Annual Report

# 2018

SWIRE PROPERTIES

Stock Code: 1972

We are a leading developer, owner and operator of mixed-use, principally commercial, properties in Hong Kong and Mainland China, with a record of creating long-term value by transforming urban areas.

Our business comprises three main elements:

- Property Investment
- Property Trading
- Hotel Investment

One Taikoo Place
Hong Kong

# 2018 Highlights

Swire Properties unveiled

## Arts Month 2018

March – Hong Kong

details on page 86

Opening of **The Middle House**,
Swire Hotels' fourth House hotel and a non-managed hotel, The Sukhothai Shanghai

May – Shanghai

details on pages 37 to 38

Topping out of the new retail extension to

## Citygate Outlets

May – Hong Kong

details on page 25



Taikoo Li Sanlitun celebrated its

## 10th anniversary

August – Beijing

details on page 86

Completion of South Island Place, Swire Properties' first Grade-A office building in Wong Chuk Hang

August – Hong Kong
details on page 21

Completion of One Taikoo Place, Swire Properties' premium Grade-A office building

September – Hong Kong
details on page 25

Swire Properties is included in the Dow Jones Sustainability World Index, the Global Real Estate Sustainability Benchmark, the FTSE4Good Index, the Hang Seng Corporate Sustainability Index and the MSCI World ESG Leaders Index

October – Hong Kong
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Sixth annual White Christmas Street Fair at Taikoo Place

December – Hong Kong
details on page 86

# Contents

# Company Profile

## Swire Properties is a leading developer, owner and operator of mixed-use, principally commercial, properties in Hong Kong and Mainland China, with a record of creating long-term value by transforming urban areas. Our business comprises three main elements: property investment, property trading and hotel investment.

Founded in Hong Kong in 1972, Swire Properties is listed on The Stock Exchange of Hong Kong Limited and, with its subsidiaries, employs over 5,000 people. Swire Properties' shopping malls are home to more than 1,700 retail outlets. Its offices house a working population estimated to exceed 78,000.

In Hong Kong, we have spent over 40 years developing an industrial area into what is now Taikoo Place and Cityplaza, one of Hong Kong's largest business districts comprising office space, the largest shopping mall on Hong Kong Island and a hotel. Pacific Place, built on the former Victoria Barracks site, is one of Hong Kong's premier retail and business addresses. In Mainland China, Swire Properties has six major mixed-use projects in operation or under development in Beijing, Guangzhou, Chengdu and Shanghai. Similar in scale to our developments in Hong Kong, our Mainland China properties are in commercial districts with excellent transport connections.

Swire Properties has interests in the luxury residential market in Hong Kong and in Miami in the U.S.A. Swire Hotels develops and manages hotels in Hong Kong and Mainland China and in Miami in the U.S.A.

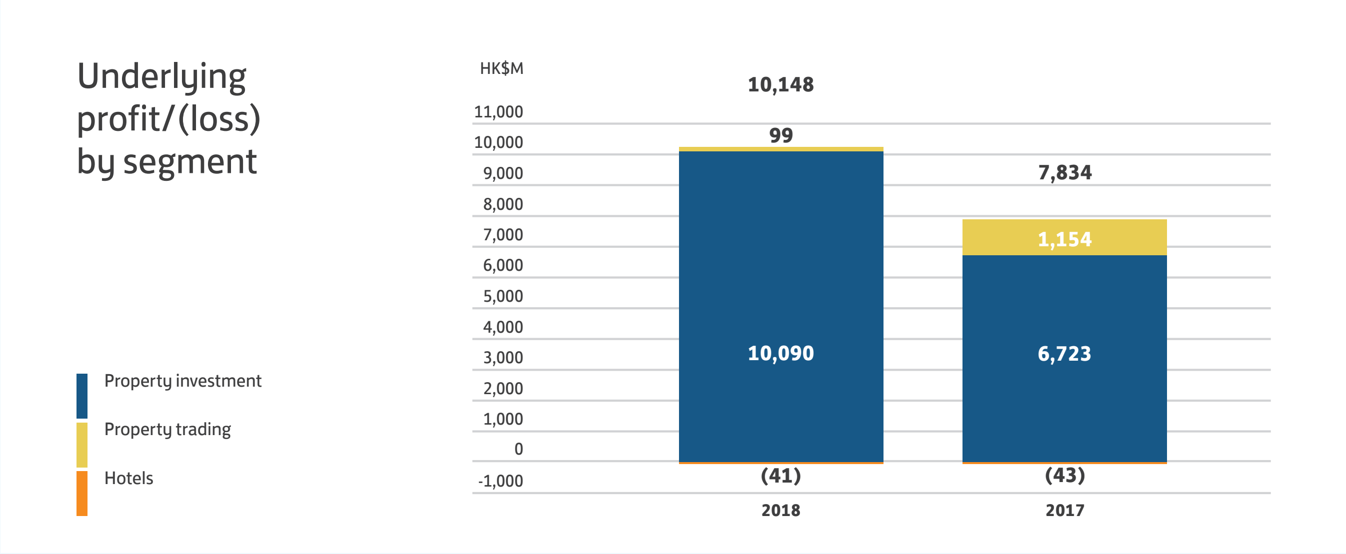
The Company has a significant presence in Miami, U.S.A., where it develops investment and residential trading properties. The first phase of Brickell City Centre, a large scale mixed-use project in the Brickell financial district in Miami, was completed in 2016 and was fully open in 2017. The Company has an office in Singapore to explore opportunities in the property markets in Southeast Asia.

