Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of Swire Pacific Limited ("the Group financial statements") and its subsidiaries ("the Group") set out on pages 125 to 212, which comprise:

- The consolidated statement of financial position as at 31st December 2017;
- The consolidated statement of profit or loss for the year then ended;
- The consolidated statement of other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the Group financial statements as at and for the year ended 31st December 2017. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation and impairment of property, plant and equipment *Refer to note 14 in the Group financial statements.* Swire Pacific Offshore ("SPO") recognised an impairment provision to reduce the aggregate carrying values of vessels to HK$16,556 million as at 31st December 2017. Following a review of the business outlook and SPO's operating plans, management has assessed these vessel carrying values. An impairment provision of HK$1,015 million has been recorded to reduce the carrying values of certain vessels to their estimated recoverable values, which is the higher of fair value less cost to sell and value in use. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required. These conclusions are dependent upon significant management judgement, including in respect of: – Estimated resale values, provided by an external valuer; and – Estimated utilisation, charter hire rates, disposal values, and discount rates applied to future cash flows.	Our procedures in relation to management's impairment assessment of vessels included: – Understanding the methodologies used by the external valuer to estimate resale values and by management to estimate values in use; – Evaluating the external valuer's competence, capabilities and objectivity; – Checking, on a sample basis, the accuracy and appropriateness of the input data provided by management to the external valuer such as vessel information and historical performance; – Considering the appropriateness of the resale values estimated by the external valuer based on our knowledge of the business and industry and values obtained by the Group in respect of vessels that have been disposed of during the year; – Assessing the key assumptions and input data used by management to estimate values in use based on our knowledge of the business and industry; – Considering the potential impact of reasonably possible downside changes in these key assumptions; and – Assessing the appropriateness of the disclosures in the financial statements Based on the available evidence we found management's assumptions in relation to the impairment assessment to be reasonable. We found the disclosures to be appropriate.
The Xiamen Municipal Government has proposed to relocate Gaoqi Airport to a new airport in the Xiang'an district. The Group has assets of HK$2,234 million located at Gaoqi Airport, some of which will be subject to relocation. The proposal is subject to central government approval. If the proposal is implemented, the HAECO Group expects to receive compensation. Management considers that there is no impairment in respect of the proposed airport relocation. This required significant management judgement and was based on the current status of the approval process, regular communications with the local authorities and preliminary compensation assessments performed by management with the assistance of an external consultant.	Our procedures in relation to management's assessment of the carrying value of the assets included: – Assessing the terms of the existing land use rights at Gaoqi Airport; – Evaluating management's preliminary compensation assessment; – Discussing the status of the airport relocation with the HAECO Group's New Airport Planning and Development Department; and – Assessing correspondence between the HAECO Group and the Xiamen Municipal Government. We consider management's assessment to be reasonable based on the available information.

Key Audit Matter

Valuation of investment properties
Refer to note 15 in the Group financial statements.

Management has estimated the fair value of the Group's investment properties to be HK$265,944 million at 31st December 2017, with a revaluation gain for the year ended 31st December 2017 recorded in the consolidated statement of profit or loss of HK$25,331 million. External valuations were obtained in respect of 97% of the portfolio in order to support management's estimates. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and fair market rents. The valuations of investment properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.

How our audit addressed the Key Audit Matter

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

- Evaluation of the external property valuers' competence, capabilities and objectivity;
- Assessing the methodologies used and the appropriateness of the key assumptions based on our knowledge of the property industry and using our in-house valuation experts;
- Checking the accuracy of the rental data provided by the Group to the external property valuers by agreeing them on a sample basis to the Group's records; and
- Assessing the appropriateness of the disclosures in the financial statements

We found the key assumptions were supported by the available evidence. We found the disclosures to be appropriate.

Key Audit Matter

Goodwill impairment assessment of HAECO Americas
Refer to note 17 in the Group financial statements.

The HAECO Group recognised goodwill relating to the acquisition of TIMCO Aviation Services, Inc. in 2014. The goodwill is allocated between the airframe services and cabin solutions cash generating units.

In 2017, the carrying amount of the airframe services cash generating unit was reduced to its recoverable amount of HK$1,460 million through the recognition of an impairment charge of HK$625 million following a reduction in expected profitability. In 2017, no impairment was identified in respect of the cabin solutions cash generating unit. These conclusions were based on a value in use model that required significant management judgement in respect of the discount rate and underlying cash flows, including future revenue growth and improvements to business performance.

