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 207 to 217.

The audited financial statements are set out on pages 128 to 219 and also include the "Audited Financial Information" under Financial Review on page 72 and Financing on pages 81 to 88.

1. Changes in Accounting Policies and Disclosures

(a) The following new and revised standards and a new interpretation were required to be adopted by the Group effective from 1st January 2019:

HKFRSs (Amendment)	Annual Improvements 2015-2017 Cycle
HKFRS 16	Leases
HK(IFRIC)-Interpretation 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term interests in Associates and Joint Ventures

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 16 Leases

HKFRS 16 replaces HKAS 17 "Leases" and related interpretations where 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 in the statement of financial position for all leases by lessees, except for leases that have a lease term of 12 months or less and leases of low-value assets. In the statement of profit or loss, operating lease rentals are replaced with depreciation and interest expenses. HKFRS 16 also amends the definition of investment property under HKAS 40 to include property held by a lessee as right-of-use assets to earn rentals or for capital appreciation or both and requires the Group to account for such right-of-use assets at their fair value. The standard does not significantly change the accounting of lessors.

The Group has adopted HKFRS 16 retrospectively from 1st January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules for lessees are therefore recognised in the opening statement of financial position on 1st January 2019.

Adjustment recognised on adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as "operating leases" under the principles of HKAS 17. These liabilities were measured at the present value of the remaining lease payments, discounted using the incremental borrowing rate of the lessees at 1st January 2019. The weighted average incremental borrowing rate of the lessees applied to the lease liabilities on 1st January 2019 was 3.95%.

1. Changes in Accounting Policies and Disclosures (continued)

A reconciliation between (i) commitments under operating leases for future periods at 31st December 2018 and (ii) lease liabilities recognised at 1st January 2019 under HKFRS 16 is provided below:

	2019 HK$M
Operating lease commitments disclosed at 31st December 2018	6,322
Discounted using the lessee's incremental borrowing rate at the date of initial application on 1st January 2019	5,645
Less: short-term leases recognised on a straight-line basis as expenses	(85)
Less: low-value assets leases recognised on a straight-line basis as expenses	(46)
Others	145
Lease liabilities recognised at 1st January 2019	5,659
Of which:	
Current lease liabilities	806
Non-current lease liabilities	4,853
	5,659

The associated right-of-use assets for leases were measured on a modified retrospective basis as if the new rules had always been applied. Other right-of-use assets were measured at amounts equal to the lease liabilities, adjusted by the amounts of any prepaid or accrued lease payments relating to the leases recognised in the financial statements at 31st December 2018.

The change in accounting policy affected the following items in the statement of financial position at 1st January 2019:

	As originally stated HK$M	Adjustments on adoption of HKFRS 16 HK$M	As restated HK$M
Assets			
Property, plant and equipment	39,644	(4,315)	35,329
Investment properties	271,515	336	271,851
Leasehold land and land use rights	1,415	(1,415)	–
Right-of-use assets	–	10,676	10,676
Joint venture companies	18,870	58	18,928
Associated companies	31,533	(1,056)	30,477
Trade and other receivables	9,945	(8)	9,937
		4,276	
Liabilities			
Trade and other payables	25,102	(70)	25,032
Long-term loans and bonds	68,552	(4)	68,548
Lease liabilities	–	5,659	5,659
		5,585	
Equity			
Reserves	269,130	(1,279)	267,851
Non-controlling interests	54,691	(30)	54,661
		(1,309)	

1. Changes in Accounting Policies and Disclosures (continued)

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

– use of a single discount rate for a portfolio of leases with reasonably similar characteristics;
– accounting for operating leases with a remaining lease term of less than 12 months at 1st January 2019 as short-term leases;
– exclusion of initial direct costs for the measurement of right-of-use assets at the date of initial application; and
– use of hindsight in determining lease terms where the contracts contain options to extend or terminate the leases.

Please refer to note 18 for the accounting policies of right-of-use assets and lease liabilities.

(b) The Group has not early adopted the following relevant new and revised standards that have been issued but are effective for annual periods beginning on or after 1st January 2020 and such standards have not been applied in preparing these consolidated financial statements.

Amendments to HKFRS 3	Definition of a Business[1]
Amendments to HKAS 39, HKFRS 7 and HKFRS 9	Hedge accounting[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting[1]
HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]

1 To be applied by the Group from 1st January 2020.
2 To be applied by the Group from 1st January 2021.
3 The effective date is to be determined.

None of these new and revised standards is expected to have a significant effect on the Group's financial statements.

2. Financial Risk Management

The Group's approach to financial risk management is discussed on pages 104 and 105 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 2019		
Impact on profit or loss: gain/(loss)	30	(30)
Impact on other comprehensive income: gain/(loss)	36	(33)
At 31st December 2018		
Impact on profit or loss: (loss)/gain	(98)	98
Impact on other comprehensive income: gain/(loss)	116	(121)

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

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

2. Financial Risk Management (continued)

Currency exposure

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

The impact on the Group's profit or loss and other comprehensive income of a weakening or strengthening in the US dollar against the Hong Kong dollar from the year-end rate of 7.7860 (2018: 7.8336), 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 2019		
Impact on profit or loss: gain/(loss)	**29**	**(49)**
Impact on other comprehensive income: (loss)/gain	**(15)**	**16**
At 31st December 2018		
Impact on profit or loss: gain/(loss)	95	(19)
Impact on other comprehensive income: (loss)/gain	(9)	12

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 1.1173 (2018: 1.1430), 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 2019		
Impact on profit or loss: gain/(loss)	**5**	**(5)**
Impact on other comprehensive income	**–**	**–**
At 31st December 2018		
Impact on profit or loss: gain/(loss)	3	(3)
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 current and forward-looking information about economic conditions.

2. Financial Risk Management (continued)

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.

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 2019

	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	29	24,325	25,072	21,131	654	1,390	1,897
Borrowings (including interest obligations)	30	68,033	75,729	13,376	10,298	32,103	19,952
Lease liabilities	31	5,375	6,758	1,047	904	1,474	3,333
Derivative financial instruments	23	106	106	14	21	71	–
Financial guarantee contracts	39	–	2,642	2,642	–	–	–
		97,839	110,307	38,210	11,877	35,038	25,182

At 31st December 2018

		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	29	26,781	27,564	22,813	1,330	1,553	1,868
Borrowings (including interest obligations)	30	71,779	81,405	13,777	11,665	32,910	23,053
Derivative financial instruments	23	198	198	28	7	106	57
Financial guarantee contracts	39	–	2,459	2,459	–	–	–
		98,758	111,626	39,077	13,002	34,569	24,978

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 20(b))
(e) Retirement benefits (note 33)
(f) 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 when a lease commences. According to the contractual obligations, leased properties do not have alternative uses to the Group after the leasing periods stipulated in the signed tenancy agreements commences. 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, in Hong Kong and the USA, 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. Revenue from sales of properties in Singapore is recognised over time because after the signing of a sales contract with the buyer, the Group has an enforceable right to payment for performance completed to date. Revenue for these sales of properties is recognised based on the stage of completion of the contract using the input method.

(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.

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 26 and note 29 for the accounting policy relating to contract assets and contract liabilities.

4. Revenue (continued)

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

	2019 HK$M	2018 HK$M
Gross rental income from investment properties	12,185	12,002
Property trading	516	1,061
Hotels	1,296	1,404
Aircraft and engine maintenance services	13,924	13,131
Sales of goods	53,933	52,878
Charter hire*	2,263	2,640
Rendering of other services	1,535	1,490
Total	85,652	84,606

* Charter hire revenue included leasing of vessels amounting to HK$723 million for the year ended 31st December 2019 (2018: HK$797 million). The remaining revenue of HK$1,540 million (2018: 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.

	2019 HK$M	2018 HK$M
Revenue recognised that was included in the contract liability balance at the beginning of the year	356	265

There is no revenue recognised during the year ended 31st December 2019 from performance obligations satisfied in previous years (2018: nil).

Of the contract liabilities of HK$721 million outstanding at 31st December 2019, HK$668 million is expected to be recognised as revenue within one year and the remaining balance of HK$53 million over one year.

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

	2019 HK$M	2018 HK$M
Aggregate amount of the transaction price allocated to revenue contracts that are partially or fully unsatisfied at the end of the year	3,065	2,693

Of the amount disclosed above at 31st December 2019, HK$2,189 million is expected to be recognised as revenue within one year.

5. Other Net (Losses)/Gains

	Note	2019 HK$M	2018 HK$M
Remeasurement gains on interests in joint venture companies which became subsidiary companies		–	14
Profit on disposal of subsidiary companies		**1,384**	1,309
Profit on disposal of joint venture companies		**994**	3,177
Write-back of provisions on potential claims in connection with sale of a subsidiary in 2018		**104**	–
Bargain purchase gain on acquisition of a subsidiary company		–	28
Final purchase consideration adjustment on acquisition of assets in the USA		–	107
(Loss)/profit on sale of investment properties		**(17)**	53
Profit on sale of property, plant and equipment		**50**	57
Net foreign exchange gains		**85**	35
Fair value (losses)/gains on cross-currency swaps transferred from cash flow hedge reserve		**(64)**	12
Fair value (losses)/gains on forward foreign exchange contracts transferred from cash flow hedge reserve		**(16)**	3
Fair value (losses)/gains on forward foreign exchange contracts not qualifying as hedges		**(1)**	2
Impairment losses recognised on			
– property, plant and equipment	14	**(2,162)**	(3,792)
– intangible assets	17	**(434)**	(86)
– investment in and goodwill in respect of an associated company		**(281)**	(98)
Provision on restructuring costs		**(125)**	–
Dividends income on equity investments at fair value through other comprehensive income		**3**	8
Other income		**155**	629
Total		**(325)**	1,458

6. Expenses by Nature

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

	Note	2019 HK$M	2018 HK$M
Direct rental outgoings of investment properties		2,458	2,389
Cost of goods sold		36,285	36,282
Write-down of stocks and work in progress		204	229
Impairment losses (reversed)/recognised on trade receivables		(18)	10
Depreciation of property, plant and equipment	14	3,467	3,559
Depreciation of right-of-use assets			
– leasehold land held for own use		32	–
– land use rights		46	–
– property		903	–
– plant and equipment		77	–
– vessels		28	–
Amortisation of			
– land use rights	16	–	53
– intangible assets	17	222	190
– initial leasing costs on investment properties		35	39
– others		13	10
Staff costs		17,656	16,639
Operating lease rentals			
– properties		–	1,200
– vessels		–	28
– plant and equipment		–	53
Other lease expenses*		183	–
Auditors' remuneration			
– audit services		51	53
– tax services		12	12
– other services		8	5
Other expenses		13,601	13,803
Total cost of sales, distribution costs, administrative expenses and other operating expenses		75,263	74,554

* These expenses relate to short-term leases, leases of low-value assets or leases with variable payments. They are directly charged to the consolidated statement of profit or loss and are not included in the measurement of lease liabilities under HKFRS 16.

