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 206 to 217.

The audited financial statements are set out on pages 124 to 219 and also include the "Audited Financial Information" under Financial Review on page 70 and Financing on pages 79 to 85.

1. Changes in Accounting Policies and Disclosures

(a) The following new and revised standards and new interpretation were required to be adopted by the Group effective from 1st January 2018:

HKFRSs (Amendment)	Annual Improvements to HKFRSs 2014-2016 Cycle
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKAS 40	Transfers of Investment Property
Amendments to HKFRS 2	Classification and Measurement of Share-Based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKFRS 15	Clarification of HKFRS 15
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration

None of these new and revised standards and new interpretation had a significant effect on the Group's financial statements or accounting policies, except the following set out below:

HKFRS 15 Revenue from Contracts with Customers – Impact of adoption

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 Group has used the practical expedient for completed contracts under the modified retrospective approach by adjusting opening retained earnings when it adopted HKFRS 15 effective 1st January 2018 without restatement of prior periods. The effects of HKFRS 15 on the recognition of the Group's main revenue streams are as follows:

(i) Rental income from lease agreements is specifically excluded from the scope of HKFRS 15;

(ii) The nature of the Group's current trading property sales in its primary markets in Hong Kong and the USA, the terms of the relevant contracts and the associated laws mean that revenue from these sales continues to be recognised at the point in time of transfer of effective ownership. The transfer of control 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. No significant changes to the Group's accounting policies are required;

(iii) Revenue on certain engine maintenance contracts is recognised over time rather than at a point in time. A percentage of completion method is used to calculate the revenue to be recognised on these contracts and, as a result, some revenue on engine maintenance contracts which are in progress at period/year ends is recognised earlier under HKFRS 15. Other services are performed over short periods and therefore do not result in any significant change in the timing of revenue recognition;

(iv) 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

(v) Typical vessel charter hire agreements generally include rental income and performance obligations being the provision of the vessel and crew concurrently for a specified period.

1. Changes in Accounting Policies and Disclosures (continued)

As a result, the effects of adopting HKFRS 15 on the Group's opening retained earnings at 1st January 2018 and on the financial statements for the year ended 31st December 2018 are as follows:

Effect on the Group's opening reserve and non-controlling interests:

	1st January 2018 HK$M
Increase in joint venture companies	23
Increase in associated companies	285
Decrease in trade and other receivables	(420)
Decrease in stocks and work in progress	(1,383)
Increase in contract assets	1,599
Decrease in trade and other payables	850
Increase in contract liabilities	(588)
Increase in deferred tax liabilities	(3)
	363
Increase in revenue reserve	331
Increase in non-controlling interests	32
	363

Effect on Consolidated Statement of Profit or Loss:

	Year ended 31st December 2018 HK$M
Decrease in revenue	(342)
Decrease in cost of sales	321
Increase in share of profit of joint venture companies	2
Increase in share of profit of associated companies	4
Decrease in taxation	4
Decrease in non-controlling interests	8
Decrease in profit attributable to the Company's shareholders	(3)
Decrease in earnings per share (basic and diluted)	
'A' share (HK$)	–

Effect on Consolidated Statement of Financial Position:

	31st December 2018 HK$M
Increase in joint venture companies	25
Increase in associated companies	289
Decrease in trade and other receivables	(437)
Decrease in stocks and work in progress	(840)
Increase in contract assets	1,176
Decrease in trade and other payables	579
Increase in contract liabilities	(438)
Increase in deferred tax liabilities	(2)
	352
Increase in revenue reserve	328
Increase in non-controlling interests	24
	352

1. Changes in Accounting Policies and Disclosures (continued)

HKFRS 9 Financial Instruments

The complete version of HKFRS 9 replaced HKAS 39.

(i) Classification and measurement

The Group has adopted the classification and measurement 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. HKFRS 9 retains the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through other comprehensive income and fair value through profit or loss. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset.

The Group elected to present in "Other Comprehensive Income" changes in the fair values of all its equity investments previously classified as "Available-for-sale assets", because these equity investments are held as long-term strategic investments. As a result, assets with a fair value of HK$375 million were reclassified from available-for-sale assets to equity investments at fair value through other comprehensive income on 1st January 2018.

Cathay Pacific Airways Limited, an associated company of the Group, elected to irrevocably designate at 1st January 2018 investments that are held for long-term strategic purpose as equity investments at fair value through other comprehensive income. Investments that are held for trading were reclassified to equity investments at fair value through profit or loss at 1st January 2018. As a result, net fair value gains of HK$326 million attributable to the Group relating to investments held for trading were transferred from investment revaluation reserve to revenue reserve on 1st January 2018.

Once designation as equity investments at fair value through other comprehensive income has taken place, all fair value gains or losses previously recognised in other comprehensive income will not be recycled to profit and loss on disposal of these investments.

Non-substantial modifications or exchange of financial liabilities that do not result in derecognition are required to be recognised in profit or loss. No retrospective adjustments were required in relation to this change as none of the borrowings outstanding on 1st January 2018 had been refinanced in prior periods.

(ii) Impairment of financial assets

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. The Group applies the simplified approach permitted by HKFRS 9 to measure expected credit losses which uses an expected lifetime loss allowance for all trade receivables and contract assets. This has no significant impact on the Group's financial statements.

(iii) Derivatives and hedging activities

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 HKAS 39. The Group adopted the hedge accounting aspects of HKFRS 9 prospectively from 1st January 2018 and adoption has not had a material impact on the financial position or the financial results of the Group.

HKAS 40 (Amendment) Transfers of Investment Property

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 a change in use. The amendment does not have any impact on the Group's financial statements.

1. Changes in Accounting Policies and Disclosures (continued)

(b) The Group has not early adopted the following relevant new and revised standards and a new interpretation that have been issued but are effective for annual periods beginning on or after 1st January 2019 and such standards and interpretation have not been applied in preparing these consolidated financial statements.

HKFRSs (Amendment)	Annual improvements to HKFRSs 2015-2017 Cycle[1]
HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[1]
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures[1]
Amendments to HKFRS 3	Definition of a Business[2]
Amendments to HKAS 1 and HKAS 8	Amendments to Definition of Material[2]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[2]

1 To be applied by the Group from 1st January 2019.
2 To be applied by the Group from 1st January 2020.

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

HKFRS 16 Leases
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 at year end 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 will adopt HKFRS 16 retrospectively with the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 1st January 2019. The Group has a choice, on a lease-by-lease basis, to measure the right-of-use asset at either its carrying amount as if HKFRS 16 had been applied since the commencement of the lease, or an amount equal to the lease liability, adjusted for accruals or prepayments. In applying the Standard retrospectively in this way the Group will use one or more practical expedients, on a lease-by-lease basis, to leases previously classified as operating leases, including electing to not apply the retrospective treatment to leases for which the term ends within 12 months of initial application and excluding initial direct costs from the initial measurement of the right-of-use asset. Key judgements and estimates made in calculating the initial impact of adoption include assessing whether arrangements contain a lease, determining the lease term, and calculating the discount rate. The Group will apply HKFRS 16's low-value and short-term exemptions prospectively. Based on information currently available, the Group expects to recognise (a) right of use assets in the range of HK$4,500 million to HK$5,500 million, (b) lease liabilities in the range of HK$5,100 million to HK$6,200 million, and (c) an adjustment to opening retained earnings in the range of HK$660 million to HK$1,100 million on 1st January 2019, which includes adjustments from associated companies (mainly Cathay Pacific group) in the range of HK$470 million to HK$790 million. The adoption of HKFRS 16 will have no impact on the Group's cash flows except to present part of cash outflows as financing, instead of operating. There will be an immaterial benefit to Operating profit and a corresponding increase in Finance expense from the presentation of a portion of lease costs as interest costs. Profit before tax and Earnings per share are not expected to be significantly impacted.

2. Financial Risk Management

The Group's approach to financial risk management is discussed on pages 98 to 100 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 2018		
Impact on profit or loss: (loss)/gain	(98)	98
Impact on other comprehensive income: gain/(loss)	116	(121)
At 31st December 2017		
Impact on profit or loss: (loss)/gain	(170)	170
Impact on other comprehensive income: gain/(loss)	74	(75)

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 7.8336 (2017: 7.8157), 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 2018		
Impact on profit or loss: gain/(loss)	95	(19)
Impact on other comprehensive income: (loss)/gain	(9)	12
At 31st December 2017		
Impact on profit or loss: gain/(loss)	90	(46)
Impact on other comprehensive income: (loss)/gain	(11)	16

2. Financial Risk Management (continued)

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 1.1430 (2017: 1.2010), 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 2018		
Impact on profit or loss: gain/(loss)	3	(3)
Impact on other comprehensive income	–	–
At 31st December 2017		
Impact on profit or loss: gain/(loss)	5	(5)
Impact on other comprehensive income	–	–

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

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

Credit exposure

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade and other receivables
- Contract assets
- Other financial assets at amortised cost

Trade and other receivables and contract assets

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables and contract assets. As the Group's historical credit loss experience does not indicate different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases. The expected loss rates are based on the payment profiles over the past 3 years. These rates are adjusted to reflect the current and forward-looking information on economic condition.

Trade and other receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators include the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due. Impairment losses on trade and other receivables and contract assets are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortised cost include other receivables and loans due from related parties. Loans due from joint venture and associated companies and other related companies are considered to have low credit risk as the financial positions and performances of these companies are regularly monitored and reviewed by management of the Group.

2. Financial Risk Management (continued)

Liquidity risk

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

At 31st December 2018

	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	28	26,781	27,564	22,813	1,330	1,553	1,868
Contract liabilities		438	438	434	4	–	–
Borrowings (including interest obligations)	29	71,779	81,405	13,777	11,665	32,910	23,053
Derivative financial instruments	22	198	198	28	7	106	57
Financial guarantee contracts	39	–	2,459	2,459	–	–	–
		99,196	112,064	39,511	13,006	34,569	24,978

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	28	24,782	26,177	20,766	695	2,192	2,524
Borrowings (including interest obligations)	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

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

Revenue is recognised when a customer obtains control of a good or service and thus has ability to direct the use and obtain the benefits from the good or service. Provided the collectability of the related receivable is probable, 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) The Group develops and sells residential properties. Revenue is recognised when control over the property has been transferred to the buyers. Owing to contractual restrictions, the properties generally do not have alternative use to the Group after the signing of sales contracts with the buyers. However, an enforceable right to payment does not arise until legal title of the property has been transferred to the buyer. Therefore, revenue is recognised upon completion of the transfer of legal title to the buyer.

(c) Sales of services, including aircraft and engine maintenance services and services provided by hotel operations, are recognised when the services are rendered. For certain engine maintenance contracts, revenue is recognised over time rather than at a point in time.

(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. 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.

(e) Revenue from vessel charter hire services is recognised over the period of charter hire in accordance with the vessel charter hire agreements. Typical vessel charter hire agreements generally include rental income and performance obligations being the provision of the vessel and crew concurrently for a specified period.

