

## 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 201 to 212.

#### 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 2017:

HKAS 7 (Amendment)	Disclosure Initiative
HKAS 12 (Amendment)	Recognition of Deferred Tax Assets for Unrealised Losses

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 and new interpretations that have been issued but are effective for annual periods beginning after 1st January 2018 and have not been applied in preparing these consolidated financial statements:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle <sup>1</sup>
HKFRS 9	Financial Instruments <sup>1</sup>
Amendments to HKFRS 9	Prepayment Features with Negative Compensation <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers <sup>1</sup>
HKFRS 16	Leases <sup>2</sup>
HKAS 40 (Amendment)	Transfers of Investment Property <sup>1</sup>
HK(IFRIC) 22	Foreign Currency Transactions and Advance Consideration <sup>1</sup>
HK(IFRIC) 23	Uncertainty over Income Tax Treatments <sup>2</sup>

1. To be applied by the Group from 1st January 2018

2. To be applied by the Group from 1st January 2019

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

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 will use the modified retrospective approach by adjusting opening retained earnings when it adopts HKFRS 15 effective 1st January 2018 without restatement of prior periods. Management has assessed the impact of the new standard on the Group's financial statements and has concluded that adoption is not expected to have a significant impact on the recognition of the Group's main revenue streams as:

- Rental income from lease agreements is specifically excluded from the scope of the new standard;
- The nature of the Group's current trading property sales in its primary markets in Hong Kong and the United States, the terms of the contracts and the associated laws means that revenue from these sales will continue to be recognised at the point in time of transfer of effective ownership. The transfer of ownership in future property sales may occur over time or at a point in time, and this will be assessed on a case by case and territory by territory basis;
- Revenue on certain engine maintenance contracts will be recognised over time rather than at a point in time. However, the change is not material. Other services do not result in any significant change in the timing of revenue recognition;

## 1. Changes in Accounting Policies and Disclosures (continued)

- (d) Sales of goods in the Group's beverages and retail operations happen at a point in time and do not include any significant separate performance obligations; and
- (e) Typical vessel charter hire agreements generally include only one significant performance obligation being the provision of the vessel and crew concurrently for a specified period.

As a result, the impact of adopting HKFRS 15 on the Group's opening retained earnings will not be significant.

### HKFRS 9

The complete version of HKFRS 9 replaces 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. Financial assets containing prepayment features with negative compensation can be measured at amortised cost or at fair value through other comprehensive income if the cash flow represents solely payments of principal and interest. Non-substantial modifications or exchange of financial liabilities that do not result in derecognition are required to be recognised in profit or loss. 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. The Group will adopt the classification and measurements aspects of HKFRS 9 from 1st January 2018, without restatement of prior periods with any effects of implementation recognised as an adjustment to opening retained earnings. 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 will adopt the hedge accounting aspects of HKFRS 9 prospectively from 1st January 2018. Management has assessed the impact of adopting the new standard on the Group's financial statements and has concluded that neither the new requirements related to the classification and measurement nor the requirements related to impairment will have a material impact to the financial statements although may impact disclosures.

### HKFRS 16

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. HKFRS 16 also amends the definition of investment property under HKAS 40 to include property held by a lessee as a right-of-use asset to earn rentals or for capital appreciation or both, and the Group will be required to apply the fair value method under HKAS 40 for such right-of-use assets. 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 note 40. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses. The Group has yet to finalise the assessment of the full impact of the new standard.

The amendment to HKAS 40 clarifies that a property is transferred to, or from, investment property when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. The amendment is not expected to have a significant impact on the Group's financial statements.

## 2. Financial Risk Management

The Group's approach to financial risk management is discussed on pages 100 and 101 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 2017		
Impact on profit or loss: (loss)/gain	(170)	170
Impact on other comprehensive income: gain/(loss)	74	(75)
At 31st December 2016		
Impact on profit or loss: (loss)/gain	(137)	129
Impact on other comprehensive income: gain	3	3

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

### 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 7.8157 (2016: 7.7557), 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 2017		
Impact on profit or loss: gain/(loss)	90	(46)
Impact on other comprehensive income: (loss)/gain	(11)	16
At 31st December 2016		
Impact on profit or loss: gain/(loss)	7	(129)
Impact on other comprehensive income: (loss)/gain	(2)	31

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 1.2010 (2016: 1.1159), 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 2017		
Impact on profit or loss: gain/(loss)	5	(5)
Impact on other comprehensive income	–	–
At 31st December 2016		
Impact on profit or loss: gain/(loss)	20	(20)
Impact on other comprehensive income	–	–

## 2. Financial Risk Management (continued)

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

### 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 2017

	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	24,782	26,177	20,766	695	2,192	2,524
Borrowings (including interest obligations)	28 & 29	78,586	89,032	11,756	11,467	38,646	27,163
Derivative financial instruments	22	100	100	11	–	55	34
Financial guarantee contracts	39	–	2,197	2,197	–	–	–
		103,468	117,506	34,730	12,162	40,893	29,721

#### 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

## 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 is recognised as follows:

- (a) Rental income is 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:

	2017 HK\$M	2016 HK\$M
Gross rental income from investment properties	11,138	10,675
Property trading	5,833	4,760
Hotels	1,344	1,129
Aircraft and engine maintenance services	12,892	12,242
Sales of goods	45,008	28,385
Charter hire	2,684	3,574
Rendering of other services	1,390	1,624
<b>Total</b>	<b>80,289</b>	<b>62,389</b>

#### 5. Other Net Gains/(Losses)

	Note	2017 HK\$M	2016 HK\$M
Remeasurement gains on interests in joint venture companies which became subsidiary companies		975	–
Profit/(loss) on disposal of subsidiary companies		387	(118)
Gain from the acquisition of new franchise territories and assets in the USA		289	–
Profit on sale of investment properties		9	76
(Loss)/profit on sale of property, plant and equipment		(70)	114
(Loss)/profit on sale of available-for-sale assets		(93)	9
Net foreign exchange (losses)/gains		(3)	7
Fair value gains on cross-currency swaps transferred from cash flow hedge reserve		92	15
Fair value gains on forward foreign exchange contracts transferred from cash flow hedge reserve		2	22
Fair value gains on forward foreign exchange contracts not qualifying as hedges		1	3
Impairment losses recognised on			
– property, plant and equipment	14	(1,032)	(2,362)
– intangible assets	17	(625)	(286)
Dividend income on available-for-sale assets		3	14
Other income		310	225
<b>Total</b>		<b>245</b>	<b>(2,281)</b>

## 6. Expenses by Nature

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

	Note	2017 HK\$M	2016 HK\$M
Direct operating expenses of investment properties		2,267	2,128
Cost of goods sold		35,971	25,157
Write-down of stocks and work in progress		193	66
Impairment losses recognised on trade receivables		16	26
Depreciation of property, plant and equipment	14	3,361	2,944
Amortisation of			
– leasehold land and land use rights	16	46	37
– intangible assets	17	190	171
– initial leasing costs on investment properties		51	60
– others		10	–
Staff costs		15,295	12,251
Operating lease rentals			
– properties		1,203	1,086
– vessels		33	125
– plant and equipment		44	42
Auditors' remuneration			
– audit services		52	43
– tax services		8	8
– other services		11	12
Other expenses		11,250	9,013
Total cost of sales, distribution costs, administrative expenses and other operating expenses		70,001	53,169

## 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 users 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 2017

	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
<b>Property</b>												
Property investment	11,266	114	8,163	(908)	82	500	–	(1,169)	6,668	5,464	5,492	(176)
Change in fair value of investment properties	–	–	25,331	–	–	1,201	–	(391)	26,141	21,391	–	–
Property trading	5,833	–	1,397	(36)	1	(11)	–	(240)	1,111	911	946	–
Hotels	1,344	1	(102)	(39)	–	(44)	146	(5)	(44)	(35)	(35)	(259)
	<b>18,443</b>	<b>115</b>	<b>34,789</b>	<b>(983)</b>	<b>83</b>	<b>1,646</b>	<b>146</b>	<b>(1,805)</b>	<b>33,876</b>	<b>27,731</b>	<b>6,403</b>	<b>(435)</b>
<b>Aviation</b>												
Cathay Pacific group	–	–	–	–	–	–	(567)	–	(567)	(567)	(567)	–
HAECO group*	14,546	–	(90)	(131)	11	314	–	(450)	(346)	(406)	(406)	(637)
Others	–	–	(54)	–	–	5	(7)	–	(56)	(29)	(29)	(55)
	<b>14,546</b>	<b>–</b>	<b>(144)</b>	<b>(131)</b>	<b>11</b>	<b>319</b>	<b>(574)</b>	<b>(450)</b>	<b>(969)</b>	<b>(1,002)</b>	<b>(1,002)</b>	<b>(692)</b>
<b>Beverages</b>												
Mainland China#	16,256	–	2,053	(166)	30	19	93	(443)	1,586	1,465	1,465	(645)
Hong Kong	2,254	1	242	–	–	–	–	(15)	227	220	220	(68)
Taiwan	1,343	–	20	(5)	–	–	–	(4)	11	11	11	(56)
USA#	14,213	–	1,048	(70)	1	–	–	(196)	783	783	783	(480)
Central costs	–	–	(38)	–	–	–	–	–	(38)	(38)	(38)	(3)
	<b>34,066</b>	<b>1</b>	<b>3,325</b>	<b>(241)</b>	<b>31</b>	<b>19</b>	<b>93</b>	<b>(658)</b>	<b>2,569</b>	<b>2,441</b>	<b>2,441</b>	<b>(1,252)</b>
<b>Marine Services</b>												
Swire Pacific Offshore group*	3,066	1	(1,791)	(304)	5	–	1	(160)	(2,249)	(2,255)	(2,255)	(1,064)
HUD group	–	–	–	–	–	23	–	–	23	23	23	–
	<b>3,066</b>	<b>1</b>	<b>(1,791)</b>	<b>(304)</b>	<b>5</b>	<b>23</b>	<b>1</b>	<b>(160)</b>	<b>(2,226)</b>	<b>(2,232)</b>	<b>(2,232)</b>	<b>(1,064)</b>
<b>Trading &amp; Industrial</b>												
Swire Retail group	3,074	–	(69)	(2)	10	2	56	(11)	(14)	(14)	(14)	(29)
Taikoo Motors group	5,306	–	91	–	2	–	–	(16)	77	77	77	(77)
Swire Foods group	1,678	83	65	–	4	(10)	–	(17)	42	42	42	(60)
Swire Pacific												
Cold Storage group	105	–	(136)	(22)	–	(9)	–	(4)	(171)	(171)	(171)	(48)
Akzo Nobel Swire Paints	–	–	8	–	–	216	–	(9)	215	215	215	–
Swire Environmental Services group	–	–	(9)	–	6	3	(50)	–	(50)	(50)	(50)	–
Other activities	–	–	(30)	–	–	–	–	–	(30)	(30)	(30)	–
	<b>10,163</b>	<b>83</b>	<b>(80)</b>	<b>(24)</b>	<b>22</b>	<b>202</b>	<b>6</b>	<b>(57)</b>	<b>69</b>	<b>69</b>	<b>69</b>	<b>(214)</b>
<b>Head Office</b>												
Net income/(expenses)	5	30	(235)	(1,540)	832	–	–	6	(937)	(937)	(937)	(1)
<b>Inter-segment elimination</b>	<b>–</b>	<b>(230)</b>	<b>–</b>	<b>824</b>	<b>(824)</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>80,289</b>	<b>–</b>	<b>35,864</b>	<b>(2,399)</b>	<b>160</b>	<b>2,209</b>	<b>(328)</b>	<b>(3,124)</b>	<b>32,382</b>	<b>26,070</b>	<b>4,742</b>	<b>(3,658)</b>