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 2019

	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	12,323	87	10,725	(760)	335	942	–	(1,121)	10,121	8,243	19,869	(191)
Change in fair value of investment properties	–	–	3,728	–	–	433	–	(728)	3,433	2,836	–	–
Property trading	516	–	4	(41)	3	30	–	(14)	(18)	(15)	(15)	–
Hotels	1,296	–	(62)	(36)	–	(46)	71	3	(70)	(57)	(57)	(224)
	14,135	**87**	**14,395**	**(837)**	**338**	**1,359**	**71**	**(1,860)**	**13,466**	**11,007**	**19,797**	**(415)**
Aviation												
Cathay Pacific group	–	–	–	–	–	–	761	–	761	761	761	–
HAECO group*	15,901	–	1,048	(255)	42	483	–	(217)	1,101	825	825	(816)
Others	–	–	(55)	–	–	3	(4)	–	(56)	(36)	(36)	(55)
	15,901	**–**	**993**	**(255)**	**42**	**486**	**757**	**(217)**	**1,806**	**1,550**	**1,550**	**(871)**
Beverages												
Mainland China	22,087	–	1,423	(107)	36	55	98	(439)	1,066	941	941	(904)
Hong Kong	2,339	1	240	(4)	–	–	–	(29)	207	207	207	(87)
Taiwan	1,694	–	97	(1)	–	–	–	(21)	75	75	75	(67)
USA	17,196	–	831	(150)	15	–	–	(129)	567	567	567	(645)
Central costs	–	–	(104)	–	–	–	–	–	(104)	(104)	(104)	(1)
	43,316	**1**	**2,487**	**(262)**	**51**	**55**	**98**	**(618)**	**1,811**	**1,686**	**1,686**	**(1,704)**
Marine Services												
Swire Pacific Offshore group*	2,451	1	(3,421)	(196)	2	–	(4)	(62)	(3,681)	(3,672)	(3,672)	(1,058)
HUD group	–	–	–	–	–	38	–	–	38	38	38	–
	2,451	**1**	**(3,421)**	**(196)**	**2**	**38**	**(4)**	**(62)**	**(3,643)**	**(3,634)**	**(3,634)**	**(1,058)**
Trading & Industrial												
Swire Resources	3,113	–	(3)	(35)	7	2	–	5	(24)	(24)	(24)	(486)
Taikoo Motors	5,190	–	173	(12)	–	–	–	(29)	132	132	132	(139)
Swire Foods*	1,540	65	(348)	(16)	3	2	–	(6)	(365)	(365)	(365)	(149)
Swire Pacific Cold Storage#	–	–	104	–	–	–	–	36	140	140	140	–
Swire Environmental Services*	–	–	(285)	–	–	7	(37)	–	(315)	(315)	(315)	–
Central costs	–	–	(20)	(1)	1	–	–	–	(20)	(20)	(20)	–
	9,843	**65**	**(379)**	**(64)**	**11**	**11**	**(37)**	**6**	**(452)**	**(452)**	**(452)**	**(774)**
Head Office												
Net income/(expenses)	**6**	**35**	**(283)**	**(1,277)**	**405**	**–**	**–**	**5**	**(1,150)**	**(1,150)**	**(1,150)**	**(1)**
Inter-segment elimination	**–**	**(189)**	**–**	**397**	**(397)**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Total	**85,652**	**–**	**13,792**	**(2,494)**	**452**	**1,949**	**885**	**(2,746)**	**11,838**	**9,007**	**17,797**	**(4,823)**

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 included under operating profit/(loss) in the HAECO group, the Swire Pacific Offshore group, Swire Foods and Swire Environmental Services were HK$234 million, HK$2,121 million, HK$239 million and HK$281 million respectively.

This represents the write-back of provisions made in 2018 in relation to the sale of Swire Pacific Cold Storage.

7. Segment Information (continued)

(a) Information about reportable segments (continued)

Analysis of Consolidated Statement of Profit or Loss (continued)

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 Resources	3,338	–	69	(1)	8	1	57	(32)	102	102	102	(22)
Taikoo Motors	5,810	–	155	(1)	1	–	–	(32)	123	123	123	(73)
Swire Foods	1,666	82	(30)	–	3	(52)	–	(12)	(91)	(91)	(91)	(92)
Swire Pacific Cold Storage#	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	–	–	(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 total assets of the Group

At 31st December 2019

	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	281,370	25,609	–	14,703	321,682	2,282
Property trading	4,876	3,281	–	130	8,287	8
Hotels	5,782	1,276	409	152	7,619	80
	292,028	**30,166**	**409**	**14,985**	**337,588**	**2,370**
Aviation						
Cathay Pacific group	–	–	28,697	–	28,697	–
HAECO group	13,065	1,774	–	1,453	16,292	699
Others	4,352	2,820	–	–	7,172	–
	17,417	**4,594**	**28,697**	**1,453**	**52,161**	**699**
Beverages						
Swire Coca-Cola	**27,355**	**1,088**	**1,584**	**3,323**	**33,350**	**3,149**
Marine Services						
Swire Pacific Offshore group	11,191	–	14	293	11,498	436
HUD group	–	12	–	–	12	–
	11,191	**12**	**14**	**293**	**11,510**	**436**
Trading & Industrial						
Swire Resources	1,462	36	–	175	1,673	503
Taikoo Motors	2,236	–	–	135	2,371	215
Swire Foods	1,318	6	–	250	1,574	75
Swire Environmental Services	–	37	–	–	37	–
Other activities	30	–	–	56	86	–
	5,046	**79**	**–**	**616**	**5,741**	**793**
Head Office	**372**	**–**	**–**	**675**	**1,047**	**–**
	353,409	**35,939**	**30,704**	**21,345**	**441,397**	**7,447**

Note: In this analysis, additions to non-current assets during the year exclude joint venture and associated companies, financial instruments, deferred tax assets, 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 assets of the Group (continued)

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	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 Coca-Cola (formerly 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 Resources	696	34	137	326	1,193	26
Taikoo Motors	1,658	–	–	275	1,933	173
Swire Foods	1,454	3	–	247	1,704	140
Swire Environmental Services	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, 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 2019

	Segment liabilities HK$M	Current and deferred tax liabilities HK$M	Inter-segment borrowings/ (advances) HK$M	External borrowings HK$M	Lease liabilities HK$M	Total liabilities HK$M	Non-controlling interests HK$M
Property							
Property investment	7,785	10,263	(1,523)	26,792	548	43,865	51,534
Property trading	327	41	1,268	1,926	–	3,562	926
Hotels	238	–	255	1,011	–	1,504	1,124
	8,350	**10,304**	**–**	**29,729**	**548**	**48,931**	**53,584**
Aviation							
HAECO group	**2,910**	**611**	**1,756**	**424**	**2,516**	**8,217**	**2,089**
Beverages							
Swire Coca-Cola	**11,728**	**1,122**	**3,394**	**3,136**	**683**	**20,063**	**468**
Marine Services							
Swire Pacific Offshore group	**1,043**	**54**	**5,168**	**–**	**30**	**6,295**	**1**
Trading & Industrial							
Swire Resources	730	33	(54)	–	855	1,564	–
Taikoo Motors	595	28	–	–	513	1,136	–
Swire Foods	458	8	(57)	–	230	639	–
Other activities	24	–	58	–	–	82	–
	1,807	**69**	**(53)**	**–**	**1,598**	**3,421**	**–**
Head Office	**473**	**24**	**(10,265)**	**34,744**	**–**	**24,976**	**–**
	26,311	**12,184**	**–**	**68,033**	**5,375**	**111,903**	**56,142**

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 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	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 Coca-Cola (formerly 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 Resources	855	54	(53)	–	856	–
Taikoo Motors	615	17	–	–	632	–
Swire Foods	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 external revenue of the Group – Timing of revenue recognition

	Year ended 31st December 2019				Year ended 31st December 2018			
	At a point in time HK$M	Overtime HK$M	Rental income on leases HK$M	Total HK$M	At a point in time HK$M	Overtime HK$M	Rental income on leases HK$M	Total HK$M
Property								
Property investment	1	137	12,185	12,323	1	136	12,002	12,139
Property trading	516	–	–	516	1,061	–	–	1,061
Hotels	649	647	–	1,296	664	740	–	1,404
	1,166	784	12,185	14,135	1,726	876	12,002	14,604
Aviation								
HAECO group	864	15,037	–	15,901	997	13,895	–	14,892
Beverages								
Mainland China	22,087	–	–	22,087	21,358	–	–	21,358
Hong Kong	2,339	–	–	2,339	2,342	–	–	2,342
Taiwan	1,694	–	–	1,694	1,551	–	–	1,551
USA	17,196	–	–	17,196	15,938	–	–	15,938
	43,316	–	–	43,316	41,189	–	–	41,189
Marine Services								
Swire Pacific Offshore group	44	1,684	723	2,451	148	2,073	797	3,018
Trading & Industrial								
Swire Resources	3,113	–	–	3,113	3,338	–	–	3,338
Taikoo Motors	5,167	23	–	5,190	5,797	13	–	5,810
Swire Foods	1,540	–	–	1,540	1,666	–	–	1,666
Swire Pacific Cold Storage	–	–	–	–	82	–	–	82
	9,820	23	–	9,843	10,883	13	–	10,896
Head Office	–	6	–	6	1	6	–	7
Total	55,210	17,534	12,908	85,652	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)	
	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M
Hong Kong	20,746	21,140	254,042	246,424
Asia (excluding Hong Kong)	41,415	40,927	50,708	49,991
USA	20,948	19,493	18,000	17,454
Others	105	42	–	–
Ship owning and operating activities	2,438	3,004	10,143	12,983
	85,652	84,606	332,893	326,852