(f) The Group does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

Definition of terms

Contract asset: An entity's right to consideration in exchange for goods or services that the entity has transferred to a customer when that right is conditioned on something other than the passage of time (for example, the entity's future performance).

Contract liability: An entity's obligation to transfer goods or services to a customer for which the entity has received consideration from the customer.

In the case of fixed-price contracts, the customer pays the fixed amount based on a payment schedule. If the services rendered by the Group exceed the payment received, a contract asset is recognised. If the payments received exceed the services rendered, a contract liability is recognised. If the contract includes an hourly fee, revenue is recognised in the amount which the Group has a right to invoice. Customers are invoiced on a monthly basis and consideration is payable when invoiced.

Contract asset and contract liability are defined in HKFRS 15 "Revenue from Contracts with Customers". Therefore, these two terms do not apply to rental income from lease agreements which is specifically excluded from the scope of HKFRS 15.

Please refer to note 25 and note 28 for the accounting policy of contract assets and contract liabilities.

4. Revenue (continued)

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

	2018 HK$M	2017 HK$M
Gross rental income from investment properties	12,002	11,138
Property trading	1,061	5,833
Hotels	1,404	1,344
Aircraft and engine maintenance services	13,131	12,892
Sales of goods	52,878	45,008
Charter hire*	2,640	2,684
Rendering of other services	1,490	1,390
Total	84,606	80,289

* Charter hire revenue included leasing of vessels amounting to HK$797 million for the year ended 31st December 2018. The remaining revenue of HK$1,843 million was related to ship management services for the provision of crew.

The following table shows how much of the revenue recognised in the current reporting period relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in a prior year.

	2018 HK$M
Revenue recognised that was included in the contract liability balance at the beginning of the year	265

There is no revenue recognised during the year ended 31st December 2018 from performance obligations satisfied in previous years.

Of the contract liabilities HK$438 million outstanding at 31st December 2018, HK$434 million is expected to be recognised as revenue within one year and the remaining balance of HK$4 million over one year.

The following table shows unsatisfied performance obligations resulting from the contracts with customers.

	2018 HK$M
Aggregate amount of the transaction price allocated to revenue contracts that are partially or fully unsatisfied as at 31 December (note)	2,693

Note: As permitted under the transitional provisions in HKFRS 15, the transaction price allocated to unsatisfied performance obligations as of 31st December 2017 is not disclosed.

5. Other Net Gains

	Note	2018 HK$M	2017 HK$M
Remeasurement gains on interests in joint venture companies which became subsidiary companies		14	975
Profit on disposal of subsidiary companies		1,309	387
Profit on disposal of joint venture companies		3,177	–
Bargain purchase gain on acquisition of a subsidiary company		28	–
Gains from the acquisition of new franchise territories in the USA		–	194
Final purchase consideration adjustment on acquisition of assets in the USA		107	95
Profit on sale of investment properties		53	9
Profit/(loss) on sale of property, plant and equipment		57	(70)
Loss on sale of available-for-sale assets		–	(93)
Net foreign exchange gains/(losses)		35	(3)
Fair value gains on cross-currency swaps transferred from cash flow hedge reserve		12	92
Fair value gains on forward foreign exchange contracts transferred from cash flow hedge reserve		3	2
Fair value gains on forward foreign exchange contracts not qualifying as hedges		2	1
Impairment losses recognised on			
– property, plant and equipment	14	(3,792)	(1,032)
– intangible assets	17	(86)	(625)
– goodwill in respect of an associated company		(98)	–
Dividend income on available-for-sale assets		–	3
Dividends income on equity investments at fair value through other comprehensive income		8	–
Other income		629	310
Total		1,458	245

6. Expenses by Nature

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

	Note	2018 HK$M	2017 HK$M
Direct rental outgoings of investment properties		2,389	2,267
Cost of goods sold		36,282	35,971
Write-down of stocks and work in progress		229	193
Impairment losses recognised on trade receivables		10	16
Depreciation of property, plant and equipment	14	3,559	3,361
Amortisation of			
– leasehold land and land use rights	16	53	46
– intangible assets	17	190	190
– initial leasing costs on investment properties		39	51
– others		10	10
Staff costs		16,639	15,295
Operating lease rentals			
– properties		1,200	1,203
– vessels		28	33
– plant and equipment		53	44
Auditors' remuneration			
– audit services		53	52
– tax services		12	8
– other services		5	11
Other expenses		13,803	11,250
Total cost of sales, distribution costs, administrative expenses and other operating expenses		74,554	70,001

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 Board.

7. Segment Information (continued)

(a) Information about reportable segments

Analysis of Consolidated Statement of Profit or Loss

Year ended 31st December 2018

	External revenue HK$M	Inter-segment revenue HK$M	Operating profit/(loss) HK$M	Finance charges HK$M	Finance income HK$M	Share of profits less losses of joint venture companies HK$M	Share of profits less losses of associated companies HK$M	Tax (charge)/credit HK$M	Profit/(loss) for the year HK$M	Profit/(loss) attributable to the Company's shareholders HK$M	Underlying profit/(loss) attributable to the Company's shareholders HK$M	Depreciation and amortisation charged to operating profit HK$M
Property												
Property investment	12,139	115	9,861	(913)	112	772	–	(1,049)	8,783	7,152	8,284	(172)
Change in fair value of investment properties	–	–	19,378	–	–	1,063	–	(654)	19,787	16,238	–	–
Property trading	1,061	–	65	(40)	1	107	–	(24)	109	81	81	–
Hotels	1,404	–	(25)	(42)	–	(117)	153	(10)	(41)	(34)	(34)	(234)
	14,604	**115**	**29,279**	**(995)**	**113**	**1,825**	**153**	**(1,737)**	**28,638**	**23,437**	**8,331**	**(406)**
Aviation												
Cathay Pacific group	–	–	–	–	–	–	1,056	–	1,056	1,056	1,056	–
HAECO group	14,892	–	1,140	(115)	23	451	–	(233)	1,266	760	760	(654)
Others	–	–	(54)	–	–	3	(11)	–	(62)	(35)	(35)	(54)
	14,892	**–**	**1,086**	**(115)**	**23**	**454**	**1,045**	**(233)**	**2,260**	**1,781**	**1,781**	**(708)**
Beverages												
Mainland China	21,358	–	1,059	(137)	35	48	103	(357)	751	634	634	(764)
Hong Kong	2,342	1	255	–	–	–	–	(25)	230	230	230	(68)
Taiwan	1,551	–	224	(2)	–	–	–	(11)	211	211	211	(53)
USA	15,938	–	819	(121)	2	–	–	(77)	623	623	623	(588)
Central costs	–	–	(68)	–	–	–	–	–	(68)	(68)	(68)	(2)
	41,189	**1**	**2,289**	**(260)**	**37**	**48**	**103**	**(470)**	**1,747**	**1,630**	**1,630**	**(1,475)**
Marine Services												
Swire Pacific Offshore group*	3,018	1	(4,787)	(264)	4	–	2	(31)	(5,076)	(5,070)	(5,070)	(1,047)
HUD group	–	–	–	–	–	37	–	–	37	37	37	–
	3,018	**1**	**(4,787)**	**(264)**	**4**	**37**	**2**	**(31)**	**(5,039)**	**(5,033)**	**(5,033)**	**(1,047)**
Trading & Industrial												
Swire Retail group	3,338	–	69	(1)	8	1	57	(32)	102	102	102	(22)
Taikoo Motors group	5,810	–	155	(1)	1	–	–	(32)	123	123	123	(73)
Swire Foods group	1,666	82	(30)	–	3	(52)	–	(12)	(91)	(91)	(91)	(92)
Swire Pacific Cold Storage group#	82	–	24	(14)	–	(4)	–	(51)	(45)	(45)	(45)	(27)
Akzo Nobel Swire Paints#	–	–	3,086	–	–	143	–	(335)	2,894	2,894	2,894	–
Swire Environmental Services group	–	–	(24)	–	–	6	(36)	–	(54)	(54)	(54)	–
Central costs	–	–	(25)	–	–	–	–	–	(25)	(25)	(25)	–
	10,896	**82**	**3,255**	**(16)**	**12**	**94**	**21**	**(462)**	**2,904**	**2,904**	**2,904**	**(214)**
Head Office												
Net income/(expenses)	**7**	**32**	**(234)**	**(1,409)**	**546**	**–**	**–**	**7**	**(1,090)**	**(1,090)**	**(1,090)**	**(1)**
Inter-segment elimination	**–**	**(231)**	**–**	**534**	**(534)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	84,606	–	30,888	(2,525)	201	2,458	1,324	(2,926)	29,420	23,629	8,523	(3,851)

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 charge made by the Swire Pacific Offshore group included under operating profit/loss was HK$3,872 million.

\# Profits on disposals of Swire Pacific Cold Storage group and Akzo Nobel Swire Paints of the Trading & Industrial Division are included under operating profit/loss of the respective companies.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of Consolidated Statement of Profit or Loss (continued)

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
Property												
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)
	18,443	**115**	**34,789**	**(983)**	**83**	**1,646**	**146**	**(1,805)**	**33,876**	**27,731**	**6,403**	**(435)**
Aviation												
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)
	14,546	**–**	**(144)**	**(131)**	**11**	**319**	**(574)**	**(450)**	**(969)**	**(1,002)**	**(1,002)**	**(692)**
Beverages												
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)
	34,066	**1**	**3,325**	**(241)**	**31**	**19**	**93**	**(658)**	**2,569**	**2,441**	**2,441**	**(1,252)**
Marine Services												
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	–
	3,066	**1**	**(1,791)**	**(304)**	**5**	**23**	**1**	**(160)**	**(2,226)**	**(2,232)**	**(2,232)**	**(1,064)**
Trading & Industrial												
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)	–
Central costs	–	–	(30)	–	–	–	–	–	(30)	(30)	(30)	–
	10,163	**83**	**(80)**	**(24)**	**22**	**202**	**6**	**(57)**	**69**	**69**	**69**	**(214)**
Head Office												
Net income/(expenses)	**5**	**30**	**(235)**	**(1,540)**	**832**	**–**	**–**	**6**	**(937)**	**(937)**	**(937)**	**(1)**
Inter-segment elimination	**–**	**(230)**	**–**	**824**	**(824)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**80,289**	**–**	**35,864**	**(2,399)**	**160**	**2,209**	**(328)**	**(3,124)**	**32,382**	**26,070**	**4,742**	**(3,658)**

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 charges 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 total assets of the Group

At 31st December 2018

	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
Property						
Property investment	292,779	26,133	–	1,820	320,732	4,937
Property trading and development	3,034	1,411	–	118	4,563	52
Hotels	5,975	1,247	413	156	7,791	(19)*
	301,788	**28,791**	**413**	**2,094**	**333,086**	**4,970**
Aviation						
Cathay Pacific group	–	–	29,225	–	29,225	–
HAECO group	10,755	1,738	–	2,167	14,660	562
Others	4,407	2,820	–	–	7,227	–
	15,162	**4,558**	**29,225**	**2,167**	**51,112**	**562**
Beverages						
Swire Beverages	**25,609**	**955**	**1,552**	**2,397**	**30,513**	**1,988**
Marine Services						
Swire Pacific Offshore group	13,953	–	56	199	14,208	1,112
HUD group	–	(31)	–	–	(31)	–
	13,953	**(31)**	**56**	**199**	**14,177**	**1,112**
Trading & Industrial						
Swire Retail group	696	34	137	326	1,193	26
Taikoo Motors group	1,658	–	–	275	1,933	173
Swire Foods group	1,454	3	–	247	1,704	140
Swire Environmental Services group	39	30	317	–	386	–
Other activities	522	–	–	59	581	–
	4,369	**67**	**454**	**907**	**5,797**	**339**
Head Office	**372**	**–**	**–**	**1,348**	**1,720**	**1**
	361,253	**34,340**	**31,700**	**9,112**	**436,405**	**8,972**

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.

