowings equals their carrying value, as the impact of discounting is not significant. The fair value of non-current borrowings is not equal to their carrying value, but is based on cash flows discounted using assumptions sourced from the relevant financial institutions or quotes from market makers or alternative market participants supported by observable inputs, such as interest rates. Non-current borrowings would be categorised within level 2 of the fair value hierarchy if they were accounted for at fair value.

Financial instruments that are measured at fair value are included in the following fair value hierarchy:

	Note	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total carrying amount HK$M
Assets as per consolidated statement of financial position					
At 31st December 2016					
Available-for-sale assets	21				
– Listed investments		191	–	–	191
– Unlisted investments		–	–	266	266
Derivatives used for hedging	22	–	548	–	548
Total		191	548	266	1,005
At 31st December 2015					
Available-for-sale assets	21				
– Listed investments		262	–	–	262
– Unlisted investments		–	–	246	246
Derivatives used for hedging	22	–	298	–	298
Total		262	298	246	806
Liabilities as per consolidated statement of financial position					
At 31st December 2016					
Derivatives used for hedging	22	–	66	–	66
Put option over non-controlling interest in Brickell City Centre	27	–	–	670	670
Put option over non-controlling interest in a subsidiary company	27	–	–	77	77
Contingent consideration	27	–	–	1,770	1,770
Total		–	66	2,517	2,583
At 31st December 2015					
Derivatives used for hedging	22	–	224	–	224
Put option over non-controlling interest in Brickell City Centre	27	–	–	509	509
Put option over non-controlling interest in a subsidiary company	27	–	–	74	74
Contingent consideration	27	–	–	932	932
Total		–	224	1,515	1,739

Notes:
The levels in the hierarchy represent the following:
Level 1 – Financial instruments measured at fair value using quoted prices in active markets.
Level 2 – Financial instruments measured at fair value using inputs other than quoted prices but where those inputs are based on observable market data.
Level 3 – Financial instruments measured at fair value using inputs not based on observable market data.

20. Financial Instruments by Category (continued)

There were no transfers of financial instruments between the levels in the fair value hierarchy. The Group's policy is to recognise any transfer into and out of fair value hierarchy levels as at the date of the event or change in circumstances that cause the transfer.

The change in level 3 financial instruments for the year is as follows:

	Put options over non-controlling interests HK$M	Unlisted investments HK$M	Contingent consideration HK$M
At 1st January 2016	**583**	**246**	**932**
Translation differences	**1**	**1**	**–**
Additions	**47**	**41**	**1,427**
Disposals	**–**	**(22)**	**–**
Change in fair value recognised in profit or loss during the year	**116**	**–**	**102**
Payment of consideration	**–**	**–**	**(691)**
At 31st December 2016	**747**	**266**	**1,770**
Total losses for the year included in profit or loss in respect of financial instruments held at 31st December 2016	**(116)**	**–**	**(102)**
Change in unrealised losses for the year included in profit or loss of financial instruments held at 31st December 2016	**(116)**	**–**	**(102)**

	Put options over non-controlling interests HK$M	Unlisted investments HK$M	Contingent consideration HK$M
At 1st January 2015	597	338	388
Translation differences	(1)	–	–
Additions	23	–	541
Disposals	–	(92)	–
Change in fair value recognised in profit or loss during the year	(36)	–	22
Payment of consideration	–	–	(19)
At 31st December 2015	583	246	932
Total gains/(losses) for the year included in profit or loss in respect of financial instruments held at 31st December 2015	36	–	(22)
Change in unrealised gains/(losses) for the year included in profit or loss of financial instruments held at 31st December 2015	36	–	(22)

There has been no change in the valuation techniques for level 2 and level 3 fair value hierarchy classifications.

The fair value of derivatives used for hedging in level 2 has been based on quotes from market makers or discounted cash flow valuation techniques and is supported by observable inputs. The most significant observable inputs are market interest rates, exchange rates, yields and commodity prices.

The fair value estimate of the put option over a non-controlling interest in the retail portion of Brickell City Centre classified within level 3 is determined using a discounted cash flow valuation technique and contains a number of unobservable inputs, including the expected fair value of the investment property at the expected time of exercise, the expected time of exercise itself and the discount rate used. The expected time of exercise is in 2019 and the discount rate used is 6.3%. The investment property's fair value at the expected time of exercise is, itself, subject to a number of unobservable inputs which are similar to the inputs for the Group's other completed investment properties, including the expected fair market rent and the expected capitalisation rate. If the investment property's expected fair value at the time of exercise is higher, the fair value of the put option would also be higher at 31st December 2016. If the expected time of exercise is later or if the discount rate is higher, then the fair value of the put option would be lower. The opposite is true for an earlier exercise time or a lower discount rate.

20. Financial Instruments by Category (continued)

The fair value of the put options over non-controlling interests in subsidiary companies (other than the subsidiary company holding a non-controlling interest in the retail portion of Brickell City Centre), unlisted investments and contingent consideration classified within level 3 are determined using a discounted cash flow valuation technique. The significant unobservable inputs used are expected future growth rates and discount rates. Changing these unobservable inputs to unobservable inputs based on reasonable alternative assumptions would not significantly change the valuation of the put options, unlisted investments and contingent consideration.

The Group's finance departments perform the valuations of financial instruments required for reporting purposes, including level 3 fair values. The valuations are reviewed and approved by divisional finance directors.

21. Available-for-sale Assets

	2016 HK$M	2015 HK$M
Non-current assets		
Shares listed in Hong Kong	92	101
Shares listed overseas	99	161
Unlisted investments	266	246
	457	508

22. Derivative Financial Instruments

Accounting Policy

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as either: (a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (b) hedges of highly probable forecast transactions (cash flow hedges); or (c) hedges of net investments in foreign operations.

The Group documents at the inception of transactions the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

(a) Fair value hedges
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statement of profit or loss, together with any changes in the fair values of the hedged assets or liabilities that are attributable to the hedged risk. The Group applies fair value hedge accounting for hedging fixed interest risk on borrowings and foreign exchange risk. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of profit or loss within finance income or finance costs. The gain or loss relating to forward foreign exchange contracts, whether effective or ineffective, is recognised in the statement of profit or loss within other net gains/losses.