# Financial Highlights

| **Results**<br>**For the year** | *Note* | **2018**<br>**HK$M** | 2017<br>HK$M | Change |
|---|---|---|---|---|
| Revenue | | **14,719** | 18,558 | -21% |
| Operating profit | | **29,365** | 34,930 | -16% |
| Profit attributable to the Company's shareholders | | | | |
| Underlying | *(a), (b)* | **10,148** | 7,834 | +30% |
| Recurring underlying | *(b)* | **7,521** | 7,813 | -4% |
| Reported | | **28,666** | 33,957 | -16% |
| Cash generated from operations | | **11,619** | 13,680 | -15% |
| Net cash inflow before financing | | **10,144** | 4,869 | +108% |
| | | **HK$** | HK$ | |
| Earnings per share | | | | |
| Underlying | *(c)* | **1.74** | 1.34 | +30% |
| Recurring underlying | *(c)* | **1.29** | 1.34 | -4% |
| Reported | *(c)* | **4.90** | 5.80 | -16% |
| Dividends per share | | | | |
| First interim | | **0.27** | 0.25 | +8% |
| Second interim | | **0.57** | 0.52 | +10% |

| **Financial Position**<br>**At 31st December** | | **HK$M** | HK$M | |
|---|---|---|---|---|
| Total equity (including non-controlling interests) | | **281,291** | 259,378 | +8% |
| Net debt | | **29,905** | 35,347 | -15% |
| Gearing ratio | *(a)* | **10.6%** | 13.6% | -3.0%pt. |
| | | **HK$** | HK$ | |
| Equity attributable to the Company's shareholders per share | *(a)* | **47.74** | 44.00 | +9% |

Notes:
(a) Refer to glossary on page 181 for definition.
(b) A reconciliation between reported profit and underlying profit attributable to the Company's shareholders is provided on page 15.
(c) Refer to note 14 in the financial statements for the weighted average number of shares.



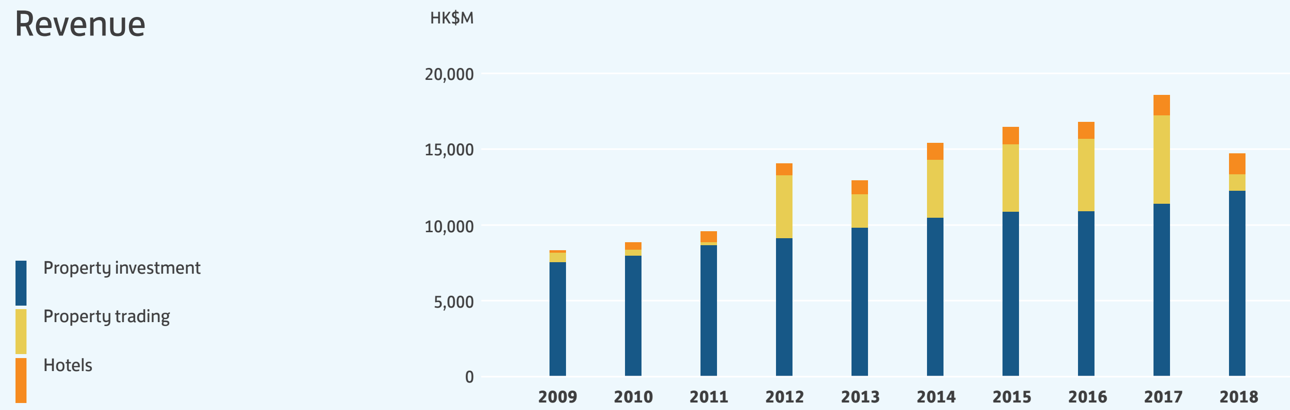
# Ten-Year Financial Summary

| | 2009 HK$M | 2010 HK$M | 2011 HK$M | 2012 HK$M | 2013 HK$M | 2014 HK$M | 2015 HK$M | 2016 HK$M | 2017 HK$M | **2018 HK$M** |
|---|---|---|---|---|---|---|---|---|---|---|
| **STATEMENT OF PROFIT OR LOSS** | | | | | | | | | | |
| **Revenue** | | | | | | | | | | |
| Property investment | 7,516 | 7,953 | 8,651 | 9,123 | 9,786 | 10,456 | 10,857 | 10,902 | 11,380 | **12,254** |
| Property trading | 643 | 400 | 213 | 4,147 | 2,207 | 3,842 | 4,463 | 4,760 | 5,833 | **1.061** |
| Hotels | 172 | 518 | 717 | 782 | 942 | 1,089 | 1,127 | 1,130 | 1,345 | **1,404** |
| | 8,331 | 8,871 | 9,581 | 14,052 | 12,935 | 15,387 | 16,447 | 16,792 | 18,558 | **14,719** |
| **Profit Attributable to the Company's Shareholders** | | | | | | | | | | |
| Property investment | 3,965 | 4,574 | 4,638 | 4,896 | 5,426 | 6,029 | 6,231 | 5,938 | 6,671 | **8,732** |
| Property trading | 23 | 87 | 7 | 1,659 | 720 | 1,020 | 1,089 | 1,199 | 1,111 | **99** |
| Hotels | (332) | (109) | (33) | 14 | (46) | 30 | (303) | (117) | (43) | **(41)** |
| Change in fair value of investment properties | 13,596 | 21,478 | 20,496 | 12,184 | 6,425 | 2,437 | 7,055 | 8,030 | 26,218 | **19,876** |
| | 17,252 | 26,030 | 25,108 | 18,753 | 12,525 | 9,516 | 14,072 | 15,050 | 33,957 | **28,666** |
| Dividends for the year | 25 | 2,426 | 11,067 | 3,510 | 3,510 | 3,861 | 4,154 | 4,154 | 4,505 | **4,914** |
| Retained profit | 17,227 | 23,604 | 14,041 | 15,243 | 9,015 | 5,655 | 9,918 | 10,896 | 29,452 | **23,752** |
| **STATEMENT OF FINANCIAL POSITION** | | | | | | | | | | |
| **Net Assets Employed** | | | | | | | | | | |
| Property investment | 155,374 | 183,062 | 191,116 | 207,577 | 218,556 | 226,607 | 235,917 | 248,466 | 283,045 | **299,659** |
| Property trading | 3,772 | 6,303 | 6,581 | 7,309 | 9,408 | 8,210 | 7,452 | 6,616 | 3,942 | **4,143** |
| Hotels | 5,523 | 5,797 | 6,421 | 7,111 | 7,200 | 7,801 | 7,928 | 7,520 | 7,738 | **7,394** |
| | 164,669 | 195,162 | 204,118 | 221,997 | 235,164 | 242,618 | 251,297 | 262,602 | 294,725 | **311,196** |
| **Financed by** | | | | | | | | | | |
| Equity attributable to the Company's shareholders | 129,778 | 157,847 | 175,886 | 192,434 | 202,350 | 207,691 | 216,247 | 225,369 | 257,381 | **279,275** |
| Non-controlling interests | 424 | 479 | 532 | 642 | 800 | 856 | 1,702 | 1,856 | 1,997 | **2,016** |
| Net debt | 34,467 | 36,836 | 27,700 | 28,921 | 32,014 | 34,071 | 33,348 | 35,377 | 35,347 | **29,905** |
| | 164,669 | 195,162 | 204,118 | 221,997 | 235,164 | 242,618 | 251,297 | 262,602 | 294,725 | **311,196** |
| | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | HK$ | **HK$** |
| Earnings per share | 3.14 | 4.57 | 4.40 | 3.21 | 2.14 | 1.63 | 2.41 | 2.57 | 5.80 | **4.90** |
| Dividends per share | – | 0.43 | 1.94 | 0.60 | 0.60 | 0.66 | 0.71 | 0.71 | 0.77 | **0.84** |
| Equity attributable to shareholders per share | 23.60 | 27.74 | 30.07 | 32.89 | 34.59 | 35.50 | 36.97 | 38.52 | 44.00 | **47.74** |
| **RATIOS** | | | | | | | | | | |
| Return on average equity attributable to the Company's shareholders | 14.4% | 18.1% | 15.0% | 10.2% | 6.3% | 4.6% | 6.6% | 6.8% | 14.1% | **10.7%** |
| Gearing ratio | 26.5% | 23.3% | 15.7% | 15.0% | 15.8% | 16.3% | 15.3% | 15.6% | 13.6% | **10.6%** |
| Interest cover – times | 17.56 | 21.79 | 18.23 | 15.72 | 10.02 | 8.96 | 13.56 | 15.48 | 38.81 | **33.29** |
| Dividend payout ratio | N/A | 9.3% | 44.1% | 18.7% | 28.0% | 40.6% | 29.5% | 27.6% | 13.3% | **17.1%** |
| **UNDERLYING** | | | | | | | | | | |
| Profit (HK$M) | 3,721 | 4,767 | 12,914 | 6,935 | 6,348 | 7,152 | 7,078 | 7,112 | 7,834 | **10,148** |
| Return on average equity attributable to the Company's shareholders | 3.1% | 3.3% | 7.7% | 3.8% | 3.2% | 3.5% | 3.3% | 3.2% | 3.2% | **3.8%** |
| Earnings per share (HK$) | 0.68 | 0.84 | 2.26 | 1.19 | 1.09 | 1.22 | 1.21 | 1.22 | 1.34 | **1.74** |
| Interest cover – times | 4.33 | 5.37 | 12.01 | 7.90 | 6.43 | 7.58 | 7.75 | 8.89 | 10.68 | **12.58** |
| Dividend payout ratio | N/A | 50.9% | 85.7% | 50.6% | 55.3% | 54.0% | 58.7% | 58.4% | 57.5% | **48.4%** |