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 Officers' 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 2019 HK$'000	Total 2018 HK$'000
Executive Directors								
M B Swire (from 1st July 2018)	5,340	–	–	16	–	11,553	16,909	7,673
J R Slosar (until 30th June 2018)	–	4,328	–	–	–	–	4,328	11,300
GMC Bradley	–	–	–	–	–	–	–	892
I K L Chu	3,504	4,571	1,603	1,229	–	–	10,907	6,148
D P Cogman	6,018	2,497	888	17	–	–	9,420	8,878
M Cubbon	–	–	–	–	–	–	–	2,970
M M S Low	3,237	2,635	1,847	1,136	–	–	8,855	7,279
A K W Tang	–	–	–	–	–	–	–	915
Non-Executive Directors								
M Cubbon (from 1st November 2018)	–	–	–	–	–	–	–	–
S C Swire	–	–	–	–	–	–	–	–
Independent Non-Executive Directors								
P K Etchells	1,290	–	–	–	–	–	1,290	979
T G Freshwater	690	–	–	–	–	–	690	690
C Lee	1,083	–	–	–	–	–	1,083	1,083
R W M Lee	750	–	–	–	–	–	750	750
G R H Orr	1,276	–	–	–	–	–	1,276	1,276
X Ma (from 1st August to 31st August 2019)	59	–	–	–	–	–	59	–
Total 2019	23,247	14,031	4,338	2,398	–	11,553	55,567	N/A
Total 2018	25,333	7,667	5,469	2,459	260	9,645	N/A	50,833

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 2019. The amounts disclosed above are related to services as Executive Directors for 2018 but paid and charged to the Group in 2019.
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 in the capacity 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 2019 and 2018 are as follows:

	Year ended 31st December	
	2019	2018
Number of individuals:		
Executive Directors (note (i))	2	2
Executive Officers	3	3
	5	5

8. Directors' and Executive Officers' Emoluments (continued)

(b) Five highest paid individuals (continued)

Emoluments paid to the Executive Officers are as follows:

	Year ended 31st December	
	2019 HK$'000	2018 HK$'000
Cash:		
Salary	12,243	12,709
Bonus (note (ii))	6,837	6,289
Allowance and benefits	2,567	3,698
Non-cash:		
Retirement scheme contributions	13,290	2,718
Bonus paid into retirement scheme	1,861	1,466
Housing benefits	8,441	6,431
	45,239	33,311

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 2019. The amounts disclosed above are related to services as Executive Officers for 2018 but paid and charged to the Group in 2019.

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

	Year ended 31st December	
	2019	2018
HK$16,500,000 – HK$16,000,000	1	–
HK$15,000,000 – HK$14,500,000	1	–
HK$14,000,000 – HK$13,500,000	1	–
HK$12,000,000 – HK$11,500,000	–	2
HK$10,000,000 – HK$9,500,000	–	1
	3	3

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 fair value through profit and loss (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 fair value through other comprehensive income (FVOCI) 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 85 for details of the Group's net finance charges.

10. Taxation

Accounting Policy

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

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

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. If the Group concludes it is probable that the taxation authority will accept an uncertain tax treatment, the Group shall determine the taxable profit/(tax loss) consistently with the tax treatment used in the relevant income tax filings. If the Group concludes it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of uncertainty for each uncertain tax treatment by using either (a) the most likely amount – the single most likely amount in a range of possible outcomes or (b) the expected value – the sum of the probability-weighted amounts in a range of possible outcomes. 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	2019 HK$M	2018 HK$M
Current taxation			
Hong Kong profits tax		760	1,042
Overseas taxation		1,195	1,272
Over-provisions in prior years		(49)	(16)
		1,906	2,298
Deferred taxation	32		
Changes in fair value of investment properties		366	501
Origination and reversal of temporary differences		485	127
Effect of change in tax rate in the USA		(11)	–
		840	628
		2,746	2,926

Hong Kong profits tax is calculated at 16.5% (2018: 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:

	2019 HK$M	2018 HK$M
Profit before taxation	14,584	32,346
Calculated at a tax rate of 16.5% (2018: 16.5%)	2,406	5,337
Share of profits less losses of joint venture and associated companies	(468)	(624)
Effect of different tax rates in other countries	429	288
Effect of change in tax rate in the USA	(11)	–
Fair value gains on investment properties	(418)	(2,882)
Income not subject to tax	(704)	(737)
Expenses not deductible for tax purposes	1,142	1,180
Unused tax losses not recognised	362	301
Utilisation of previously unrecognised tax losses	(13)	(8)
Deferred tax assets written off	19	55
Over-provisions in prior years	(49)	(16)
Recognition of previously unrecognised tax losses	(53)	(5)
Withholding tax	177	103
Others	(73)	(66)
Tax charge	2,746	2,926

The Group's share of joint venture and associated companies' tax charges of HK$588 million (2018: HK$525 million) and HK$309 million (2018: HK$275 million) respectively is included in the share of profits less losses of joint venture and associated companies shown in the consolidated statement of profit or loss.

11. Underlying Profit Attributable to the Company's Shareholders

Accounting Policy

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

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

12. Dividends

Accounting Policy

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

	2019 HK$M	2018 HK$M
First interim dividend paid on 4th October 2019 of HK$1.35 per 'A' share and HK$0.27 per 'B' share (2018: HK$1.20 and HK$0.24)	2,027	1,802
Second interim dividend declared on 12th March 2020 of HK$1.65 per 'A' share and HK$0.33 per 'B' share (2018 actual dividend paid: HK$1.80 and HK$0.36)	2,478	2,703
	4,505	4,505

The second interim dividend is not accounted for in 2019 because it had not been declared or approved at the year end date. The actual amount payable in respect of 2019 will be accounted for as an appropriation of the revenue reserve in the year ending 31st December 2020.

13. Earnings Per Share (Basic and Diluted)

Earnings per share is calculated by dividing the profit attributable to the Company's shareholders of HK$9,007 million (2018: HK$23,629 million) by the daily weighted average number of 905,206,000 'A' shares and 2,981,870,000 'B' shares in issue during the year (2018: 905,206,000 'A' shares and 2,981,872,466 '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 previously classified as held for own use under finance leases and recorded as property, plant and equipment was reclassified to right-of-use assets (note 18) at 1st January 2019.

With the exception of freehold land, all other items of property, plant and equipment and vessels 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:

Property	2% to 5% per annum
Plant and machinery	5% to 34% per annum
Vessels	5% to 7% per annum
Drydocking costs on vessels	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$2,162 million to their recoverable amount. Reasons for impairment charges on vessels are explained below:

Swire Pacific Offshore (SPO) has vessels with aggregate carrying values of HK$9,987 million at 31st December 2019. During the year, management reviewed the outlook for the business and SPO's operating plans and consequently reassessed the carrying values of the vessels. An impairment provision of HK$2,121 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$6,008 million. Fair value less costs to sell is based on management estimates having regard to estimated resale values provided by an external valuer. Fair value less costs to sell is a level 3 fair value measurement. Value in use is determined using cash flow projections based on financial budgets covering a ten-year period prepared by management. A ten-year forecast is considered appropriate for offshore vessel operations, in order to take into account the expected industry operating cycle, including an expected market recovery. The key assumptions include utilisation, charter hire rates, disposal values and discount rates applied to future cash flows. The pre-tax discount rate used in the 2019 impairment review was 8.5% (2018: 8.5%). Changes in any or all of the key assumptions could result in a material change in the carrying value of vessels. A US$1,000 (which approximates 6% on average) decrease in daily charter hire rates would decrease the estimated recoverable value of vessels by HK$561 million. A 1% increase in the pre-tax discount rate would decrease the estimated recoverable value of vessels by HK$327 million. These sensitivities are based on an unfavourable change in an assumption while holding other assumptions constant. In practice this is unlikely to occur and changes in assumptions may be correlated. A favourable change in the above assumptions would not result in the same level of favourable financial impact to the estimated recoverable value as the related unfavourable change.

In May 2019, the Xiamen municipal government advised the Company that construction of a new airport in the Xiang'an district of Xiamen had been approved by the Chinese Central Government. Management is in discussions with the Xiamen authorities on the relocation of HAECO Xiamen's premises from the existing location to the new airport, which will be a significant change to its operations in Xiamen. HAECO Xiamen is entitled to compensation in relation to the move to the new airport. The total net book value of HAECO Xiamen's property, plant and equipment and right-of-use assets in the Group at 31st December 2019 was HK$1,954 million (2018: HK$2,093 million), some of which will be subject to relocation. Management engaged an independent consultant in 2017 to perform preliminary compensation assessments in order to evaluate the recoverable amounts of property, plant and equipment and right-of-use assets at the existing Xiamen airport that might be affected by a relocation. Based on this assessment and the limited changes to the asset base and business since the valuation was performed, management consider that the carrying value of HAECO Xiamen's property, plant and equipment and right-of-use assets is appropriate at 31st December 2019.

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 2019						
as originally stated		4,484	19,014	20,799	26,710	71,007
reclassification to right-of-use assets		(4,484)	–	–	–	(4,484)
reclassification to investment properties		–	–	(76)	–	(76)
as restated		–	19,014	20,723	26,710	66,447
Translation differences		–	(157)	(205)	(162)	(524)
Disposal of subsidiary companies		–	(4)	(18)	–	(22)
Additions		–	497	2,910	408	3,815
Disposals		–	(115)	(1,125)	(809)	(2,049)
Net transfers to investment properties	15	–	(65)	–	–	(65)
Other net transfers		–	1	(8)	–	(7)
At 31st December 2019		–	19,171	22,277	26,147	67,595
Accumulated depreciation and impairment						
At 1st January 2019						
as originally stated		245	6,430	10,834	13,854	31,363
reclassification to right-of-use assets		(245)	–	–	–	(245)
as restated		–	6,430	10,834	13,854	31,118
Translation differences		–	(54)	(85)	(95)	(234)
Disposal of subsidiary companies		–	(3)	(15)	–	(18)
Depreciation for the year	6	–	645	1,840	982	3,467
Impairment charges	5	–	–	41	2,121	2,162
Disposals		–	(64)	(803)	(702)	(1,569)
Net transfers to investment properties	15	–	(11)	–	–	(11)
At 31st December 2019		–	6,943	11,812	16,160	34,915
Net book value						
At 31st December 2019		–	12,228	10,465	9,987	32,680

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

Property, and plant and machinery include costs of HK$332 million (2018: HK$36 million) and HK$520 million (2018: HK$88 million) respectively, including advance payments and deposits under contracts with third parties, in respect of assets under construction.