How our audit addressed the Key Audit Matter

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

- Assessing the valuation methodology;
- Challenging the reasonableness of key assumptions based on our knowledge of the business and industry;
- Reconciling input data to supporting evidence, such as approved budgets and considering the reasonableness of these budgets;
- Assessing the basis and calculation of the impairment charge recorded in 2017; and
- Assessing the appropriateness of the disclosure of significant inputs in the financial statements.

We found management's assessment in relation to the value in use calculations and the disclosure of significant inputs to be reasonable based on available evidence.

Key Audit Matter	How our audit addressed the Key Audit Matter

Swire Beverages' acquisitions

Refer to note 37 in the Group financial statements.

The Group acquired interests in a number of beverages businesses in the USA and Mainland China during 2017 as follows:

– The acquisition from subsidiaries of The Coca-Cola Company ("TCCC") of territory rights in the states of Washington, Oregon and Idaho in the Pacific Northwest, and the acquisition of certain distribution and production assets in those states as well as Tempe, Arizona, and Denver, Colorado;

– The acquisition from China Foods Limited of additional equity interests in joint venture Coca-Cola bottling companies in Guangdong, Zhejiang and Jiangsu, and equity interests in Coca-Cola bottling companies in Hainan, Jiangxi, Zhanjiang and Maoming, and Shanghai; and

– The acquisition from subsidiaries of TCCC of equity interests in Coca-Cola bottling companies in Guangxi, Yunnan and Hubei.

Management assessed each transaction to determine the appropriate treatment in the Group's consolidated financial statements based on the Group's ability to control the businesses before and after each transaction was completed. The identifiable assets acquired and liabilities assumed were measured at their fair values at the acquisition date. The determination of fair values involved significant management judgement, in particular the valuation of acquired franchise rights that were determined using discounted cash flow valuation techniques for which the key assumptions included the discount rate and future revenues and margins.

The Group recognised a gain of HK$975 million on the remeasurement to fair value of the Group's interest in certain joint venture companies which became subsidiaries. This required significant judgement in determining the fair value of the joint venture companies at the transaction date.

Our procedures in relation to management's accounting for the acquisitions included:

– Assessing the sale and purchase and joint venture agreements to consider whether the Group's accounting policies and applicable accounting standards have been applied appropriately;

– Assessing the valuation methodology used in relation to the assets acquired and liabilities assumed at the acquisition date;

– Assessing the key assumptions used in the discounted cash flow models for the valuation of the franchise rights and challenging the reasonableness of those key assumptions based on our knowledge of the business and industry with the involvement of our in-house valuation experts;

– Assessing the appropriateness of the remeasurement gain; and

– Assessing the appropriateness of the disclosures in the financial statements

We found the key assumptions used in recording the fair value of the assets acquired and the liabilities assumed, and the gain on remeasurement, were supported by available evidence. We found the disclosures to be appropriate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Key Audit Matters in relation to Cathay Pacific Airways Limited, ("Cathay Pacific") *Refer to note 19 in the Group financial statements and the abridged financial statements of Cathay Pacific on pages 199 and 200.* The Group's 45% interest in Cathay Pacific is accounted for under the equity method. The Group's share of the loss after tax from Cathay Pacific for the year ended 31st December 2017 was HK$567 million and the Group's share of Cathay Pacific's net assets was HK$27,959 million as at 31st December 2017. The amounts noted below are those in the Cathay Pacific financial statements (i.e. on a 100% basis). In the context of our audit of the Group's financial statements, the key audit matters relating to the Group's share of the losses and net assets of Cathay Pacific are summarised below.	Cathay Pacific is a significant associate of the Group and is audited by a non-PwC auditor ("the CX Auditor"). We have met with the CX Auditor and have: discussed their identified audit risks and audit approach, results of their work and key audit matters identified; and have reviewed their working papers. Together with their reporting to us in accordance with our instructions we have determined that the audit work performed and evidence obtained were sufficient for our purpose. We discussed the key audit matters relating to Cathay Pacific with Swire Pacific management and evaluated the impact on our audit of the Group financial statements. The procedures performed on the respective key audit matters are summarised below.
Revenue recognition – Cathay Pacific's revenue amounted to HK$97,284 million for the year ended 31st December 2017. Revenue from passenger and cargo sales is recorded when the related transportation service is provided, using sophisticated information technology systems to track the point of service delivery and, where necessary, estimates of fair values for the services provided that involve a significant degree of management judgement.	– Assessing IT controls and key manual and application controls over Cathay Pacific's revenue systems; – Performing analytical procedures on revenue; and – Inspecting underlying documentation for journal entries related to revenue to assess the timing and fair values of revenues recorded.
Hedge accounting – Cathay Pacific enters into derivative financial instrument contracts to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. These contracts gave rise to derivative financial assets of HK$1,813 million and liabilities of HK$3,589 million as at 31st December 2017. These contracts are recorded at fair value and for the majority of them hedge accounting is applied, such that gains and losses arising from fair value changes are deferred in equity and recognised in the consolidated statement of profit or loss when hedges mature. The large number of contracts necessitates a sophisticated system to record and track each contract and calculate the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and are subject to an inherent risk of error.	– Assessing Cathay Pacific's key internal controls over derivative financial instruments and hedge accounting; – Inspecting, on a sample basis, Cathay Pacific's hedge documentation and contracts; – Re-performing, on a sample basis, the year end valuations of derivative financial instruments and calculations of hedge effectiveness; and – Obtaining confirmation of year end derivative financial instruments from counterparties on a sample basis.