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

\* Impairment losses made by the HAECO group and the Swire Pacific Offshore group included under operating profit/loss were HK\$632 million and HK\$1,015 million respectively.

# Gains on acquisition/disposal of territories and assets made by Swire Beverages included under operating profit/loss in Mainland China and the USA were HK\$1,347 million and HK\$289 million respectively.

## 7. Segment Information (continued)

### (a) Information about reportable segments (continued)

#### Analysis of Consolidated Statement of Profit or Loss (continued)

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
<b>Property</b>												
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)
	<b>16,691</b>	<b>101</b>	<b>17,338</b>	<b>(1,216)</b>	<b>97</b>	<b>1,280</b>	<b>139</b>	<b>(2,410)</b>	<b>15,228</b>	<b>12,357</b>	<b>5,776</b>	<b>(383)</b>
<b>Aviation</b>												
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)
	<b>13,760</b>	<b>–</b>	<b>73</b>	<b>(98)</b>	<b>9</b>	<b>1,077</b>	<b>(269)</b>	<b>(17)</b>	<b>775</b>	<b>441</b>	<b>441</b>	<b>(678)</b>
<b>Beverages</b>												
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)
	<b>18,420</b>	<b>1</b>	<b>1,003</b>	<b>(93)</b>	<b>16</b>	<b>141</b>	<b>77</b>	<b>(267)</b>	<b>877</b>	<b>813</b>	<b>813</b>	<b>(714)</b>
<b>Marine Services</b>												
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	–
	<b>4,237</b>	<b>1</b>	<b>(2,596)</b>	<b>(326)</b>	<b>3</b>	<b>20</b>	<b>1</b>	<b>(95)</b>	<b>(2,993)</b>	<b>(3,013)</b>	<b>(3,013)</b>	<b>(1,236)</b>
<b>Trading &amp; Industrial</b>												
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)
<b>Swire Pacific</b>												
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)	–
	<b>9,276</b>	<b>74</b>	<b>(47)</b>	<b>(25)</b>	<b>22</b>	<b>213</b>	<b>(18)</b>	<b>(32)</b>	<b>113</b>	<b>114</b>	<b>114</b>	<b>(199)</b>
<b>Head Office</b>												
Net income/(expenses)	5	31	(387)	(1,635)	949	–	–	5	(1,068)	(1,068)	(1,068)	(2)
<b>Inter-segment elimination</b>												
	–	(208)	–	935	(935)	–	–	–	–	–	–	–
<b>Total</b>	<b>62,389</b>	<b>–</b>	<b>15,384</b>	<b>(2,458)</b>	<b>161</b>	<b>2,731</b>	<b>(70)</b>	<b>(2,816)</b>	<b>12,932</b>	<b>9,644</b>	<b>3,063</b>	<b>(3,212)</b>

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

\* Impairment losses made by the HAECO group and the Swire Pacific Offshore group included under operating profit/loss were HK\$324 million and HK\$2,313 million respectively.



## 7. Segment Information (continued)

### (a) Information about reportable segments (continued)

#### Analysis of total assets of the Group

At 31st December 2017

	Segment assets HK\$M	Joint venture companies HK\$M	Associated companies HK\$M	Bank deposits HK\$M	Total assets HK\$M	Additions to non-current assets (note) HK\$M
<b>Property</b>						
Property investment	278,389	21,119	–	1,440	300,948	4,946
Property trading and development	3,976	670	–	103	4,749	53
Hotels	6,363	1,237	374	165	8,139	86
	<b>288,728</b>	<b>23,026</b>	<b>374</b>	<b>1,708</b>	<b>313,836</b>	<b>5,085</b>
<b>Aviation</b>						
Cathay Pacific group	–	–	27,959	–	27,959	–
HAECO group	11,317	1,727	–	991	14,035	983
Others	4,462	2,823	–	–	7,285	–
	<b>15,779</b>	<b>4,550</b>	<b>27,959</b>	<b>991</b>	<b>49,279</b>	<b>983</b>
<b>Beverages</b>						
Swire Beverages	26,298	981	1,552	2,252	31,083	1,623
<b>Marine Services</b>						
Swire Pacific Offshore group	17,644	–	56	267	17,967	838
HUD group	–	(66)	–	–	(66)	–
	<b>17,644</b>	<b>(66)</b>	<b>56</b>	<b>267</b>	<b>17,901</b>	<b>838</b>
<b>Trading &amp; Industrial</b>						
Swire Retail group	673	32	243	159	1,107	13
Taikoo Motors group	1,826	–	–	368	2,194	84
Swire Foods group	1,497	28	–	146	1,671	116
Swire Pacific Cold Storage group	1,862	333	–	50	2,245	146
Akzo Nobel Swire Paints	–	515	–	–	515	–
Swire Environmental Services group	101	50	220	–	371	–
Other activities	460	–	–	1	461	–
	<b>6,419</b>	<b>958</b>	<b>463</b>	<b>724</b>	<b>8,564</b>	<b>359</b>
<b>Head Office</b>	<b>306</b>	<b>–</b>	<b>–</b>	<b>130</b>	<b>436</b>	<b>1</b>
	<b>355,174</b>	<b>29,449</b>	<b>30,404</b>	<b>6,072</b>	<b>421,099</b>	<b>8,889</b>

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 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
<b>Property</b>						
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
	<b>259,348</b>	<b>19,985</b>	<b>361</b>	<b>1,681</b>	<b>281,375</b>	<b>6,756</b>
<b>Aviation</b>						
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	–
	<b>15,938</b>	<b>4,424</b>	<b>25,386</b>	<b>1,321</b>	<b>47,069</b>	<b>710</b>
<b>Beverages</b>						
Swire Beverages	12,690	630	1,352	858	15,530	949
<b>Marine Services</b>						
Swire Pacific Offshore group	18,991	–	57	445	19,493	953
HUD group	–	(49)	–	–	(49)	–
	<b>18,991</b>	<b>(49)</b>	<b>57</b>	<b>445</b>	<b>19,444</b>	<b>953</b>
<b>Trading &amp; Industrial</b>						
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	–
	<b>6,102</b>	<b>918</b>	<b>390</b>	<b>659</b>	<b>8,069</b>	<b>678</b>
<b>Head Office</b>	<b>451</b>	<b>–</b>	<b>–</b>	<b>1,560</b>	<b>2,011</b>	<b>3</b>
	<b>313,520</b>	<b>25,908</b>	<b>27,546</b>	<b>6,524</b>	<b>373,498</b>	<b>10,049</b>

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 2017

	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	8,023	8,823	4,615	29,268	50,729	46,589
Property trading and development	378	326	610	1,500	2,814	416
Hotels	236	–	23	1,110	1,369	1,239
	<b>8,637</b>	<b>9,149</b>	<b>5,248</b>	<b>31,878</b>	<b>54,912</b>	<b>48,244</b>
Aviation						
HAECO group	3,100	390	–	3,360	6,850	4,242
Beverages						
Swire Beverages	10,778	779	5,303	2,459	19,319	427
Marine Services						
Swire Pacific Offshore group	805	74	8,654	–	9,533	18
Trading & Industrial						
Swire Retail group	803	39	(164)	–	678	–
Taikoo Motors group	692	(4)	–	–	688	–
Swire Foods group	328	17	(135)	–	210	–
Swire Pacific Cold Storage group	271	2	898	–	1,171	–
Other activities	32	29	18	–	79	–
	<b>2,126</b>	<b>83</b>	<b>617</b>	<b>–</b>	<b>2,826</b>	<b>–</b>
Head Office	468	30	(19,822)	40,889	21,565	–
	<b>25,914</b>	<b>10,505</b>	<b>–</b>	<b>78,586</b>	<b>115,005</b>	<b>52,931</b>

## 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 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
	<b>9,196</b>	<b>8,110</b>	<b>7,604</b>	<b>29,554</b>	<b>54,464</b>	<b>42,366</b>
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	–
	<b>2,114</b>	<b>50</b>	<b>517</b>	<b>–</b>	<b>2,681</b>	<b>–</b>
Head Office	433	59	(18,737)	36,140	17,895	–
	<b>22,081</b>	<b>8,679</b>	<b>–</b>	<b>70,570</b>	<b>101,330</b>	<b>47,289</b>

### (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)	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Hong Kong	24,817	20,415	242,081	220,580
Asia (excluding Hong Kong)	34,712	23,268	51,286	37,507
USA	17,659	14,610	17,887	15,607
Others	46	150	–	–
Ship owning and operating activities	3,055	3,946	16,800	17,986
	<b>80,289</b>	<b>62,389</b>	<b>328,054</b>	<b>291,680</b>

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

(a) 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 are as follows:

	Cash			Non cash			Total 2017 HK\$'000	Total 2016 HK\$'000
	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		
<b>Executive Directors</b>								
J R Slosar	10,413	–	163	3,064	–	8,467	22,107	35,093
GMC Bradley (until 4th May 2017)	1,565	2,978	493	418	1,218	984	7,656	14,496
I K L Chu	3,920	–	1,887	1,178	–	–	6,985	12,592
D P Cogman (from 7th August 2017)	2,403	–	109	8	–	–	2,520	–
M Cubbon (until 30th September 2017)	4,719	4,602	1,491	8,352	1,491	–	20,655	18,276
M M S Low (from 1st July 2017)	1,375	–	956	324	–	–	2,655	–
J B Rae-Smith (until 26th August 2016)	–	1,925	–	–	–	–	1,925	8,683
I S C Shiu (until 31st December 2016)	–	1,622	–	–	–	–	1,622	4,615
A K W Tang (until 4th May 2017)	1,281	4,443	791	464	–	–	6,979	12,484
<b>Non-Executive Directors</b>								
P A Johansen (until 11th May 2016)	–	–	–	–	–	–	–	337
M B Swire	–	–	–	–	–	–	–	–
S C Swire	–	–	–	–	–	–	–	–
<b>Independent Non-Executive Directors</b>								
P K Etchells (from 17th May 2017)	595	–	–	–	–	–	595	–
T G Freshwater	788	–	–	–	–	–	788	950
C Lee	950	–	–	–	–	–	950	950
R W M Lee	748	–	–	–	–	–	748	748
G R H Orr	870	–	–	–	–	–	870	805
M C C Sze (until 18th May 2017)	261	–	–	–	–	–	261	690
M M T Yang (until 4th May 2017)	234	–	–	–	–	–	234	690
<b>Total 2017</b>	<b>30,122</b>	<b>15,570</b>	<b>5,890</b>	<b>13,808</b>	<b>2,709</b>	<b>9,451</b>	<b>77,550</b>	<b>N/A</b>
<b>Total 2016</b>	<b>36,754</b>	<b>34,882</b>	<b>8,293</b>	<b>9,489</b>	<b>7,283</b>	<b>14,708</b>	<b>N/A</b>	<b>111,409</b>

i. Independent Non-executive Directors and P A Johansen received fees as members of the Board and its committees. Executive Directors received salaries.

ii. Bonuses are not yet approved for 2017. The amounts disclosed above are related to services as Executive Directors for 2016 but paid and charged to the Group in 2017.

iii. The total emoluments of Executive Directors are charged to the Group in accordance with the amount of time spent on its affairs.

iv. The Directors' emoluments shown in the table above also included the emoluments received from an associated company by directors who were nominated by the Company to act as directors in the associated company.

## 8. Directors' and Executive Officer's Emoluments (continued)

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31st December 2017 and 2016 are as follows:

	Year ended 31st December	
	2017	2016
Number of individuals:		
Executive directors (note (i))	4	4
Executive officer	1	1
	5	5

Emoluments paid to the executive officer are as follows:

	Year ended 31st December	
	2017 HK\$'000	2016 HK\$'000
Cash:		
Salary	3,527	3,135
Bonus (note (ii))	2,222	2,580
Allowance and benefits	1,021	1,140
Non-cash:		
Retirement scheme contributions	1,038	1,034
Bonus paid into retirement scheme	985	1,157
Housing and other benefits	3,839	3,931
	12,632	12,977

Notes:

(i) Details of the emoluments paid to these directors were included in the disclosure as set out in note 8 (a) above.

(ii) Bonus is not yet approved for 2017. The amount disclosed above is related to services as Executive Officer for 2016 but paid and charged to the Group in 2017.

## 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 85 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.

## 10. Taxation (continued)

### 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	2017 HK\$M	2016 HK\$M
<b>Current taxation</b>			
Hong Kong profits tax		1,178	911
Overseas taxation		1,152	763
Under-provisions in prior years		32	45
		<b>2,362</b>	<b>1,719</b>
<b>Deferred taxation</b>			
	30		
Changes in fair value of investment properties		460	902
Origination and reversal of temporary differences		620	195
Effect of change in tax rate in the USA		(318)	–
		<b>762</b>	<b>1,097</b>
		<b>3,124</b>	<b>2,816</b>

Hong Kong profits tax is calculated at 16.5% (2016: 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.

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:

	2017 HK\$M	2016 HK\$M
Profit before taxation	35,506	15,748
Calculated at a tax rate of 16.5% (2016: 16.5%)	5,858	2,598
Share of profits less losses of joint venture and associated companies	(310)	(439)
Effect of different tax rates in other countries	227	458
Effect of change in tax rate in the USA	(318)	–
Fair value gains on investment properties	(3,838)	(909)
Income not subject to tax	(290)	(66)
Expenses not deductible for tax purposes	977	922
Unused tax losses not recognised	408	283
Utilisation of previously unrecognised tax losses	(20)	(64)
Deferred tax assets written off	249	1
Under-provisions in prior years	32	45
Recognition of previously unrecognised tax losses	(14)	(67)
Reversal of temporary difference	(78)	–
Withholding tax	133	39
Others	108	15
Tax charge	<b>3,124</b>	<b>2,816</b>

The Group's share of joint venture and associated companies' tax charges of HK\$366 million (2016: HK\$400 million) and HK\$195 million (2016: HK\$276 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.

	2017 HK\$M	2016 HK\$M
First interim dividend paid on 12th October 2017 of HK\$1.00 per 'A' share and HK\$0.20 per 'B' share (2016: HK\$1.00 and HK\$0.20)	1,503	1,504
Second interim dividend declared on 15th March 2018 of HK\$1.10 per 'A' share and HK\$0.22 per 'B' share (2016 actual dividend paid: HK\$1.10 and HK\$0.22)	1,652	1,655
	<b>3,155</b>	<b>3,159</b>

The second interim dividend is not accounted for in 2017 because it had not been declared at the year end date. The actual amount payable in respect of 2017 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2018.

## 13. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK\$26,070 million (2016: HK\$9,644 million) by the weighted average number of 905,206,000 'A' shares and 2,990,852,870 'B' shares in issue during the year (2016: 905,206,000 '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.



## 14. Property, Plant and Equipment (continued)

### Accounting Policy (continued)

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.

### 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 of disposal 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\$1,032 million to their recoverable amount.

Swire Pacific Offshore ("SPO") has vessels with aggregate carrying values of HK\$16,556 million. Following a review of the outlook for the business and SPO's operating plans, management has reassessed these carrying values. An impairment provision of HK\$1,015 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\$7,030 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 2017 was 8.5% (2016: 8.5%). Changes in any or all of the key assumptions could result in a material change in the carrying value of vessels.

The Group has property, plant and equipment and land use rights at Xiamen Airport with a net book value totalling HK\$2,234 million at 31st December 2017 (2016 HK\$2,189 million), some of which will be subject to relocation. The relocation proposed by the Xiamen municipal government of the Gaoqi airport to a new airport in the Xiang'an district remains subject to central government 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 that might be affected by the proposal to develop a new airport and has concluded that the carrying value remains appropriate at 31st December 2017. 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
<b>Cost</b>						
At 1st January 2017		4,718	17,918	15,311	26,049	63,996
Translation differences		–	620	680	202	1,502
Acquisition of subsidiary companies and new businesses	37	–	1,634	3,417	–	5,051
Disposal of a subsidiary company		–	(94)	(443)	–	(537)
Additions		–	982	2,061	833	3,876
Disposals		–	(32)	(998)	(660)	(1,690)
Net transfers to investment properties	15	(241)	(187)	–	–	(428)
Other net transfers		–	(151)	145	–	(6)
Revaluation surplus		120	5	–	–	125
At 31st December 2017		4,597	20,695	20,173	26,424	71,889
<b>Accumulated depreciation and impairment</b>						
At 1st January 2017		183	5,280	9,279	8,332	23,074
Translation differences		1	165	286	65	517
Disposal of a subsidiary company		–	(65)	(286)	–	(351)
Depreciation for the year	6	31	676	1,619	1,035	3,361
Impairment losses	5	–	5	12	1,015	1,032
Disposals		–	(24)	(742)	(579)	(1,345)
Net transfers to investment properties	15	(1)	(10)	–	–	(11)
Other net transfers		–	(4)	(3)	–	(7)
At 31st December 2017		214	6,023	10,165	9,868	26,270
<b>Net book value</b>						
At 31st December 2017		4,383	14,672	10,008	16,556	45,619

## 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
<b>Cost</b>						
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
<b>Accumulated depreciation and impairment</b>						
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
<b>Net book value</b>						
At 31st December 2016		4,535	12,638	6,032	17,717	40,922

Property, plant and machinery and vessels include costs of HK\$580 million (2016: HK\$316 million), HK\$146 million (2016: HK\$172 million) and HK\$442 million (2016: HK\$429 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 HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors and are on the basis of market value, 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 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 development 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

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 2017. This valuation was carried out in accordance with the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors, which define market value as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties each acted knowledgeably, prudently and without compulsion". The assumptions are principally in respect of 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 2017		204,076	29,375	233,451
Translation differences		2,028	89	2,117
Additions		1,305	3,437	4,742
Disposals		(8)	(7)	(15)
Transfer to properties under development and for sale		–	(338)	(338)
Net transfers from property, plant and equipment	14	224	193	417
Net fair value gains		22,206	3,125	25,331
		229,831	35,874	265,705
Add: Initial leasing costs		239	–	239
At 31st December 2017		230,070	35,874	265,944
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)
Net 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

The fair value gains on investment properties under development for 2016 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

	2017 HK\$M	2016 HK\$M
Held in Hong Kong		
On medium-term leases (10 to 50 years)	33,170	29,269
On long-term leases (over 50 years)	195,241	171,771
	<b>228,411</b>	<b>201,040</b>
Held in Mainland China		
On medium-term leases (10 to 50 years)	29,434	25,357
Held in the USA and elsewhere		
Freehold	7,860	7,054
	<b>265,705</b>	<b>233,451</b>

### 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 2017. 94% by value were valued by Cushman & Wakefield Limited and 3% by value were valued by another independent valuer, in each case on the basis of 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			2017 Total HK\$M
	Hong Kong HK\$M	Mainland China HK\$M	USA HK\$M	Total HK\$M	Hong Kong HK\$M	Others HK\$M	Total HK\$M	
Level 2	3,442	196	–	3,638	12,094	–	12,094	15,732
Level 3	190,188	29,238	6,767	226,193	22,687	1,093	23,780	249,973
Total	193,630	29,434	6,767	229,831	34,781	1,093	35,874	265,705
Add: initial leasing costs								239
At 31st December								265,944