15. Investment Properties

Accounting Policy

Investment property comprises freehold land, leasehold land and buildings held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Leasehold land is classified and accounted for as an investment property when the rest of the definition of investment property is met.

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 or leasehold land under right-of-use assets, 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 2019. 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 2019				
as originally stated		248,140	23,116	271,256
reclassification from property, plant and equipment		–	76	76
adjustment on adoption of HKFRS 16		4	256	260
as restated		248,144	23,448	271,592
Translation differences		(750)	(15)	(765)
Additions		658	1,443	2,101
Disposals		(312)	–	(312)
Transfer to properties for sale		–	(1,040)	(1,040)
Net transfers from property, plant and equipment	14	54	–	54
Net transfers from/(to) leasehold land held for own use under right-of-use assets		720	(70)	650
Net fair value gains		2,964	764	3,728
		251,478	24,530	276,008
Add: Initial leasing costs		242	–	242
At 31st December 2019		251,720	24,530	276,250
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 for sale		142	–	142
Net transfers (to)/from 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

Geographical Analysis of Investment Properties

	2019 HK$M	2018 HK$M
Held in Hong Kong		
On medium-term leases (10 to 50 years)	34,720	34,584
On long-term leases (over 50 years)	202,726	198,383
	237,446	232,967
Held in Mainland China		
On short-term leases (less than 10 years)	11	–
On medium-term leases (10 to 50 years)	32,134	30,546
	32,145	30,546
Held in USA and elsewhere		
Freehold	6,417	7,743
	276,008	271,256

15. Investment Properties (continued)

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 2019. 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.

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 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 future rental income may be linked with higher costs.

The Group reviews the valuations performed by the independent valuers for financial reporting purposes. Discussions of valuation processes and results are held between management and the independent valuers 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$M	Mainland China HK$M	Others HK$M	Total HK$M	2019 Total HK$M
Level 2	3,432	184	–	3,616	11,677	–	–	11,677	15,293
Level 3	210,252	31,193	6,417	247,862	12,085	768	–	12,853	260,715
Total	213,684	31,377	6,417	251,478	23,762	768	–	24,530	276,008
Add: initial leasing costs									242
At 31st December									276,250

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

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$M	Mainland China HK$M	Others HK$M	Total HK$M	Total HK$M
At 1st January 2019									
as originally stated	207,476	30,359	6,594	244,429	11,021	–	1,149	12,170	256,599
reclassification from property, plant and equipment	–	–	–	–	–	76	–	76	76
adjustment on adoption of HKFRS 16	–	4	–	4	–	256	–	256	260
as restated	207,476	30,363	6,594	244,433	11,021	332	1,149	12,502	256,935
Translation differences	–	(707)	(40)	(747)	–	(8)	(7)	(15)	(762)
Additions	513	94	48	655	668	6	110	784	1,439
Transfer to properties for sale	–	–	–	–	(1)	–	(1,039)	(1,040)	(1,040)
Net transfers from property, plant and equipment	54	–	–	54	–	–	–	–	54
Net transfers from leasehold land held for own-use under right-of-use assets	720	–	–	720	–	–	–	–	720
Fair value gains/(losses)	1,489	1,443	(185)	2,747	397	438	(213)	622	3,369
At 31st December 2019	210,252	31,193	6,417	247,862	12,085	768	–	12,853	260,715

	Completed				Under Development				
	Hong Kong HK$M	Mainland China HK$M	USA HK$M	Total HK$M	Hong Kong HK$M	Mainland China HK$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 for sale	–	–	142	142	–	–	–	–	142
Transfer between categories	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

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 2019	Valuation method	Market rent per month[1] HK$ per sq. ft. (lettable) 2019	Capitalisation rates 2019
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	6.25%-7.50%
USA	Income capitalisation	Less than 10-High 70's	4.75%-5.75%
USA	Sales comparison	–	–
Under development			
Hong Kong	Residual[2]	Low 60's-Mid 80's	3.63%-3.75%
Mainland China	Residual[2]	High 20's-High 100's	6.75%

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%
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]	–	–

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.

16. Land Use Rights

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

	Note	2019 HK$M	2018 HK$M
At 1st January			
as originally stated		1,415	1,663
reclassification to right-of-use assets		(1,415)	–
as restated		–	1,663
Translation differences		–	(41)
Acquisition of subsidiary companies		–	14
Disposal of a subsidiary company		–	(168)
Amortisation for the year	6	–	(53)
At 31st December		–	1,415
Held in Hong Kong			
On medium-term leases (10 to 50 years)		–	17
Held outside Hong Kong			
On medium-term leases (10 to 50 years)		–	1,395
On long-term leases (over 50 years)		–	3
		–	1,415

Land use rights were reclassified to right-of-use assets (note 18) at 1st January 2019.

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, is 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 2019		8,287	770	4,980	960	249	15,246
Translation differences		(63)	(7)	(73)	(6)	(2)	(151)
Other transfers		–	7	–	–	–	7
Additions		–	145	573	–	–	718
Disposals		(274)	(6)	–	–	–	(280)
At 31st December 2019		7,950	909	5,480	954	247	15,540
Accumulated amortisation and impairment							
At 1st January 2019		1,224	520	248	278	58	2,328
Translation differences		(8)	(4)	(2)	(2)	–	(16)
Amortisation for the year	6	–	78	58	64	22	222
Impairment losses	5	404	–	–	30	–	434
Disposals		(274)	(6)	–	–	–	(280)
At 31st December 2019		1,346	588	304	370	80	2,688
Net book value							
At 31st December 2019		6,604	321	5,176	584	167	12,852

	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 acquisitions		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

17. Intangible Assets (continued)

Amortisation of HK$222 million (2018: 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 2019 were between 8.0% and 12.0% (2018: 8.0% 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.

	Note	2019 HK$M	2018 HK$M
HAECO – Hong Kong and Mainland China	a	3,510	3,510
HAECO – USA	b	282	488
Beverages – Hong Kong and Mainland China	c	2,213	2,264
Beverages – USA		232	234
Trading & Industrial	d	367	567
		6,604	7,063

Notes:

(a) 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 in 2010. The recoverable amount of HAECO's businesses in Hong Kong and Mainland China has been determined using a value in use calculation. That calculation uses cash flow projections based on financial budgets prepared by management covering a five-year period and a weighted average pre-tax discount rate of 9.5% (2018: 9.5%). Cash flows beyond the five-year period are assumed not to grow by more than 2% (2018: 2%) per annum.

(b) Goodwill attributable to HAECO's business in the USA relates to the acquisition of HAECO Americas, LLC (previously known as TIMCO Aviation Services, Inc.) in 2014 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 (2018: five-year) period for the airframe services CGU and a six-year (2018: seven-year) period until 2025 for the cabin solutions CGU. A six-year forecast (until 2025) is considered appropriate for cabin solutions to take into account the significant growth plans for the business which includes the development of new product models over the next three to five years whose market success the model is dependent upon.

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

	Airframe services		Cabin solutions	
	2019	2018	2019	2018
Pre-tax discount rate	11.8%	11.5%	11.5%	11.0%
Revenue growth – cumulative average growth rate per annum	4.7%	8.1%	12.3%	12.6%

During the year ended 31st December 2019, no goodwill impairment provision has been made in respect of the airframe services CGU. At 31st December 2019, the airframe services CGU's recoverable amount exceeded its carrying value by HK$296 million (2018: HK$192 million).

During the year ended 31st December 2019, a full goodwill impairment provision of HK$204 million has been recognised in respect of the cabin solutions CGU with no carrying value at 31st December 2019.

(c) Goodwill attributable to Swire Coca-Cola's business in Hong Kong and Mainland China relates to the acquisitions of new franchise territories and additional equity interests in existing franchise territories in previous years. The goodwill arose from the assembled workforce and synergies expected to be derived from back office and supply chain alignment. The recoverable amount of Swire Coca-Cola's business in Hong Kong and Mainland China has been determined using a value-in-use calculation. The calculation uses cash flow projections based on financial budgets prepared by management covering a five-year period and a weighted average pre-tax discount rate of 9.5% (2018: 9.7%). Cash flows beyond the five-year period are assumed not to grow more than 0.5% (2018: 0.5%) per annum.

(d) The value in use calculations of the CGU within Swire Foods of the Trading & Industrial Division is derived using financial budgets and plans covering a ten-year period. A ten-year forecast is considered appropriate for the CGU's operations to take into account expected growth plans. During the year ended 31st December 2019, a goodwill impairment provision of HK$200 million has been recognised.

18. Right-of-use Assets

Accounting Policy

The Group (acting as lessee) leases various land, offices, warehouses, retail stores, equipment and vessels. Except for certain long-term leasehold land in Hong Kong, rental contracts are typically made for fixed periods of 1 to 50 years but may have extension and early termination options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for other borrowing purposes.

Prior to 1st January 2019, leases of property, plant and equipment were classified as either finance or operating leases. Payments made by lessees under operating leases (net of any incentives received from the lessor) were charged to the consolidated statement of profit or loss on a straight-line basis over the period of the lease.

From 1st January 2019, leases are recognised by lessees as right-of-use assets and corresponding liabilities at the date at which the leased assets are available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to consolidated 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 lease period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from leases are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

– fixed payments (including in-substance fixed payments), less any lease incentives receivable,
– variable lease payments that are based on an index or a rate, initially measured using the index or rate at the commencement date,
– amounts expected to be payable by the lessee under residual value guarantees,
– the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
– payment of penalties for terminating the lease, if the lease term used in the computation assumes the lessee exercises an option to terminate.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Right-of-use assets are measured at cost comprising the following:

– the amount of the initial measurement of lease liability,
– any lease payments made at or before the commencement date less any lease incentives received,
– any initial direct costs, and
– restoration costs.

Payments by lessees associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as expenses in the consolidated statement of profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise information technology equipment and small items of office furniture.

The recognised right-of-use assets relate to the following types of assets:

	2019 HK$M
Leasehold land held for own use	3,850
Land use rights	1,337
Property	4,351
Plant and equipment	361
Total	9,899

18. Right-of-use Assets (continued)

Lease arrangements are negotiated on an individual asset basis and contain a wide range of different terms and conditions including lease payments and lease terms.