The assets of joint venture and associated companies included the respective loans due from these companies.

* The negative figure for Hotels in the Property Division was due to the inclusion of a cost write-back of HK$64 million relating to over-statement of previous years' additions.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of total assets of the Group (continued)

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
Property						
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
	288,728	**23,026**	**374**	**1,708**	**313,836**	**5,085**
Aviation						
Cathay Pacific group	–	–	27,959	–	27,959	–
HAECO group	11,317	1,727	–	991	14,035	983
Others	4,462	2,823	–	–	7,285	–
	15,779	**4,550**	**27,959**	**991**	**49,279**	**983**
Beverages						
Swire Beverages	**26,298**	**981**	**1,552**	**2,252**	**31,083**	**1,623**
Marine Services						
Swire Pacific Offshore group	17,644	–	56	267	17,967	838
HUD group	–	(66)	–	–	(66)	–
	17,644	**(66)**	**56**	**267**	**17,901**	**838**
Trading & Industrial						
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	–
	6,419	**958**	**463**	**724**	**8,564**	**359**
Head Office	**306**	**–**	**–**	**130**	**436**	**1**
	355,174	**29,449**	**30,404**	**6,072**	**421,099**	**8,889**

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.

The assets of joint venture and associated companies included the respective loans due from these companies.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

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

At 31st December 2018

	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	10,736	9,050	(186)	29,461	49,061	50,457
Property trading and development	257	45	144	1,414	1,860	562
Hotels	241	–	42	1,124	1,407	1,171
	11,234	**9,095**	**–**	**31,999**	**52,328**	**52,190**
Aviation						
HAECO group	**3,099**	**397**	**–**	**3,248**	**6,744**	**2,042**
Beverages						
Swire Beverages	**10,810**	**649**	**4,280**	**2,350**	**18,089**	**448**
Marine Services						
Swire Pacific Offshore group	**920**	**44**	**4,521**	**–**	**5,485**	**11**
Trading & Industrial						
Swire Retail group	855	54	(53)	–	856	–
Taikoo Motors group	615	17	–	–	632	–
Swire Foods group	427	10	(58)	–	379	–
Other activities	279	381	60	–	720	–
	2,176	**462**	**(51)**	**–**	**2,587**	**–**
Head Office	**602**	**23**	**(8,750)**	**34,182**	**26,057**	**–**
	28,841	**10,670**	**–**	**71,779**	**111,290**	**54,691**

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 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
	8,637	**9,149**	**5,248**	**31,878**	**54,912**	**48,244**
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	–
	2,126	**83**	**617**	**–**	**2,826**	**–**
Head Office	**468**	**30**	**(19,822)**	**40,889**	**21,565**	**–**
	25,914	**10,505**	**–**	**78,586**	**115,005**	**52,931**

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of external revenue of the Group

Year ended 31st December 2018

	Timing of revenue recognition			
	At a point in time HK$M	Over time HK$M	Rental income HK$M	Total HK$M
Property				
Property investment	1	136	12,002	12,139
Property trading	1,061	–	–	1,061
Hotels	664	740	–	1,404
	1,726	**876**	**12,002**	**14,604**
Aviation				
HAECO group	**997**	**13,895**	**–**	**14,892**
Beverages				
Mainland China	21,358	–	–	21,358
Hong Kong	2,342	–	–	2,342
Taiwan	1,551	–	–	1,551
USA	15,938	–	–	15,938
	41,189	**–**	**–**	**41,189**
Marine Services				
Swire Pacific Offshore group	**148**	**2,073**	**797**	**3,018**
Trading & Industrial				
Swire Retail group	3,338	–	–	3,338
Taikoo Motors group	5,797	13	–	5,810
Swire Foods group	1,666	–	–	1,666
Swire Pacific Cold Storage group	82	–	–	82
	10,883	**13**	**–**	**10,896**
Head Office	**1**	**6**	**–**	**7**
Total	**54,944**	**16,863**	**12,799**	**84,606**

(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)	
	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
Hong Kong	**21,140**	24,817	**246,424**	242,081
Asia (excluding Hong Kong)	**40,927**	34,712	**49,991**	51,286
USA	**19,493**	17,659	**17,454**	17,887
Others	**42**	46	**–**	–
Ship owning and operating activities	**3,004**	3,055	**12,983**	16,800
	84,606	80,289	**326,852**	328,054

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				
	Salary/ fees (note i) HK$'000	Bonus (note ii) HK$'000	Allowance and benefits HK$'000	Retirement scheme contributions HK$'000	Bonus paid into retirement scheme (note ii) HK$'000	Housing benefits HK$'000	Total 2018 HK$'000	Total 2017 HK$'000
Executive Directors								
M B Swire (from 1st July 2018)	2,670	–	–	8	–	4,995	7,673	–
J R Slosar (until 30th June 2018)	5,463	–	42	1,145	–	4,650	11,300	22,107
GMC Bradley (until 4th May 2017)	–	632	–	–	260	–	892	7,656
I K L Chu	3,690	–	1,718	740	–	–	6,148	6,985
D P Cogman	5,993	1,007	1,861	17	–	–	8,878	2,520
M Cubbon (until 30th September 2017)	–	2,970	–	–	–	–	2,970	20,655
M M S Low	2,739	2,143	1,848	549	–	–	7,279	2,655
J B Rae-Smith (until 26th August 2016)	–	–	–	–	–	–	–	1,925
I S C Shiu (until 31st December 2016)	–	–	–	–	–	–	–	1,622
A K W Tang (until 4th May 2017)	–	915	–	–	–	–	915	6,979
Non-Executive Directors								
M Cubbon (from 1st November 2018)	–	–	–	–	–	–	–	–
M B Swire (until 30th June 2018)	–	–	–	–	–	–	–	–
S C Swire	–	–	–	–	–	–	–	–
Independent Non-Executive Directors								
P K Etchells	979	–	–	–	–	–	979	595
T G Freshwater	690	–	–	–	–	–	690	788
C Lee	1,083	–	–	–	–	–	1,083	950
R W M Lee	750	–	–	–	–	–	750	748
G R H Orr	1,276	–	–	–	–	–	1,276	870
M C C Sze (until 18th May 2017)	–	–	–	–	–	–	–	261
M M T Yang (until 4th May 2017)	–	–	–	–	–	–	–	234
Total 2018	**25,333**	**7,667**	**5,469**	**2,459**	**260**	**9,645**	50,833	**N/A**
Total 2017	30,122	15,570	5,890	13,808	2,709	9,451	N/A	77,550

i. Independent Non-executive Directors received fees as members of the Board and its committees. Executive Directors received salaries.
ii. Bonuses are not yet approved for 2018. The amounts disclosed above are related to services as Executive Directors for 2017 but paid and charged to the Group in 2018.
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.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the years ended 31st December 2018 and 2017 are as follows:-

	Year ended 31st December	
	2018	2017
Number of individuals:		
Executive Directors (note (i))	2	4
Executive Officers	3	1
	5	5

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

Emoluments paid to the Executive Officers are as follows:

	Year ended 31st December	
	2018 HK$'000	2017 HK$'000
Cash:		
Salary	12,709	3,527
Bonus (note (ii))	6,289	2,222
Allowance and benefits	3,698	1,021
Non-cash:		
Retirement scheme contributions	2,718	1,038
Bonus paid into retirement scheme	1,466	985
Housing benefits	6,431	3,839
	33,311	12,632

Notes:
(i) Details of the emoluments paid to these Directors were included in the disclosure as set out in note 8 (a) above.
(ii) Bonuses are not yet approved for 2018. The amounts disclosed above are related to services as Executive Officers for 2017 but paid and charged to the Group in 2018.

The number of the above Executive Officers whose emoluments fell within the following bands:

	Year ended 31st December	
	2018	2017
HK$13,000,000 – HK$12,500,000	–	1
HK$12,000,000 – HK$11,500,000	2	–
HK$10,000,000 – HK$9,500,000	1	–
	3	1

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 on financial assets at FVPL is included in the net fair value gains/(losses) on these assets. Interest income on financial assets at amortised cost and financial assets at FVOCI (2017: available-for-sale assets and loans and receivables) calculated using the effective interest method is recognised on a time proportion basis in the statement of profit or loss as part of finance income. Interest income is presented as finance income where it is earned from financial assets that are held for cash management purposes. Any other interest income is included in other income in Other net gains/(losses). Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Refer to the table with the heading "Audited Financial Information" on page 83 for details of the Group's net finance charges.

10. Taxation

Accounting Policy

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

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

Critical Accounting Estimates and Judgements

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

	Note	2018 HK$M	2017 HK$M
Current taxation			
Hong Kong profits tax		1,042	1,178
Overseas taxation		1,272	1,152
(Over)/under-provisions in prior years		(16)	32
		2,298	2,362
Deferred taxation	30		
Changes in fair value of investment properties		501	460
Origination and reversal of temporary differences		127	620
Effect of change in tax rate in the USA		–	(318)
		628	762
		2,926	3,124

Hong Kong profits tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the year. Overseas tax is calculated at tax rates applicable in jurisdictions in which the Group is assessable for tax.

10. Taxation (continued)

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

	2018 HK$M	2017 HK$M
Profit before taxation	32,346	35,506
Calculated at a tax rate of 16.5% (2017: 16.5%)	5,337	5,858
Share of profits less losses of joint venture and associated companies	(624)	(310)
Effect of different tax rates in other countries	288	227
Effect of change in tax rate in the USA	–	(318)
Fair value gains on investment properties	(2,882)	(3,838)
Income not subject to tax	(737)	(290)
Expenses not deductible for tax purposes	1,180	977
Unused tax losses not recognised	301	408
Utilisation of previously unrecognised tax losses	(8)	(20)
Deferred tax assets written off	55	249
(Over)/under-provisions in prior years	(16)	32
Recognition of previously unrecognised tax losses	(5)	(14)
Reversal of temporary difference	–	(78)
Withholding tax	103	133
Others	(66)	108
Tax charge	2,926	3,124

The Group's share of joint venture and associated companies' tax charges of HK$525 million (2017: HK$366 million) and HK$275 million (2017: HK$195 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 70 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 declared by the Company's directors, where appropriate.