Key Audit Matter	How our audit addressed the Key Audit Matter
Key Audit Matters in relation to Cathay Pacific Airways Limited, ("Cathay Pacific") (continued) *Refer to note 19 in the Group financial statements and the abridged financial statements of Cathay Pacific on pages 199 and 200.*	
Assessment of provisions for taxation, litigation and claims – As at 31st December 2017, Cathay Pacific had provisions in respect of possible or actual taxation disputes, litigation (including anti-trust proceedings in various jurisdictions) and claims amounting to HK$2,068 million. These provisions are estimated using a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions.	– Assessing the adequacy of Cathay Pacific's tax provisions by reviewing correspondence with tax authorities; – Discussing significant litigation and claims with Cathay Pacific's internal legal counsel; – Obtaining letters from Cathay Pacific's external legal advisors including their views regarding the likely outcome and magnitude of and exposure to the relevant litigation and claims; – Considering previous judgements made by the relevant taxation authorities; and opinions given by Cathay Pacific's third party advisers; and – Assessing the reliability of Cathay Pacific's management's past estimates.
Assessing the carrying value of aircraft and related equipment – The carrying value of Cathay Pacific's aircraft and related equipment as at 31st December 2017 was HK$98,831 million and the related depreciation charge for the year ended 31st December 2017 was HK$7,719 million. The carrying value, estimated useful lives and residual values are reviewed annually by management with reference to fleet composition, current and forecast market values and relevant technical factors. This involves a significant degree of management judgement.	– Assessing estimated useful lives and residual values using the policies of other comparable airlines and Cathay Pacific's historical experience and future operating plans; – Discussing indicators of possible impairment with Cathay Pacific's management and, where identified, assessing Cathay Pacific's management's impairment testing; and – Challenging the assumptions and critical judgements used by Cathay Pacific's management and assessing the reliability of past estimates and taking into account recent industry developments and market conditions.
Assessing aircraft maintenance provisions – Cathay Pacific is contractually committed to return 62 aircraft held under operating leases to the lessors in a physical condition agreed at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts and accrues such costs over the lease term. Provisions of HK$3,217 million were held as at 31st December 2017 in respect of this. Determining the provisions requires significant management judgement and complex estimates, including the utilisation of the aircraft, the cost of maintenance and the lifespans of life-limited parts.	– Assessing Cathay Pacific's key internal controls over accounting for maintenance provisions for aircraft held under operating leases; – Evaluating the provisioning model and key assumptions adopted by Cathay Pacific's management through reviewing the terms of the operating leases, information from lessors and Cathay Pacific's maintenance cost experience; and – Assessing the reliability of Cathay Pacific's management's past assumptions.
	We found that, in the context of our audit of the consolidated financial statements of Swire Pacific Limited, Cathay Pacific's management judgements and estimates associated with the key audit matters noted in respect of the Group's share of the profit and net assets of Cathay Pacific were supported by the available evidence.

Other Information in the Annual Report

The directors are responsible for the Other Information. The Other Information comprises all the information in the Swire Pacific 2017 annual report other than the Group financial statements and our auditor's report thereon ("the Other Information"). Our opinion on the Group financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon. In connection with our audit of the Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of the Other Information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the Group Financial Statements

The directors are responsible for the preparation of Group financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of Group financial statements that are free from material misstatement, whether due to fraud or error. In preparing the Group financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so. The Audit Committee assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the Group financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these Group financial statements. As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards. From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication. The engagement partner on the audit resulting in this independent auditor's report is Sean William Tuckfield.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 15th March 2018