For leasehold land and land use rights, the Group is the registered owner or occupant of these property interests. Upfront payments were made to acquire these land interests and there are no ongoing payments to be made under the terms of the land lease (i.e. no lease liabilities are recognised), other than government rents and rates and other payments to the relevant government authorities, which may vary from time to time. Their remaining lease periods since 31st December 2019 are as follows:

	Leasehold land held for own use	Land use rights
	HK$M	HK$M
Held in Hong Kong		
On medium-term leases (10-50 years)	501	16
On long-term leases (over 50 years)	3,331	–
Held outside Hong Kong		
On medium-term leases (10-50 years)	18	1,321
	3,850	1,337

Additions to right-of-use assets during the year ended 31st December 2019 were HK$770 million.

During the year ended 31st December 2019, total cash outflow for leases was included in the statement of cash flows as (a) interest paid of HK$195 million under "operating activities", (b) payment for short-term and low-value assets leases and variable lease payments of HK$183 million recorded in cash generated from operations under "operating activities", and (c) principal elements of lease payments of HK$950 million under "financing activities".

19. 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 207 to 217.

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	
	2019 HK$M	2018 HK$M
Current:		
Assets	20,630	21,569
Liabilities	15,466	11,975
Total current net assets	5,164	9,594
Non-current:		
Assets	316,958	311,517
Liabilities	33,465	40,353
Total non-current net assets	283,493	271,164
Net assets	288,657	280,758
Net assets allocated to non-controlling interests	51,958	50,536

19. Subsidiary Companies (continued)

Summarised Statement of Profit or Loss

	Swire Properties	
	For the year ended 31st December	
	2019 HK$M	2018 HK$M
Revenue	14,222	14,719
Profit for the year attributable to shareholders	13,423	28,582
Other comprehensive income	(308)	(2,144)
Total comprehensive income attributable to shareholders	13,115	26,438
Total comprehensive income allocated to non-controlling interests	2,361	4,759
Dividends paid to non-controlling interests	906	832

Summarised Statement of Cash Flows

	Swire Properties	
	For the year ended 31st December	
	2019 HK$M	2018 HK$M
Net cash generated from operating activities	4,375	9,391
Net cash generated from investing activities	15,842	753
Net cash used in financing activities	(7,324)	(9,712)
Net increase in cash and cash equivalents	12,893	432
Cash and cash equivalents at 1st January	2,093	1,708
Effect of exchange differences	(23)	(47)
Cash and cash equivalents at 31st December	14,963	2,093

20. Interests 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 interests 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 interests 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 associated company is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in the statement of 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 and value-in-use. Any reversal of such impairment loss in subsequent periods is credited to the statement of profit or loss.

20. Interests in Joint Venture and Associated Companies (continued)

(a) Interests in joint venture companies

	2019 HK$M	2018 HK$M
Share of net assets, unlisted	18,349	18,141
Goodwill	763	729
Joint venture companies	19,112	18,870
Loans due from joint venture companies less provisions		
– Interest-free	13,742	13,934
– Interest-bearing at 1.7% to 7.5% (2018: 1.7% to 7.5%)	3,085	1,536
	16,827	15,470

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 207 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:

	2019 HK$M	2018 HK$M
Non-current assets	46,371	43,726
Current assets	5,881	5,980
Current liabilities	(4,054)	(4,114)
Non-current liabilities	(29,849)	(27,451)
Net assets	18,349	18,141
Revenue	15,730	15,903
Expenses	(13,193)	(12,920)
Profit before taxation	2,537	2,983
Taxation	(588)	(525)
Profit for the year	1,949	2,458
Other comprehensive income	(265)	(751)
Total comprehensive income for the year	1,684	1,707

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

20. Interests in Joint Venture and Associated Companies (continued)

(b) Interests 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.

	2019 HK$M	2018 HK$M
Share of net assets		
– Listed in Hong Kong	27,940	28,468
– Unlisted	1,998	2,308
	29,938	30,776
Goodwill	757	757
Associated companies	30,695	31,533
Loans due from associated companies		
– Interest-bearing at 4.0% (2018: 4.0%-6.0%)	9	167

During the year ended 31st December 2019, an impairment provision of HK$281 million has been recognised in respect of the investment in an associated company.

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 2019 was HK$20,393 million (2018: HK$19,720 million). The forecast cash flows of Cathay Pacific indicate that no impairment exists at 31st December 2019.

20. Interests in Joint Venture and Associated Companies (continued)

(b) Interests in associated companies (continued)

Cathay Pacific acquired 100% of the voting equity interest of Hong Kong Express Airways Limited (HK Express), a low-cost carrier, on 19th July for a total consideration of HK$4.77 billion, comprising (i) a cash consideration of HK$1.80 billion, and (ii) a non-cash consideration of HK$2.97 billion settled through the issue and novation of promissory loan notes.

The valuation of HK Express was determined following arm's length negotiation between the parties, based on the underlying value of HK Express and having regard to the trading multiples of comparable airlines. The goodwill arising on the acquisition of HK Express is principally attributable to improvements and synergistic benefits that Cathay Pacific foresees under full ownership given that the business models are largely complementary.

The principal associated companies of the Group are shown on pages 207 to 217. In addition, Cathay Pacific is considered individually material to the Group and abridged financial statements are shown on pages 218 and 219.

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

	2019 HK$M	2018 HK$M
Non-current assets	87,370	76,019
Current assets	11,042	12,536
Current liabilities	(16,807)	(16,583)
Non-current liabilities	(51,666)	(41,195)
Non-controlling interests	(1)	(1)
Net assets	29,938	30,776
Revenue	51,449	54,057
Expenses	(50,255)	(52,458)
Profit before taxation	1,194	1,599
Taxation	(309)	(275)
Profit for the year	885	1,324
Other comprehensive income	409	91
Total comprehensive income for the year	1,294	1,415

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

21. Financial Instruments by Category

Accounting Policy

Financial Assets

(a) Classification
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 Group'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 are either recorded in profit or loss or other comprehensive income (OCI). For investment in debt instruments, this will depend on the business model in which the investment is held. 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 FVOCI.

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

21. Financial Instruments by Category (continued)

Accounting Policy (continued)

Financial Assets (continued)

(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.

(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 in respect of financial assets at 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 method. Foreign exchange gains and losses are presented in other gains/(losses).

(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. Dividends from such investments are recognised in profit or loss as other gains/(losses) when the Group's right to receive payments is established. 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.

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.

21. Financial Instruments by Category (continued)

Accounting Policy (continued)

Financial Assets (continued)

(d) Impairment
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.

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 statements 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.

21. 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 2019							
Loans due from joint venture companies	20a	–	–	–	16,827	16,827	16,827
Loans due from associated companies	20b	–	–	–	9	9	9
Equity investments at fair value through other comprehensive income	22	–	–	193	–	193	193
Derivative financial assets	23	–	430	–	–	430	430
Trade and other receivables excluding prepayments	26	–	–	–	8,064	8,064	8,064
Bank balances and short-term deposits	27	–	–	–	21,345	21,345	21,345
Total		–	430	193	46,245	46,868	46,868
At 31st December 2018							
Loans due from joint venture companies	20a	–	–	–	15,470	15,470	15,470
Loans due from associated companies	20b	–	–	–	167	167	167
Equity investments at fair value through other comprehensive income	22	–	–	244	–	244	244
Derivative financial assets	23	1	188	–	–	189	189
Trade and other receivables excluding prepayments	26	–	–	–	9,030	9,030	9,030
Bank balances and short-term deposits	27	–	–	–	9,112	9,112	9,112
Total		1	188	244	33,779	34,212	34,212

	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 2019						
Trade and other payables excluding non-financial liabilities	29	1,871	–	22,227	24,098	24,098
Derivative financial liabilities	23	57	49	–	106	106
Short-term loans	30	–	–	110	110	110
Long-term loans and bonds due within one year	30	–	–	11,459	11,459	11,459
Lease liabilities due within one year	31	–	–	858	858	858
Long-term loans and bonds due after one year	30	–	–	56,464	56,464	57,882
Lease liabilities due after one year	31	–	–	4,517	4,517	4,517
Total		1,928	49	95,635	97,612	99,030
At 31st December 2018						
Trade and other payables excluding non-financial liabilities	29	1,870	–	24,678	26,548	26,548
Derivative financial liabilities	23	84	114	–	198	198
Short-term loans	30	–	–	3,227	3,227	3,227
Long-term loans and bonds due within one year	30	–	–	8,301	8,301	8,379
Long-term loans and bonds due after one year	30	–	–	60,251	60,251	60,354
Total		1,954	114	96,457	98,525	98,706

21. 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 2019					
Equity investments at fair value through other comprehensive income	22				
– Listed investments		141	–	–	141
– Unlisted investments		–	–	52	52
Derivative financial assets	23	–	430	–	430
Total		141	430	52	623
At 31st December 2018					
Equity investments at fair value through other comprehensive income	22				
– Listed investments		185	–	–	185
– Unlisted investments		–	–	59	59
Derivative financial assets	23	–	189	–	189
Total		185	189	59	433
Liabilities as per consolidated statement of financial position					
At 31st December 2019					
Derivative financial liabilities	23	–	106	–	106
Put option over non-controlling interest in Brickell City Centre	29	–	–	564	564
Put option over a non-controlling interest in a subsidiary company	29	–	–	113	113
Contingent consideration	29	–	–	1,194	1,194
Total		–	106	1,871	1,977
At 31st December 2018					
Derivative financial liabilities	23	–	198	–	198
Put option over non-controlling interest in Brickell City Centre	29	–	–	601	601
Put option over a non-controlling interest in a subsidiary company	29	–	–	99	99
Contingent consideration	29	–	–	1,170	1,170
Total		–	198	1,870	2,068

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.

21. 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 2019	700	59	1,170
Translation differences	(4)	2	(8)
Additions	–	8	–
Disposals	–	(1)	–
Distribution during the year	(16)	–	–
Change in fair value recognised during the year	(3)	(16)	125
Payment of consideration	–	–	(93)
At 31st December 2019	677	52	1,194
Total gains/(losses) for the year included in			
– profit or loss	3	–	(125)
– other comprehensive income	–	(16)	–
Change in unrealised gains/(losses) for the year in respect of financial instruments held at 31st December 2019 included in the above	3	(16)	(125)

	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 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	23	–	(165)
Change in unrealised gains/(losses) for the year in respect of financial instruments held at 31st December 2018 included in the above	23	–	(165)

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% (2018: 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 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 2019. 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.