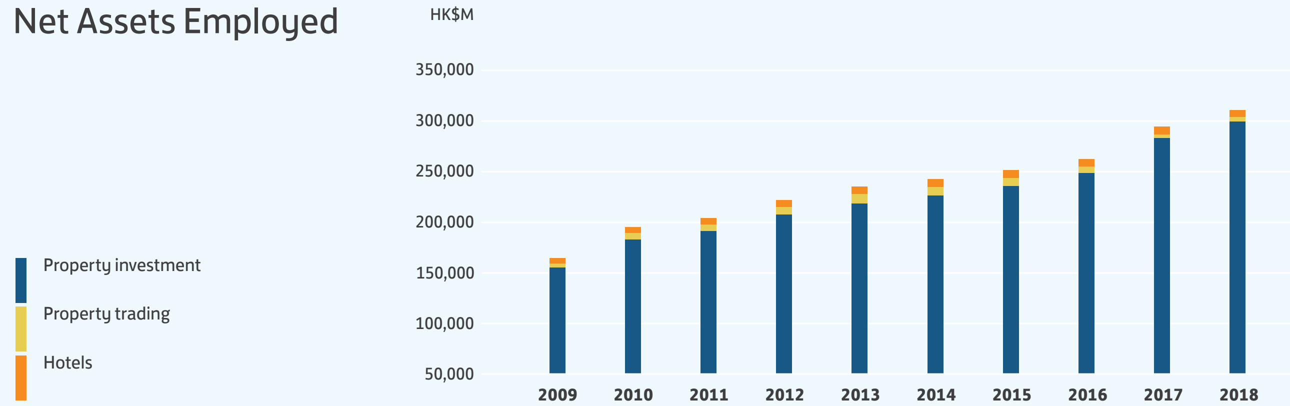
Notes:

1. The information for all years is shown in accordance with the Group's current accounting policies and disclosure practices. Consequently figures for years prior to 2018 may be different from those originally presented.
2. The equity attributable to the Company's shareholders and the returns by segment for 2018 and 2017 are shown in the Financial Review – Investment Appraisal and Performance Review on page 50.
3. Underlying profit is discussed on pages 15 to 17.
4. The earnings per share, dividends per share and equity per share for the years prior to 2010 have been recalculated based on the weighted average number of ordinary shares which reflect the Company's shares in issue for those years adjusted for the 1,108,132,451 shares issued on 25th January 2010 as consideration to acquire Swire Properties US Inc. and Swire Properties One LLC, and the bonus element in respect of the 3,969,615,000 shares issued at par, which was below market value, issued on 31st December 2009.
5. Refer to Glossary on page 181 for definitions and ratios.