If a hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised through the statement of profit or loss over the period to maturity.

(b) Cash flow hedges
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

22. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(b) Cash flow hedges (continued)
Amounts accumulated in equity are transferred to the statement of profit or loss in the periods when the hedged items will affect profit or loss (for instance when a forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of profit or loss within finance costs. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in the statement of profit or loss within cost of sales. The gain or loss relating to the ineffective portion of interest rate swaps or forward foreign exchange contracts is recognised in the statement of profit or loss within other net gains/losses. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or property, plant and equipment) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

(c) Net investment hedges
Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of a hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

Gains and losses accumulated in equity are transferred to the statement of profit or loss when the foreign operation is disposed of.

(d) Derivatives that do not qualify for hedge accounting
Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the statement of profit or loss.

The fair value of interest rate swaps and cross-currency swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward relevant exchange market rates at the period-end date.

	2016		2015	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cross-currency swaps – cash flow hedges (a)	533	25	287	180
Interest rate swaps – cash flow hedges	8	9	3	21
Forward foreign exchange contracts				
– cash flow hedges	5	32	6	16
– not qualifying as hedges	1	–	–	–
Commodity swaps				
– cash flow hedges	–	–	2	–
– not qualifying as hedges	1	–	–	7
Total	548	66	298	224
Analysed as:				
Current	20	32	68	23
Non-current	528	34	230	201
	548	66	298	224

22. Derivative Financial Instruments (continued)

(a) The cross-currency swaps principally hedge the foreign currency risk relating to US$ note issues and US$ perpetual capital securities. Gains and losses recognised in other comprehensive income on cross-currency swaps at 31st December 2016 are expected to affect the statement of profit or loss in the years to redemption of the notes and perpetual capital securities (up to and including 2026). The total notional principal amount of the outstanding cross currency swap contracts at 31st December 2016 was HK$25,568 million (2015: HK$26,329 million).

For the years ended 31st December 2016 and 31st December 2015 all cash flow hedges were effective.

23. Properties Held for Development and Properties under Development and for Sale

Accounting Policy

Properties held for development comprise freehold land at cost, less provisions for possible losses. Properties held for development are not expected to be sold or developed within the Group's normal operating cycle and are classified as non-current assets.

Properties under development and for sale comprise freehold and leasehold land at cost, construction costs and interest costs capitalised, less provisions for possible losses. Properties under development are active construction projects which are expected to be sold within the Group's normal operating cycle and are classified as current assets. Properties for sale are available for immediate sale and are classified as current assets.

	2016 HK$M	2015 HK$M
Properties held for development		
Freehold land	1,119	795
Development cost	160	147
	1,279	942
Properties under development and for sale		
Completed properties – development costs	3,760	1,045
Completed properties – freehold land	130	1
Completed properties – leasehold land	1,779	582
Properties under development – development costs	–	4,205
Freehold land under development for sale	–	349
Leasehold land under development for sale	–	1,433
	5,669	7,615

24. Stocks and Work in Progress

Accounting Policy

Stocks and work in progress are stated at the lower of cost and net realisable value. Cost represents average unit cost and net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. The costs of finished goods and work in progress comprise direct material and labour costs and an appropriate proportion of production overhead expenses less provisions for foreseeable losses. Cost includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials or stocks.

	2016 HK$M	2015 HK$M
Goods for sale	2,302	2,219
Manufacturing materials	476	423
Production supplies	1,108	1,059
Work in progress	904	898
	4,790	4,599

25. Trade and Other Receivables

Accounting Policy

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Trade and other receivables in the statement of financial position are stated net of such provisions.

Objective evidence of impairment may include indications that a debtor is or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that it or they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

	2016 HK$M	2015 HK$M
Trade debtors	3,862	3,529
Amounts due from immediate holding company	4	2
Amounts due from joint venture companies	135	160
Amounts due from associated companies	465	610
Interest-bearing advance to an associated company at 7.0% (2015: 7.0%)	113	117
Prepayments and accrued income	2,042	2,578
Other receivables	3,025	3,432
	9,646	10,428
Amounts due after one year included under non-current assets	(49)	(466)
	9,597	9,962

The amounts due from joint venture and associated companies are unsecured, interest free (except where specified) and on normal trade credit terms.

The analysis of the age of trade debtors at the year-end (based on the invoice date) is as follows:

	2016 HK$M	2015 HK$M
Up to three months	3,635	3,318
Between three and six months	152	115
Over six months	75	96
	3,862	3,529

The various Group companies have different credit policies, depending on the requirements of their markets and the businesses in which they operate. Analyses of the age of debtors are prepared and closely monitored with a view to minimising credit risk associated with receivables.

25. Trade and Other Receivables (continued)

At 31st December 2016, trade debtors of HK$975 million (2015: HK$856 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The period of time since the due date of these trade debtors is as follows:

	2016 HK$M	2015 HK$M
Up to three months	898	763
Between three and six months	29	32
Over six months	48	61
	975	856

At 31st December 2016, trade debtors of HK$71 million (2015: HK$188 million) were impaired. The amount of the provision was HK$24 million at 31st December 2016 (2015: HK$131 million). It was assessed that a portion of the trade debtors is expected to be recovered.

The maximum exposure to credit risk at 31st December 2016 and 31st December 2015 is the carrying value of trade debtors, amounts due from related parties and other receivables disclosed above. The carrying value of rental deposits from tenants held as security against trade debtors at 31st December 2016 was HK$2,494 million (2015: HK$2,389 million).

26. Bank Balances and Short-Term Deposits

Accounting Policy

Cash and cash equivalents comprise cash in hand, amounts repayable on demand from banks and financial institutions and short-term highly liquid investments which were within three months of maturity when acquired, less bank overdrafts.