21. 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.

22. Equity Investments at Fair Value through Other Comprehensive Income

	2019 HK$M	2018 HK$M
Non-current assets		
Shares listed in Hong Kong	93	106
Shares listed overseas	48	79
Unlisted investments	52	59
	193	244

23. Derivative Financial Instruments

Accounting Policy

Derivatives are initially recognised at fair value on the dates derivative contracts are 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 objectives and strategy for undertaking various hedge transactions.

(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.

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.

23. Derivative Financial Instruments (continued)

Accounting Policy (continued)

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 the 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.

(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.

23. Derivative Financial Instruments (continued)

	2019		2018	
	Assets HK$M	Liabilities HK$M	Assets HK$M	Liabilities HK$M
Cross-currency swaps				
– cash flow hedges (a)	428	18	158	94
– not qualifying as hedges	–	36	–	24
Interest rate swaps – cash flow hedges	1	27	24	6
Forward foreign exchange contracts				
– cash flow hedges	1	4	6	14
– not qualifying as hedges	–	–	1	–
Commodity swaps – not qualifying as hedges	–	–	–	15
Put options exercisable by joint venture partners for sale of their interests to Beverages Division	–	21	–	45
Total	430	106	189	198
Analysed as:				
– Current	46	14	109	28
– Non-current	384	92	80	170
	430	106	189	198

(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 2019 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 2019 was HK$25,821 million (2018: HK$26,601 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 2019 and 31st December 2018 all cash flow hedges qualifying for hedge accounting were highly effective.

24. Properties Held for Development and Properties 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 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 completed for sale are available for immediate sale and are classified as current assets.

	2019 HK$M	2018 HK$M
Properties held for development		
Freehold land	989	1,141
Development cost	223	219
	1,212	1,360
Properties for sale		
Completed properties – development costs	1,507	1,008
Completed properties – freehold land	759	92
Completed properties – leasehold land	1	1
Properties under development – development costs	77	30
Properties under development – leasehold land	1,260	338
	3,604	1,469

25. 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.

	2019 HK$M	2018 HK$M
Goods for sale	3,255	2,980
Manufacturing materials	947	879
Production supplies	1,334	1,381
Work in progress	3	2
	5,539	5,242

26. 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.

	2019 HK$M	2018 HK$M
Trade debtors	4,074	4,469
Amounts due from immediate holding company	1	1
Amounts due from joint venture companies	26	17
Amounts due from associated companies	230	229
Mortgage loan receivable at 5.5% – Non-current portion	36	37
Prepayments and accrued income	1,822	2,014
Other receivables	2,496	3,245
	8,685	10,012
Amounts due after one year included under non-current assets	(67)	(67)
	8,618	9,945

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:

	2019 HK$M	2018 HK$M
Up to three months	3,812	4,112
Between three and six months	170	255
Over six months	92	102
	4,074	4,469

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 2019, trade debtors of HK$104 million (2018: HK$100 million) were impaired and the expected credit loss for the remaining trade and other receivables are not significant. The amount of the provision was HK$96 million at 31st December 2019 (2018: HK$92 million).

The maximum exposure to credit risk at 31st December 2019 and 31st December 2018 is the carrying value of trade debtors, amounts due from joint venture and associated companies, mortgage loans 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 2019 was HK$2,905 million (2018: HK$2,751 million).

27. 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.

	2019 HK$M	2018 HK$M
Bank balances and short-term deposits maturing within three months	21,322	9,102
Short-term deposits maturing after more than three months	23	10
	21,345	9,112

The effective interest rates on short-term deposits of the Group ranged from 0.01% to 4.00% (2018: 0.01% to 4.00%) per annum; these deposits have maturities from 2 to 146 days (2018: 2 to 365 days).

The maximum exposure to credit risk in respect of bank balances and short-term deposits at 31st December 2019 and 31st December 2018 is the carrying value of the bank balances and short-term deposits disclosed above.

28. 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.

In May 2019, a subsidiary of Swire Properties entered into a sale and purchase agreement with a third party for the sale of its entire 50% interest in a joint venture company which held 625 King's Road, a 26-storey office building in North Point, Hong Kong. The consideration for the sale of HK$2,375 million (before net asset value adjustments) resulted in a profit on sale of the joint venture company being recorded in July 2019 when the transaction was completed. Prior to completion of the transaction, the Group's interest in that joint venture company was included under assets classified as held for sale.

At 31st December 2018, assets classified as held for sale mainly related to a sale and purchase agreement entered into by a subsidiary of Swire Properties with a third party for the sale of Swire Properties' interests in office buildings at 14 Taikoo Wan Road and 12 Taikoo Wan Road, Hong Kong. The consideration for the sale of HK$15,000 million (before net asset value adjustments) resulted in a profit on sale of subsidiaries being recorded in April 2019 when the transaction was completed. Assets classified as held for sale at 31st December 2018 also included several wholly-owned subsidiaries of Swire Properties holding investment properties in Hong Kong in respect of which a sale and purchase agreement was entered into in August 2018. The total consideration for the sale of HK$2,037 million resulted in a profit on sale of subsidiaries being recorded in January 2019 when the transaction was completed.

Details of the disposals are summarised in Note 42(d).

29. 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.

	2019 HK$M	2018 HK$M
Trade creditors	4,299	3,969
Amounts due to immediate holding company	159	245
Amounts due to joint venture companies	7	30
Amounts due to associated companies	448	309
Interest-bearing advances from joint venture companies at 3.24% (2018: 2.74%)	54	53
Interest-bearing advances from an associated company at 3.25% (2018: 4.12%)	291	293
Advances from non-controlling interests	187	35
Rental deposits from tenants	2,905	2,751
Put options over non-controlling interests	677	700
Deposits received on the sale of subsidiary companies	–	3,238
Contingent consideration	1,194	1,170
Accrued capital expenditure	1,260	1,343
Provision for restructuring costs	125	–
Other accruals	8,359	8,169
Other payables	4,360	4,476
	24,325	26,781
Amounts due after one year included under non-current liabilities	(1,095)	(1,679)
	23,230	25,102

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, except for the interest-bearing advance from an associated company which is repayable in 2022. 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:

	2019 HK$M	2018 HK$M
Up to three months	4,138	3,841
Between three and six months	78	70
Over six months	83	58
	4,299	3,969

30. Borrowings

Accounting Policy

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

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

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

Refer to the tables with the heading "Audited Financial Information" on pages 81 to 88 for details of the Group's borrowings.

31. Lease Liabilities

	31st December 2019 HK$M
Maturity Profile	
Within one year	858
Between one and two years	733
Between two and five years	1,096
Over five years	2,688
	5,375
Amount due within one year included under current liabilities	(858)
	4,517

At 31st December 2019, the weighted average incremental borrowing rate applied to the lease liabilities was 3.82%.

For the accounting policy in respect of lease liabilities, please refer to right-of-use assets (note 18).

32. 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 or 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.

32. Deferred Taxation (continued)

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

	2019 HK$M	2018 HK$M
Deferred tax assets	667	454
Deferred tax liabilities	(11,014)	(10,034)
	(10,347)	(9,580)

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

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

	Note	2019 HK$M	2018 HK$M
At 1st January		9,580	9,281
Translation differences		(139)	(270)
Adjustments in respect of previous year's acquisition of subsidiaries		–	2
Transfer to assets classified as held for sale		–	5
Acquisition of a subsidiary company		–	10
Disposal of subsidiary companies		–	(3)
Charged to statement of profit or loss	10	840	628
Charged/(credited) to other comprehensive income		70	(73)
Other transfer		(4)	–
At 31st December		10,347	9,580

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	
	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M
At 1st January	4,646	4,341	4,831	4,534	1,995	2,254	11,472	11,129
Translation differences	(22)	(34)	(113)	(204)	(24)	(49)	(159)	(287)
Adjustments in respect of previous year's acquisition of subsidiaries	–	–	–	–	–	2	–	2
Transfer to assets classified as held for sale	–	5	–	–	–	–	–	5
Acquisition of a subsidiary	–	–	–	–	–	10	–	10
Disposal of a subsidiary	–	(3)	–	–	–	–	–	(3)
Charged/(credited) to statement of profit or loss	597	337	366	501	137	(214)	1,100	624
(Credited)/charged to other comprehensive income	(5)	–	–	–	30	(8)	25	(8)
Other transfer	(4)	–	–	–	–	–	(4)	–
At 31st December	5,212	4,646	5,084	4,831	2,138	1,995	12,434	11,472

32. Deferred Taxation (continued)

Deferred tax assets

	Provisions		Tax losses		Others		Total	
	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M
At 1st January	476	621	430	302	986	925	1,892	1,848
Translation differences	(5)	(11)	(6)	–	(9)	(6)	(20)	(17)
Credited/(charged) to statement of profit or loss	73	(134)	37	128	150	2	260	(4)
(Charged)/credited to other comprehensive income	–	–	–	–	(45)	65	(45)	65
At 31st December	544	476	461	430	1,082	986	2,087	1,892

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$3,775 million (2018: HK$3,703 million) to carry forward against future taxable income.

These amounts are analysed as follows:

	Unrecognised Tax Losses	
	2019 HK$M	2018 HK$M
No expiry date	1,387	1,302
Expiring in 2019	–	87
Expiring in 2020	37	116
Expiring in 2021	258	150
Expiring in 2022	172	273
Expiring in 2023 (2018: 2023 or after)	101	1,775
Expiring in 2024 or after	1,820	N/A
	3,775	3,703

33. 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 current and prior periods.

33. Retirement Benefits (continued)

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 in the statement of financial position is the present value of the cost of providing these benefits (the defined benefits 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 payable in respect of high quality corporate bonds. The plan assets are valued on a bid price basis.

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

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

Critical Accounting Estimates and Judgements

The Group's obligations and expenses in respect of defined benefit schemes are dependent on a number of factors that are determined using a number of actuarial assumptions. The details of the actuarial assumptions used, including applicable sensitivities are disclosed in note 33(f).