	2018 HK$M	2017 HK$M
First interim dividend paid on 5th October 2018 of HK$1.20 per 'A' share and HK$0.24 per 'B' share (2017: HK$1.00 and HK$0.20)	1,802	1,503
Second interim dividend declared on 14th March 2019 of HK$1.80 per 'A' share and HK$0.36 per 'B' share (2017 actual dividend paid: HK$1.10 and HK$0.22)	2,703	1,652
	4,505	3,155

The second interim dividend is not accounted for in 2018 because it had not been declared or approved at the year end date. The actual amount payable in respect of 2018 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2019.

13. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$23,629 million (2017: HK$26,070 million) by the daily weighted average number of 905,206,000 'A' shares and 2,981,872,466 'B' shares in issue during the year (2017: 905,206,000 'A' shares and 2,990,852,870 'B' shares), in the proportion five to one.

14. Property, Plant and Equipment

Accounting Policy

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

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

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

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

Leasehold land	Over the lease term
Property	2% to 5% per annum
Plant and machinery	5% to 34% per annum
Vessels	5% to 7% per annum (2017: 4% to 7% per annum)
Drydocking costs	20% to 50% per annum

14. Property, Plant and Equipment (continued)

Accounting Policy (continued)

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 charges 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 were written down by HK$3,792 million to their recoverable amount.

Swire Pacific Offshore (SPO) has vessels with aggregate carrying values of HK$12,856 million at 31st December 2018. During the year, management reviewed the outlook for the business and SPO's operating plans and consequently reassessed the carrying values of the vessels at that point in time. An impairment provision of HK$3,786 million was recorded during the year 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 amounted to HK$9,364 million at the time of valuation. 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 in the 2018 impairment review was 8.5% (2017: 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$2,093 million at 31st December 2018 (2017: HK$2,234 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 in 2017 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 considering this valuation and management's updates during the year has concluded that the carrying value remains appropriate at 31st December 2018. The HAECO group maintains regular communications with the local authorities about the new airport and its opening, which will be material to the operations of the HAECO group in Xiamen.

14. Property, Plant and Equipment (continued)

	Note	Leasehold land held for own use under finance leases HK$M	Property HK$M	Plant and machinery HK$M	Vessels HK$M	Total HK$M
Cost						
At 1st January 2018		4,597	20,695	20,173	26,424	71,889
Translation differences		1	(321)	(337)	60	(597)
Acquisition of a subsidiary company		–	48	62	–	110
Disposal of subsidiary companies		(5)	(1,601)	(135)	–	(1,741)
Additions		–	410	2,429	1,106	3,945
Disposals		–	(120)	(1,454)	(880)	(2,454)
Net transfers to investment properties	15	(32)	(6)	–	–	(38)
Transfer to assets classified as held for sale		(93)	(32)	–	–	(125)
Other net transfers		–	(62)	61	–	(1)
Revaluation surplus		16	3	–	–	19
At 31st December 2018		4,484	19,014	20,799	26,710	71,007
Accumulated depreciation and impairment						
At 1st January 2018		214	6,023	10,165	9,868	26,270
Translation differences		–	(94)	(87)	18	(163)
Disposal of subsidiary companies		–	(103)	(47)	–	(150)
Depreciation for the year	6	32	694	1,811	1,022	3,559
Impairment charges	5	–	–	6	3,786	3,792
Disposals		–	(97)	(1,007)	(840)	(1,944)
Net transfers to investment properties	15	(1)	(1)	–	–	(2)
Transfer to assets classified as held for sale		–	(4)	–	–	(4)
Other net transfers		–	12	(7)	–	5
At 31st December 2018		245	6,430	10,834	13,854	31,363
Net book value						
At 31st December 2018		4,239	12,584	9,965	12,856	39,644

14. Property, Plant and Equipment (continued)

	Note	Leasehold land held for own use under finance leases HK$M	Property HK$M	Plant and machinery HK$M	Vessels HK$M	Total HK$M
Cost						
At 1st January 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
Accumulated depreciation and impairment						
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 charges	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
Net book value						
At 31st December 2017		4,383	14,672	10,008	16,556	45,619

Property, plant and machinery and vessels include costs of HK$36 million (2017: HK$580 million), HK$88 million (2017: HK$146 million) and nil (2017: HK$442 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 2018. 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 2018		229,831	35,874	265,705
Translation differences		(1,440)	(19)	(1,459)
Disposal of subsidiary companies		–	(2,001)	(2,001)
Additions		704	4,017	4,721
Disposals		(285)	–	(285)
Transfer between categories		17,076	(17,076)	–
Transfer from properties under development and for sale		142	–	142
Net transfers from/(to) property, plant and equipment	14	(36)	72	36
Transfer to assets classified as held for sale		(14,546)	(435)	(14,981)
Net fair value gains		16,694	2,684	19,378
		248,140	23,116	271,256
Add: Initial leasing costs		259	–	259
At 31st December 2018		248,399	23,116	271,515
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

Geographical Analysis of Investment Properties

	2018 HK$M	2017 HK$M
Held in Hong Kong		
On medium-term leases (10 to 50 years)	34,584	33,170
On long-term leases (over 50 years)	198,383	195,241
	232,967	228,411
Held in Mainland China		
On medium-term leases (10 to 50 years)	30,546	29,434
Held in USA and elsewhere		
Freehold	7,743	7,860
	271,256	265,705

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 2018. 95% by value were valued by Cushman & Wakefield Limited and 2% 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.

15. Investment Properties (continued)

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.

Fair value hierarchy

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

	Completed				Under Development			
	Hong Kong HK$M	Mainland China HK$M	USA HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	2018 Total HK$M
Level 2	3,525	186	–	3,711	10,946	–	10,946	14,657
Level 3	207,476	30,359	6,594	244,429	11,021	1,149	12,170	256,599
Total	211,001	30,545	6,594	248,140	21,967	1,149	23,116	271,256
Add: initial leasing costs								259
At 31st December								271,515

	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$M	2017 Total HK$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

15. Investment Properties (continued)

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

	Completed				Under Development			
	Hong Kong HK$M	Mainland China HK$M	USA HK$M	Total HK$M	Hong Kong HK$M	Others HK$M	Total HK$M	Total HK$M
At 1st January 2018	190,188	29,238	6,767	226,193	22,687	1,093	23,780	249,973
Translation differences	–	(1,444)	14	(1,430)	–	(19)	(19)	(1,449)
Additions	452	209	55	716	3,067	144	3,211	3,927
Transfer from properties under development and for sale	–	–	142	142	–	–	–	142
Transfer upon completion	17,076	–	–	17,076	(17,076)	–	(17,076)	–
Net transfers (to)/from property, plant and equipment	(45)	9	–	(36)	–	–	–	(36)
Transfer to assets classified as held of sale	(14,546)	–	–	(14,546)	–	–	–	(14,546)
Fair value gains/(losses)	14,351	2,347	(384)	16,314	2,343	(69)	2,274	18,588
At 31st December 2018	207,476	30,359	6,594	244,429	11,021	1,149	12,170	256,599

	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 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

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.

15. Investment Properties (continued)

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

At 31st December 2018	Valuation method	Market rent per month[1] HK$ per sq. ft. (lettable) 2018	Capitalisation rates 2018
Completed			
Hong Kong	Income capitalisation	Less than 10-Mid 500's	2.50%-4.88%[3]
Mainland China	Income capitalisation	Less than 10-Low 200's	6.25%-6.75%
USA	Income capitalisation	Low 10's-Low 100's	4.75%-5.75%
USA	Sales comparison	–	–
Under development			
Hong Kong	Residual[2]	High 50's-Mid 80's	3.63%-3.75%
Others	Residual[2]	–	–

At 31st December 2017	Valuation method	Market rent per month[1] HK$ per sq. ft. (lettable) 2017	Capitalisation rates 2017
Completed			
Hong Kong	Income capitalisation	Less than 10-Low 500's	2.50%-4.88%
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	–	–
Under development			
Hong Kong	Residual[2]	High 50's-Mid 60's	3.88%
Others	Residual[2]	–	–

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 12.5 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	2018 HK$M	2017 HK$M
At 1st January		1,663	1,087
Translation differences		(41)	59
Acquisition of subsidiary companies		14	527
Disposal of a subsidiary company		(168)	(12)
Additions		–	48
Amortisation for the year	6	(53)	(46)
At 31st December		1,415	1,663
Held in Hong Kong			
On medium-term leases (10 to 50 years)		17	17
Held outside Hong Kong			
On medium-term leases (10 to 50 years)		1,395	1,643
On long-term leases (over 50 years)		3	3
		1,415	1,663

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).

(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 amortisation 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.

17. Intangible Assets (continued)

	Note	Goodwill HK$M	Computer software HK$M	Service, franchise and operating rights HK$M	Customer relationships HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2018		8,303	666	5,423	968	201	15,561
Translation differences		(111)	(11)	(129)	1	–	(250)
Adjustments on previous year's acquisition	37	95	–	(335)	(25)	–	(265)
Acquisition of a subsidiary		–	2	–	16	–	18
Disposal of subsidiaries		–	(8)	–	–	–	(8)
Other transfers		–	13	–	–	–	13
Additions		–	122	22	–	49	193
Disposals		–	(14)	(1)	–	(1)	(16)
At 31st December 2018		8,287	770	4,980	960	249	15,246
Accumulated amortisation and impairment							
At 1st January 2018		1,137	470	217	216	35	2,075
Translation differences		1	(8)	1	–	–	(6)
Disposal of subsidiaries		–	(2)	–	–	–	(2)
Amortisation for the year	6	–	70	33	64	23	190
Impairment losses	5	86	–	–	–	–	86
Disposals		–	(10)	(3)	(2)	–	(15)
At 31st December 2018		1,224	520	248	278	58	2,328
Net book value							
At 31st December 2018		7,063	250	4,732	682	191	12,918

	Note	Goodwill HK$M	Computer software HK$M	Service, franchise and operating rights HK$M	Customer relationships HK$M	Others HK$M	Total HK$M
Cost							
At 1st January 2017		6,127	549	2,721	894	173	10,464
Translation differences		160	4	182	7	1	354
Acquisition of new businesses		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
Accumulated amortisation and impairment							
At 1st January 2017		505	387	211	151	15	1,269
Translation differences		7	1	1	1	–	10
Acquisition of new businesses		–	–	(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
Net book value							
At 31st December 2017		7,166	196	5,206	752	166	13,486

17. Intangible Assets (continued)

Amortisation of HK$190 million (2017: HK$190 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 2018 were between 8.0% and 12.5% (2017: 7% and 12.5%). These discount rates are pre-tax and reflect the specific risks relating to the relevant cash-generating unit.

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

	2018 HK$M	2017 HK$M
HAECO – Hong Kong and Mainland China	3,510	3,510
HAECO – USA	488	488
Beverages – Hong Kong and Mainland China	2,264	2,378
Beverages – USA	234	139
Marine Services	–	84
Trading & Industrial	567	567
	7,063	7,166

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 8.2% (2017: 8.7%). Cash flows beyond the five-year period are assumed not to grow by more than 2% per annum (2017: 2%).