	2016 HK$M	2015 HK$M
Bank balances and short-term deposits maturing within three months	6,450	8,936
Short-term deposits maturing after more than three months	27	49
	6,477	8,985

The effective interest rates on short-term deposits of the Group ranged from 0.01% to 4.35% (2015: 0.01% to 14.25%); these deposits have maturities from 7 to 365 days (2015: 7 to 365 days).

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2016 and 31st December 2015 is the carrying value of the bank balances and short-term deposits disclosed above.

27. Trade and Other Payables

Accounting Policy

Trade and other payables (except put options over non-controlling interests in subsidiary companies and contingent consideration) are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

	2016 HK$M	2015 HK$M
Trade creditors	3,150	3,645
Amounts due to immediate holding company	171	168
Amounts due to joint venture companies	78	207
Amounts due to associated companies	120	101
Interest-bearing advances from joint venture companies at 0.39% to 4.63% (2015: 0.28% to 4.63%)	326	343
Interest-bearing advances from an associated company at 2.30% (2015: 1.90%)	289	296
Advances from non-controlling interests	150	159
Rental deposits from tenants	2,494	2,389
Put option over non-controlling interest in Brickell City Centre	670	509
Put option over a non-controlling interest in a subsidiary company	77	74
Deposit received on the sale of a subsidiary company	653	–
Contingent consideration	1,770	932
Accrued capital expenditure	1,484	1,454
Other accruals	5,487	5,229
Other payables	3,956	4,580
	20,875	20,086
Amounts due after one year included under non-current liabilities	(3,427)	(1,276)
	17,448	18,810

The amounts due to and advances from immediate holding, joint venture and associated companies, and non-controlling interests are unsecured and have no fixed terms of repayment. The interest-bearing advance from an associated company is unsecured and repayable in 2018. Apart from certain amounts due to joint venture and associated companies, which are interest-bearing as specified above, the balances are interest free.

The analysis of the age of trade creditors at the year-end is as follows:

	2016 HK$M	2015 HK$M
Up to three months	2,985	3,470
Between three and six months	133	123
Over six months	32	52
	3,150	3,645

28. Perpetual Capital Securities

Refer to the table with the heading "Audited Financial Information" on page 82 for details of the Group's perpetual capital securities.

29. Borrowings

Accounting Policy

Borrowings are recognised initially at fair value and subsequently measured at amortised cost. Transaction costs incurred are included for those not held at fair value through profit or loss. Borrowings are subsequently stated at amortised cost, with any difference between the proceeds (net of transaction costs) and the redemption value recognised in the statement of profit or loss over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the period-end date.

For disclosure purposes, the fair value of borrowings stated at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Refer to the tables with the heading "Audited Financial Information" on pages 80 to 86 for details of the Group's borrowings.

30. Deferred Taxation

Accounting Policy

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, if the deferred tax arises from initial recognition of an asset or liability in a transaction other than a business combination that, at the time of the recognition, has no impact on taxable nor accounting profit or loss, it is not recognised. Tax rates enacted or substantially enacted by the period-end date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiary, joint venture and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred taxation relating to investment properties in Hong Kong is calculated having regard to the presumption that the value of these properties is capable of being recovered entirely through sale. This presumption is rebutted in relation to investment properties in Mainland China, because the business model applicable to them is to consume substantially all the economic benefits embodied in them over time rather than through sale. Accordingly, deferred tax relating to investment properties in Mainland China and the USA is determined on the basis of recovery through use.

Deferred tax assets and liabilities are netted off when the taxes relate to the same taxation authority and where offsetting is legally enforceable. The following amounts, determined after appropriate offsetting, are shown separately on the statement of financial position:

	2016 HK$M	2015 HK$M
Deferred tax assets	697	847
Deferred tax liabilities	(8,291)	(7,605)
	(7,594)	(6,758)

Substantially all deferred tax balances are to be recovered or settled after more than 12 months.

30. Deferred Taxation (continued)

The movement on the net deferred tax liabilities account is as follows:

	Note	2016 HK$M	2015 HK$M
At 1st January		6,758	6,286
Translation differences		(238)	(63)
Acquisition of new businesses	37	(80)	4
Disposal of a subsidiary company		2	–
Charged to statement of profit or loss	10	1,097	657
Charged/(credited) to other comprehensive income		55	(126)
At 31st December		7,594	6,758

The movement in deferred tax assets and liabilities (prior to offsetting balances within the same taxation jurisdiction) during the year is as follows:

Deferred tax liabilities

	Accelerated tax depreciation		Valuation of investment properties		Others		Total	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
At 1st January	3,732	3,494	3,338	2,792	1,151	1,297	8,221	7,583
Translation differences	(34)	–	(211)	(49)	(9)	(29)	(254)	(78)
Acquisition of new businesses	–	–	–	–	438	10	438	10
Charged/(credited) to statement of profit or loss	461	238	902	592	21	(83)	1,384	747
Charged/(credited) to other comprehensive income	–	–	3	3	63	(44)	66	(41)
At 31st December	4,159	3,732	4,032	3,338	1,664	1,151	9,855	8,221

Deferred tax assets

	Provisions		Tax losses		Others		Total	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
At 1st January	492	566	456	390	515	341	1,463	1,297
Translation differences	(7)	(7)	(4)	(1)	(5)	(7)	(16)	(15)
Acquisition of new businesses	–	6	–	–	518	–	518	6
Disposal of a subsidiary	(2)	–	–	–	–	–	(2)	–
Credited/(charged) to statement of profit or loss	78	(73)	156	67	53	96	287	90
Credited to other comprehensive income	–	–	–	–	11	85	11	85
At 31st December	561	492	608	456	1,092	515	2,261	1,463

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. The Group has unrecognised tax losses of HK$2,635 million (2015: HK$3,997 million) to carry forward against future taxable income, of which HK$1,246 million (2015: HK$2,016 million) will expire at various dates up to 2028.

31. Retirement Benefits

The Group operates a number of defined benefit and defined contribution retirement benefit schemes for its employees, the assets of which are generally held in separate trustee-administered funds.

A defined benefit scheme is a retirement plan that defines the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group has an obligation to provide participating employees with these benefits.

