Independent Auditor's Report

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

Opinion

What we have audited

The consolidated financial statements of Swire Pacific Limited (the "Company") and its subsidiaries (the "Group") set out on pages 128 to 219, which comprise:

- The consolidated statement of financial position as at 31st December 2019;
- The consolidated statement of profit or loss for the year then ended;
- The consolidated statement of other comprehensive income for the year then ended;
- The consolidated statement of changes in equity for the year then ended;
- The consolidated statement of cash flows for the year then ended; and
- The notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter

Valuation and impairment of property, plant and equipment
Refer to note 14 in the consolidated financial statements.

Swire Pacific Offshore ("SPO") recognised an impairment provision of HK$2,121 million to reduce the aggregate carrying values of vessels to HK$9,987 million as at 31st December 2019.

The provision was made following a review of the business outlook and SPO's operating plans to reduce the carrying values of certain vessels to their estimated recoverable values, which is the higher of fair value less cost to sell and value in use. For the remaining vessels, management concluded that the recoverable amount was higher than their carrying values such that no impairment provision was required. These conclusions are dependent upon significant management judgement, including in respect of:

– Estimated utilisation, charter hire rates, disposal values and discount rates assumptions applied to future cash flows; and

– Estimated resale values, provided by an external expert.

How our audit addressed the Key Audit Matter

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

– Assessing the key assumptions and input data used by management to estimate values in use based on our knowledge of the business and industry;

– Considering the potential impact of reasonably possible downside changes in these key assumptions;

– Understanding the methodologies used by the external expert to estimate resale values and by management to estimate values in use;

– Evaluating the external expert's competence, capabilities and objectivity;

– Checking, on a sample basis, the accuracy and appropriateness of the input data provided by management to the external expert such as vessel information and historical performance;

– Considering the appropriateness of the resale values estimated by the external expert based on our knowledge of the business and industry and values obtained by the Group in respect of vessels that have been disposed of during the year; and

– Assessing the appropriateness of the disclosures in the financial statements.

Based on the available evidence we found management's assumptions in relation to the impairment assessment to be reasonable. We found the disclosures to be appropriate.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of investment properties *Refer to note 15 in the consolidated financial statements.* The fair value of the Group's investment properties amounted to HK$276,250 million at 31st December 2019, with a fair value gain of HK$3,728 million recorded in the consolidated statement of profit or loss for the year. Valuations were obtained from third party valuers (the "valuers") in respect of 97% of the investment properties as at 31st December 2019. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and market rents. The valuations of investment properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin.	Our procedures in relation to the valuation of investment properties included: – Evaluation of the valuers' competence, capabilities, independence and objectivity; – Meeting the valuers to discuss the valuations and key assumptions used; – Review of the external valuation reports to assess the appropriateness of methodologies used; – Comparison of the capitalisation rates, market rents and expected developer's profit margin used by the valuers to an estimated range, determined by reference to publicly available information by our in-house valuation experts; – Checking the accuracy of the rental data provided by management to the valuers by agreeing them on a sample basis to the Group's records; and – For investment properties under development, comparing the estimated construction costs to complete with the Group's budgets. We found the key assumptions were supported by the available evidence. We found the disclosures in note 15 to be appropriate.
Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") *Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 218 and 219.* The Group's 45% interest in Cathay Pacific is accounted for under the equity method. The Group's share of the profit after tax from Cathay Pacific for the year ended 31st December 2019 was HK$761 million and the Group's share of Cathay Pacific's net assets was HK$28,697 million as at 31st December 2019. The amounts noted below are those in the Cathay Pacific financial statements (i.e. on a 100% basis). In the context of our audit of the Group's financial statements, the key audit matters relating to the Group's share of the profit and net assets of Cathay Pacific are summarised below.	Cathay Pacific is a significant associate of the Group and is audited by a non-PwC auditor ("the CX Auditor"). We have met with the CX Auditor and have: discussed their identified audit risks and audit approach, results of their work and key audit matters identified; and have reviewed their working papers. Together with their reporting to us in accordance with our instructions we have determined that the audit work performed and evidence obtained are sufficient for our purpose. We discussed the key audit matters relating to Cathay Pacific with Swire Pacific management and evaluated the impact on our audit of the consolidated financial statements. The procedures performed on the respective key audit matters are summarised below.