Goodwill attributable to HAECO's business in the USA relates to the acquisition of HAECO Americas, Inc (previously known as 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 (2017: five-year) period for the airframe services CGU and a seven-year (2017: eight-year) period until 2025 for the cabin solutions CGU. A seven-year forecast (until 2025) is considered appropriate for cabin solutions to take into account the significant growth plans for the business which includes the ongoing development of new product models over the next three to five years whose market success the model is 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 seven 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 growth in the profitability arising from improved efficiency and work flow, which is based on management's expectations of the outcome achieved by improvement plans in places.

17. Intangible Assets (continued)

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

	Airframe services		Cabin solutions	
	2018	2017	2018	2017
Discount rate	8.5%	8.5%	8.5%	8.5%
Revenue growth – cumulative average growth rate per annum	8.1%	7.7%	12.6%	13.1%

In 2018, the airframe services CGU recoverable amount exceeded its carrying value by HK$192 million.

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 has been included in "other net gains/losses" in the statement of profit or loss.

In 2018, the cabin solutions CGU recoverable amount exceeded its carrying value by HK$431 million (2017: HK$27 million).

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 206 to 217.

After the privatisation of HAECO by Swire Pacific on 29th November 2018, HAECO became a wholly-owned subsidiary company of the Group with the purchase of the remaining 25% non-controlling interests. Swire Pacific Limited has material non-controlling interests of 18% in one subsidiary company, Swire Properties Limited (Swire Properties). 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.

Summarised Statement of Financial Position

	Swire Properties	
	At 31st December	
	2018 HK$M	2017 HK$M
Current:		
Assets	21,569	13,346
Liabilities	11,975	16,790
Total current net assets/(liabilities)	9,594	(3,444)
Non-current:		
Assets	311,517	300,490
Liabilities	40,353	38,122
Total non-current net assets	271,164	262,368
Net assets	280,758	258,924
Net assets allocated to non-controlling interests	50,536	46,606

18. Subsidiary Companies (continued)

Summarised Statement of Profit or Loss

	Swire Properties	
	For the year ended 31st December	
	2018 HK$M	2017 HK$M
Revenue	14,719	18,558
Profit for the year attributable to shareholders	28,582	33,818
Other comprehensive income	(2,144)	2,323
Total comprehensive income attributable to shareholders	26,438	36,141
Total comprehensive income allocated to non-controlling interests	4,759	6,505
Dividends paid to non-controlling interests	832	769

Summarised Statement of Cash Flows

	Swire Properties	
	For the year ended 31st December	
	2018 HK$M	2017 HK$M
Net cash generated from operating activities	9,391	11,756
Net cash generated from/(used in) investing activities	753	(6,887)
Net cash used in financing activities	(9,712)	(4,904)
Net increase/(decrease) in cash and cash equivalents	432	(35)
Cash and cash equivalents at 1st January	1,708	1,681
Currency adjustment	(47)	62
Cash and cash equivalents at 31st December	2,093	1,708

19. Investments in 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.

19. Investments in Joint Venture and Associated Companies (continued)

(a) Investments in joint venture companies

	2018 HK$M	2017 HK$M
Share of net assets, unlisted	18,141	13,999
Goodwill	729	859
Joint venture companies	18,870	14,858
Loans due from joint venture companies less provisions		
– Interest-free	13,934	13,117
– Interest-bearing at 1.7% to 7.5% (2017: 1.7% to 7.5%)	1,536	1,474
	15,470	14,591

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

The principal joint venture companies of the Group are shown on pages 206 to 217. 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:

	2018 HK$M	2017 HK$M
Non-current assets	43,726	40,068
Current assets	5,980	6,020
Current liabilities	(4,114)	(7,134)
Non-current liabilities	(27,451)	(24,955)
Net assets	18,141	13,999
Revenue	15,903	12,407
Expenses	(12,920)	(9,832)
Profit before taxation	2,983	2,575
Taxation	(525)	(366)
Profit for the year	2,458	2,209
Other comprehensive income	(751)	785
Total comprehensive income for the year	1,707	2,994

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

19. Investments in Joint Venture and Associated Companies (continued)

(b) Investments in 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.

	2018 HK$M	2017 HK$M
Share of net assets		
– Listed in Hong Kong	28,468	27,203
– Unlisted	2,308	2,185
	30,776	29,388
Goodwill	757	855
Associated companies	31,533	30,243
Loans due from associated companies		
– Interest-bearing at 4.0%-6.0% (2017: 4.0%-6.0%)	167	161

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 2018 was HK$19,720 million (2017: HK$21,455 million). The forecast cash flows of Cathay Pacific indicate that no impairment exists.

19. Investments in Joint Venture and Associated Companies (continued)

(b) Investments in associated companies (continued)

The principal associated companies of the Group are shown on pages 206 to 217. In addition, Cathay Pacific is considered individually material to the Group and abridged financial statements are shown on pages 218 to 219.

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

	2018 HK$M	2017 HK$M
Non-current assets	76,019	74,138
Current assets	12,536	13,403
Current liabilities	(16,583)	(15,382)
Non-current liabilities	(41,195)	(42,692)
Non-controlling interests	(1)	(79)
Net assets	30,776	29,388
Revenue	54,057	47,660
Expenses	(52,458)	(47,793)
Profit/(loss) before taxation	1,599	(133)
Taxation	(275)	(195)
Profit/(loss) for the year	1,324	(328)
Other comprehensive income	91	3,234
Total comprehensive income for the year	1,415	2,906

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

20. Financial Instruments by Category

Accounting Policy

Financial Assets

(a) Classification
From 1st January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income (OCI). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

(b) Recognition and derecognition
Purchases and sales of financial assets are recognised on their trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

20. Financial Instruments by Category (continued)

Accounting Policy (continued)

Financial Assets (continued)

(c) Measurement

At initial recognition, except for trade debtors, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets at fair value through profit or loss (FVPL) are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

– *Debt instruments:*

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

(i) Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

(ii) FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.

(iii) FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

– *Equity instruments:*

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other gains/(losses) when the Group's right to receive payments is established.

Changes in the fair value of equity investments at FVPL are recognised in other gains/(losses) in the statement of profit or loss as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(d) Impairment

From 1st January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

The Group applies the simplified approach permitted by HKFRS 9 to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets.

20. Financial Instruments by Category (continued)

Accounting Policy (continued)

Financial Assets (continued)

(e) Accounting policies applied until 31st December 2017
The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy.

Classification:
Until 31st December 2017, the Group classified its financial assets in the following categories. The classification depended on the purpose for which the investments were acquired. The Group determined the classification of its investments at initial recognition.

(i) At fair value through profit or loss
A financial asset was classified within this category if it was designated as at fair value through profit or loss by management. Derivatives were included within this category unless they were designated as hedges. Assets in this category were classified as current if they were either held for trading or were expected to be realised within 12 months of the period-end date.

(ii) Derivatives used for hedging
Derivative instruments were classified within this category if they qualified for hedge accounting.

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

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

Recognition and measurement:
Financial assets classified as at fair value through profit and loss were subsequently carried at fair value. Realised and unrealised gains and losses arising from changes in fair value were included in the statement of profit or loss in the period in which they arose.

Derivatives were subsequently carried at fair value.

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

Financial instruments classified as loans and receivables were subsequently measured using the effective interest method.

The Group assessed at each period-end date whether there was objective evidence that a financial asset was impaired. A financial asset was impaired and impairment losses were recognised only if there was objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset and that event had an impact on the estimated future cash flows of the financial asset that could be reliably measured.

20. Financial Instruments by Category (continued)

Accounting Policy (continued)

Financial Liabilities

The Group classifies its financial liabilities in the following measurement categories:

(i) At fair value through profit or loss
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 and loss.

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

(iii) Amortised cost
This category comprises non-derivative financial liabilities with fixed or determinable payments and fixed maturities.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the financial statement where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The Group has also entered into arrangements that do not meet the criteria for offsetting but still allow for the related amounts to be set off in certain circumstances, such as bankruptcy or the termination of a contract.

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	At fair value through other comprehensive income HK$M	Amortised cost HK$M	Total carrying amount HK$M	Fair value HK$M
Assets as per consolidated statement of financial position							
At 31st December 2018							
Loans due from joint venture companies	19a	–	–	–	15,470	15,470	15,470
Loans due from associated companies	19b	–	–	–	167	167	167
Equity investments at fair value through other comprehensive income	21a	–	–	244	–	244	244
Derivative financial assets	22	1	188	–	–	189	189
Trade and other receivables excluding prepayments	25	–	–	–	9,030	9,030	9,030
Contract assets		–	–	–	1,176	1,176	1,176
Bank balances and short-term deposits	26	–	–	–	9,112	9,112	9,112
Total		1	188	244	34,955	35,388	35,388

	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	Total carrying amount HK$M	Fair value HK$M
At 31st December 2017							
Available-for-sale assets	21b	–	–	375	–	375	375
Derivative financial assets	22	2	227	–	–	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
Total		2	227	375	16,257	16,861	16,861

	Note	At fair value through profit or loss HK$M	Derivatives used for hedging HK$M	Amortised cost HK$M	Total carrying amount HK$M	Fair value HK$M
Liabilities as per consolidated statement of financial position						
At 31st December 2018						
Trade and other payables excluding non-financial liabilities	28	1,870	–	24,678	26,548	26,548
Contract liabilities		–	–	438	438	438
Derivative financial liabilities	22	39	159	–	198	198
Short-term loans	29	–	–	3,227	3,227	3,227
Long-term loans and bonds due within one year	29	–	–	8,301	8,301	8,379
Long-term loans and bonds due after one year	29	–	–	60,251	60,251	60,354
Total		1,909	159	96,895	98,963	99,144
At 31st December 2017						
Trade and other payables excluding non-financial liabilities	28	2,265	–	22,517	24,782	24,782
Derivative financial liabilities	22	6	94	–	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
Total		2,271	94	101,103	103,468	105,064

20. Financial Instruments by Category (continued)

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.