A defined contribution scheme is a retirement plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Accounting Policy

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash flows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in the statement of profit or loss. Any differences between the implicit and actual return on assets are charged as remeasurements to other comprehensive income.

For defined contribution schemes, the Group's contributions are charged to the statement of profit or loss in the periods to which the contributions relate.

Critical Accounting Estimates and Judgements

The Group's obligations and expenses in respect of defined benefit schemes are dependent on a number of factors that are determined using a number of actuarial assumptions. The details of the actuarial assumptions used, including applicable sensitivities are disclosed in note 31(f).

For the year ended 31st December 2015, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015. For the year ended 31st December 2016, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which were updated to reflect the position at 31st December 2016 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes. Schemes in the USA and Taiwan are valued by independent qualified actuaries. In addition, the Group operates a post-employment health care and life insurance benefit plan for certain retired employees in the USA. The plan is unfunded. The method of accounting and the frequency of valuations are similar to those used for defined benefit schemes.

The majority of the Group's schemes are final salary guaranteed lump sum defined benefit plans.

31. Retirement Benefits (continued)

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an ongoing basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. The latest actuarial valuations indicate that the funding level was 113% (2015: 113%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$197 million to its defined benefit schemes in 2017.

Most new employees in Hong Kong are offered the choice of joining the defined benefit retirement schemes or the mandatory provident fund ("MPF") scheme. Where staff elect to join the MPF scheme, both the Company and the staff are required to contribute 5% of the employees' relevant monthly income (capped at HK$30,000). Staff may elect to contribute more than the minimum as a voluntary contribution. Employees engaged outside Hong Kong are covered by appropriate local arrangements.

(a) The amounts recognised in the statement of financial position are as follows:

	2016 HK$M	2015 HK$M
Present value of funded obligations	5,734	5,606
Fair value of plan assets	(4,716)	(4,528)
	1,018	1,078
Present value of unfunded obligations	42	31
Net retirement benefit liabilities	1,060	1,109
Represented by:		
Retirement benefit assets	(80)	(76)
Retirement benefit liabilities	1,140	1,185
	1,060	1,109

(b) Changes in the present value of the defined benefit obligation are as follows:

	2016 HK$M	2015 HK$M
At 1st January	5,637	5,355
Translation differences	8	(13)
Transfer of members	(1)	6
Current service cost	278	272
Interest expense	188	176
Actuarial losses/(gains) from changes in:		
demographic assumptions	15	68
financial assumptions	(57)	(90)
Experience losses	62	207
Employee contributions	3	3
Benefits paid	(357)	(347)
At 31st December	5,776	5,637

The weighted average duration of the defined benefit obligations is 9.0 years (2015: 8.9 years).

31. Retirement Benefits (continued)

(c) Changes in the fair value of plan assets are as follows:

	2016 HK$M	2015 HK$M
At 1st January	4,528	4,723
Translation differences	1	(3)
Transfer of members	(1)	6
Interest income	155	159
Return on plan assets, excluding interest income	88	(226)
Contributions by employer	298	208
Employee contributions	1	2
Benefits paid	(354)	(341)
At 31st December	4,716	4,528

There were no plan amendments, curtailments or settlements during the year.

(d) Net expenses recognised in the statement of profit or loss are as follows:

	2016 HK$M	2015 HK$M
Current service cost	278	272
Net interest cost	33	17
	311	289

The above net expenses were mainly included in administrative expenses in the statement of profit or loss.

Total retirement benefit costs charged to the statement of profit or loss for the year ended 31st December 2016 amounted to HK$613 million (2015: HK$562 million), including HK$302 million (2015: HK$273 million) in respect of defined contribution schemes.

The actual return on defined benefit plan assets was a gain of HK$243 million (2015: loss of HK$67 million).

(e) The plan assets are invested in the Swire Group Unitised Trust ("the Trust"). The Trust has three sub-funds in which the assets may be invested in accordance with separate and distinct investment policies and objectives. The Trust and sub-funds are overseen by an investment committee, which meets four times a year.

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities, bonds and absolute return funds.

The management of the assets within the sub-funds is delegated by the investment committee to a number of reputable investment managers. The plan assets comprise:

	2016 HK$M	2015 HK$M
Equities		
Asia Pacific	493	569
Europe	302	287
North America	862	785
Emerging markets	577	402
Bonds		
Global	1,950	1,906
Emerging markets	99	74
Absolute return funds	187	187
Cash	246	318
	4,716	4,528

31. Retirement Benefits (continued)

At 31st December 2016, the prices of 96% of equities and 45% of bonds were quoted on active markets (31st December 2015: 96% and 38% respectively). The percentage of bonds quoted on active markets at 31st December 2015 has been restated to reflect a change in the basis of assessment. The remainder of the prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. This risk embodies the potential for losses and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of investments by the appointed investment managers. Investment managers enter into agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark. The investment committee monitors the overall market risk position on a quarterly basis.

(f) The significant actuarial assumptions used are as follows:

	2016		2015	
	Hong Kong %	Others %	Hong Kong %	Others %
Discount rate	3.64	1.00-4.55	3.22	2.00-4.90
Expected rate of future salary increases	4.00	3.00-3.83	4.00	2.75-4.12

The sensitivity of the defined benefit obligations to changes in actuarial assumptions is:

	Increase/(decrease) in defined benefit obligation		
	Change in assumption	Increase in assumption HK$M	Decrease in assumption HK$M
Discount rate	0.50%	(291)	316
Expected rate of future salary increases	0.50%	243	(231)

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligations to significant actuarial assumptions the same method has been applied as when calculating the retirement benefit liability recognised within the statement of financial position.

32. Other Non-current Assets

Other non-current assets comprise an uncompleted property in Kowloon Bay, Hong Kong transferred from investment properties under development (note 15) at fair value on 28th October 2016. The carrying value of the property at 31st December 2016 represents its fair value at the date of transfer plus the development costs incurred subsequently. The transfer to other non-current assets occurred on the signing of an agreement dated 28th October 2016 between Swire Properties and a third party for the sale of Swire Properties' 100% interest in a subsidiary company owning the property. The consideration for the sale is HK$6,528 million, subject to adjustment. Completion of the sale is conditional upon the relevant occupation permit and certificate of compliance being obtained on or before 31st December 2018.