For the year ended 31st December 2018, disclosures in respect of defined benefit schemes are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2018. For the year ended 31st December 2019, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2018, which were updated to reflect the position at 31st December 2019 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes. Schemes in the USA and Taiwan are valued by independent qualified actuaries. In addition, the Group operates a post-employment health care and life insurance benefit plan for certain retired employees in the USA. The plan is unfunded. The method of accounting and the frequency of valuations are similar to those used for defined benefit schemes.

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

Contributions to the defined benefit retirement schemes are made in accordance with the funding rates recommended by independent qualified actuaries to ensure that the plans will be able to meet their liabilities as they become due. The funding rates are subject to annual review and are determined by taking into consideration the difference between the market values of the plans' assets and the present value of accrued past service liabilities, on an ongoing basis, as computed by reference to actuarial valuations. The principal schemes in Hong Kong are valued by qualified actuaries for funding purposes under the provision of Hong Kong's Occupational Retirement Schemes Ordinance. The latest actuarial valuations indicate that the funding level was 99% (2018: 109%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$293 million to its defined benefit schemes in 2020.

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.

33. Retirement Benefits (continued)

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

	2019 HK$M	2018 HK$M
Present value of funded obligations	6,636	6,144
Fair value of plan assets	(5,655)	(5,084)
	981	1,060
Present value of unfunded obligations	81	68
Net retirement benefit liabilities	1,062	1,128
Represented by:		
Retirement benefit assets	(97)	(89)
Retirement benefit liabilities	1,159	1,217
	1,062	1,128

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

	2019 HK$M	2018 HK$M
At 1st January	6,212	6,400
Translation differences	(4)	(8)
Transfer of members	1	4
Current service cost	287	308
Past service cost	7	–
Interest expense	208	187
Actuarial (gains)/losses from changes in:		
demographic assumptions	(5)	(6)
financial assumptions	441	(291)
Experience losses	21	115
Employee contributions	2	2
Benefits paid	(453)	(477)
Curtailments and settlements	–	(22)
At 31st December	6,717	6,212

The weighted average duration of the defined benefit obligations is 8.9 years (2018: 9.1 years).

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

	2019 HK$M	2018 HK$M
At 1st January	5,084	5,461
Translation differences	(4)	(3)
Transfer of members	1	4
Interest income	176	160
Return on plan assets, excluding interest income	533	(386)
Contributions by employers	315	331
Benefits paid	(450)	(468)
Curtailments and settlements	–	(15)
At 31st December	5,655	5,084

There were no plan amendments during the year.

33. Retirement Benefits (continued)

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

	2019 HK$M	2018 HK$M
Current service cost	287	308
Past service cost	7	–
Past service cost – curtailments	–	1
Net interest cost	32	27
	326	336

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 2019 amounted to HK$727 million (2018: HK$736 million), including HK$401 million (2018: HK$400 million) in respect of defined contribution schemes.

The actual return on defined benefit plan assets was a gain of HK$709 million (2018: loss of HK$226 million).

(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:

	2019 HK$M	2018 HK$M
Equities		
Asia Pacific	378	316
Europe	389	304
North America	1,063	830
Emerging markets	899	716
Bonds		
Global	1,852	2,262
Emerging markets	151	135
Absolute return funds	684	187
Cash	239	334
	5,655	5,084

At 31st December 2019, the prices of 96% of equities and 28% of bonds were quoted on active markets (31st December 2018: 96% and 39% 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.

33. Retirement Benefits (continued)

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

	2019		2018	
	Hong Kong %	Others %	Hong Kong %	Others %
Discount rate	**2.93**	**0.75-3.40**	3.34	1.00-4.30
Expected rate of future salary increases	**4.00**	**2.75-3.49**	3.50-4.50	2.75-3.60

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 2019			
Discount rate	**0.5%**	**(365)**	**384**
Expected rate of future salary increases	**0.5%**	**262**	**(264)**
At 31st December 2018			
Discount rate	0.5%	(311)	342
Expected rate of future salary increases	0.5%	250	(235)

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.

34. Share Capital

	'A' shares	'B' shares	Total HK$M
Issued and fully paid			
At 1st January 2019 and 31st December 2019	**905,206,000**	**2,981,870,000**	**1,294**
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

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year.

35. 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 2019							
as originally stated		266,842	2,205	(116)	–	199	269,130
adjustment on adoption of HKFRS 16		(1,279)	–	–	–	–	(1,279)
as restated		265,563	2,205	(116)	–	199	267,851
Profit for the year		9,007	–	–	–	–	9,007
Other comprehensive income							
Defined benefit plans							
– remeasurement gains recognised during the year		67	–	–	–	–	67
– deferred tax		8	–	–	–	–	8
Cash flow hedges							
– gains recognised during the year		–	–	–	430	–	430
– transferred to net finance charges		–	–	–	(57)	–	(57)
– transferred to operating profit		–	–	–	84	–	84
– deferred tax		–	–	–	(65)	–	(65)
Changes in the fair value of equity investments at fair value through other comprehensive income		–	–	(59)	–	–	(59)
Revaluation of property previously occupied by the Group							
– gains recognised during the year		–	241	–	–	–	241
– deferred tax		–	(2)	–	–	–	(2)
Share of other comprehensive income of joint venture and associated companies		478	–	16	132	(429)	197
Net translation differences on foreign operations		–	–	–	–	(851)	(851)
Total comprehensive income for the year		9,560	239	(43)	524	(1,280)	9,000
Acquisition of non-controlling interests		(183)	–	–	–	–	(183)
Change in composition of the Group		120	–	–	–	–	120
2018 second interim dividend	12	(2,703)	–	–	–	–	(2,703)
2019 first interim dividend	12	(2,027)	–	–	–	–	(2,027)
At 31st December 2019		270,330	2,444	(159)	524	(1,081)	272,058

35. Reserves (continued)

	Note	Revenue reserve HK$M	Property revaluation reserve HK$M	Investment revaluation reserve HK$M	Cash flow hedge reserve HK$M	Translation reserve HK$M	Total HK$M
At 1st January 2018		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		(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

(a) The Group's revenue reserve includes retained revenue reserves from joint venture companies amounting to HK$10,660 million (2018: HK$10,178 million) and retained revenue reserves from associated companies amounting to HK$25,289 million (2018: HK$25,321 million).

(b) The Group's revenue reserve includes HK$2,478 million (2018: HK$2,703 million) representing the declared second interim dividend for the year (note 12).

(c) As at 31st December 2019, the Group's cash flow hedge reserve includes HK$64 million (net of tax) relating to the currency basis element of the Group's derivatives which is recognised separately as a cost of hedging (2018: HK$62 million).

36. Non-controlling Interests

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

	2019 HK$M	2018 HK$M
At 1st January		
as originally stated	54,691	52,963
adjustment on adoption of HKFRS 16	(30)	–
as restated	54,661	52,963
Share of profits less losses for the year	2,831	5,791
Share of defined benefit plans		
– remeasurement gains/(losses) recognised during the year	9	(8)
– deferred tax	(1)	1
Share of cash flow hedges		
– gains/(losses) recognised during the year	65	(29)
– transferred to net finance charges	(4)	(5)
– deferred tax	(10)	6
Share of revaluation of property previously occupied by the Group		
– gains recognised during the year	53	3
Share of other comprehensive income of joint venture and associated companies	(53)	(124)
Share of translation differences on foreign operations	(171)	(371)
Share of total comprehensive income	2,719	5,264
Dividends paid	(1,246)	(1,128)
Acquisition of non-controlling interests in subsidiary companies	(43)	(2,438)
Change in composition of the Group	51	22
Capital contribution from non-controlling interests accrued	–	8
At 31st December	56,142	54,691

37. Company Statement of Financial Position and Reserves

(a) Company Statement of Financial Position

	Note	2019 HK$M	2018 HK$M
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		9	10
Right-of-use assets		21	–
Subsidiary companies		42,799	43,009
Joint venture companies		28	28
Loans due from joint venture companies		86	86
Associated companies		4,624	4,624
Equity investments at fair value through other comprehensive income		120	105
Retirement benefit assets		30	29
		47,717	47,891
Current assets			
Trade and other receivables		54	78
Taxation receivable		8	–
Bank balances and short-term deposits		12	1,297
		74	1,375
Current liabilities			
Trade and other payables		37,200	34,491
Short-term bank loans		–	2,969
Lease liabilities due within one year		8	–
		37,208	37,460
Net current liabilities		(37,134)	(36,085)
Total assets less current liabilities		10,583	11,806
Non-current liabilities			
Lease liabilities		13	–
Deferred tax liabilities		4	4
		17	4
NET ASSETS		10,566	11,802
EQUITY			
Equity attributable to the Company's shareholders			
Share capital	34	1,294	1,294
Reserves	37(b)	9,272	10,508
TOTAL EQUITY		10,566	11,802

Merlin Swire
Michelle Low
Paul Kenneth Etchells
Directors
Hong Kong, 12th March 2020

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

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

	Note	Revenue reserve HK$M	Investment revaluation reserve HK$M	Total HK$M
At 1st January 2019		10,490	18	10,508
Profit for the year		3,495	–	3,495
Other comprehensive income				
Defined benefit plans				
– remeasurement gains recognised during the year		10	–	10
– deferred tax		(2)	–	(2)
Changes in the fair value of equity investments at fair value through other comprehensive income		–	(9)	(9)
Total comprehensive income for the year		3,503	(9)	3,494
2018 second interim dividend	12	(2,703)	–	(2,703)
2019 first interim dividend	12	(2,027)	–	(2,027)
At 31st December 2019		9,263	9	9,272
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		(1,652)	–	(1,652)
2018 first interim dividend	12	(1,802)	–	(1,802)
At 31st December 2018		10,490	18	10,508

(i) Distributable reserves of the Company at 31st December 2019 amounted to HK$9,263 million (2018: HK$10,490 million).

(ii) The Company revenue reserve includes HK$2,478 million (2018: HK$2,703 million) representing the declared second interim dividend for the year (note 12).

38. Capital Commitments

		2019 HK$M	2018 HK$M
(a)	The Group's outstanding capital commitments at the year-end in respect of:		
	Property, plant and equipment		
	Contracted but not provided for	599	524
	Authorised by Directors but not contracted for	7,409	1,567
	Investment properties		
	Contracted but not provided for	5,293	1,192
	Authorised by Directors but not contracted for	10,211	14,586
		23,512	17,869
	The Group's share of capital commitments of joint venture companies at the year-end*		
	Contracted but not provided for	364	497
	Authorised by Directors but not contracted for	740	1,423
		1,104	1,920

* of which the Group is committed to funding HK$483 million (2018: HK$464 million).