	Completed				Under Development			2016 Total HK\$M
	Hong Kong HK\$M	Mainland China HK\$M	USA HK\$M	Total HK\$M	Hong Kong HK\$M	Others HK\$M	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

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

	Completed				Under Development			Total HK\$M
	Hong Kong HK\$M	Mainland China HK\$M	USA HK\$M	Total HK\$M	Hong Kong HK\$M	Others HK\$M	Total HK\$M	
At 1st January 2017	169,494	25,184	6,098	200,776	15,396	956	16,352	217,128
Translation differences	–	1,966	46	2,012	–	89	89	2,101
Additions	474	39	791	1,304	2,658	109	2,767	4,071
Transfer to properties under development and for sale	–	–	–	–	(338)	–	(338)	(338)
Transfer from Level 2	–	–	–	–	1,380	–	1,380	1,380
Net transfers from property, plant and equipment	196	19	–	215	197	–	197	412
Fair value gains/(losses)	20,024	2,030	(168)	21,886	3,394	(61)	3,333	25,219
At 31st December 2017	190,188	29,238	6,767	226,193	22,687	1,093	23,780	249,973

## 15. Investment Properties (continued)

	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

## 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.

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

At 31st December 2017	Valuation method	Market rent per month <sup>1</sup> HK\$ per sq. ft. (lettable)	Capitalisation rates
		2017	2017
<b>Completed</b>			
Hong Kong	Income capitalisation	Less than 10-Low 500's	2.50%-4.88% <sup>3</sup>
Mainland China	Income capitalisation	Less than 10-Low 200's	6.50%-7.00%
USA	Income capitalisation	Low 10's-Low 100's	4.75%-5.50%
USA	Sales comparison	–	–
<b>Under development</b>			
Hong Kong	Residual <sup>2</sup>	High 50's-Mid 60's	3.88%
Others	Residual <sup>2</sup>	–	–
At 31st December 2016	Valuation method	Market rent per month <sup>1</sup> HK\$ per sq. ft. (lettable)	Capitalisation rates
		2016	2016
<b>Completed</b>			
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	–	–
<b>Under development</b>			
Hong Kong	Residual <sup>2</sup>	High 50's-Low 60's	4.13%
Others	Sales comparison	–	–

Note 1: Market rent is determined in accordance with the definition of that term in the HKIS Valuation Standards 2017 of The Hong Kong Institute of Surveyors, which is "the estimated amount for which all interest in real property should 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.

Note 3: Within the disclosed capitalisation rates, there was a reduction of 25 basis points in the capitalisation rate applicable to office properties in Hong Kong.



## 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	2017 HK\$M	2016 HK\$M
At 1st January		1,087	1,146
Translation differences		59	(41)
Acquisition of subsidiary companies		527	–
Disposal of a subsidiary company		(12)	–
Additions		48	15
Other transfers		–	4
Amortisation for the year	6	(46)	(37)
At 31st December		1,663	1,087
Held in Hong Kong			
On medium-term leases (10 to 50 years)		17	18
Held outside Hong Kong			
On medium-term leases (10 to 50 years)		1,643	1,066
On long-term leases (over 50 years)		3	3
		1,663	1,087

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 that have a finite useful life are 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.

Service, franchise and operating rights that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

#### (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
<b>Cost</b>							
At 1st January 2017		6,127	549	2,721	894	173	10,464
Translation differences		160	4	182	7	1	354
Acquisition of new businesses	37	2,080	13	2,520	67	–	4,680
Disposal of a subsidiary		(41)	–	–	–	–	(41)
Additions		–	104	–	–	32	136
Disposals		(23)	(4)	–	–	(5)	(32)
At 31st December 2017		8,303	666	5,423	968	201	15,561
<b>Accumulated amortisation and impairment</b>							
At 1st January 2017		505	387	211	151	15	1,269
Translation differences		7	1	1	1	–	10
Acquisition of new business	37	–	–	(16)	–	–	(16)
Amortisation for the year	6	–	85	21	64	20	190
Impairment losses	5	625	–	–	–	–	625
Disposals		–	(3)	–	–	–	(3)
At 31st December 2017		1,137	470	217	216	35	2,075
<b>Net book value</b>							
At 31st December 2017		7,166	196	5,206	752	166	13,486

## 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
<b>Cost</b>							
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
<b>Accumulated amortisation and impairment</b>							
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
<b>Net book value</b>							
At 31st December 2016		5,622	162	2,510	743	158	9,195

Amortisation of HK\$190 million (2016: HK\$171 million) is included in cost of sales and administrative expenses in the statement of profit or loss.

**Impairment test of goodwill or indefinite-lived franchise****Critical Accounting Estimates and Judgements**

The Group believes certain franchise agreements will continue to be renewed at each expiration date and they have therefore been assigned indefinite useful lives.

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

The recoverable amount of goodwill or any indefinite-lived franchise 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 2017 were between 7% and 12.5% (2016: 6.5% 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.

	2017 HK\$M	2016 HK\$M
HAECO – Hong Kong and Mainland China	3,510	3,510
HAECO – USA	488	1,105
Beverages – Hong Kong and Mainland China	2,378	191
Beverages – USA	139	164
Marine Services	84	85
Trading & Industrial	567	567
	<b>7,166</b>	<b>5,622</b>

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 8.7% (2016: 9.1%). Cash flows beyond the five-year period are assumed not to grow by more than 2% per annum (2016: 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 business in the USA has been determined on a value-in-use basis. The key assumptions for the recoverable value of the CGUs are the underlying cash flow forecasts, revenue growth rate and discount rate used. The valuation uses cash flow forecasts based on detailed financial budgets prepared by management covering a five-year (2016: five-year) period for the airframe services CGU and an eight-year (2016: nine-year) period until 2025 for the cabin solutions CGU. An eight-year forecast (until 2025) is considered appropriate for cabin solutions to take into account the significant growth plans for the business which includes the development of new product models over the next three to five years whose market success the model is highly dependent upon. 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 the airframe services CGU and year eight of the cabin solutions CGU are made respectively. The discount rate is based on the Group's weighted average cost of capital, adjusted for country specific risk relating to the CGUs. The calculation of the value-in-use of the airframe services CGU also assumes a growth in the profitability arising from improved efficiency and work flow, which is based on management's expectations of the outcome to be achieved by improvement plans in places.

The key assumptions used in calculating the recoverable amount are as follows:

	Airframe Services		Cabin Solutions	
	2017	2016	2017	2016
Discount rate	8.5%	8.5%	8.5%	8.5%
Revenue growth – cumulative average growth rate per annum	7.7%	3.4%	13.1%	16.9%

In 2017, the carrying amount of the airframe services CGU was reduced to its recoverable amount of HK\$1,460 million through recognition of an impairment charge of HK\$625 million against goodwill following a reduction in the expected profitability of the airframe services business (which took into account the prospects for the aircraft maintenance business). This loss was included in "other net gains/losses" in the statement of profit or loss.

In 2016, the carrying amount of the cabin solutions CGU was 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 was included in "other net gains/losses" in the statement of profit or loss.

At 31st December, 2017, the cabin solutions CGU recoverable amount exceeded its carrying value by HK\$27 million (2016: HK\$ nil).

## 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 201 to 212.

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\$7,248 million included in the Group consolidated statement of financial position (2016: HK\$7,303 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	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Current				
Assets	13,346	10,310	4,653	4,621
Liabilities	16,790	15,597	3,183	2,534
Total current net (liabilities)/assets	(3,444)	(5,287)	1,470	2,087
Non-current				
Assets	300,490	271,065	9,382	9,729
Liabilities	38,122	38,867	3,667	4,297
Total non-current net assets	262,368	232,198	5,715	5,432
Net assets	258,924	226,911	7,185	7,519
Net assets allocated to non-controlling interests	46,606	40,844	1,797	1,881

### Summarised Statement of Profit or Loss

	Swire Properties		HAECO	
	For the year ended 31st December		For the year ended 31st December	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Revenue	18,558	16,792	14,546	13,760
Profit/(loss) for the year attributable to shareholders	33,818	15,069	(541)	975
Other comprehensive income	2,323	(1,656)	262	(3)
Total comprehensive income attributable to shareholders	36,141	13,413	(279)	972
Total comprehensive income allocated to non-controlling interests	6,505	2,414	(70)	243
Dividends paid to non-controlling interests	769	748	60	170

## 18. Subsidiary Companies (continued)

### Summarised Statement of Cash Flows

	Swire Properties		HAECO	
	For the year ended 31st December		For the year ended 31st December	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Net cash generated from operating activities	11,756	8,625	841	1,023
Net cash (used in)/generated from investing activities	(6,887)	(6,627)	(515)	39
Net cash used in financing activities	(4,904)	(4,604)	(704)	(1,139)
<b>Net decrease in cash and cash equivalents</b>	<b>(35)</b>	<b>(2,606)</b>	<b>(378)</b>	<b>(77)</b>
Cash and cash equivalents at 1st January	1,681	4,358	1,299	1,413
Currency adjustment	62	(71)	50	(37)
<b>Cash and cash equivalents at 31st December</b>	<b>1,708</b>	<b>1,681</b>	<b>971</b>	<b>1,299</b>

## 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 of disposal or value in use. Any reversal of such impairment loss in subsequent periods is credited to profit or loss.

#### (a) Joint venture companies

	2017 HK\$M	2016 HK\$M
Share of net assets, unlisted	13,999	11,582
Goodwill	859	471
	<b>14,858</b>	<b>12,053</b>
Loans due from joint venture companies less provisions		
– Interest-free	13,117	12,501
– Interest-bearing at 1.71% to 7.50% (2016: 1.71% to 7.50%)	1,474	1,354
	<b>29,449</b>	<b>25,908</b>

## 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.

In April 2017, joint venture Coca-Cola bottling companies in Guangdong, Zhejiang and Jiangsu became subsidiary companies after acquisition of additional equity interests from subsidiaries of China Foods Limited. In July 2017, a 54% equity interest in the bottling division of a Coca-Cola bottling company in Shanghai was acquired and became a joint venture of the Group. Please refer to note 37(e)(iii).