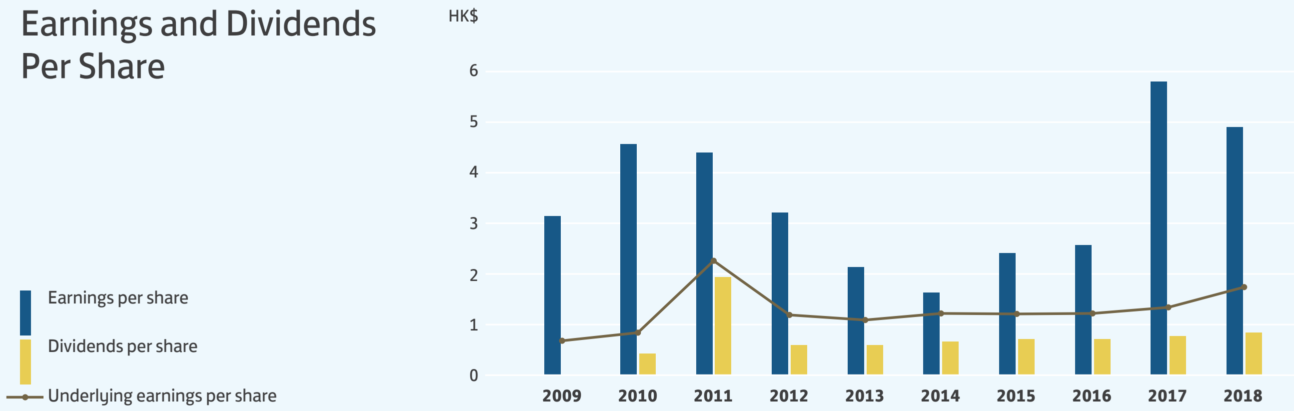
## Revenue



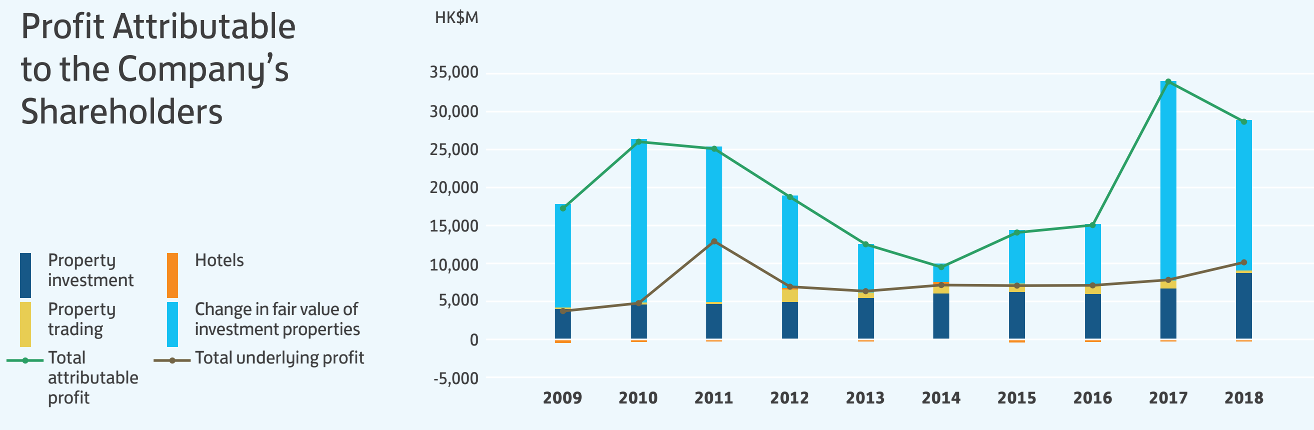

## Net Assets Employed



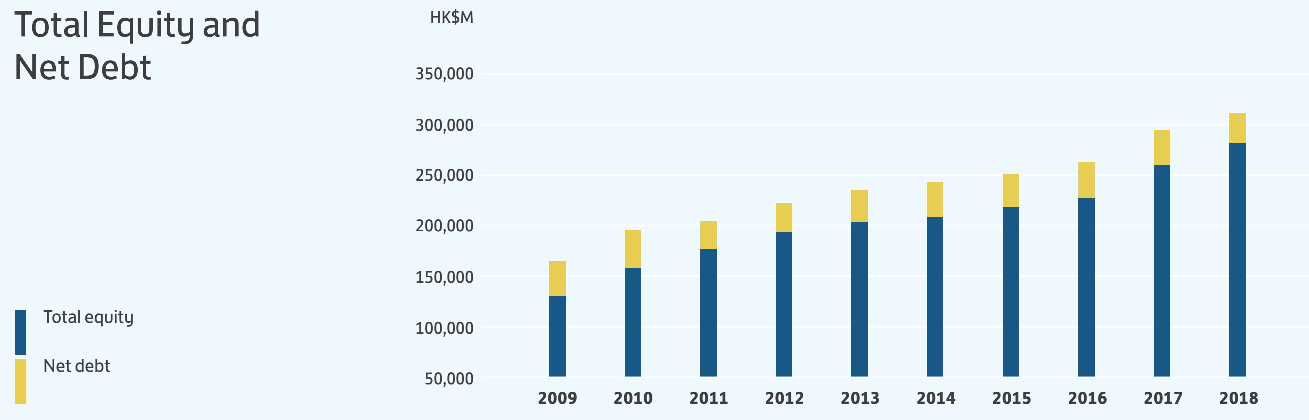

## Earnings and Dividends Per Share



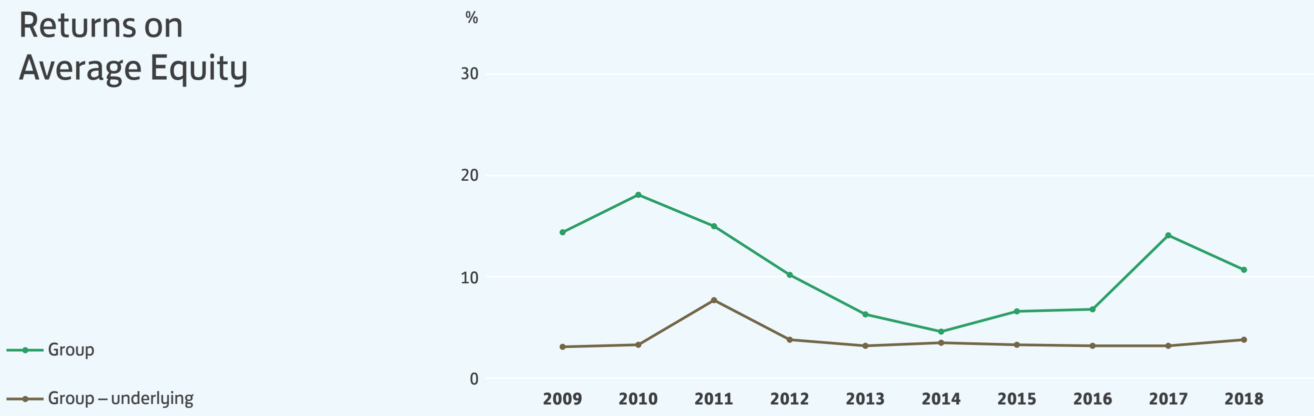
## Profit Attributable to the Company's Shareholders