33. Share Capital

	'A' shares	'B' shares	Total HK$M
Issued and fully paid			
At 31st December 2016	905,206,000	2,995,220,000	1,294
At 1st January 2015	905,578,500	2,995,220,000	1,294
Repurchased during the year	(372,500)	–	–
At 31st December 2015	905,206,000	2,995,220,000	1,294

During the year, the Company did not purchase, sell or redeem any of its shares.

In July 2015, the company repurchased 372,500 'A' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK$35 million.

Except for voting rights, which are equal, the entitlements of 'A' and 'B' shareholders are in proportion five to one.

34. Reserves

	Note	Revenue reserve HK$M	Property revaluation reserve HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Translation reserve HK$M	Total HK$M
At 1st January 2016		220,138	1,994	443	(7,298)	1,878	217,155
Profit for the year		9,644	–	–	–	–	9,644
Other comprehensive income							
Defined benefit plans							
– remeasurement gains recognised during the year		36	–	–	–	–	36
– deferred tax		16	–	–	–	–	16
Cash flow hedges							
– gains recognised during the year		–	–	–	517	–	517
– transferred to net finance charges		–	–	–	(91)	–	(91)
– transferred to operating profit		–	–	–	(34)	–	(34)
– deferred tax		–	–	–	(57)	–	(57)
Net fair value changes on available-for-sale assets							
– losses recognised during the year		–	–	(51)	–	–	(51)
– transferred to profit or loss on disposal		–	–	(10)	–	–	(10)
Revaluation of property previously occupied by the Group							
– gains recognised during the year		–	98	–	–	–	98
– deferred tax		–	(2)	–	–	–	(2)
Share of other comprehensive income of joint venture and associated companies		268	–	87	4,459	(1,295)	3,519
Net translation differences on foreign operations		–	–	–	–	(1,517)	(1,517)
Total comprehensive income for the year		9,964	96	26	4,794	(2,812)	12,068
Acquisition of non-controlling interest		147	–	–	–	–	147
Recognition of contingent consideration		(99)	–	–	–	–	(99)
2015 second interim dividend	12	(4,182)	–	–	–	–	(4,182)
2016 first interim dividend	12	(1,504)	–	–	–	–	(1,504)
At 31st December 2016		224,464	2,090	469	(2,504)	(934)	223,585

34. Reserves (continued)

	Note	Revenue reserve HK$M	Property revaluation reserve HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Translation reserve HK$M	Total HK$M
At 1st January 2015		214,880	1,972	772	(4,094)	3,951	217,481
Profit for the year		13,429	–	–	–	–	13,429
Other comprehensive income							
Defined benefit plans							
– remeasurement losses recognised during the year		(332)	–	–	–	–	(332)
– deferred tax		57	–	–	–	–	57
Cash flow hedges							
– losses recognised during the year		–	–	–	(410)	–	(410)
– transferred to net finance charges		–	–	–	(94)	–	(94)
– transferred to operating profit		–	–	–	49	–	49
– deferred tax		–	–	–	57	–	57
Net fair value changes on available-for-sale assets							
– losses recognised during the year		–	–	(74)	–	–	(74)
– transferred to profit or loss on disposal		–	–	(99)	–	–	(99)
Revaluation of property previously occupied by the Group							
– gains recognised during the year		–	25	–	–	–	25
– deferred tax		–	(3)	–	–	–	(3)
Share of other comprehensive income of joint venture and associated companies		(125)	–	(156)	(2,806)	(920)	(4,007)
Net translation differences on foreign operations							
– losses recognised during the year		–	–	–	–	(1,269)	(1,269)
– reclassified to profit or loss on disposal		–	–	–	–	116	116
		13,029	22	(329)	(3,204)	(2,073)	7,445
Total comprehensive income for the year							
Acquisition of additional interests in subsidiary companies		(1,310)	–	–	–	–	(1,310)
Change in composition of the Group		13	–	–	–	–	13
Repurchase of the Company's shares	33	(35)	–	–	–	–	(35)
Recognition of contingent consideration		(541)	–	–	–	–	(541)
2014 second interim dividend	12	(4,213)	–	–	–	–	(4,213)
2015 first interim dividend	12	(1,685)	–	–	–	–	(1,685)
At 31st December 2015		220,138	1,994	443	(7,298)	1,878	217,155

(a) The Group revenue reserve includes retained revenue reserves from joint venture companies amounting to HK$4,881 million (2015: HK$4,055 million) and retained revenue reserves from associated companies amounting to HK$24,443 million (2015: HK$25,142 million).

(b) The Group revenue reserve includes HK$1,655 million (2015: HK$4,182 million) representing the declared second interim dividend for the year (note 12).

35. Non-controlling Interests

The movement of non-controlling interests during the year is as follows:

	2016 HK$M	2015 HK$M
At 1st January	45,537	43,355
Share of profits less losses for the year	3,288	2,994
Share of defined benefit plans		
– remeasurement gains/(losses) recognised during the year	32	(79)
– deferred tax	(2)	12
Share of cash flow hedges		
– gains/(losses) recognised during the year	51	(20)
– transferred to net finance charges	(1)	1
– transferred to operating profit	1	3
– deferred tax	(9)	3
Share of revaluation of property previously occupied by the Group		
– gains recognised during the year	22	5
– deferred tax	(1)	–
Share of other comprehensive income of joint venture and associated companies	(120)	(101)
Share of translation differences on foreign operations		
– losses recognised during the year	(396)	(320)
– reclassified to profit or loss on disposal	–	26
Share of total comprehensive income	2,865	2,524
Dividends paid and payable	(1,056)	(876)
Acquisition of non-controlling interests in subsidiary companies	(147)	(231)
Non-controlling interests arising on acquisition of a subsidiary company	–	11
Disposal of interest in a subsidiary company	–	(13)
Capital contribution from non-controlling interests	90	767
At 31st December	47,289	45,537