The following table presents the significant movements for the year ended 31st December 2017:

	Note	HK\$M
At 1st January 2017		25,908
Reclassification of joint venture companies to subsidiary companies following the acquisition of additional equity interests		(531)
Loans to joint venture companies		736
Acquisition of the bottling division of a Coca-Cola bottling company in Shanghai	37(e)	922
Other additions during the year		124
		1,046
Share of profits less losses for the year		2,209
Share of other comprehensive income for the year		785
Dividends paid and payable		(738)
Other equity movements		34
At 31st December 2017		29,449

The principal joint venture companies of the Group are shown on pages 201 to 212. 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:

	2017 HK\$M	2016 HK\$M
Non-current assets	40,068	36,072
Current assets	6,020	5,231
Current liabilities	(7,134)	(6,941)
Non-current liabilities	(24,955)	(22,780)
<b>Net assets</b>	<b>13,999</b>	<b>11,582</b>
Revenue	12,407	13,687
Expenses	(9,832)	(11,361)
Gain on disposal of SAESL	–	805
Profit before taxation	2,575	3,131
Taxation	(366)	(400)
<b>Profit for the year</b>	<b>2,209</b>	<b>2,731</b>
Other comprehensive income	785	(680)
<b>Total comprehensive income for the year</b>	<b>2,994</b>	<b>2,051</b>

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

## 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.



## 19. Joint Venture and Associated Companies (continued)

### (b) Associated companies (continued)

	2017 HK\$M	2016 HK\$M
Share of net assets		
– Listed in Hong Kong	27,203	24,629
– Unlisted	2,185	1,987
	29,388	26,616
Goodwill	855	855
	30,243	27,471
Interest-bearing loans at 4.0%-6.0% (2016: 4.0%-6.0%)	161	75
	30,404	27,546

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 2017 was HK\$21,455 million (2016: HK\$18,056 million). The forecast cash flows of Cathay Pacific indicate that no impairment exists.

The principal associated companies of the Group are shown on pages 201 to 212. In addition, Cathay Pacific is considered individually material to the Group and abridged financial statements are shown on pages 199 and 200.

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

	2017 HK\$M	2016 HK\$M
Non-current assets	74,138	69,575
Current assets	13,403	13,313
Current liabilities	(15,382)	(15,968)
Non-current liabilities	(42,692)	(40,227)
Non-controlling interests	(79)	(77)
<b>Net assets</b>	<b>29,388</b>	<b>26,616</b>
Revenue	47,660	45,588
Expenses	(47,793)	(45,382)
(Loss)/profit before taxation	(133)	206
Taxation	(195)	(276)
<b>Profit for the year</b>	<b>(328)</b>	<b>(70)</b>
Other comprehensive income	3,234	4,079
<b>Total comprehensive income for the year</b>	<b>2,906</b>	<b>4,009</b>

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.

(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 or 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 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
<b>Assets as per consolidated statement of financial position</b>								
At 31st December 2017								
Available-for-sale assets	21	–	–	375	–	–	375	375
Derivative financial assets	22	–	229	–	–	–	229	229
Trade and other receivables excluding prepayments	25	–	–	–	10,185	–	10,185	10,185
Bank balances and short-term deposits	26	–	–	–	6,072	–	6,072	6,072
<b>Total</b>		<b>–</b>	<b>229</b>	<b>375</b>	<b>16,257</b>	<b>–</b>	<b>16,861</b>	<b>16,861</b>
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
<b>Total</b>		<b>–</b>	<b>548</b>	<b>457</b>	<b>14,777</b>	<b>–</b>	<b>15,782</b>	<b>15,782</b>
<b>Liabilities as per consolidated statement of financial position</b>								
At 31st December 2017								
Trade and other payables	27	2,265	–	–	–	22,517	24,782	24,782
Derivative financial liabilities	22	–	100	–	–	–	100	100
Short-term loans	29	–	–	–	–	671	671	671
Long-term loans and bonds due within one year	29	–	–	–	–	8,741	8,741	8,741
Long-term loans and bonds due after one year	29	–	–	–	–	69,174	69,174	70,770
<b>Total</b>		<b>2,265</b>	<b>100</b>	<b>–</b>	<b>–</b>	<b>101,103</b>	<b>103,468</b>	<b>105,064</b>
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
<b>Total</b>		<b>2,517</b>	<b>66</b>	<b>–</b>	<b>–</b>	<b>88,928</b>	<b>91,511</b>	<b>93,147</b>

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.

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

## 20. Financial Instruments by Category (continued)

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
<b>Assets as per consolidated statement of financial position</b>					
At 31st December 2017					
Available-for-sale assets	21				
– Listed investments		319	–	–	319
– Unlisted investments		–	–	56	56
Derivatives used for hedging	22	–	229	–	229
<b>Total</b>		<b>319</b>	<b>229</b>	<b>56</b>	<b>604</b>
At 31st December 2016					
Available-for-sale assets	21				
– Listed investments		191	–	–	191
– Unlisted investments		–	–	266	266
Derivatives used for hedging	22	–	548	–	548
<b>Total</b>		<b>191</b>	<b>548</b>	<b>266</b>	<b>1,005</b>
<b>Liabilities as per consolidated statement of financial position</b>					
At 31st December 2017					
Derivatives used for hedging	22	–	100	–	100
Put option over non-controlling interest in Brickell City Centre	27	–	–	716	716
Put option over a non-controlling interest in a subsidiary company	27	–	–	106	106
Contingent consideration	27	–	–	1,443	1,443
<b>Total</b>		<b>–</b>	<b>100</b>	<b>2,265</b>	<b>2,365</b>
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 a non-controlling interest in a subsidiary company	27	–	–	77	77
Contingent consideration	27	–	–	1,770	1,770
<b>Total</b>		<b>–</b>	<b>66</b>	<b>2,517</b>	<b>2,583</b>

### 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)

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 2017	747	266	1,770
Translation differences	6	–	5
Additions	35	12	318
Disposals	–	(116)	(608)
Change in fair value recognised in profit or loss during the year	34	–	64
Transfer out of level 3 (note)	–	(106)	–
Payment of consideration	–	–	(106)
At 31st December 2017	822	56	1,443
Total losses for the year included in profit or loss in respect of financial instruments held at 31st December 2017	(34)	–	(64)
Change in unrealised losses for the year included in profit or loss of financial instruments held at 31st December 2017	(34)	–	(64)

	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)

Note: An unlisted investment has been transferred from level 3 to level 1 after it became a listed investment.

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 2017. 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

	2017 HK\$M	2016 HK\$M
<b>Non-current assets</b>		
Shares listed in Hong Kong	127	92
Shares listed overseas	192	99
Unlisted investments	56	266
	<b>375</b>	<b>457</b>

## 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 portions 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 relevant forward exchange market rates at the period-end date.

	2017		2016	
	Assets HK\$M	Liabilities HK\$M	Assets HK\$M	Liabilities HK\$M
Cross-currency swaps				
– cash flow hedges (a)	195	53	533	25
– not qualifying as hedges	–	6	–	–
Interest rate swaps – cash flow hedges	11	5	8	9
Forward foreign exchange contracts				
– cash flow hedges	21	6	5	32
– not qualifying as hedges	1	–	1	–
Commodity swaps – not qualifying as hedges	1	–	1	–
Put options exercisable by joint venture partners for sale of their interests to Beverages Division	–	30	–	–
<b>Total</b>	<b>229</b>	<b>100</b>	<b>548</b>	<b>66</b>
Analysed as:				
– Current	55	11	20	32
– Non-current	174	89	528	34
	<b>229</b>	<b>100</b>	<b>548</b>	<b>66</b>

## 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 (until its redemption on 13th May 2017). Gains and losses recognised in other comprehensive income on cross-currency swaps at 31st December 2017 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 2017 was HK\$27,323 million (2016: HK\$25,568 million).

For the years ended 31st December 2017 and 31st December 2016 all cash flow hedges qualifying for hedge accounting 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.

	2017 HK\$M	2016 HK\$M
Properties held for development		
Freehold land	1,126	1,119
Development cost	216	160
	<b>1,342</b>	<b>1,279</b>
Properties under development and for sale		
Completed properties – development costs	1,658	3,760
Completed properties – freehold land	120	130
Completed properties – leasehold land	167	1,779
Properties under development – development costs	17	–
Leasehold land under development for sale	338	–
	<b>2,300</b>	<b>5,669</b>

## 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 also includes the transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of raw materials or stocks.

	2017 HK\$M	2016 HK\$M
Goods for sale	2,785	2,302
Manufacturing materials	887	476
Production supplies	1,370	1,108
Work in progress	1,187	904
	<b>6,229</b>	<b>4,790</b>



## 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.

	2017 HK\$M	2016 HK\$M
Trade debtors	4,680	3,862
Amounts due from immediate holding company	1	4
Amounts due from joint venture companies	8	135
Amounts due from associated companies	380	465
Interest-bearing advance to joint venture companies at 4.5%	77	–
Interest-bearing advance to an associated company (2016: 7.0%)	–	113
Prepayments and accrued income	2,047	2,042
Other receivables	3,836	3,025
	11,029	9,646
Amounts due after one year included under non-current assets	(50)	(49)
	10,979	9,597

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:

	2017 HK\$M	2016 HK\$M
Up to three months	4,354	3,635
Between three and six months	202	152
Over six months	124	75
	4,680	3,862

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.

At 31st December 2017, trade debtors of HK\$1,014 million (2016: HK\$975 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:

	2017 HK\$M	2016 HK\$M
Up to three months	885	898
Between three and six months	94	29
Over six months	35	48
	1,014	975

## 25. Trade and Other Receivables (continued)

At 31st December 2017, trade debtors of HK\$123 million (2016: HK\$71 million) were impaired. The amount of the provision was HK\$114 million at 31st December 2017 (2016: HK\$24 million).

The maximum exposure to credit risk at 31st December 2017 and 31st December 2016 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 2017 was HK\$2,616 million (2016: HK\$2,494 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.

	2017 HK\$M	2016 HK\$M
Bank balances and short-term deposits maturing within three months	5,951	6,450
Short-term deposits maturing after more than three months	121	27
	<b>6,072</b>	<b>6,477</b>

The effective interest rates on short-term deposits of the Group ranged from 0.01% to 4.00% (2016: 0.01% to 4.35%); these deposits have maturities from 2 to 365 days (2016: 7 to 365 days).

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2017 and 31st December 2016 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.