(b) At 31st December 2019, the Group had unprovided contractual obligations for future repairs and maintenance in respect of investment properties of HK$256 million (2018: HK$219 million).

39. Contingencies

Accounting Policy

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. Contingencies (continued)

	2019 HK$M	2018 HK$M
(a) Guarantees provided in respect of:		
Bank loans and other liabilities of joint venture companies	2,381	2,285
Bank guarantees given in lieu of utility deposits and others	261	174
	2,642	2,459

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. A 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. The appeal hearing in the General Court took place on 5th July 2019. There is no fixed date for the General Court to issue its decision.

Cathay Pacific is a defendant in a number of civil claims, including class litigation and third party contribution claims, in a number of countries including Germany, the Netherlands and Norway 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. Lease Commitments

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 by lessor under operating leases (net of any incentives paid to lessees) are recognised as income in the statement of profit or loss on a straight-line basis over the period of the lease.

For commenced leases (which are not identified as low-value or short-term leases) undertaken by the lessee, right-of-use assets and the corresponding lease liabilities are recognised in the financial statements from 1st January 2019 or at the date during 2019 when the leased assets became available for use by the Group. Commitments in respect of leases payable by lessees represent the future lease payments for committed leases which have not yet commenced at 31st December 2019 and short-term leases.

(a) Lessor – lease receivables

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 from investment properties during the year amounted to HK$547 million (2018: HK$526 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 were receivable by the Group as follows:

	2019 HK$M	2018 HK$M
Investment properties		
Within one year	9,396	9,241
Between one and two years	8,013	8,034
Between two and three years	6,200	6,330
Between three and four years	4,439	4,752
Between four and five years	3,297	3,420
Over five years	7,152	8,337
	38,497	40,114
Vessels		
Within one year	259	264
Between one and two years	81	53
Between two and three years	15	3
	355	320
	38,852	40,434

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

	2019		2018	
	Investment properties HK$M	Vessels HK$M	Investment properties HK$M	Vessels HK$M
Cost or fair value	251,478	26,147	248,140	26,710
Less: accumulated depreciation and impairment	–	(16,160)	–	(13,854)
	251,478	9,987	248,140	12,856
Depreciation for the year	–	982	–	1,022

40. Lease Commitments (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.

At 31st December 2018 (before the adoption of HKFRS 16), the future aggregate minimum lease payments under non-cancellable operating leases payable by the Group were as follows:

	2018 HK$M
Land and buildings	
Within one year	1,032
Between one and five years	2,261
Over five years	2,868
	6,161
Vessels	
Within one year	29
Between one and five years	6
	35
Equipment	
Within one year	38
Between one and five years	88
	126
	6,322

At 31st December 2019, the future aggregate lease payments under leases committed but not yet commenced were payable by the Group as follows:

	2019 HK$M
Land and buildings	
Within one year	11
Between one and five years	38
Over five years	3
	52
Equipment	
Within one year	3
Between one and five years	6
	9
	61

At 31st December 2019, there is no short-term lease commitments which is significantly dissimilar to the portfolio of short-term leases where expenses were recognised for the year ended 31st December 2019.

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 Services Agreements (as amended and restated on 9th August 2019) were renewed on 1st October 2019 for three years expiring on 31st December 2022. For the year ended 31st December 2019, service fees payable amounted to HK$303 million (2018: HK$397 million). Expenses of HK$284 million (2018: HK$245 million) were reimbursed at cost; in addition, HK$378 million (2018: HK$345 million) in respect of shared administrative services was reimbursed.

Under a tenancy framework agreement (Tenancy Framework Agreement) between JSSHK, the Company and Swire Properties Limited dated 14th August 2014, members of the Group enter into tenancy agreements with members of the JSSHK group from time to time on normal commercial terms based on prevailing market rentals. The Tenancy Framework Agreement was renewed on 1st October 2018 for a term of three years expiring on 31st December 2021. For the year ended 31st December 2019, the aggregate rentals payable to the Group by the JSSHK group under tenancies to which the JSSHK Tenancy Framework Agreement applies amounted to HK$109 million (2018: HK$105 million).

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

		Joint venture companies		Associated companies		Fellow subsidiary companies		Immediate holding company	
	Notes	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M	2019 HK$M	2018 HK$M
Revenue from	(a)								
– Sales of beverage drinks		43	14	25	26	–	–	–	–
– Rendering of services		6	1	6	5	13	14	–	–
– Aircraft and engine maintenance		43	48	3,319	3,155	–	–	–	–
Purchase of beverage drinks	(a)	63	14	3,816	3,600	–	–	–	–
Purchase of other goods	(a)	3	3	178	18	–	–	–	–
Purchase of services	(a)	81	40	4	4	11	10	–	–
Rental revenue	(b)	–	2	3	4	1	1	108	104
Interest income	(c)	75	82	1	2	–	–	–	–
Interest charges	(c)	2	9	11	11	–	–	–	–

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 2019 are disclosed in note 20. Advances to and from joint venture and associated companies are disclosed in notes 26 and 29.

The amounts due to the immediate holding company at 31st December 2019 are disclosed in note 29. 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

	2019 HK$M	2018 HK$M
Operating profit	13,792	30,888
Remeasurement gains on interests in joint venture companies which become subsidiary companies	–	(14)
Bargain purchase gain on acquisition of a subsidiary company	–	(28)
Final purchase consideration adjustment on acquisition of assets	–	(107)
Profit on disposal of subsidiary companies	(1,384)	(1,309)
Profit on disposal of joint venture companies	(994)	(3,177)
Profit on sale of property, plant and equipment	(50)	(57)
Loss/(profit) on sale of investment properties	17	(53)
Provision on restructuring costs	125	–
Change in fair value of investment properties	(3,728)	(19,378)
Depreciation, amortisation and impairment losses	7,700	7,827
Other items	191	(112)
Operating profit before working capital changes	15,669	14,480
(Increase)/decrease in properties for sale	(915)	674
Increase in stocks and work in progress	(337)	(489)
(Increase)/decrease in contract assets	(144)	423
Decrease in trade and other receivables	952	181
(Decrease)/increase in trade and other payables and contract liabilities	(2,408)	3,059
Cash generated from operations	12,817	18,328

(b) Purchase of property, plant and equipment

	2019 HK$M	2018 HK$M
Property	539	574
Plant and machinery	2,849	2,423
Vessels	394	1,106
Total	3,782	4,103

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

(c) Analysis of changes in financing during the year

	Loans and bonds		Lease liabilities
	2019 HK$M	2018 HK$M	2019 HK$M
At 1st January			
as originally stated	71,779	78,586	–
adjustment on adoption of HKFRS 16	(4)	–	5,659
as restated	71,775	78,586	5,659
New leases arranged during the year	–	–	763
Net cash inflow/(outflow) from financing			
– Loans drawn and refinancing	10,564	10,624	–
– Repayment of loans and bonds	(14,135)	(17,571)	–
– Principal elements of lease payments	–	–	(950)
Change in composition of the Group	–	45	–
Effect of exchange differences	(288)	(29)	(6)
Other non-cash movements	117	124	(91)
At 31st December	68,033	71,779	5,375

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

(d) Disposal of subsidiary companies

	Subsidiaries in Property Division HK$M	Subsidiary in Beverages Division HK$M	Total HK$M
Net assets disposed of:			
Property, plant and equipment	–	4	4
Stocks and work in progress	–	1	1
Contract assets	20	–	20
Trade and other receivables	9	–	9
Assets classified as held for sale (including associated liabilities)	15,310	–	15,310
Bank balances and deposits maturing within three months	2	–	2
Trade and other payables	(15)	–	(15)
	15,326	5	15,331
Gains on disposal	1,361	23	1,384
	16,687	28	16,715
Satisfied by:			
Cash received (net of transaction costs)	16,987	28	17,015
Other consideration	(300)	–	(300)
	16,687	28	16,715
Analysis of the net inflow from disposal:			
Net cash proceeds	16,987	28	17,015
Cash and cash equivalents disposed of	(2)	–	(2)
Net inflow of cash and cash equivalents	16,985	28	17,013

Other than the net cash inflow of HK$17,013 million shown in the above, the proceeds from disposals of subsidiary companies also included inflow from receipt of a HK$521 million receivable outstanding at 31st December 2018 relating to disposals of subsidiary companies in Trading & Industrial Division in 2018.

The disposal of subsidiary companies in the Property Division mainly consists of the sales of interests in two office buildings at Taikoo Shing and in other investment properties in Hong Kong, which were classified as assets held for sale at 31st December 2018.

(e) Disposal of a joint venture company

	2019 HK$M
Share of net assets in a joint venture company disposed of	1,358
Gains on disposal	994
	2,352
Satisfied by:	
Cash received (net of transaction costs)	2,352

The share of net assets in the joint venture company disposed of mainly consisted of the Property Division's 50% interest in the fair value of an investment property at 625 King's Road in Hong Kong.

43. Event after the Reporting Period

Cathay Pacific has included the following event after the reporting period note to its financial statements for the year ended and as at 31st December 2019.

"The outbreak of COVID-19 since January 2020 has resulted in a challenging operational environment, and will adversely impact the Group's financial performance and liquidity position. Travel demand has dropped substantially and the Group has taken a number of short-term measures in response, including aggressive reduction of passenger capacity measured in Available Seat Kilometres (ASK) by approximately 30% for February and 65% for March and April, with frequencies cut approximately 65% and 75% over the same periods. Substantial passenger capacity and frequency reduction is also likely for May as we continue to monitor and match market demand. As at the end of February, passenger load factor had declined to approximately 50% and year-on-year yield had also fallen significantly. It is difficult to predict when these conditions will improve. However, the Group is expected to incur a substantial loss for the first half of 2020. The Group's available unrestricted liquidity as at 31st December 2019 was HK$20.0 billion. The Directors believe that with the cost saving measures being taken, the Group's strong vendor relationships, as well as the Group's liquidity position and availability of sources of funds, the Group will remain a going concern."

The negative effect of COVID-19 on Cathay Pacific (in which the Group has a 45% equity interest), together with less significant adverse effects of COVID-19 on some of the Group's other businesses, means that the Group expects to incur a loss for the first half of 2020.

44. Immediate and Ultimate Holding Company

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

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