Key Audit Matter	How our audit addressed the Key Audit Matter
Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued) *Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 218 and 219.*	
Revenue recognition – Cathay Pacific's revenue amounted to HK$106,973 million for the year ended 31st December 2019. Revenue from passenger and cargo sales is recorded when the related transportation service is provided, using sophisticated information technology systems to track the point of service delivery and, where necessary, estimates of fair values for the services provided that involve a significant degree of management judgement.	– Assessing information technology controls and key manual and application controls over Cathay Pacific's revenue systems; – Performing analytical procedures on revenue; and – Inspecting underlying documentation for journal entries related to revenue to assess the timing and fair values of revenues recorded.
Hedge accounting – Cathay Pacific enters into derivative financial instrument contracts to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. Hedge accounting under HKFRSs is applied for a majority of these arrangements, and related contracts gave rise to derivative financial assets of HK$595 million and liabilities of HK$917 million as at 31st December 2019. These contracts are recorded at fair value and for the majority of them hedge accounting is applied, such that gains and losses arising from fair value changes are deferred in equity and recognised in the consolidated statement of profit or loss when hedges mature. The large number of contracts necessitates a sophisticated system to record and track each contract and determine the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and are subject to an inherent risk of error.	– Assessing Cathay Pacific's internal controls over derivative financial instruments and hedge accounting; – Inspecting, on a sample basis, Cathay Pacific's hedge documentation and contracts; – Re-performing, on a sample basis, the year end valuations of derivative financial instruments and calculations of hedge effectiveness; and – Obtaining confirmation of year end derivative financial instruments from counterparties on a sample basis.
Assessment of provisions for taxation, litigation and claims – As at 31st December 2019, Cathay Pacific had provisions in respect of possible or actual taxation disputes, litigation and claims amounting to HK$2,745 million. These provisions are estimated using a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions.	– Assessing the adequacy of Cathay Pacific's tax provisions by reviewing correspondence with tax authorities; – Discussing significant litigation, claims and regulatory enquiries with Cathay Pacific's internal legal counsel; – Obtaining letters from Cathay Pacific's external legal advisors including their views regarding the likely outcome and magnitude of and exposure to the relevant litigation, claims and regulatory enquiries; – Considering opinions given by Cathay Pacific's third party advisers; and – Assessing the reliability of Cathay Pacific's management's past estimates.

Key Audit Matter	How our audit addressed the Key Audit Matter
Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued) *Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 218 and 219.*	
Assessing the carrying value of aircraft and related equipment – The carrying value of Cathay Pacific's aircraft and related equipment as at 31st December 2019 was HK$123,312 million and the related depreciation charge for the year ended 31st December 2019 was HK$11,575 million. The carrying value, estimated useful lives and residual values are reviewed annually by management with reference to fleet composition, current and forecast market values and relevant technical factors. This involves a significant degree of management judgement.	– Assessing estimated useful lives and residual values using the policies of other comparable airlines and Cathay Pacific's historical experience and future operating plans; – Discussing indicators of possible impairment with Cathay Pacific's management and, where identified, assessing Cathay Pacific's management's impairment testing; and – Challenging the assumptions and critical judgements used by Cathay Pacific's management and assessing the reliability of past estimates and taking into account recent industry developments and market conditions.
Assessing aircraft maintenance provisions – Cathay Pacific is contractually committed to return 69 aircraft held under lease arrangements to the lessors in a physical condition agreed at the inception of each lease. Management estimates the maintenance costs and the costs associated with the restitution of life-limited parts and makes relevant provisions over the lease term. Provisions of HK$5,031 million were held as at 31st December 2019 in respect of this. Determining the provisions requires significant management judgement and complex estimates, including the utilisation of the aircraft, the cost of maintenance and the lifespans of life-limited parts.	– Assessing Cathay Pacific's internal controls over accounting for maintenance provisions for aircraft held under leases; – Evaluating the provisioning model and key assumptions adopted by Cathay Pacific's management through reviewing the terms of the leases, information from lessors and Cathay Pacific's maintenance cost experience; and – Assessing the reliability of Cathay Pacific's management's past assumptions.

Key Audit Matter	How our audit addressed the Key Audit Matter
Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued) *Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 218 and 219.*	
Assessing potential impairment of goodwill allocated to the cash-generating unit ("CGU") of Hong Kong Express Airways Limited ("HKE") – Cathay Pacific acquired HKE on 19th July 2019. As at 31st December 2019, management performed an impairment assessment of the carrying value of goodwill amounting to HK$3,616 million which arose from the acquisition and was allocated to HKE as a CGU. In performing the impairment assessment, management compared the carrying value of HKE with its value in use based on a discounted cash flow forecast to determine if any impairment provision was required. The preparation of the discounted cash flow forecast requires making certain key assumptions, including estimated future cash flows, growth rate and discount rate, which involve a significant degree of management judgement and could be subject to management bias.	– Assessing Cathay Pacific management's identification of the CGU, allocation of assets and methodology adopted by Cathay Pacific management in its impairment assessment with reference to the requirements of the prevailing accounting standards and with the support of the CX Auditor's internal valuation experts; – Comparing budgeted results with actual performance to assess the reliability of Cathay Pacific management's cash flow forecast and making enquiries as to the reasons for any significant variations identified; – Evaluating the key assumptions adopted in the preparation of the discounted cash flow forecast based on the CX Auditor's knowledge of the business, historical trends, available industry information and market data; and – Performing sensitivity analyses on the key assumptions, including projected profitability and discount rate, adopted in the discounted cash flow forecast and assessing whether there were indicators of management bias in the selection of these assumptions.
	We found that, in the context of our audit of the consolidated financial statements of Swire Pacific Limited, Cathay Pacific's management judgements and estimates associated with the key audit matters noted in respect of the Group's share of the profit and net assets of Cathay Pacific were supported by the available evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all the information in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors and the Audit Committee for the Consolidated Financial Statements

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

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

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

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is John J. Ryan.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 12th March 2020