# Independent Auditor's Report

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

## Opinion

*What we have audited*

The consolidated financial statements of Swire Pacific Limited (the "Company") and its subsidiaries (the "Group"), which are set out on pages 123 to 211, comprise:

- the consolidated statement of financial position as at 31st December 2021;
- the consolidated statement of profit or loss for the year then ended;
- the consolidated statement of other comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information.

*Our opinion*

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2021, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## Basis for Opinion

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

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

*Independence*

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

## Key Audit Matters

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

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| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| ***Classification and remeasurement of carrying value of assets of the Swire Pacific Offshore Holdings Limited disposal group***<br>*Refer to notes 28, 43 and 44 in the consolidated financial statements.*<br><br>As at 31st December 2021, management believed the disposal of Swire Pacific Offshore Holdings Limited (the "SPO disposal group") was highly probable and will be executed in the next twelve months. Management classified the assets and liabilities of the SPO disposal group as held for sale as at 31st December 2021 and presented its results as discontinued operations.<br><br>Management remeasured the assets of the SPO disposal group to their fair value less cost to sell, with reference to the disposal consideration. A remeasurement loss on assets classified as held for sale of HK$1,611 million has been recognised for the year. | Our procedures in relation to management's classification and remeasurement of carrying value of assets of the SPO disposal group included:<br><br>– Reviewing the sale and purchase agreement to determine the key contract terms, disposal consideration and accounting implications;<br><br>– Assessing the basis of estimating the fair value less cost to sell and reviewing the calculation of remeasurement loss recognised for the year by comparing the disposal consideration with the carrying value of assets and liabilities of the SPO disposal group as at 31st December 2021; and<br><br>– Assessing the appropriateness of the disclosures in the financial statements.<br><br>We found management's classification and remeasurement of the carrying value of assets to be reasonable. We found the disclosures in notes 28, 43 and 44 to be appropriate. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| ***Valuation of investment properties***<br>*Refer to note 15 in the consolidated financial statements.*<br><br>The fair value of the Group's investment properties amounted to HK$267,354 million at 31st December 2021, with a fair value loss of HK$1,931 million recorded in the consolidated statement of profit or loss for the year.<br><br>Valuations were obtained from third party valuers (the "valuers") in respect of 97% of the investment properties as at 31st December 2021. The valuations are dependent on certain key assumptions that require significant management judgement, including capitalisation rates and market rents. The valuations of investment properties under development are also dependent upon the estimated costs to complete and expected developer's profit margin. | Our procedures in relation to valuation of investment properties included:<br><br>– Evaluation of the valuers' competence, capabilities, independence and objectivity;<br><br>– Meeting the valuers to discuss the valuations and key assumptions used;<br><br>– Review of the external valuation reports to assess the appropriateness of methodologies used;<br><br>– Comparison of the capitalisation rates, market rents and expected developer's profit margin used by the valuers to an estimated range, determined by reference to publicly available information by our in-house valuation experts;<br><br>– Checking the accuracy of the rental data provided by management to the valuers by agreeing them on a sample basis to the Group's records; and<br><br>– For investment properties under development, comparing the estimated construction costs to complete with the Group's budgets.<br><br>We found the key assumptions were supported by the available evidence. We found the disclosures in note 15 to be appropriate. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| ***Impairment assessment of goodwill and the Group's interest in a joint venture company in the Hong Kong Aircraft Engineering Company Limited ("HAECO") group***<br>*Refer to notes 16 and 20 in the consolidated financial statements.* | |
| Management performed impairment assessments in relation to the goodwill allocated to HAECO Hong Kong and Chinese Mainland of HK$3,510 million as at 31st December 2021 and, given the presence of impairment indicators following the adverse impact of COVID-19, in relation to the Group's interest of HK$4,250 million in Hong Kong Aero Engine Services Limited ("HAESL"), a joint venture company, as at 31st December 2021.<br><br>Management compared the carrying values of the HAECO Hong Kong and Chinese Mainland businesses and the Group's interest in HAESL with their respective recoverable amounts which were determined by value in use calculations, using discounted cash flow forecasts, to assess if any impairment provision was required.<br><br>The value in use calculations reflect certain key assumptions made by management including estimated future cash flows and growth rates and the discount rates applied.<br><br>These assumptions reflect a significant degree of management judgement as well as uncertainty about the duration of the impact of COVID-19 on future cash flows.<br><br>Based on the impairment assessments, management concluded impairment provisions were not required as at 31st December 2021. | Our procedures in relation to management's impairment assessment of goodwill allocated to HAECO Hong Kong and Chinese Mainland and the Group's interest in HAESL included:<br><br>– Assessing management's allocation of assets to HAECO Hong Kong and Chinese Mainland for the purposes of the impairment assessment;<br><br>– Comparing the cash flow forecasts with approved budgets and latest available performance information;<br><br>– Making detailed inquiries of management to understand their estimates of the impact of COVID-19 on the demand for aircraft maintenance and engine overhaul work and how this has been reflected in the cash flow forecasts;<br><br>– Evaluating the assumptions in the cash flow forecasts relating to the impact of COVID-19 on demand for aircraft maintenance and engine overhaul work with reference to publicly available industry reports;<br><br>– Evaluating the discount rates and growth rates applied in the impairment calculations based on historical trends and market data;<br><br>– Reviewing management's sensitivity analyses and performing our sensitivity analyses on the key assumptions in the cash flow forecasts, including expected rates of recovery, growth rates and discount rates, and assessing whether there were indicators of management bias in the selection of these assumptions; and<br><br>– Assessing the appropriateness of the disclosures in the financial statements.<br><br>Based on the available evidence we found management's assumptions in relation to the impairment assessment to be reasonable. We found the disclosures in notes 16 and 20 to be appropriate. |