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

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

	Note	Level 1 HK$M	Level 2 HK$M	Level 3 HK$M	Total carrying amount HK$M
Assets as per consolidated statement of financial position					
At 31st December 2018					
Equity investments at fair value through other comprehensive income	21a				
– Listed investments		185	–	–	185
– Unlisted investments		–	–	59	59
Derivative financial assets	22	–	189	–	189
Total		185	189	59	433
At 31st December 2017					
Available-for-sale assets	21b				
– Listed investments		319	–	–	319
– Unlisted investments		–	–	56	56
Derivative financial assets	22	–	229	–	229
Total		319	229	56	604
Liabilities as per consolidated statement of financial position					
At 31st December 2018					
Derivative financial liabilities	22	–	198	–	198
Put option over non-controlling interest in Brickell City Centre	28	–	–	601	601
Put option over a non-controlling interest in a subsidiary company	28	–	–	99	99
Contingent consideration	28	–	–	1,170	1,170
Total		–	198	1,870	2,068
At 31st December 2017					
Derivative financial liabilities	22	–	100	–	100
Put option over non-controlling interest in Brickell City Centre	28	–	–	716	716
Put option over a non-controlling interest in a subsidiary company	28	–	–	106	106
Contingent consideration	28	–	–	1,443	1,443
Total		–	100	2,265	2,365

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 2018	822	56	1,443
Translation differences	1	(1)	4
Additions	50	4	–
Adjustments on previous year's acquisition	–	–	(367)
Change in percentage of interest	(150)	–	–
Change in fair value recognised in profit or loss during the year	(23)	–	165
Payment of consideration	–	–	(75)
At 31st December 2018	700	59	1,170
Total gains/(losses) for the year included in profit or loss in respect of financial instruments held at 31st December 2018	23	–	(165)
Change in unrealised gains/(losses) for the year included in profit or loss of financial instruments held at 31st December 2018	23	–	(165)

	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/adjustments on previous acquisitions	–	(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)

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 2020 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 2018. 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. (a) Equity investments at fair value through other comprehensive income

	2018 HK$M	2017 HK$M
Non-current assets		
Shares listed in Hong Kong	106	–
Shares listed overseas	79	–
Unlisted investments	59	–
	244	–

(b) Available-for-sale Assets

Equity investments held by the Group were previously classified as available-for-sale assets up to year ended 31st December 2017.

	2018 HK$M	2017 HK$M
Non-current assets		
Shares listed in Hong Kong	–	127
Shares listed overseas	–	192
Unlisted investments	–	56
	–	375

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 (net investment hedges).

The Group documents at the inception of transactions the economic relationship between hedging instruments and hedged items, including whether the derivatives that are used in hedging transactions are expected to offset changes in cash flows of hedged items. The Group also documents its risk management objective and strategy for undertaking various hedge transactions.

22. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(a) Cash flow hedges that qualify for hedge accounting
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss.

When option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument. Until 31st December 2017, the Group classified foreign currency options as held-for-trading derivatives and accounted for them at FVPL.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognised in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognised within OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognised in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognised within OCI in the costs of hedging reserve within equity. In some cases, the Group may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognised in the cash flow hedge reserve within equity.

When cross currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognised in the cash flow hedge reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract to the extent it relates to the hedged item is recognised separately as a cost of hedging on a systematic and rational basis over the period of the hedging relationship within OCI in equity. Hedge ineffectiveness is recognised in the statement of profit or loss within finance costs.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss, as follows:

(i) Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognised in profit or loss as the hedged item affects profit or loss (for example through cost of sales).

(ii) The gains or losses relating to the effective portion of (a) the interest rate swaps hedging variable rate borrowings and (b) cross currency swap contracts hedging borrowings in foreign currency are recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

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 and deferred costs of hedging 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 and deferred costs of hedging that were reported in equity are immediately transferred to the statement of profit or loss.

22. Derivative Financial Instruments (continued)

Accounting Policy (continued)

(b) 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.

(c) 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.

(d) Rebalancing of hedge relationships
If the hedge ratio for risk management purpose is no longer optimal but the risk management objective remains unchanged and the hedge continues to qualify for hedge accounting, the hedge relationship will be rebalanced by adjusting either the volume of the hedging instrument or the volume of the hedged item so that the hedge ratio aligns with the ratio used for risk management purposes. Any hedge ineffectiveness is calculated and accounted for in profit or loss at the time of the hedge relationship rebalancing.

	2018		2017	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cross-currency swaps				
– cash flow hedges (a)	158	94	195	53
– not qualifying as hedges	–	24	–	6
Interest rate swaps – cash flow hedges	24	6	11	5
Forward foreign exchange contracts				
– cash flow hedges	6	14	21	6
– not qualifying as hedges	1	–	1	–
Commodity swaps – not qualifying as hedges	–	15	1	–
Put options exercisable by joint venture partners for sale of their interests to Beverages Division	–	45	–	30
Total	189	198	229	100
Analysed as:				
– Current	109	28	55	11
– Non-current	80	170	174	89
	189	198	229	100

(a) The cross-currency swaps principally hedge the foreign currency risk relating to US$ note issues. Gains and losses recognised in other comprehensive income on cross-currency swaps at 31st December 2018 are expected to affect the statement of profit or loss in the years to redemption of the notes (up to and including 2028). The total notional principal amount of the outstanding cross currency swap contracts at 31st December 2018 was HK$26,601 million (2017: HK$27,323 million). In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged items.

(b) For the years ended 31st December 2018 and 31st December 2017 all cash flow hedges qualifying for hedge accounting were highly 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.

	2018 HK$M	2017 HK$M
Properties held for development		
Freehold land	1,141	1,126
Development cost	219	216
	1,360	1,342
Properties under development and for sale		
Completed properties – development costs	1,008	1,658
Completed properties – freehold land	92	120
Completed properties – leasehold land	1	167
Properties under development – development costs	30	17
Properties under development – leasehold land	338	338
	1,469	2,300

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.

	2018 HK$M	2017 HK$M
Goods for sale	2,980	2,785
Manufacturing materials	879	887
Production supplies	1,381	1,370
Work in progress	2	1,187
	5,242	6,229

25. Trade and Other Receivables

Accounting Policy

Trade and other receivables and contract assets are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for loss allowance. Trade and other receivables and contract assets in the statement of financial position are stated net of such provisions.

	2018 HK$M	2017 HK$M
Trade debtors	4,469	4,680
Amounts due from immediate holding company	1	1
Amounts due from joint venture companies	17	8
Amounts due from associated companies	229	380
Interest-bearing advance to joint venture companies (2017: 4.5%)	–	77
Mortgage loan receivable at 5.5% – Non-current portion	37	–
Prepayments and accrued income	2,014	2,047
Other receivables	3,245	3,836
	10,012	11,029
Amounts due after one year included under non-current assets	(67)	(50)
	9,945	10,979

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:

	2018 HK$M	2017 HK$M
Up to three months	4,112	4,354
Between three and six months	255	202
Over six months	102	124
	4,469	4,680

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 2018, trade debtors of HK$1,360 million (2017: HK$1,014 million) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default.

At 31st December 2018, trade debtors of HK$100 million (2017: HK$123 million) were impaired. The amount of the provision was HK$92 million at 31st December 2018 (2017: HK$114 million).

The maximum exposure to credit risk at 31st December 2018 and 31st December 2017 is the carrying value of trade debtors, amounts due from and advances to related parties, mortgage loan receivable, accrued income and other receivables disclosed above. The carrying value of rental deposits from tenants held as security against trade debtors at 31st December 2018 was HK$2,751 million (2017: HK$2,616 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.

	2018 HK$M	2017 HK$M
Bank balances and short-term deposits maturing within three months	9,102	5,951
Short-term deposits maturing after more than three months	10	121
	9,112	6,072

The effective interest rates on short-term deposits of the Group ranged from 0.01% to 4.00% (2017: 0.01% to 4.00%); these deposits have maturities from 2 to 365 days (2017: 2 to 365 days).

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2018 and 31st December 2017 is the carrying value of the bank balances and short-term deposits disclosed above.

27. Assets and Liabilities Directly Associated With Assets Classified As Held For Sale

Accounting Policy

Non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, financial assets and investment property that are carried at fair value.

Assets classified as held for sale mainly relate to a sale and purchase agreement entered into by a subsidiary of Swire Properties Limited (SPL) with a third party on 15th June 2018 for the sale of a 100% interest in a subsidiary company which indirectly owns SPL's interests in the Cityplaza Three and Cityplaza Four office buildings. The consideration for the sale is HK$15,000 million, subject to adjustments. The relevant subsidiaries were classified as held for sale at 31st December 2018. The fair value of the investment properties owned by the relevant subsidiaries was determined by reference to the consideration payable under the sale and purchase agreement.

Assets held for sale also include several wholly-owned subsidiaries of SPL holding investment properties in respect of which a sale and purchase agreement was entered into on 28th August 2018. The fair value of these investment properties is measured in accordance with the policies, processes and techniques described in note 15. The total consideration on the sale of HK$2,037 million resulted in a profit on sale of subsidiaries being recorded on 18th January 2019 when the transaction was completed.

28. Trade and Other Payables

Accounting Policy

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

	2018 HK$M	2017 HK$M
Trade creditors	3,969	4,572
Amounts due to immediate holding company	245	164
Amounts due to joint venture companies	30	7
Amounts due to associated companies	309	164
Interest-bearing advances from joint venture companies at 2.74% (2017: 0.73% to 3.05%)	53	353
Interest-bearing advances from an associated company at 4.12% (2017: 2.99%)	293	292
Advances from non-controlling interests	35	34
Rental deposits from tenants	2,751	2,616
Put options over non-controlling interests	700	822
Deposits received on the sale of subsidiary companies	3,238	1,306
Contingent consideration	1,170	1,443
Accrued capital expenditure	1,343	922
Other accruals	8,169	6,952
Other payables	4,476	5,135
	26,781	24,782
Amounts due after one year included under non-current liabilities	(1,679)	(2,343)
	25,102	22,439

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 2021. 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:

	2018 HK$M	2017 HK$M
Up to three months	3,841	4,382
Between three and six months	70	126
Over six months	58	64
	3,969	4,572

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 79 to 85 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.

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:

	2018 HK$M	2017 HK$M
Deferred tax assets	454	603
Deferred tax liabilities	(10,034)	(9,881)
	(9,580)	(9,278)

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

30. Deferred Taxation (continued)

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

	Note	2018 HK$M	2017 HK$M
At 1st January			
as originally stated		9,278	7,594
adjustment on adoption of HKFRS 15		3	–
as restated		9,281	7,594
Translation differences		(270)	295
Adjustments on previous year's acquisition of subsidiaries		2	–
Transfer to assets classified as held for sale		5	–
Acquisition of a subsidiary company (2017: and new businesses)		10	665
Disposal of subsidiary companies		(3)	18
Charged to statement of profit or loss	10	628	762
Credited to other comprehensive income		(73)	(56)
At 31st December		9,580	9,278

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	
	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
At 1st January								
as originally stated	4,341	4,159	4,534	4,032	2,251	1,664	11,126	9,855
adjustment on adoption of HKFRS 15	–	–	–	–	3	–	3	–
as restated	4,341	4,159	4,534	4,032	2,254	1,664	11,129	9,855
Translation differences	(34)	38	(204)	277	(49)	51	(287)	366
Adjustments on previous year's acquisition of subsidiaries	–	–	–	–	2	–	2	–
Transfer to assets classified as held for sale	5	–	–	–	–	–	5	–
Acquisition of a subsidiary/new businesses	–	–	–	–	10	796	10	796
Disposal of a subsidiary	(3)	(23)	–	–	–	–	(3)	(23)
Charged/(credited) to statement of profit or loss	337	167	501	225	(214)	(232)	624	160
Credited to other comprehensive income	–	–	–	–	(8)	(28)	(8)	(28)
At 31st December	4,646	4,341	4,831	4,534	1,995	2,251	11,472	11,126

Deferred tax assets

	Provisions		Tax losses		Others		Total	
	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
At 1st January	621	561	302	608	925	1,092	1,848	2,261
Translation differences	(11)	14	–	7	(6)	50	(17)	71
Acquisition of new businesses	–	68	–	–	–	63	–	131
Disposal of a subsidiary	–	(1)	–	–	–	(40)	–	(41)
(Charged)/credited to statement of profit or loss	(134)	(21)	128	(313)	2	(268)	(4)	(602)
Credited to other comprehensive income	–	–	–	–	65	28	65	28
At 31st December	476	621	430	302	986	925	1,892	1,848

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$3,703 million (2017: HK$4,276 million) to carry forward against future taxable income.