36. Company Statement of Financial Position and Reserves

(a) Company Statement of Financial Position

	Note	2016 HK$M	2015 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		15	15
Subsidiary companies		35,745	36,083
Joint venture companies		114	114
Associated companies		4,624	4,624
Available-for-sale assets		92	101
Other receivables		–	386
Retirement benefit assets		39	38
		40,629	41,361
Current assets			
Trade and other receivables		46	340
Bank balances and short-term deposits		1,502	776
		1,548	1,116
Current liabilities			
Trade and other payables		35,356	33,101
Net current liabilities		(33,808)	(31,985)
Total assets less current liabilities		6,821	9,376
Non-current liabilities			
Deferred tax liabilities		5	4
NET ASSETS		6,816	9,372
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	33	1,294	1,294
Reserves	36(b)	5,522	8,078
TOTAL EQUITY		6,816	9,372

John R Slosar
Martin Cubbon
Timothy G Freshwater
Directors
Hong Kong, 16th March 2017

36. Company Statement of Financial Position and Reserves (continued)

(b) The movement of reserves during the year is as follows:

	Note	Revenue reserve HK$M	Investment revaluation reserve HK$M	Total HK$M
Company				
At 1st January 2016		8,073	5	8,078
Profit for the year		3,122	–	3,122
Other comprehensive income				
Defined benefit plans				
– remeasurement gains recognised during the year		10	–	10
– deferred tax		(2)	–	(2)
Net fair value changes on available-for-sale assets		–	–	–
– losses recognised during the year		–	(1)	(1)
– transferred to operating profit		–	1	1
Total comprehensive income for the year		3,130	–	3,130
2015 second interim dividend	12	(4,182)	–	(4,182)
2016 first interim dividend	12	(1,504)	–	(1,504)
At 31st December 2016		5,517	5	5,522
At 1st January 2015		10,940	12	10,952
Profit for the year		3,084	–	3,084
Other comprehensive income				
Defined benefit plans				
– remeasurement losses recognised during the year		(22)	–	(22)
– deferred tax		4	–	4
Net fair value losses on available-for-sale assets		–	(7)	(7)
Total comprehensive income for the year		3,066	(7)	3,059
2014 second interim dividend	12	(4,213)	–	(4,213)
2015 first interim dividend	12	(1,685)	–	(1,685)
Repurchase of the Company's shares	33	(35)	–	(35)
At 31st December 2015		8,073	5	8,078

(i) Distributable reserves of the Company at 31st December 2016 amounted to HK$5,517 million (2015: HK$8,073 million).

(ii) The Company revenue reserve includes HK$1,655 million (2015: HK$4,182 million) representing the declared second interim dividend for the year (note 12).

37. Acquisition of New Businesses

Acquisition of distribution rights and assets in Arizona and New Mexico

In July 2016, Swire Coca-Cola, USA completed the acquisition from subsidiaries of The Coca-Cola Company ("TCCC") of the distribution rights to certain territories and certain distribution assets in Arizona and New Mexico in the USA. The acquisition expands the Group's beverage business in the USA.

Details of the purchase consideration, the net assets acquired and goodwill are provisionally as follows:

	Provisional fair value HK$M
Purchase consideration	
Cash paid	1,455
Contingent consideration	1,328
	2,783

	HK$M
Property, plant and equipment	469
Intangible assets	2,084
Stocks and work in progress	128
Trade and other payables	(92)
Deferred tax assets	80
Net identifiable assets acquired	2,669
Goodwill	114
	2,783
Purchase consideration settled in cash and net cash outflow on acquisition	1,455

The fair value of the acquired assets (including identifiable intangible assets) is provisional pending the receipt of the final valuations for those assets.

The contingent consideration represents a requirement for Swire Coca-Cola, USA to make quarterly sub-bottler payments to a subsidiary of TCCC. The fair value of the contingent consideration of US$171 million (HK$1,328 million) was determined using a discounted cash flow valuation technique. The key unobservable inputs used are the expected future gross profit and discount rate. This is a level 3 fair value measurement.

The goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs of HK$6 million have been recognised in the consolidated statement of profit or loss.

The acquired business contributed revenue of HK$1,516 million and net profit of HK$21 million to the Group for the period from 30th July 2016 to 31st December 2016.

38. Capital and Other Commitments

	2016 HK$M	2015 HK$M
(a) The Group's outstanding capital commitments at the year-end in respect of:		
Property, plant and equipment		
Contracted for	11,147	4,379
Authorised by Directors but not contracted for	2,530	3,992
Investment properties		
Contracted for	5,577	3,186
Authorised by Directors but not contracted for	10,152	13,130
	29,406	24,687
The Group's share of capital commitments of joint venture companies at the year-end*		
Contracted for	1,725	613
Authorised by Directors but not contracted for	1,261	3,286
	2,986	3,899

* of which the Group is committed to funding HK$977 million (2015: HK$1,478 million).

At 31st December 2016, the outstanding capital commitments include commitments arising under the conditional agreement described in note 43 and under the following agreements:

(i) In September 2015, Swire Coca-Cola, USA entered into a conditional agreement with a subsidiary of TCCC to acquire certain production assets in existing franchise territories in Denver, Colorado Springs and Arizona. The aggregate initial cash consideration under the agreement is US$106 million (approximately HK$822 million), subject to closing adjustments.

(ii) In November and December 2016, Swire Beverages Holdings Limited ("SBHL") entered into conditional agreements with TCCC and a subsidiary of China Foods Limited ("China Foods") for the realignment of the Coca-Cola bottling system in Mainland China. SBHL also agreed (conditionally on the realignment proceeding) to acquire from a subsidiary of TCCC the 12.5% interest in Swire Beverages Limited ("SBL") which is not already owned by SBHL. SBL is the holding company for the majority of Swire Pacific's interests in companies engaged in the non-alcoholic ready to drink business in Mainland China and Hong Kong. At present, SBHL has interests in franchise territories in Mainland China in Fujian, Anhui, Henan, Shaanxi, Guangdong, Zhejiang and Jiangsu. If the realignment proceeds, SBHL will take on franchise territories in Hubei, Guangxi, Yunnan, Jiangxi, Hainan and Shanghai and the cities of Zhanjiang and Maoming in Guangdong, and will increase its interests in franchise territories in Jiangsu, Zhejiang, Anhui, Fujian, Henan and Guangdong. The Shaanxi territory will be transferred to a subsidiary of China Foods. The net amount expected to be payable by SBHL in respect of the realignment and the acquisition of 12.5% of SBL is RMB5,869 million (approximately HK$6,549 million), subject to completion adjustments.