## Key Audit Matter

***Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific")***

*Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 210 and 211.*

The Group's 45% interest in Cathay Pacific is accounted for under the equity method. The Group's share of loss after tax from Cathay Pacific for the year ended 31st December 2021 was HK$2,487 million and the Group's interest in Cathay Pacific's was HK$23,611 million as at 31st December 2021.

Swire Pacific management considered the adverse impact of COVID-19 on Cathay Pacific's performance to be an indicator of potential impairment. As a result, Swire Pacific management performed an impairment assessment of the carrying amount of their interest in Cathay Pacific at 31st December 2021.

Swire Pacific management estimated the recoverable amount of the Group's interest in Cathay Pacific based on value in use calculations, using a discounted cash flow forecast, and compared this with the carrying value of the Group's interest in Cathay Pacific, in order to assess if an impairment provision was required. Cathay Pacific management also assessed the carrying value of major assets for impairment in Cathay Pacific's own financial statements, as summarised in "Assessing impairment of property, plant and equipment and intangible assets" below.

The preparation of the discounted cash flow forecasts involved management making certain key assumptions, including estimated future cash flows and growth rates and the discount rate applied. The resulting cash flow forecasts reflect a significant degree of management judgement as well as uncertainty about the duration of the impact of COVID-19 on future cash flows.

Other key audit matters relating to the Group's share of loss and net assets of Cathay Pacific are summarised below. The amounts noted below are those in the Cathay Pacific financial statements (i.e. on a 100% basis).

## How our audit addressed the Key Audit Matter

Cathay Pacific is a significant associate of the Group and is audited by a non-PwC auditor ("the CX Auditor"). We have met with the CX Auditor and have discussed their identified audit risks and audit approach, results of their work and key audit matters identified; and have reviewed their working papers.