## Total Equity and Net Debt




## Returns on Average Equity



# Chairman's Statement

**Our consolidated profit attributable to shareholders for 2018 was HK$28,666 million, compared to HK$33,957 million in 2017. Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK$2,314 million from HK$7,834 million in 2017 to HK$10,148 million in 2018. Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK$7,521 million in 2018, compared with HK$7,813 million in 2017.**

## Dividends

The Directors have declared a second interim dividend of HK$0.57 (2017: HK$0.52) per share which, together with the first interim dividend of HK$0.27 per share paid in October 2018, amounts to full year dividends of HK$0.84 (2017: HK$0.77) per share. The second interim dividend, which totals HK$3,334 million (2017: HK$3,042 million), will be paid on Thursday, 9th May 2019 to shareholders registered at the close of business on the record date, being Thursday, 4th April 2019. Shares of the Company will be traded ex-dividend from Tuesday, 2nd April 2019.

The full year dividends for 2018 represent a 9% increase over the dividends for 2017. The 2018 dividend payout ratio is 48% of underlying profits. The Company's dividend policy is to deliver sustainable growth in dividends and to pay out approximately half of our underlying profits in ordinary dividend over time.

## Key Developments

In March 2018, Swire Properties completed the acquisition of a 50% interest in Shanghai Qianxiu Company Limited ("Shanghai Qianxiu") from a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. ("LJZ"). Swire Properties and LJZ each hold a 50% interest in Shanghai Qianxiu. Shanghai Qianxiu is developing a retail project with an aggregate gross floor area ("GFA") of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. The development (now called Taikoo Li Qiantan) is expected to be completed in 2020.

In May 2018, The Middle House, Swire Hotels' fourth hotel in The House Collective (which is managed by Swire Properties), and a non-managed hotel, The Sukhothai Shanghai, officially opened in Shanghai.

In May 2018, the extension to Citygate Outlets, with an aggregate GFA of approximately 474,000 square feet, was topped out. The extension is expected to open in the summer of 2019. Swire Properties has a 20% interest in the development.

In June 2018, the agreement for the sale of the subsidiary of Swire Properties which developed an office building in Kowloon Bay, Hong Kong became unconditional and the sale was completed.

In June 2018, Swire Properties conditionally agreed to sell its 100% interest in a subsidiary which owns the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong. The consideration for the sale is HK$15,000 million, subject to adjustments. Completion of the sale is expected to take place in or before April 2019. Swire Properties intends to reinvest the proceeds of the sale in new developments and does not intend to pay a special dividend.

In August 2018, South Island Place, our first Grade-A office building in Wong Chuk Hang, Hong Kong, was completed. The 28-storey building, which was jointly developed with China Motor Bus Company, Limited, has a GFA of approximately 382,500 square feet.

In November 2018, One Taikoo Place, the first of two premium Grade-A office buildings in the Taikoo Place redevelopment, became fully let. One Taikoo Place has an aggregate GFA of around one million square feet. The building was topped out in January 2018 and received its occupation permit in September 2018.

## Operating Performance

Underlying profit increased to HK$10,148 million in 2018 from HK$7,834 million in 2017. The increase principally reflected the profit arising from the sale of a subsidiary which owned an office building in Kowloon Bay and of our interests in other investment properties in Hong Kong. This was partly offset by a decrease in profit from property trading.

Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK$7,521 million in 2018, compared with HK$7,813 million in 2017. The decrease principally reflected a decrease in profit from property trading. Recurring underlying profit from property investment increased by 11%. Hotel losses decreased.

Gross rental income was HK$12,117 million in 2018, compared to HK$11,252 million in 2017. In Hong Kong, office rental income increased due to positive rental reversions, firm occupancy and the opening of One Taikoo Place in the last quarter of 2018. Retail rental income in Hong Kong improved in 2018. In Mainland China, gross rental income increased by 12%, mainly due to positive rental reversions and improved occupancy. In the U.S.A., gross rental income almost doubled, mainly because more shops were open at the shopping centre at Brickell City Centre.

Underlying profit from property trading in 2018 arose mainly from the sale of houses at the WHITESANDS development and carparks at the AZURA development in Hong Kong, and from the share of profit from the sale of offices and carparks at Sino-Ocean Taikoo Li Chengdu in Mainland China.

The performance of the hotels continued to improve in 2018, with those in Hong Kong and in the U.S.A. doing better. This was offset in part by pre-opening costs at hotels in Shanghai in Mainland China.

On an attributable basis, net investment property valuation gains in 2018, after deferred tax relating to investment properties in Mainland China and the U.S.A., were HK$19,876 million, compared to net gains of HK$26,218 million in 2017.

## Finance

Net debt at 31st December 2018 was HK$29,905 million, compared with HK$35,347 million at 31st December 2017. Gearing decreased from 13.6% at 31st December 2017 to 10.6% at 31st December 2018. The reduction in net debt reflected receipt of the balance of the proceeds of sale of a subsidiary owning an office building in Kowloon Bay, Hong Kong, and of a deposit in respect of the sale of a subsidiary owning our interests in the Cityplaza Three and Cityplaza Four properties in Quarry Bay, Hong Kong. These receipts were partially offset by funding for Taikoo Li Qiantan in Shanghai, Mainland China and capital expenditure on investment properties in Hong Kong. Cash and undrawn committed facilities were HK$14,147 million at 31st December 2018, compared with HK$12,269 million at 31st December 2017.

## Sustainable Development

Swire Properties is included in the Dow Jones Sustainability World Index ("DJSI World"), the Global Real Estate Sustainability Benchmark ("GRESB"), the FTSE4Good Index, the Hang Seng Corporate Sustainability Index and the MSCI World ESG Leaders Index.

In January 2018, Swire Properties issued its first green bond, raising US$500 million for 10 years at a coupon rate of 3.5%. Approximately 80% of the proceeds from the bond have been allocated, mainly to the development of green buildings and energy efficiency projects.