These amounts are analysed as follows:

	Unrecognised Tax Losses	
	2018 HK$M	2017 HK$M
No expiry date	1,302	1,698
Expiring in 2018	–	231
Expiring in 2019	87	92
Expiring in 2020	116	121
Expiring in 2021	150	210
Expiring in 2022 (2017: 2022 or after)	273	1,924
Expiring in 2023 or after	1,775	–
	3,703	4,276

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 2018, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2018. For the year ended 31st December 2017, 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 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 109% (2017: 99%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$218 million to its defined benefit schemes in 2019.

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:

	2018 HK$M	2017 HK$M
Present value of funded obligations	6,144	6,324
Fair value of plan assets	(5,084)	(5,461)
	1,060	863
Present value of unfunded obligations	68	76
Net retirement benefit liabilities	1,128	939
Represented by:		
Retirement benefit assets	(89)	(93)
Retirement benefit liabilities	1,217	1,032
	1,128	939

31. Retirement Benefits (continued)

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

	2018 HK$M	2017 HK$M
At 1st January	6,400	5,776
Translation differences	(8)	39
Transfer of members	4	(12)
Current service cost	308	330
Interest expense	187	207
Actuarial (gains)/losses from changes in:		
demographic assumptions	(6)	(9)
financial assumptions	(291)	440
Experience losses	115	97
Employee contributions	2	2
Benefits paid	(477)	(463)
Curtailments and settlements	(22)	(7)
At 31st December	6,212	6,400

The weighted average duration of the defined benefit obligations is 9.1 years (2017: 8.7 years).

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

	2018 HK$M	2017 HK$M
At 1st January	5,461	4,716
Translation differences	(3)	16
Transfer of members	4	(12)
Interest income	160	171
Return on plan assets, excluding interest income	(386)	511
Contributions by employers	331	523
Employee contributions	–	1
Benefits paid	(468)	(459)
Curtailments and settlements	(15)	(6)
At 31st December	5,084	5,461

There were no plan amendments during the year.

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

	2018 HK$M	2017 HK$M
Current service cost	308	330
Past service cost – curtailments	1	1
Net interest cost	27	36
	336	367

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 2018 amounted to HK$736 million (2017: HK$751 million), including HK$400 million (2017: HK$384 million) in respect of defined contribution schemes.

The actual return on defined benefit plan assets was a loss of HK$226 million (2017: gain of HK$682 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:

	2018 HK$M	2017 HK$M
Equities		
Asia Pacific	316	627
Europe	304	367
North America	830	1,031
Emerging markets	716	632
Bonds		
Global	2,262	2,409
Emerging markets	135	132
Absolute return funds	187	189
Cash	334	74
	5,084	5,461

At 31st December 2018, the prices of 96% of equities and 39% of bonds were quoted on active markets (31st December 2017: 96% and 54% 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:

	2018		2017	
	Hong Kong %	Others %	Hong Kong %	Others %
Discount rate	3.34	1.00-4.30	2.84	1.00-3.85
Expected rate of future salary increases	3.50-4.50	2.75-3.60	4.00	3.00-3.71

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 2018			
Discount rate	0.5%	(311)	342
Expected rate of future salary increases	0.5%	250	(235)
At 31st December 2017			
Discount rate	0.5%	(314)	371
Expected rate of future salary increases	0.5%	276	(236)

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

For the year ended 31st December 2017, other current assets comprised an uncompleted property in Kowloon Bay, Hong Kong. In October 2016, Swire Properties conditionally agreed to sell its 100% interest in the company which owns this property. The consideration for the sale was HK$6,528 million, subject to adjustment. The property was transferred to other non-current assets at fair value in the financial statements on signing the sale agreement in 2016 and was reclassified to other current assets in the 2017 financial statements. The carrying value of the property at 31st December 2017 represented its fair value at the date of transfer plus the development costs incurred subsequently. On 6th June 2018, the sale of the 100% interest in the subsidiary company was completed.

33. Share Capital

	'A' shares	'B' shares	Total HK$M
Issued and fully paid			
At 1st January 2018	905,206,000	2,982,570,000	1,294
Repurchased during the year	–	700,000	–
At 31st December 2018	905,206,000	2,981,870,000	1,294
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

During the year, the company repurchased 700,000 'B' shares on The Stock Exchange of Hong Kong Limited for a total aggregate price paid of HK$9 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
January 2018	700,000	12.43	12.31	9

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 2018							
as originally stated		246,881	2,190	342	(762)	3,218	251,869
adjustment on adoption of HKFRS 9		326	–	(326)	–	–	–
adjustment on adoption of HKFRS 15		331	–	–	–	–	331
as restated		247,538	2,190	16	(762)	3,218	252,200
Profit for the year		23,629	–	–	–	–	23,629
Other comprehensive income							
Defined benefit plans							
– remeasurement losses recognised during the year		(196)	–	–	–	–	(196)
– deferred tax		37	–	–	–	–	37
Cash flow hedges							
– losses recognised during the year		–	–	–	(110)	–	(110)
– transferred to net finance charges		–	–	–	(72)	–	(72)
– transferred to operating profit		–	–	–	(14)	–	(14)
– deferred tax		–	–	–	30	–	30
Changes in the fair value of equity investments at fair value through other comprehensive income		–	–	(135)	–	–	(135)
Revaluation of property previously occupied by the Group							
– gains recognised during the year		–	16	–	–	–	16
– deferred tax		–	(1)	–	–	–	(1)
Share of other comprehensive income of joint venture and associated companies		(123)	–	3	928	(1,344)	(536)
Net translation differences on foreign operations							
– losses recognised during the year		–	–	–	–	(1,710)	(1,710)
– reclassified to profit or loss on disposal		–	–	–	–	35	35
Total comprehensive income for the year		23,347	15	(132)	762	(3,019)	20,973
Acquisition of non-controlling interests		(580)	–	–	–	–	(580)
Repurchase of the Company's shares		(9)	–	–	–	–	(9)
2017 second interim dividend	12	(1,652)	–	–	–	–	(1,652)
2018 first interim dividend	12	(1,802)	–	–	–	–	(1,802)
At 31st December 2018		266,842	2,205	(116)	–	199	269,130

34. Reserves (continued)

		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
Profit for the year		26,070	–	–	–	–	26,070
Other comprehensive income							
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
Total comprehensive income for the year		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		(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

(a) The Group revenue reserve includes retained revenue reserves from joint venture companies amounting to HK$10,178 million (2017: HK$6,548 million) and retained revenue reserves from associated companies amounting to HK$25,321 million (2017: HK$24,321 million).

(b) The Group revenue reserve includes HK$2,703 million (2017: HK$1,652 million) representing the declared second interim dividend for the year (note 12).

(c) As at 31st December 2018, the Group's cash flow hedge reserve included HK$62 million (net of tax) relating to the currency basis element of the Group's derivatives which is recognised separately as a cost of hedging.

35. Non-controlling Interests

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

	2018 HK$M	2017 HK$M
At 1st January		
as originally stated	52,931	47,289
adjustment on adoption of HKFRS 15	32	–
as restated	52,963	47,289
Share of profits less losses for the year	5,791	6,312
Share of defined benefit plans		
– remeasurement (losses)/gains recognised during the year	(8)	29
– deferred tax	1	(5)
Share of cash flow hedges		
– losses recognised during the year	(29)	(47)
– transferred to net finance charges	(5)	1
– deferred tax	6	8
Share of revaluation of property previously occupied by the Group		
– gains recognised during the year	3	22
Share of other comprehensive income of joint venture and associated companies	(124)	142
Share of translation differences on foreign operations		
– (losses)/gains recognised during the year	(371)	497
– reclassified to profit or loss on disposal	–	2
Share of total comprehensive income	5,264	6,961
Dividends paid and payable	(1,128)	(1,152)
Acquisition of non-controlling interests in subsidiary companies	(2,438)	(774)
Change in composition of the Group	22	366
Capital contribution from non-controlling interests accrued	8	241
At 31st December	54,691	52,931

36. Company Statement of Financial Position and Reserves

(a) Company Statement of Financial Position

	Note	2018 HK$M	2017 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		10	12
Subsidiary companies		43,009	44,198
Joint venture companies		114	114
Associated companies		4,624	4,624
Equity investments at fair value through other comprehensive income		105	–
Available-for-sale assets		–	127
Retirement benefit assets		29	37
		47,891	49,112
Current assets			
Trade and other receivables		78	53
Bank balances and short-term deposits		1,297	112
		1,375	165
Current liabilities			
Trade and other payables		34,491	39,427
Short-term bank loans		2,969	–
		37,460	39,427
Net current liabilities		(36,085)	(39,262)
Total assets less current liabilities		11,806	9,850
Non-current liabilities			
Deferred tax liabilities		4	5
NET ASSETS		11,802	9,845
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	33	1,294	1,294
Reserves	36(b)	10,508	8,551
TOTAL EQUITY		11,802	9,845

Merlin Swire
Michelle Low
Paul K Etchells
Directors
Hong Kong, 14th March 2019

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

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

	Note	Revenue reserve HK$M	Investment revaluation reserve HK$M	Total HK$M
Company				
At 1st January 2018		8,511	40	8,551
Profit for the year		5,440	–	5,440
Other comprehensive income				
Defined benefit plans				
– remeasurement gains recognised during the year		3	–	3
– deferred tax		(1)	–	(1)
Changes in the fair value of equity investments at fair value through other comprehensive income		–	(22)	(22)
Total comprehensive income for the year		5,442	(22)	5,420
Repurchase of the Company's shares		(9)	–	(9)
2017 second interim dividend	12	(1,652)	–	(1,652)
2018 first interim dividend	12	(1,802)	–	(1,802)
At 31st December 2018		10,490	18	10,508
Company				
At 1st January 2017		5,517	5	5,522
Profit for the year		6,312	–	6,312
Other comprehensive income				
Defined benefit plans				
– remeasurement gains recognised during the year		6	–	6
– deferred tax		(1)	–	(1)
Net fair value changes on available-for-sale assets		–	35	35
Total comprehensive income for the year		6,317	35	6,352
Repurchase of the Company's shares		(165)	–	(165)
2016 second interim dividend		(1,655)	–	(1,655)
2017 first interim dividend	12	(1,503)	–	(1,503)
At 31st December 2017		8,511	40	8,551

(i) Distributable reserves of the Company at 31st December 2018 amounted to HK$10,490 million (2017: HK$8,511 million).

(ii) The Company revenue reserve includes HK$2,703 million (2017: HK$1,652 million) representing the declared second interim dividend for the year (note 12).