(b) At 31st December 2016, the Group had unprovided contractual obligations for future repairs and maintenance in respect of investment properties of HK$219 million (2015: HK$171 million).

39. Provisions and Contingencies

Accounting Policy

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Contingent liabilities are possible obligations that arise from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote.

39. Provisions and Contingencies (continued)

Accounting Policy (continued)

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the initial measurement, less amortisation calculated to recognise the fee income earned in the statement of profit or loss on a straight-line basis over the life of the guarantee, and the best estimate of the expenditure required to settle any financial obligation arising at the period-end date. Any increase in the liability relating to guarantees is taken to the statement of profit or loss.

	2016 HK$M	2015 HK$M
(a) Guarantees provided in respect of bank loans and other liabilities of:		
Joint venture companies	1,960	3,771
Bank guarantees given in lieu of utility deposits and others	175	177
	2,135	3,948

The Group has assessed the fair value of the above guarantees and does not consider them to be material. They have therefore not been recognised in the consolidated statement of financial position.

(b) Cathay Pacific Airways

Critical Accounting Estimates and Judgements

Cathay Pacific remains the subject of antitrust proceedings in various jurisdictions except as otherwise noted below. The proceedings are focused on issues relating to pricing and competition. Cathay Pacific is represented by legal counsel in connection with these matters.

The proceedings and civil actions, except as otherwise stated below, are ongoing and the outcomes are subject to uncertainties. Cathay Pacific is not in a position to assess the full potential liabilities but makes provisions based on facts and circumstances in line with the accounting policy set out above in this note.

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, Cathay Pacific and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on Cathay Pacific. However, The General Court delivered judgement in December 2015 annulling the European Commission's finding against Cathay Pacific and the fine of Euros 57.12 million was refunded to Cathay Pacific in February 2016. The European Commission has informed Cathay Pacific and the other airlines involved in the case of its intention to issue a new decision.

Cathay Pacific is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including Canada, the United Kingdom, Germany, the Netherlands, Norway and Korea alleging violations of applicable competition laws arising from Cathay Pacific's alleged conduct relating to its air cargo operations. In addition, civil class action claims have been filed in Canada alleging violations of applicable competition laws arising from Cathay Pacific's alleged conduct relating to certain of its passenger operations. Cathay Pacific is represented by legal counsel and is defending these actions, except as noted below.

Cathay Pacific was involved in three putative class action cases filed in Canada, in which the plaintiffs alleged Cathay Pacific and other carriers that provide air cargo services fixed the prices of various air cargo charges and surcharges in violation of the Canadian Competition Act. Cathay Pacific reached an agreement to settle all three actions in December 2015, by paying the plaintiffs CAD$6 million (approximately HK$34.9 million at the exchange rate current at date of payment). The settlements, which were approved by the Courts in Ontario and British Columbia in July 2016 and the Courts in Quebec in August 2016, will resolve claims by all putative class members in all three actions.

40. Leases

Accounting Policy

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessors) are recognised as income or expenses in the statement of profit or loss on a straight-line basis over the period of the lease.

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the statement of profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

The Group acts as both lessor and lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

(a) Lessor

The Group leases out investment properties and vessels under operating leases. The leases for investment properties typically run for periods of three to six years. The retail turnover-related rental income received during the year amounted to HK$286 million (2015: HK$347 million). The leases for vessels typically run for an initial period of six months to five years with an option to renew them after that date, at which time all terms are renegotiated.

At 31st December, the future aggregate minimum lease receipts under non-cancellable operating leases receivable by the Group were as follows:

	2016 HK$M	2015 HK$M
Investment properties		
Not later than one year	7,933	8,029
Later than one year but not later than five years	15,250	15,027
Later than five years	4,511	3,121
	27,694	26,177
Vessels		
Not later than one year	1,819	2,741
Later than one year but not later than five years	463	2,401
Later than five years	260	212
	2,542	5,354
	30,236	31,531

Assets held for deployment on operating leases at 31st December were as follows:

	2016		2015	
	Investment properties HK$M	Vessels HK$M	Investment properties HK$M	Vessels HK$M
Cost or fair value	204,076	25,620	198,161	27,485
Less: accumulated depreciation and impairment	–	(8,332)	–	(6,493)
	204,076	17,288	198,161	20,992
Depreciation for the year	–	1,181	–	1,215

40. Leases (continued)

(b) Lessee

The Group leases land and buildings, vessels and equipment under operating leases. These leases typically run for an initial period of one to nine years with an option to renew them after that date, at which time all terms are renegotiated. The retail turnover-related rentals paid during the year amounted to HK$57 million (2015: HK$55 million).

At 31st December, the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group were as follows:

	2016 HK$M	2015 HK$M
Land and buildings		
Not later than one year	847	1,157
Later than one year but not later than five years	1,567	1,696
Later than five years	2,856	2,880
	5,270	5,733
Vessels		
Not later than one year	26	136
Later than one year but not later than five years	–	306
Later than five years	–	61
	26	503
Equipment		
Not later than one year	30	26
Later than one year but not later than five years	14	11
Later than five years	–	2
	44	39
	5,340	6,275

41. Related Party Transactions

Accounting Policy

Related parties of the Group are individuals and companies, including subsidiary, fellow subsidiary, joint venture and associated companies and key management of the Group or parent of the Group (including close members of their families), where the individual, company or Group has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions.