	2017 HK\$M	2016 HK\$M
Trade creditors	4,572	3,150
Amounts due to immediate holding company	164	171
Amounts due to joint venture companies	7	78
Amounts due to associated companies	164	120
Interest-bearing advances from joint venture companies at 0.73% to 3.05% (2016: 0.39% to 4.63%)	353	326
Interest-bearing advances from an associated company at 2.99% (2016: 2.30%)	292	289
Advances from non-controlling interests	34	150
Rental deposits from tenants	2,616	2,494
Put options over non-controlling interests	822	747
Deposit received on the sale of a subsidiary company	1,306	653
Contingent consideration	1,443	1,770
Accrued capital expenditure	922	1,484
Other accruals	6,952	5,487
Other payables	5,135	3,956
	<b>24,782</b>	<b>20,875</b>
Amounts due after one year included under non-current liabilities	(2,343)	(3,427)
	<b>22,439</b>	<b>17,448</b>

## 27. Trade and Other Payables (continued)

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:

	2017 HK\$M	2016 HK\$M
Up to three months	4,382	2,985
Between three and six months	126	133
Over six months	64	32
	4,572	3,150

## 28. Perpetual Capital Securities

Refer to the table with the heading "Audited Financial Information" on page 83 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 81 to 87 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 and the USA 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 is determined on the basis of recovery through use.

### 30. Deferred Taxation (continued)

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:

	2017 HK\$M	2016 HK\$M
Deferred tax assets	603	697
Deferred tax liabilities	(9,881)	(8,291)
	(9,278)	(7,594)

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

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

	Note	2017 HK\$M	2016 HK\$M
At 1st January		7,594	6,758
Translation differences		295	(238)
Acquisition of new businesses	37	665	(80)
Disposal of a subsidiary company		18	2
Charged to statement of profit or loss	10	762	1,097
(Credited)/charged to other comprehensive income		(56)	55
At 31st December		9,278	7,594

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	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
At 1st January	4,159	3,732	4,032	3,338	1,664	1,151	9,855	8,221
Translation differences	38	(34)	277	(211)	51	(9)	366	(254)
Acquisition of new businesses	–	–	–	–	796	438	796	438
Disposal of a subsidiary	(23)	–	–	–	–	–	(23)	–
Charged/(credited) to statement of profit or loss	167	461	225	902	(232)	21	160	1,384
Charged/(credited) to other comprehensive income	–	–	–	3	(28)	63	(28)	66
At 31st December	4,341	4,159	4,534	4,032	2,251	1,664	11,126	9,855

#### Deferred tax assets

	Provisions		Tax losses		Others		Total	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
At 1st January	561	492	608	456	1,092	515	2,261	1,463
Translation differences	14	(7)	7	(4)	50	(5)	71	(16)
Acquisition of new businesses	68	–	–	–	63	518	131	518
Disposal of a subsidiary	(1)	(2)	–	–	(40)	–	(41)	(2)
(Charged)/credited to statement of profit or loss	(21)	78	(313)	156	(268)	53	(602)	287
Credited to other comprehensive income	–	–	–	–	28	11	28	11
At 31st December	621	561	302	608	925	1,092	1,848	2,261

### 30. Deferred Taxation (continued)

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\$4,276 million (2016: HK\$2,635 million) to carry forward against future taxable income.

These amounts are analysed as follows:-

	Unrecognised Tax Losses	
	2017 HK\$M	2016 HK\$M
No expiry date	1,698	1,390
Expiring in 2017	–	84
Expiring in 2018	231	321
Expiring in 2019	92	216
Expiring in 2020	121	133
Expiring in 2021 (2016: 2021 or after)	210	491
Expiring in 2022 or after	1,924	–
	4,276	2,635

### 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.

### 31. Retirement Benefits (continued)

#### 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 2017 and 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 2017 and 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.

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 99% (2016: 113%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK\$258 million to its defined benefit schemes in 2018.

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:

	2017 HK\$M	2016 HK\$M
Present value of funded obligations	6,324	5,734
Fair value of plan assets	(5,461)	(4,716)
	863	1,018
Present value of unfunded obligations	76	42
Net retirement benefit liabilities	939	1,060
Represented by:		
Retirement benefit assets	(93)	(80)
Retirement benefit liabilities	1,032	1,140
	939	1,060

**31. Retirement Benefits** (continued)

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

	2017 HK\$M	2016 HK\$M
At 1st January	5,776	5,637
Translation differences	39	8
Transfer of members	(12)	(1)
Current service cost	330	278
Interest expense	207	188
Actuarial (gains)/losses from changes in:		
demographic assumptions	(9)	15
financial assumptions	440	(57)
Experience losses	97	62
Employee contributions	2	3
Benefits paid	(463)	(357)
Curtailments and settlements	(7)	–
At 31st December	6,400	5,776

The weighted average duration of the defined benefit obligations is 8.7 years (2016: 9.0 years).

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

	2017 HK\$M	2016 HK\$M
At 1st January	4,716	4,528
Translation differences	16	1
Transfer of members	(12)	(1)
Interest income	171	155
Return on plan assets, excluding interest income	511	88
Contributions by employers	523	298
Employee contributions	1	1
Benefits paid	(459)	(354)
Curtailments and settlements	(6)	–
At 31st December	5,461	4,716

There were no plan amendments during the year.

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

	2017 HK\$M	2016 HK\$M
Current service cost	330	278
Past service cost – curtailments	1	–
Net interest cost	36	33
	367	311

The above net expenses were included in costs of sales, distribution costs and 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 2017 amounted to HK\$751 million (2016: HK\$613 million), including HK\$384 million (2016: HK\$302 million) in respect of defined contribution schemes.

The actual return on defined benefit plan assets was a gain of HK\$682 million (2016: gain of HK\$243 million).

### 31. Retirement Benefits (continued)

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

The make-up of the Unitised 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:

	2017 HK\$M	2016 HK\$M
Equities		
Asia Pacific	627	493
Europe	367	302
North America	1,031	862
Emerging markets	632	577
Bonds		
Global	2,409	1,950
Emerging markets	132	99
Absolute return funds	189	187
Cash	74	246
	5,461	4,716

At 31st December 2017, the prices of 96% of equities and 54% of bonds were quoted on active markets (31st December 2016: 96% and 45% respectively). 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:

	2017		2016	
	Hong Kong %	Others %	Hong Kong %	Others %
Discount rate	2.84	1.00-3.85	3.64	1.00-4.55
Expected rate of future salary increases	4.00	3.00-3.71	4.00	3.00-3.83



### 31. Retirement Benefits (continued)

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
At 31st December 2017			
Discount rate	0.5%	(314)	371
Expected rate of future salary increases	0.5%	276	(236)
At 31st December 2016			
Discount rate	0.5%	(291)	316
Expected rate of future salary increases	0.5%	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 Current Assets/Other Non-current Assets

For the year ended 31st December 2016, 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 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. The occupation permit was obtained in December 2017 and the certificate of compliance is expected to be received later in 2018. At 31st December 2017, the asset was reclassified to other current assets. The carrying value of the property at 31st December 2016 and 31st December 2017 represents its fair value at the date of transfer plus the development costs incurred subsequently.

### 33. Share Capital

	'A' shares	'B' shares	Total HK\$M
<b>Issued and fully paid</b>			
At 1st January 2017	905,206,000	2,995,220,000	1,294
Repurchased during the year	–	12,650,000	–
At 31st December 2017	905,206,000	2,982,570,000	1,294
At 1st January and 31st December 2016	905,206,000	2,995,220,000	1,294

During the year, the company repurchased 12,650,000 'B' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK\$165 million. The repurchase was governed by section 257 of the Hong Kong Companies Ordinance. The total amount paid for the repurchased 'B' shares was paid wholly out of the distributable profits of the Company included in its revenue reserve.

Details of shares acquired by month are as follows:

'B' shares Month	Number purchased	Highest price paid HK\$	Lowest price paid HK\$	Total HK\$M
May	2,775,000	13.53	13.06	37
June	3,157,500	13.74	13.60	43
July	1,242,500	13.74	13.65	17
October	485,000	13.51	13.48	7
December	4,990,000	12.60	12.06	61*
	12,650,000			165

\* Including HK\$12 million payable after 31st December 2017.

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 2017		224,464	2,090	469	(2,504)	(934)	223,585
<b>Profit for the year</b>		26,070	–	–	–	–	26,070
<b>Other comprehensive income</b>							
Defined benefit plans							
– remeasurement losses recognised during the year		(46)	–	–	–	–	(46)
– deferred tax		(24)	–	–	–	–	(24)
Cash flow hedges							
– losses recognised during the year		–	–	–	(302)	–	(302)
– transferred to net finance charges		–	–	–	(75)	–	(75)
– transferred to operating profit		–	–	–	(88)	–	(88)
– deferred tax		–	–	–	80	–	80
Net fair value changes on available-for-sale assets							
– gains recognised during the year		–	–	69	–	–	69
– transferred to profit or loss on disposal		–	–	(1)	–	–	(1)
Revaluation of property previously occupied by the Group							
– gains recognised during the year		–	103	–	–	–	103
– deferred tax		–	(3)	–	–	–	(3)
Share of other comprehensive income of joint venture and associated companies		351	–	(195)	2,127	1,594	3,877
Net translation differences on foreign operations							
– gains recognised during the year		–	–	–	–	2,554	2,554
– reclassified to profit or loss on disposal		–	–	–	–	4	4
<b>Total comprehensive income for the year</b>		26,351	100	(127)	1,742	4,152	32,218
Acquisition of non-controlling interests		(611)	–	–	–	–	(611)
Repurchase of the Company's shares		(165)	–	–	–	–	(165)
2016 second interim dividend	12	(1,655)	–	–	–	–	(1,655)
2017 first interim dividend	12	(1,503)	–	–	–	–	(1,503)
At 31st December 2017		246,881	2,190	342	(762)	3,218	251,869

## 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 2016		220,138	1,994	443	(7,298)	1,878	217,155
<b>Profit for the year</b>		9,644	–	–	–	–	9,644
<b>Other comprehensive income</b>							
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)
		9,964	96	26	4,794	(2,812)	12,068
<b>Total comprehensive income for the year</b>							
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

- (a) The Group revenue reserve includes retained revenue reserves from joint venture companies amounting to HK\$6,548 million (2016: HK\$4,881 million) and retained revenue reserves from associated companies amounting to HK\$24,321 million (2016: HK\$24,443 million).
- (b) The Group revenue reserve includes HK\$1,652 million (2016: HK\$1,655 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:

	2017 HK\$M	2016 HK\$M
At 1st January	47,289	45,537
<b>Share of profits less losses for the year</b>	<b>6,312</b>	<b>3,288</b>
Share of defined benefit plans		
– remeasurement gains recognised during the year	29	32
– deferred tax	(5)	(2)
Share of cash flow hedges		
– (losses)/gains recognised during the year	(47)	51
– transferred to net finance charges	1	(1)
– transferred to operating profit	–	1
– deferred tax	8	(9)
Share of revaluation of property previously occupied by the Group		
– gains recognised during the year	22	22
– deferred tax	–	(1)
Share of other comprehensive income of joint venture and associated companies	142	(120)
Share of translation differences on foreign operations		
– gains/(losses) recognised during the year	497	(396)
– reclassified to profit or loss on disposal	2	–
<b>Share of total comprehensive income</b>	<b>6,961</b>	<b>2,865</b>
Dividends paid and payable	(1,152)	(1,056)
Acquisition of non-controlling interests in subsidiary companies	(774)	(147)
Change in composition of the Group	366	–
Capital contribution from non-controlling interests accrued/received	241	90
At 31st December	52,931	47,289

### 36. Company Statement of Financial Position and Reserves

#### (a) Company Statement of Financial Position

	Note	2017 HK\$M	2016 HK\$M
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		12	15
Subsidiary companies		44,198	35,745
Joint venture companies		114	114
Associated companies		4,624	4,624
Available-for-sale assets		127	92
Retirement benefit assets		37	39
		49,112	40,629
<b>Current assets</b>			
Trade and other receivables		53	46
Bank balances and short-term deposits		112	1,502
		165	1,548
<b>Current liabilities</b>			
Trade and other payables		39,427	35,356
<b>Net current liabilities</b>		(39,262)	(33,808)
<b>Total assets less current liabilities</b>		9,850	6,821
<b>Non-current liabilities</b>			
Deferred tax liabilities		5	5
<b>NET ASSETS</b>		9,845	6,816
<b>EQUITY</b>			
<b>Equity attributable to the Company's shareholders</b>			
Share capital	33	1,294	1,294
Reserves	36(b)	8,551	5,522
<b>TOTAL EQUITY</b>		9,845	6,816

—  
**John R Slosar**  
**Michelle Low**  
**Paul K Etchells**  
Directors  
Hong Kong, 15th March 2018

### 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
<b>Company</b>				
At 1st January 2017		5,517	5	5,522
<b>Profit for the year</b>		6,312	–	6,312
<b>Other comprehensive income</b>				
Defined benefit plans				
– remeasurement gains recognised during the year		6	–	6
– deferred tax		(1)	–	(1)
Net fair value gains on available-for-sale assets		–	35	35
<b>Total comprehensive income for the year</b>		6,317	35	6,352
Repurchase of the Company's shares		(165)	–	(165)
2016 second interim dividend	12	(1,655)	–	(1,655)
2017 first interim dividend	12	(1,503)	–	(1,503)
At 31st December 2017		8,511	40	8,551
<b>Company</b>				
At 1st January 2016		8,073	5	8,078
<b>Profit for the year</b>		3,122	–	3,122
<b>Other comprehensive income</b>				
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
<b>Total comprehensive income for the year</b>		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

- (i) Distributable reserves of the Company at 31st December 2017 amounted to HK\$8,511 million (2016: HK\$5,517 million).
- (ii) The Company revenue reserve includes HK\$1,652 million (2016: HK\$1,655 million) representing the declared second interim dividend for the year (note 12).

### 37. Business Combination and Other Related Transactions

#### (a) Acquisition of additional territory rights in the Pacific Northwest, USA and certain distribution and production assets

In February 2017 and April 2017, Swire Coca-Cola completed the acquisition from subsidiaries of The Coca-Cola Company ("TCCC") of additional territory rights in the states of Washington, Oregon and Idaho in the Pacific Northwest, USA and the acquisition of certain distribution and production assets. The acquisition expanded the Group's beverage business in the USA.

Details of the purchase consideration, the net assets acquired and goodwill are as follows (on a provisional basis):

	Provisional fair value HK\$M
Purchase consideration	
Cash paid	1,371
Contingent consideration	318
	1,689
	HK\$M
Property, plant and equipment	912
Intangible assets	495
Deferred tax assets	20
Stocks and work in progress	236
Other receivables	88
Trade and other payables	(93)
Net identifiable assets acquired	1,658
Goodwill	31
	1,689
Purchase consideration settled in cash and net cash outflow on acquisition	1,371

The fair value of the acquired assets (including identifiable intangible assets) is provisional pending final valuations of those assets. The fair value of the franchise rights acquired was determined using discounted cash flow valuation techniques. The key assumptions included the discount rate and future revenues and margins.

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 (US\$41 million (HK\$318 million)) was determined using a discounted cash flow valuation technique. The key unobservable inputs used were the expected future gross profit and the 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\$16 million were recognised in the consolidated statement of profit or loss.

The acquired businesses contributed revenue of HK\$3,497 million and net profit of HK\$51 million to the Group for the periods from the dates of completion of their acquisition (25th February 2017 and 29th April 2017) to 31st December 2017.

### 37. Business Combination and Other Related Transactions (continued)

#### (b) Acquisition of distribution rights and assets in Arizona and New Mexico, USA

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

At 31st December 2016, the initial accounting for the acquisition of distribution rights and assets in Arizona and New Mexico was incomplete and provisional amounts were reported pending the receipt of final valuations of the assets acquired. After finalisation of the completion financial statements and receipt of the final valuations of the assets acquired, the following measurement period adjustments were recognised in the current period:

	Provisional amounts at 31st December 2016 HK\$M	Final amounts at 30th June 2017 HK\$M	Measurement period adjustments recognised in the current period HK\$M
Purchase consideration			
Cash paid	1,455	1,542	87
Contingent consideration	1,328	1,427	99
	2,783	2,969	186
Property, plant and equipment	469	469	–
Intangible assets	2,084	1,911	(173)
Deferred tax assets	80	103	23
Stocks and work in progress	128	128	–
Trade and other receivables	–	358	358
Trade and other payables	(92)	(107)	(15)
Net identifiable assets acquired	2,669	2,862	193
Goodwill	114	107	(7)
	2,783	2,969	186
Purchase consideration settled in cash and net cash outflow on acquisition	1,455	1,542	87



### 37. Business Combination and Other Related Transactions (continued)

#### (c) Acquisition of production assets in Tempe, Arizona, USA

In August 2017, Swire Coca-Cola completed the acquisition from subsidiaries of TCCC of certain production assets in Tempe, Arizona in the USA. This acquisition was a follow-up transaction linked to the acquisition of distribution assets in Arizona and New Mexico completed in July 2016 referred to in (b) above.

Details of the purchase consideration, the net assets acquired and goodwill are as follows (on a provisional basis):

	Provisional fair value HK\$M
Purchase consideration	
Cash paid	582
Contingent consideration	(353)
	229
	HK\$M
Property, plant and equipment	547
Reduction in intangible assets previously recognised during acquisition of distribution assets	(111)
Deferred tax liabilities	(34)
Stocks and work in progress	70
Other receivables	26
Trade and other payables	(269)
Net identifiable assets acquired	229
Purchase consideration settled in cash and net cash outflow on acquisition	582

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

The contingent consideration represents a reduction in the requirement for Swire Coca-Cola, USA to make quarterly sub-bottler payments to a subsidiary of TCCC. The fair value of the contingent consideration is (US\$45.2 million or HK\$353 million) and was determined using a discounted cash flow valuation technique. The key unobservable inputs used were the expected future gross profit and the discount rate. This is a level 3 fair value measurement.

Acquisition-related costs of HK\$4 million were recognised in the consolidated statement of profit or loss.

### 37. Business Combination and Other Related Transactions (continued)

#### (d) Acquisition of production assets in Denver, Colorado, USA

In October 2017, Swire Coca-Cola completed the acquisition from subsidiaries of TCCC of certain production assets in Denver, Colorado in the USA. This acquisition was a follow-up transaction linked to an acquisition of distribution assets in Denver and Colorado Springs completed in May 2014.

Details of the purchase consideration, the net assets acquired and goodwill are as follows (on a provisional basis):

	Provisional fair value HK\$M
Purchase consideration	
Cash paid	307
Gain arising from the acquisition	95
Contingent consideration	(354)
	48
	HK\$M
Property, plant and equipment	290
Reduction in intangible assets previously recognised during acquisition of distribution assets	(210)
Deferred tax liabilities	(79)
Stocks and work in progress	95
Other receivables	5
Trade and other payables	(23)
Net identifiable assets acquired	78
Reduction in goodwill previously recognised during acquisition of distribution assets	(30)
	48
Purchase consideration settled in cash and net cash outflow on acquisition	307

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

The contingent consideration represents a reduction in the requirement for Swire Coca-Cola, USA to make quarterly sub-bottler payments to a subsidiary of TCCC. The fair value of the contingent consideration is (US\$45.3 million or HK\$354 million) and was determined using a discounted cash flow valuation technique. The key unobservable inputs used were the expected future gross profit and the discount rate. This is a level 3 fair value measurement.

Acquisition-related costs of HK\$4 million were recognised in the consolidated statement of profit or loss.

#### (e) Realignment of the Coca-Cola Bottling System in Mainland China

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.

##### (i) Acquisition of equity interests from China Foods

In April 2017, SBHL acquired from China Foods additional equity interests in joint venture Coca-Cola bottling companies in Guangdong (19%), Zhejiang (20%) and Jiangsu (20%), and equity interests in Coca-Cola bottling companies in Hainan (100%), Jiangxi (100%) and Zhanjiang and Maoming (100%).

After completion of the acquisition, the joint venture Coca-Cola bottling companies in Guangdong, Zhejiang and Jiangsu became subsidiary companies. The Group recognised a gain of HK\$975 million on the remeasurement to fair value of the Group's interest in the joint venture companies held prior to the acquisition.

**37. Business Combination and Other Related Transactions** (continued)**(e) Realignment of the Coca-Cola Bottling System in Mainland China** (continued)

## (ii) Acquisition of equity interests from subsidiaries of TCCC

In April 2017, SBHL acquired from subsidiaries of TCCC equity interests in Coca-Cola bottling companies in Guangxi (100%), Yunnan (95%) and Hubei (79%).