In respect of the impairment assessment of the Group's interest in Cathay Pacific, in addition to the procedures performed by the CX Auditor, our procedures included:

– Making detailed inquiries of management to understand their estimates of the impact of COVID-19 on Cathay Pacific and how this has been reflected in the cash flow forecasts;

– Comparing cash flow forecasts with approved budgets and latest available performance information;

– Evaluating the assumptions in the cash flow forecasts relating to the impact of COVID-19 on Cathay Pacific with reference to publicly available aviation industry reports;

– Involving our own valuation specialists in our internal assessment of the discount rate used;

– Evaluating key assumptions including the discount rate, growth rates for revenues and expenses, and the terminal growth rate applied in the impairment calculations based on our knowledge of the industry, historical trends and market information relating to the aviation passenger and cargo businesses;

– Reviewing management's sensitivity analyses and challenging management including performing our own sensitivity analyses on the key assumptions, including expected rates of recovery, growth rates and the discount rate; and

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

After considering the procedures performed by us in respect of the impairment assessment of the Group's interest in Cathay Pacific and our review of the audit work of the CX Auditor, we have determined that the audit work performed and evidence obtained are sufficient for our purpose. We discussed the key audit matters relating to Cathay Pacific with Swire Pacific management and evaluated the impact on our audit of the consolidated financial statements.

The procedures performed by the CX Auditor on the respective key audit matters are summarised below.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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***Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued)***

*Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 210 and 211.*

**Assessing impairment of property, plant and equipment and intangible assets –** The carrying values of Cathay Pacific's property, plant and equipment and intangible assets were HK$123,990 million and HK$15,035 million respectively as at 31st December 2021.

At the end of each reporting period, Cathay Pacific management identifies assets which are unlikely to be deployed in economic service in the future, and impairment losses are recorded based on the assets' estimated fair value less costs of disposal. The remaining items of property, plant and equipment and intangible assets are allocated to cash-generating units ("CGUs"). Where indicators of impairment of a CGU are identified, Cathay Pacific management performs an impairment assessment of the CGU by comparing its carrying value with its recoverable amount which is the higher of fair value less costs of disposal and value in use based on discounted cash flow forecasts. In addition, for CGUs containing goodwill, an impairment assessment is performed at least annually even if there is no indicator of impairment.

Passenger travel demands remain low as a result of the COVID-19 pandemic, and Cathay Pacific management has reassessed its operating plans including the expected timing of retirement of aircraft. As a result of Cathay Pacific management's assessment, impairment losses of HK$1,010 million were recognised in respect of property, plant and equipment for the year ended 31st December 2021 primarily related to aircraft and related equipment.

The CX Auditor identified the assessment of impairment of property, plant and equipment and intangible assets as a key audit matter because (i) of the significance of the carrying value of such assets to the consolidated financial statements of Cathay Pacific and (ii) the preparation of discounted cash flow forecasts for the purpose of impairment assessments involves identifying assets which are unlikely to be deployed in economic service in the future, and estimating future cash flows, growth rates and discount rates involve a significant degree of management judgement and could be subject to management bias.

Meeting with Cathay Pacific management and reviewing board minutes and other papers to understand the impact of COVID-19 on Cathay Pacific, the mitigation strategies adopted, and how these are reflected in the Cathay Pacific's restructuring plan;

- Assessing management's identification of assets which are unlikely to be deployed in economic service in the future by obtaining Cathay Pacific's asset utilisation plan and evaluating their recoverable amounts;
- Assessing Cathay Pacific management's identification of the CGUs, allocation of assets and methodology adopted by Cathay Pacific management in its impairment assessment with reference to the requirements of the prevailing accounting standards;
- Discussing indicators of possible impairment of property, plant and equipment and intangible assets with Cathay Pacific management and, for CGUs where such indicators were identified and CGUs with goodwill, assessing Cathay Pacific management's impairment testing;
- Evaluating the assumptions adopted in the preparation of the discounted cash flow forecast, including projected future growth rates for income and expenses and discount rates, with reference to the CX Auditor's understanding of the business, historical trends, available industry information and market data;
- Involving the CX Auditor's internal valuation specialists in order to assess the methodology and significant assumptions including discount rates adopted by Cathay Pacific management in its impairment assessment; and
- Performing sensitivity analyses on the key assumptions, including projected profitability, expected growth rates and discount rates adopted in the discounted cash flow forecasts and assessing whether there were indicators of management bias in the selection of these assumptions.