There are agreements for services ("Services Agreements"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK") provides services to various companies in the Group and under which costs are reimbursed and fees payable. In return for these services, JSSHK receives annual fees calculated (A) in the case of the Company, as 2.5% of the dividends receivable from joint venture and associated companies of the Company, where there are 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 current Services Agreements, which commenced on 1st January 2014 for a period of three years, expired on 31st December 2016. The Services Agreements were renewed on 1st October 2016 and will last for another three years on the same terms and conditions commencing on 1st January 2017. For the year ended 31st December 2016, service fees payable amounted to HK$293 million (2015: HK$288 million). Expenses of HK$251 million (2015: HK$217 million) were reimbursed at cost; in addition, HK$375 million (2015: HK$338 million) in respect of shared administrative services was reimbursed.

41. Related Party Transactions (continued)

Under a tenancy framework agreement ("Tenancy Framework Agreement") between JSSHK, the Company and Swire Properties Limited dated 14th August 2014, members of the Group enter into tenancy agreements with members of the JSSHK group from time to time on normal commercial terms based on prevailing market rentals. The Tenancy Framework Agreement was for an initial term of two years ending on 31st December 2015 and was renewed on 1st October 2015 for a term of three years from 1st January 2016 to 31st December 2018. For the year ended 31st December 2016, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the JSSHK Tenancy Framework Agreement applies amounted to HK$105 million (2015: HK$101 million).

In addition, the following is a summary of significant transactions between the Group and related parties (including transactions under the JSSHK Tenancy Framework Agreement), which were carried out in the normal course of the Group's business, in addition to those transactions disclosed elsewhere in the financial statements.

		Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
	Note	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
Revenue from									
– Sales of beverage drinks	(a)	21	4	38	20	–	–	–	–
– Rendering of services		1	1	4	5	16	23	–	–
– Aircraft and engine maintenance		60	46	2,795	2,548	–	–	–	–
Purchase of beverage drinks	(a)	65	108	1,226	1,814	–	–	–	–
Purchase of other goods	(a)	5	4	33	12	–	–	–	–
Purchase of services	(a)	29	22	8	7	51	41	–	–
Rental revenue	(b)	2	6	8	11	13	16	92	85
Interest income	(c)	74	74	8	8	–	–	–	–
Interest charges	(c)	8	12	6	4	–	–	–	–

Notes:

(a) Sales and purchases of goods and rendering of services to and from related parties were conducted in the normal course of business at prices and on terms no less favourable to the Group than those charged to/by and contracted with other customers/suppliers of the Group.

(b) The Swire Properties group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying periods up to six years. The leases were entered into on normal commercial terms.

(c) Loans advanced to joint venture and associated companies at 31st December 2016 are disclosed in note 19. Advances to and from joint venture and associated companies are disclosed in notes 25 and 27.

Amounts due to the immediate holding company at 31st December 2016 are disclosed in note 27. These balances arise in the normal course of business, are non-interest-bearing and have no fixed settlement dates.

Remuneration of key management, which includes Executive and Non-Executive Directors and an Executive Officer, is disclosed in note 8.

42. Notes to the Consolidated Statement of Cash Flows

(a) Reconciliation of operating profit to cash generated from operations

	2016 HK$M	2015 HK$M
Operating profit	15,384	16,461
Loss on disposal of a subsidiary	118	–
Loss on disposal of four hotels in the UK	–	229
Gain on sale of property, plant and equipment	(114)	–
(Gain)/loss on sale of investment properties	(76)	135
Profit on sale of available-for-sale assets	(9)	(105)
Change in fair value of investment properties	(8,445)	(7,053)
Depreciation, amortisation and impairment losses	5,860	4,593
Other items	34	(125)
Operating profit before working capital changes	12,752	14,135
Decrease in properties for sale	2,052	472
Increase in stocks and work in progress	(98)	(823)
Decrease/(increase) in trade and other receivables	12	(311)
Increase in trade and other payables	146	889
Cash generated from operations	14,864	14,362

(b) Purchase of property, plant and equipment

	2016 HK$M	2015 HK$M
Properties	849	1,089
Leasehold land and land use rights	15	31
Plant and machinery	1,782	1,659
Vessels	905	1,466
Total	3,551	4,245

The above purchase amounts do not include interest capitalised on property, plant and equipment.

42. Notes to the Consolidated Statement of Cash Flows (continued)

(c) Analysis of changes in financing during the year

	Loans, bonds and perpetual capital securities		Non-controlling interests	
	2016 HK$M	2015 HK$M	2016 HK$M	2015 HK$M
At 1st January	68,617	68,788	45,537	43,355
Net cash inflow from financing	2,126	14	90	767
Acquisition of interests in subsidiary companies	–	–	(147)	(220)
Disposal of interest in a subsidiary company	–	–	–	(13)
Non-controlling interests' share of total comprehensive income	–	–	2,865	2,524
Dividends paid to non-controlling interests	–	–	(1,030)	(1,026)
Movement in dividends payable to non-controlling interests	–	–	(26)	150
Currency adjustment	(276)	(291)	–	–
Other non-cash movements	103	106	–	–
At 31st December	70,570	68,617	47,289	45,537

43. Event after the Reporting Period

In October 2016, Swire Coca-Cola, USA entered into a conditional agreement with subsidiaries of TCCC for the grant of additional territory rights in the states of Washington, Oregon and Idaho in the Pacific Northwest and the acquisition of certain distribution and production assets. The aggregate initial cash consideration payable under the agreement is US$170 million (approximately HK$1,318 million), subject to closing adjustments. As part of the transaction, Swire Coca-Cola, USA is required to make quarterly sub-bottler payments, the net present value of which was estimated at the date of the agreement to be US$7.9 million (approximately HK$61 million). The acquisition of additional territory rights in Washington was completed in February 2017. The remainder of the acquisition is expected to be completed later in the first half of 2017. The accounting for the part of the transaction which has been completed was incomplete at the date of the publication of the annual report.

44. Immediate and Ultimate Holding Company

The immediate holding company is John Swire & Sons (H.K.) Limited, a company incorporated in Hong Kong.

The ultimate holding company is John Swire & Sons Limited, a company incorporated in England.