## Prospects

In the central district of Hong Kong, reduced demand is expected to exert downward pressure on office rents. However, high occupancy and limited supply are expected to underpin office rents at Pacific Place. High occupancy and strong demand are expected to result in office rents at our Taikoo Place developments being resilient despite increased supply in Kowloon East and other districts. With the absence of significant new supply in the central business district of Guangzhou and stable demand, office vacancy rates are expected to decrease (and rents to increase slightly) in 2019. Office rents in Beijing are expected to come under pressure in 2019, with increased supply in the central business district and higher vacancy rates. With limited new supply in the central business district of Jing'an and robust demand from domestic and international companies, office rentals are likely to be resilient in 2019 in Shanghai. In Miami, the supply of new Grade-A office space in the central business district and the Brickell area is low and demand is firm.

In Hong Kong, we expect retail sales to remain stable in 2019. The opening of the Hong Kong-Zhuhai-Macao Bridge is increasing tourist arrivals. But both Mainland China tourists and Hong Kong residents are becoming cautious about spending, because of global trade uncertainties and the adverse effect of the weakening Renminbi (in the case of the former). Retail sales are expected to grow steadily in Beijing, Guangzhou and Shanghai and moderately in Chengdu in 2019. Retail rents are expected to grow moderately in Shanghai and Chengdu despite an increase in the availability of competing space. In Beijing, demand for luxury, fashion and lifestyle brands and for food and beverages is expected to be solid. Demand for retail space from international retailers and food and beverage operators is strong in Guangzhou. In Chengdu, demand for retail space in prime locations is expected to be strong in 2019. In Miami, retail sales are increasing steadily. Demand for retail space in the metropolitan area is correspondingly steady.

In Hong Kong, rental demand for our residential investment properties is expected to be stable in 2019.

In Hong Kong, demand for residential accommodation has weakened, but is likely to remain resilient in the long term. In Miami, the majority of the demand for condominiums is from South American buyers. The demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. Trading profits are expected to be recognised in 2019 from sales of units at the Reach and Rise developments.

Trading conditions for our existing hotels are expected to be stable in 2019. Our new hotels in Shanghai are expected to continue to build up their occupancy. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open later this year.

On behalf of the shareholders and my fellow Directors, I wish to express our appreciation to all our employees, whose commitment and hard work have been central to our continuing success.

Merlin Swire
*Chairman*
*Hong Kong, 14th March 2019*

# Key Business Strategies

As a leading developer, owner and operator of mixed-use, principally commercial, properties in Hong Kong and Mainland China, our strategic objective is sustainable growth in shareholder value in the long term. To achieve this objective, we employ five strategies.

1. **Continue to create long-term value by conceiving, designing, developing, owning and managing transformational mixed-use and other projects in urban areas**

   We will continue to design projects which we believe will have the necessary scale, mix of uses and transport links to become key commercial destinations and to transform the areas in which they are situated.

2. **Maximise the earnings and value of our completed properties through active asset management and by reinforcing our assets through enhancement, redevelopment and new additions**

   We intend to manage our completed properties actively (including by optimising the mix of retail tenants and early renewal negotiations with office tenants) and with a view to the long term, to maintain consistently high levels of service and to enhance and reinforce our assets. By doing so, we believe that we will maximise the occupancy and earnings potential of our properties.

   Tenants increasingly scrutinise the sustainable development credentials of landlords and buildings. We aim to be at the forefront of sustainable development by designing energy efficient buildings through the innovative use of design, materials and new technology, and by engagement with tenants and others with whom we do business.

## 3. Continue with our luxury residential property activities

We will look to acquire appropriate sites for development of luxury residential projects for trading and investment in the markets in which we operate.

## 4. Remain focused principally on Hong Kong and Mainland China

In Hong Kong, we will continue to focus on reinforcing our existing investment property assets and seeking new sites suitable for transformational developments and for residential projects.

We aim to replicate in Mainland China our success in Hong Kong. We intend to take a measured approach to land purchases in Mainland China and will focus on developments where we can secure sites through early engagement with local governments who recognise our strengths in developing large-scale mixed-use projects.

We will seek residential development opportunities in Mainland China. These are likely to be ancillary to our mixed-use developments. However, in the right locations and cities we may also consider standalone residential development opportunities. Our residential developments will be aimed at buyers of luxury properties, where we believe we have a competitive advantage.

While we will continue to concentrate on Hong Kong and Mainland China, we intend to expand selectively elsewhere. For example, we are undertaking the Brickell City Centre mixed-use development in Miami, U.S.A.

## 5. Manage our capital base conservatively

We intend to maintain a strong balance sheet with a view to investing in and financing our projects in a disciplined and targeted manner.

We aim to maintain exposure to a range of debt maturities and a range of debt types and lenders. Our current debt profile reflects a mix of revolving and term bank loans and medium term notes.

In implementing the above strategies, the principal risks and uncertainties facing the Group are that the economies in which it operates (in particular Hong Kong and Mainland China) will not perform as well in the future as they have in the past and the uncertainties as to whether this will happen.

# Management Discussion & Analysis


One Taikoo Place
Hong Kong

# Review of Operations

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| **Revenue** | | |
| **Gross Rental Income derived from** | | |
| Offices | **6,375** | 6,124 |
| Retail | **5,205** | 4,616 |
| Residential | **537** | 512 |
| **Other Revenue**[1] | **137** | 128 |
| **Property Investment** | **12,254** | 11,380 |
| **Property Trading** | **1,061** | 5,833 |
| **Hotels** | **1,404** | 1,345 |
| **Total Revenue** | **14,719** | 18,558 |
| **Operating Profit/(Loss) derived from** | | |
| Property investment | | |
| From operations | **8,597** | 8,163 |
| Sale of interests in investment properties | **1,276** | 9 |
| Valuation gains on investment properties | **19,452** | 25,463 |
| Property trading | **65** | 1,397 |
| Hotels | **(25)** | (102) |
| **Total Operating Profit** | **29,365** | 34,930 |
| **Share of Post-tax Profits from Joint Venture and Associated Companies** | **1,978** | 1,792 |
| **Profit Attributable to the Company's Shareholders** | **28,666** | 33,957 |

(1) Other revenue is mainly estate management fees.