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| ***Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued)***<br>*Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 210 and 211.* | |
| **Revenue recognition –** Cathay Pacific's revenue amounted to HK$45,587 million for the year ended 31st December 2021. Revenue from passenger and cargo sales is recorded when the related transportation service is provided, using sophisticated information technology systems to track the point of service delivery and, where necessary, estimates of fair values for the services provided that involve a significant degree of management judgement. | – Assessing information technology controls and key manual and application controls over Cathay Pacific's revenue systems;<br>– Performing analytical procedures on revenue; and<br>– Inspecting underlying documentation for journal entries related to revenue which met specific risk-based criteria. |
| **Hedge accounting –** Cathay Pacific enters into derivative financial instrument contracts to manage its exposure to fuel price risk, foreign currency risk and interest rate risk. Hedge accounting under HKFRSs is applied to some of these arrangements, and related contracts gave rise to derivative financial assets of HK$1,712 million and liabilities of HK$312 million as at 31st December 2021. These contracts are recorded at fair value and for those contracts hedge accounting is applied, such that gains and losses arising from fair value changes are deferred in equity and recognised in the consolidated statement of profit or loss when hedges mature.<br><br>The contracts necessitate a sophisticated system to record and track each contract and determine the related valuations at each financial reporting date. The valuation of hedging instruments and consideration of hedge effectiveness can involve a significant degree of both complexity and management judgement and are subject to an inherent risk of error. Furthermore, economic uncertainties caused by COVID-19 have resulted in increased judgement being required for forecasting travel demand and fuel consumption for the purpose of hedge designation and evaluating whether a hedging relationship continues to meet the qualifying criteria. | – Assessing Cathay Pacific's internal controls over derivative financial instruments and hedge accounting;<br>– Discussing with Cathay Pacific management the assumptions used in forecasting flying activity and fuel consumption, and challenging and performing sensitivity analysis on these estimates based on different possible COVID-19 recovery scenarios;<br>– Inspecting, on a sample basis, Cathay Pacific's hedge documentation and contracts;<br>– Re-performing, on a sample basis, the year end valuations of derivative financial instruments and calculations of hedge effectiveness, and testing the discontinuation of hedging relationships where the hedging instrument is terminated or the hedged forecast transaction is no longer considered to be highly probable; and<br>– Obtaining confirmation of derivative financial instruments that exist at the reporting date from counterparties on a sample basis. |

| Key Audit Matter | How our audit addressed the Key Audit Matter |
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| ***Key Audit Matters in relation to Cathay Pacific Airways Limited ("Cathay Pacific") (continued)***<br>*Refer to note 20 in the consolidated financial statements and the abridged financial statements of Cathay Pacific on pages 210 and 211.* | |
| **Assessment of provisions for taxation, litigation and claims –** As at 31st December 2021, Cathay Pacific had provisions in respect of possible or actual taxation disputes, litigation and claims amounting to HK$3,467 million. These provisions are estimated using a significant degree of management judgement in interpreting the various relevant rules, regulations and practices and in considering precedents in the various jurisdictions. | – Assessing the adequacy of Cathay Pacific's tax provisions by reviewing correspondence with tax authorities;<br>– Discussing significant litigation, claims and regulatory enquiries with Cathay Pacific's internal legal counsel;<br>– Obtaining letters from Cathay Pacific's external legal advisors including their views regarding the likely outcome and magnitude of and exposure to the relevant litigation, claims and regulatory enquiries;<br>– Considering opinions given by Cathay Pacific's third party advisors; and<br>– Assessing the reliability of Cathay Pacific management's past estimates. |
| | We found that, in the context of our audit of the consolidated financial statements of Swire Pacific Limited, Cathay Pacific's management judgements and estimates associated with the key audit matters noted in respect of the Group's share of the loss and interest in Cathay Pacific were supported by the available evidence. |

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon. The other information does not include the specific information presented therein that is identified as being an integral part of the consolidated financial statements and, therefore, covered by our audit opinion on the consolidated financial statements.

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

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

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

**PricewaterhouseCoopers**
Certified Public Accountants
Hong Kong, 10th March 2022