37. Current year's adjustments on Business Combination and Other Related Transactions in 2017

(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.

At 31st December 2017, the initial accounting for the acquisition of distribution and production assets in Pacific Northwest 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 2017 HK$M	Final amounts at 31st December 2018 HK$M	Measurement period adjustments recognised in the current period HK$M
Purchase consideration:			
Cash paid	1,371	1,305	(66)
Contingent consideration	318	283	(35)
	1,689	1,588	(101)
Property, plant and equipment	912	912	–
Intangible assets	495	450	(45)
Deferred tax assets	20	25	5
Stocks and work in progress	236	236	–
Other receivables	88	26	(62)
Trade and other payables	(93)	(99)	(6)
Net identifiable assets acquired	1,658	1,550	(108)
Goodwill	31	38	7
	1,689	1,588	(101)
Purchase consideration settled in cash and net cash outflow on acquisition	1,371	1,305	(66)

37. Current year's adjustments on Business Combination and Other Related Transactions in 2017 (continued)

(b) 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.

At 31st December 2017, the initial accounting for the acquisition of production assets in Arizona 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 2017 HK$M	Final amounts at 31st December 2018 HK$M	Measurement period adjustments recognised in the current period HK$M
Purchase consideration:			
Cash paid	582	464	(118)
Contingent consideration	(353)	(539)	(186)
	229	(75)	(304)
Property, plant and equipment	547	547	–
Reduction in intangible assets previously recognised during acquisition of distribution assets	(111)	(424)	(313)
Deferred tax liabilities	(34)	(3)	31
Stocks and work in progress	70	70	–
Other receivables	26	–	(26)
Trade and other payables	(269)	(353)	(84)
Net identifiable assets acquired	229	(163)	(392)
Goodwill	–	88	88
	229	(75)	(304)
Purchase consideration settled in cash and net cash outflow on acquisition	582	464	(118)

37. Current year's adjustments on Business Combination and Other Related Transactions in 2017 (continued)

(c) 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.

At 31st December 2017, the initial accounting for the acquisition of production assets in Colorado 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 2017 HK$M	Final amounts at 31st December 2018 HK$M	Measurement period adjustments recognised in the current period HK$M
Purchase consideration:			
Cash paid	307	304	(3)
Gain arising from the acquisition	95	202	107
Contingent consideration	(354)	(500)	(146)
	48	6	(42)
Property, plant and equipment	290	290	–
Reduction in intangible assets previously recognised during acquisition of distribution assets	(210)	(212)	(2)
Deferred tax liabilities	(79)	(117)	(38)
Stocks and work in progress	95	95	–
Other receivables	5	3	(2)
Trade and other payables	(23)	(23)	–
Net identifiable assets acquired	78	36	(42)
Reduction in goodwill previously recognised during acquisition of distribution assets	(30)	(30)	–
	48	6	(42)
Purchase consideration settled in cash and net cash outflow on acquisition	307	304	(3)

38. Capital Commitments

		2018 HK$M	2017 HK$M
(a)	The Group's outstanding capital commitments at the year-end in respect of:		
	Property, plant and equipment		
	Contracted for	524	1,010
	Authorised by Directors but not contracted for	1,567	2,415
	Investment properties		
	Contracted for	1,192	3,961
	Authorised by Directors but not contracted for	14,586	8,807
		17,869	16,193
	The Group's share of capital commitments of joint venture companies at the year-end*		
	Contracted for	497	880
	Authorised by Directors but not contracted for	1,423	720
		1,920	1,600

* of which the Group is committed to funding HK$464 million (2017: HK$355 million).

(b) At 31st December 2018, the Group had unprovided contractual obligations for future repairs and maintenance in respect of investment properties of HK$219 million (2017: HK$190 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 guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

– the amount determined in accordance with the expected credit loss model under HKFRS 9 "Financial Instruments" and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 "Revenue from Contracts with Customers".

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations. Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

39. Provisions and Contingencies (continued)

		2018 HK$M	2017 HK$M
(a)	Guarantees provided in respect of bank loans and other liabilities of:		
	Joint venture companies	2,285	2,012
	Bank guarantees given in lieu of utility deposits and others	174	185
		2,459	2,197

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

(b) Cathay Pacific Airways

Critical Accounting Estimates and Judgements

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

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

In November 2010, the European Commission issued a decision in its airfreight investigation finding that, amongst other things, Cathay Pacific and a number of other international cargo carriers agreed to cargo surcharge levels and that such agreements infringed European competition law. The European Commission imposed a fine of Euros 57.12 million on Cathay Pacific. However, the 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 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. On 9th March 2018, the European Commission filed a rejoinder to Cathay Pacific's Reply. 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 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. 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$526 million (2017: HK$389 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:

	2018 HK$M	2017 HK$M
Investment properties		
Not later than one year	9,241	8,557
Later than one year but not later than five years	22,536	18,449
Later than five years	8,337	5,987
	40,114	32,993
Vessels		
Not later than one year	264	1,400
Later than one year but not later than five years	56	516
	320	1,916
	40,434	34,909

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

	2018		2017	
	Investment properties HK$M	Vessels HK$M	Investment properties HK$M	Vessels HK$M
Cost or fair value	248,140	26,710	229,831	25,981
Less: accumulated depreciation and impairment	–	(13,854)	–	(9,868)
	248,140	12,856	229,831	16,113
Depreciation for the year	–	1,022	–	1,035

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$51 million (2017: HK$47 million).

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

	2018 HK$M	2017 HK$M
Land and buildings		
Not later than one year	1,032	953
Later than one year but not later than five years	2,261	1,956
Later than five years	2,868	2,976
	6,161	5,885
Vessels		
Not later than one year	29	25
Later than one year but not later than five years	6	35
	35	60
Equipment		
Not later than one year	38	40
Later than one year but not later than five years	88	20
	126	60
	6,322	6,005

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 2018, service fees payable amounted to HK$397 million (2017: HK$302 million). Expenses of HK$245 million (2017: HK$259 million) were reimbursed at cost; in addition, HK$345 million (2017: HK$320 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 last Tenancy Framework Agreement commenced on 1st January 2016 for a period of three years expiring on 31st December 2018. The Tenancy Framework Agreement was renewed on 1st October 2018 for a further term of three years commencing on 1st January 2019. For the year ended 31st December 2018, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the JSSHK Tenancy Framework Agreement applies amounted to HK$105 million (2017: HK$100 million).

41. Related Party Transactions (continued)

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

		Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
	Notes	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
Revenue from	(a)								
– Sales of beverage drinks		14	10	26	28	–	–	–	–
– Rendering of services		1	1	5	4	14	11	–	–
– Aircraft and engine maintenance		48	50	3,155	2,774	–	–	–	–
Purchase of beverage drinks	(a)	14	14	3,600	1,298	–	–	–	–
Purchase of other goods	(a)	3	3	18	14	–	–	–	–
Purchase of services	(a)	40	38	4	7	10	18	–	–
Rental revenue	(b)	2	2	4	4	1	1	104	99
Interest income	(c)	82	75	2	12	–	–	–	–
Interest charges	(c)	9	10	11	8	–	–	–	–

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 2018 are disclosed in note 19. Advances to and from joint venture and associated companies are disclosed in notes 25 and 28.

Amounts due to the immediate holding company at 31st December 2018 are disclosed in note 28. 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 three executive officers, is disclosed in note 8.

42. Notes to the Consolidated Statement of Cash Flows

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

	2018 HK$M	2017 HK$M
Operating profit	30,888	35,864
Remeasurement gains on interests in joint venture companies which become subsidiary companies	(14)	(975)
Bargain purchase gain on acquisition of a subsidiary company	(28)	–
Final purchase consideration adjustment on acquisition of assets	(107)	(95)
Profit on disposal of subsidiary companies	(1,309)	(387)
Profit on disposal of joint venture companies	(3,177)	–
(Profit)/loss on sale of property, plant and equipment	(57)	70
Profit on sale of investment properties	(53)	(9)
Loss on sale of available-for-sale assets	–	93
Change in fair value of investment properties	(19,378)	(25,331)
Depreciation, amortisation and impairment losses	7,827	5,315
Other items	(112)	39
Operating profit before working capital changes	14,480	14,584
Decrease in properties for sale	674	3,644
Increase in stocks and work in progress	(489)	(216)
Decrease in trade and other receivables and contract assets	604	467
Increase in trade and other payables and contract liabilities	3,059	1,126
Cash generated from operations	18,328	19,605

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

(b) Purchase of property, plant and equipment

	2018 HK$M	2017 HK$M
Properties	574	835
Leasehold land and land use rights	–	12
Plant and machinery	2,423	2,116
Vessels	1,106	814
Total	4,103	3,777

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	
	2018 HK$M	2017 HK$M	2018 HK$M	2017 HK$M
At 1st January				
as originally stated	78,586	70,570	52,931	47,289
adjustment on adoption of HKFRS 15	–	–	32	–
as restated	78,586	70,570	52,963	47,289
Net cash (outflow)/inflow from financing	(6,947)	7,263	–	–
Acquisition of interests in subsidiary companies	–	–	(2,438)	(774)
Change in composition of the Group	45	–	22	366
Non-controlling interests' share of total comprehensive income	–	–	5,264	6,961
Dividends paid to non-controlling interests	–	–	(1,128)	(1,177)
Movement in dividends payable to non-controlling interests	–	–	–	25
Currency adjustment	(29)	629	–	–
Other non-cash movements	124	124	8	241
At 31st December	71,779	78,586	54,691	52,931

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

(d) Disposal of subsidiary companies

	Subsidiaries in Property Division HK$M	Subsidiaries in Trading & Industrial Division HK$M	Others HK$M	Total HK$M
Net assets disposed of:				
Investment properties	2,001	–	–	2,001
Property, plant and equipment	5	1,586	–	1,591
Leasehold land and land use rights	–	168	–	168
Intangible assets	–	6	–	6
Joint ventures companies	–	327	–	327
Stocks and work in progress	–	–	11	11
Trade and other receivables	1	65	2	68
Other current assets	6,419	–	–	6,419
Bank balances and deposits maturing within three months	–	76	–	76
Trade and other payables	(2)	(242)	(3)	(247)
Deferred taxation liabilities	(3)	–	–	(3)
Exchange losses reclassified from translation reserve	–	35	–	35
	8,421	2,021	10	10,452
Gains on disposal	1,223	82	4	1,309
	9,644	2,103	14	11,761
Satisfied by:				
Cash received (net of transaction costs)	7,857	1,789	14	9,660
Amount receivable	–	314	–	314
Other consideration received	1,787	–	–	1,787
	9,644	2,103	14	11,761
Analysis of the net inflow from disposal:				
Net cash proceeds	7,857	1,789	14	9,660
Cash and cash equivalents disposed of	–	(76)	–	(76)
Net inflow of cash and cash equivalents	7,857	1,713	14	9,584

The disposal of subsidiary companies in the Property Division consists of the sale of interests in an office building in Kowloon Bay and in other investment properties in Hong Kong, and the contribution of investment properties in Hong Kong to a joint venture company.

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.