Details of the purchase consideration, the fair value of the equity interests in the joint venture companies before the acquisition, the net assets acquired and goodwill are as follows (on a provisional basis):

	Provisional fair value HK\$M
Purchase consideration – cash paid	4,656
Fair value of previously held interest in the joint venture companies	1,441
	<b>6,097</b>
	HK\$M
Property, plant and equipment	3,302
Leasehold land and land use rights	527
Intangible assets	2,615
Deferred tax assets	147
Stocks and work in progress	680
Trade and other receivables	1,167
Bank balances and short term deposits maturing within three months	493
Short-term deposits maturing after more than three months	5
Trade and other payables	(3,808)
Taxation payable	(9)
Deferred tax liabilities	(742)
Non-controlling interests	(366)
Net identifiable assets acquired	4,011
Goodwill	2,086
	<b>6,097</b>
Purchase consideration settled in cash and net cash outflow on acquisition	4,163

The fair value of the acquired assets (including identifiable intangible assets) is provisional pending final valuations for those assets. The fair value of the franchise rights acquired was determined using discounted cash flow valuation techniques. The key assumptions included the discount rate and future revenues and margins.

The fair value of the acquired receivables was HK\$1,167 million and included trade receivables with a fair value of HK\$343 million. The gross contractual amount of these trade receivables due is HK\$362 million, of which HK\$19 million is expected to be uncollectable.

The goodwill is attributable to the Coca-Cola bottling companies' highly skilled workforce, management expertise and the synergies expected to be derived from improved services to a wider range of customers. The goodwill is not expected to be deductible for tax purposes.

Acquisition-related costs totalled HK\$103 million, of which HK\$13 million has been recognised in the consolidated statement of profit or loss for the period ended 31st December 2017.

The acquired businesses contributed revenue of HK\$10,006 million and net profit of HK\$106 million to the Group for the period from the date of completion of their acquisition (1st April 2017) to 31st December 2017.

- (iii) In July 2017, SBHL acquired a 54% equity interest in the bottling division of a Coca-Cola bottling company in Shanghai for a total consideration of RMB793 million (HK\$922 million), subject to closing adjustments.
- (iv) In July 2017, SBHL acquired from a subsidiary of TCCC the 12.5% interest in Swire Beverages Limited which it did not already own, for a total consideration of RMB1,220 million (HK\$1,405 million, including the settlement of a shareholder loan of HK\$116 million).
- (v) In July 2017, SBHL acquired a further 16.8% interest in a Coca-Cola bottling company in Hubei from the minority shareholder for a total consideration of RMB82 million (HK\$95 million).

### 38. Capital Commitments

	2017 HK\$M	2016 HK\$M
(a) The Group's outstanding capital commitments at the year-end in respect of:		
Property, plant and equipment		
Contracted for	1,010	11,147
Authorised by Directors but not contracted for	2,415	2,530
Investment properties		
Contracted for	3,961	5,577
Authorised by Directors but not contracted for	8,807	10,152
	<b>16,193</b>	<b>29,406</b>
The Group's share of capital commitments of joint venture companies at the year-end*		
Contracted for	880	1,725
Authorised by Directors but not contracted for	720	1,261
	<b>1,600</b>	<b>2,986</b>

\* of which the Group is committed to funding HK\$355 million (2016: HK\$977 million).

- (b) At 31st December 2017, the Group had unprovided contractual obligations for future repairs and maintenance in respect of investment properties of HK\$190 million (2016: HK\$219 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.

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.

	2017 HK\$M	2016 HK\$M
(a) Guarantees provided in respect of bank loans and other liabilities of:		
Joint venture companies	2,012	1,960
Bank guarantees given in lieu of utility deposits and others	185	175
	<b>2,197</b>	<b>2,135</b>

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.

### 39. Provisions and Contingencies (continued)

#### (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 European Commission's finding against Cathay Pacific, and the imposition of this fine, was annulled by the General Court in December 2015 and the fine of Euros 57.12 million was refunded to Cathay Pacific in February 2016. The European Commission issued a new decision against Cathay Pacific and the other airlines involved in the case in March 2017. Another fine of Euros 57.12 million was imposed on Cathay Pacific, which was paid by Cathay Pacific and charged to profit or loss in June 2017. Cathay Pacific filed an appeal against this latest decision, to which the European Commission filed a defence. In December 2017, Cathay Pacific filed a Reply to this Defence. The European Commission has one further opportunity to respond to Cathay Pacific's Reply, by filing a rejoinder within one month of formal service by the court of the Reply on them. It is unclear to Cathay Pacific whether the one-month time limit has started to run yet. No date has yet been fixed for an appeal hearing.

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 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.

## 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\$389 million (2016: HK\$286 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:

	2017 HK\$M	2016 HK\$M
Investment properties		
Not later than one year	8,557	7,933
Later than one year but not later than five years	18,449	15,250
Later than five years	5,987	4,511
	<b>32,993</b>	<b>27,694</b>
Vessels		
Not later than one year	1,400	1,819
Later than one year but not later than five years	516	463
Later than five years	–	260
	<b>1,916</b>	<b>2,542</b>
	<b>34,909</b>	<b>30,236</b>

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

	2017		2016	
	Investment properties HK\$M	Vessels HK\$M	Investment properties HK\$M	Vessels HK\$M
Cost or fair value	229,831	25,981	204,076	25,620
Less: accumulated depreciation and impairment	–	(9,868)	–	(8,332)
	<b>229,831</b>	<b>16,113</b>	<b>204,076</b>	<b>17,288</b>
Depreciation for the year	–	1,035	–	1,181

**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 fifteen 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\$47 million (2016: HK\$57 million).

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

	2017 HK\$M	2016 HK\$M
Land and buildings		
Not later than one year	953	847
Later than one year but not later than five years	1,956	1,567
Later than five years	2,976	2,856
	5,885	5,270
Vessels		
Not later than one year	25	26
Later than one year but not later than five years	35	–
Later than five years	–	–
	60	26
Equipment		
Not later than one year	40	30
Later than one year but not later than five years	20	14
Later than five years	–	–
	60	44
	6,005	5,340

## 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 the parent of the Group (including close members of their families), where the individual or company 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 2017 for a period of three years, will expire on 31st December 2019. For the year ended 31st December 2017, service fees payable amounted to HK\$302 million (2016: HK\$293 million). Expenses of HK\$259 million (2016: HK\$251 million) were reimbursed at cost; in addition, HK\$320 million (2016: HK\$375 million) in respect of shared administrative services was reimbursed.

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 2017, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the JSSHK Tenancy Framework Agreement applies amounted to HK\$100 million (2016: HK\$105 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.

	Note	Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
		2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
Revenue from									
– Sales of beverage drinks	(a)	10	21	28	38	–	–	–	–
– Rendering of services		1	1	4	4	11	16	–	–
– Aircraft and engine maintenance		50	60	2,774	2,795	–	–	–	–
Purchase of beverage drinks	(a)	14	65	1,298	1,226	–	–	–	–
Purchase of other goods	(a)	3	5	14	33	–	–	–	–
Purchase of services	(a)	38	29	7	8	18	51	–	–
Rental revenue	(b)	2	2	4	8	1	13	99	92
Interest income	(c)	75	74	12	8	–	–	–	–
Interest charges	(c)	10	8	8	6	–	–	–	–

#### 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 2017 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 2017 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

	2017 HK\$M	2016 HK\$M
Operating profit	35,864	15,384
Remeasurement gains on interests in joint venture companies which become subsidiary companies	(975)	–
Final purchase consideration adjustment on acquisition of assets	(95)	–
(Profit)/loss on disposal of subsidiary companies	(387)	118
Loss/(profit) on sale of property, plant and equipment	70	(114)
Profit on sale of investment properties	(9)	(76)
Loss/(profit) on sale of available-for-sale assets	93	(9)
Change in fair value of investment properties	(25,331)	(8,445)
Depreciation, amortisation and impairment losses	5,315	5,860
Other items	39	34
<b>Operating profit before working capital changes</b>	<b>14,584</b>	<b>12,752</b>
Decrease in properties for sale	3,644	2,052
Increase in stocks and work in progress	(216)	(98)
Decrease in trade and other receivables	467	12
Increase in trade and other payables	1,126	146
<b>Cash generated from operations</b>	<b>19,605</b>	<b>14,864</b>

### (b) Purchase of property, plant and equipment

	2017 HK\$M	2016 HK\$M
Properties	835	849
Leasehold land and land use rights	12	15
Plant and machinery	2,116	1,782
Vessels	814	905
<b>Total</b>	<b>3,777</b>	<b>3,551</b>

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

### (c) Analysis of changes in financing during the year

	Loans, bonds and perpetual capital securities		Non-controlling interests	
	2017 HK\$M	2016 HK\$M	2017 HK\$M	2016 HK\$M
At 1st January	70,570	68,617	47,289	45,537
Net cash inflow from financing	7,263	2,126	–	90
Acquisition of interests in subsidiary companies	–	–	(774)	(147)
Change in composition of the Group	–	–	366	–
Non-controlling interests' share of total comprehensive income	–	–	6,961	2,865
Dividends paid to non-controlling interests	–	–	(1,177)	(1,030)
Movement in dividends payable to non-controlling interests	–	–	25	(26)
Currency adjustment	629	(276)	–	–
Other non-cash movements	124	103	241	–
<b>At 31st December</b>	<b>78,586</b>	<b>70,570</b>	<b>52,931</b>	<b>47,289</b>

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

(d) Disposal of a subsidiary company in Mainland China (Shaanxi bottling franchise business)

	HK\$M
Net Assets disposed of:	
Property, plant and equipment	186
Leasehold land and land use rights	12
Intangible assets	3
Stocks and work in progress	59
Trade and other receivables	70
Bank balances and deposits maturing within three months	55
Trade and other payables	(165)
Deferred taxation assets	18
Goodwill	41
Exchange losses reclassified from translation reserve	6
	285
Gain on disposal	382
	667
Satisfied by:	
Cash received	667
Analysis of the net inflow from disposal:	
Net cash proceeds	667
Cash and cash equivalents disposed of	(55)
Net inflow of cash and cash equivalents	612

#### 43. 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.