Additional information is provided in the following section to reconcile reported and underlying profit attributable to the Company's shareholders. These reconciling items principally adjust for the net revaluation movements on investment properties and the associated deferred tax in Mainland China and the U.S.A., and for other deferred tax provisions in relation to investment properties. There is a further adjustment to remove the effect of the movement in the fair value of the liability in respect of a put option in favour of the owner of a non-controlling interest.

| | Note | 2018 HK$M | 2017 HK$M |
|---|---|---|---|
| **Underlying Profit** | | | |
| Profit attributable to the Company's shareholders per financial statements | | **28,666** | 33,957 |
| Adjustments in respect of investment properties: | | | |
| Revaluation of investment properties | *(a)* | **(20,796)** | (26,846) |
| Deferred tax on investment properties | *(b)* | **935** | 574 |
| Valuation gains realised on sale of interests in investment properties | *(c)* | **1,351** | 50 |
| Depreciation of investment properties occupied by the Group | *(d)* | **19** | 20 |
| Non-controlling interests' share of revaluation movements less deferred tax | | **(15)** | 54 |
| Movements in the fair value of the liability in respect of a put option in favour of the owner of a non-controlling interest | *(e)* | **(12)** | 25 |
| **Underlying Profit Attributable to the Company's Shareholders** | | **10,148** | 7,834 |
| Profit on sale of interests in investment properties | | **(2,627)** | (21) |
| **Recurring Underlying Profit Attributable to the Company's Shareholders** | | **7,521** | 7,813 |

Notes:

(a) This represents the net revaluation movements as shown in the consolidated statement of profit or loss and the Group's share of net revaluation movements of joint venture companies.

(b) This represents deferred tax movements on the Group's investment properties, plus the Group's share of deferred tax movements on investment properties held by joint venture companies. These comprise deferred tax on revaluation movements on investment properties in Mainland China and the U.S.A., and deferred tax provisions made in respect of investment properties held for the long-term where it is considered that the liability will not reverse for some considerable time.

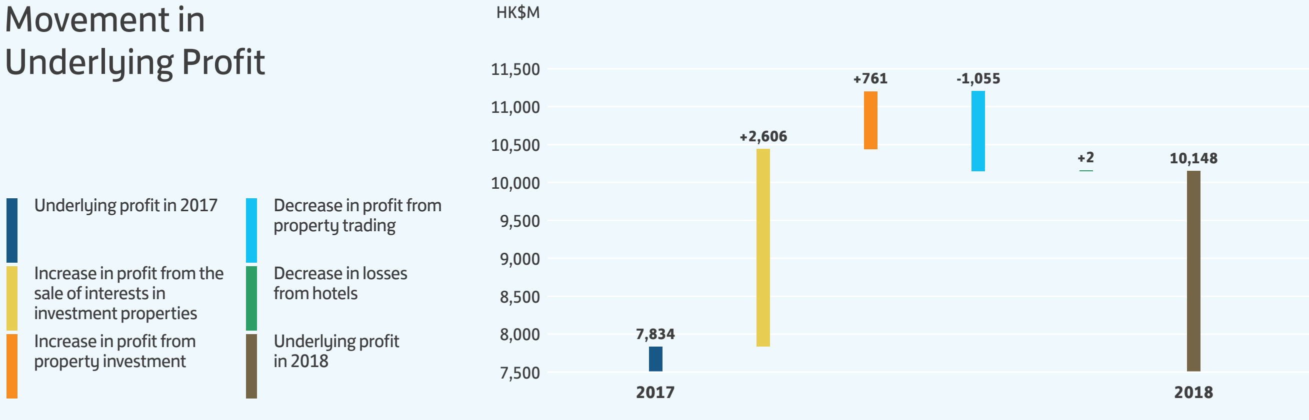
(c) Prior to the implementation of HKAS 40, changes in the fair value of investment properties were recorded in the revaluation reserve rather than the consolidated statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the consolidated statement of profit or loss.

(d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

(e) The value of the put option in favour of the owner of a non-controlling interest is calculated principally by reference to the estimated fair value of the portion of the underlying investment property in which the owner of the non-controlling interest is interested.

## Underlying Profit

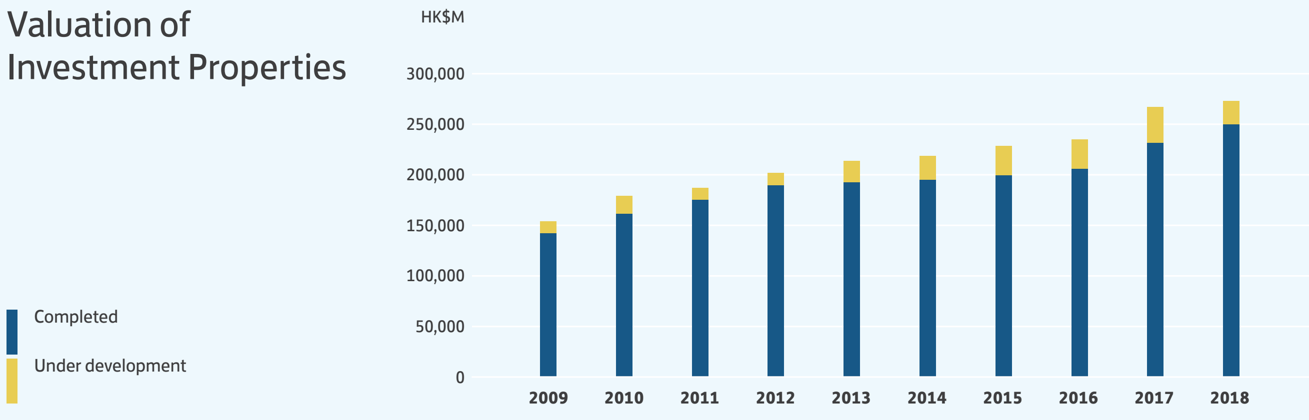
### Movement in Underlying Profit



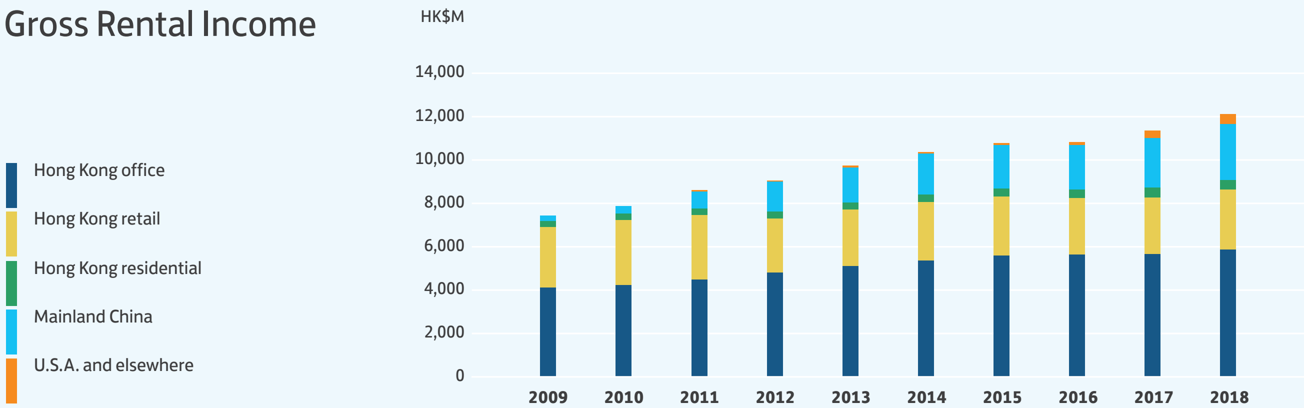

Underlying profit increased to HK$10,148 million in 2018 from HK$7,834 million in 2017. The increase principally reflected the profit arising from the sale of a subsidiary which owned an office building in Kowloon Bay and of our interests in other investment properties in Hong Kong. This was partly offset by a decrease in profit from property trading. Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK$7,521 million in 2018, compared with HK$7,813 million in 2017. The decrease principally reflected a decrease in profit from property trading. Recurring underlying profit from property investment increased by 11%. Hotel losses decreased.

Gross rental income was HK$12,117 million in 2018, compared to HK$11,252 million in 2017. In Hong Kong, office rental income increased due to positive rental reversions, firm occupancy and the opening of One Taikoo Place in the last quarter of 2018. Retail rental income in Hong Kong improved in 2018. In Mainland China, gross rental income increased by 12%, mainly due to positive rental reversions and improved occupancy. In the U.S.A., gross rental income almost doubled, mainly because more shops were open at the shopping centre at Brickell City Centre. Underlying profit from property trading in 2018 arose mainly from the sale of houses at the WHITESANDS development and carparks at the AZURA development in Hong Kong, and from the share of profit from the sale of offices and carparks at Sino-Ocean Taikoo Li Chengdu in Mainland China. The performance of the hotels continued to improve in 2018, with those in Hong Kong and in the U.S.A. doing better. This was offset in part by pre-opening costs at hotels in Shanghai in Mainland China.

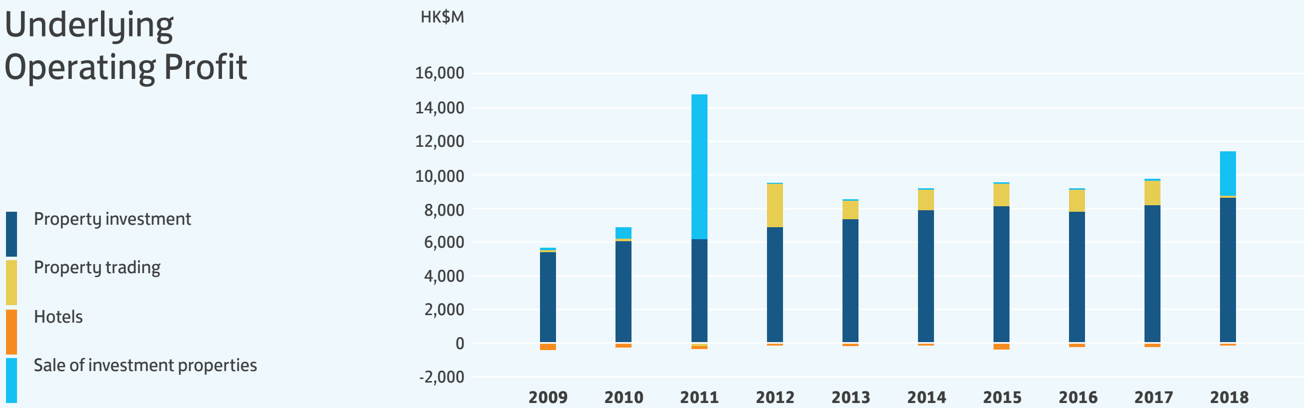
### Valuation of Investment Properties



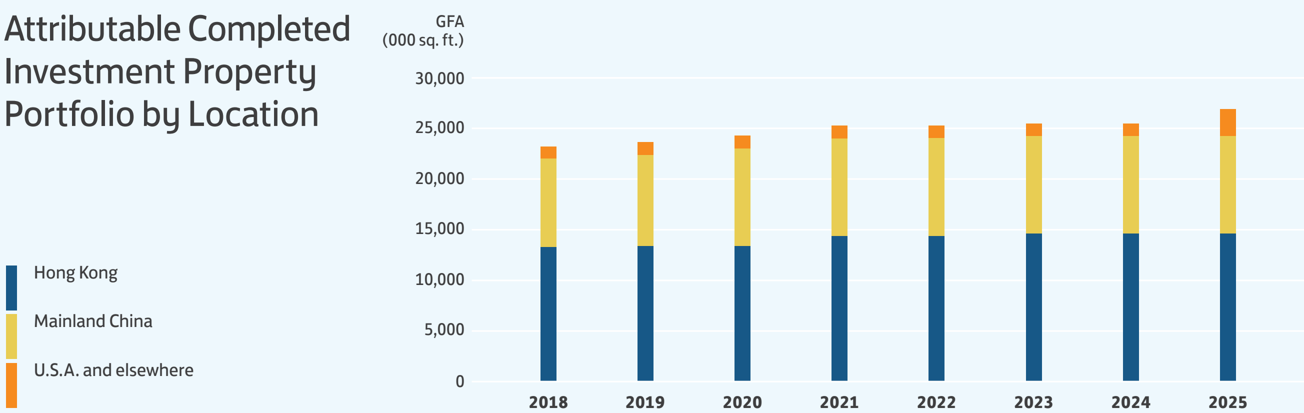
## Gross Rental Income

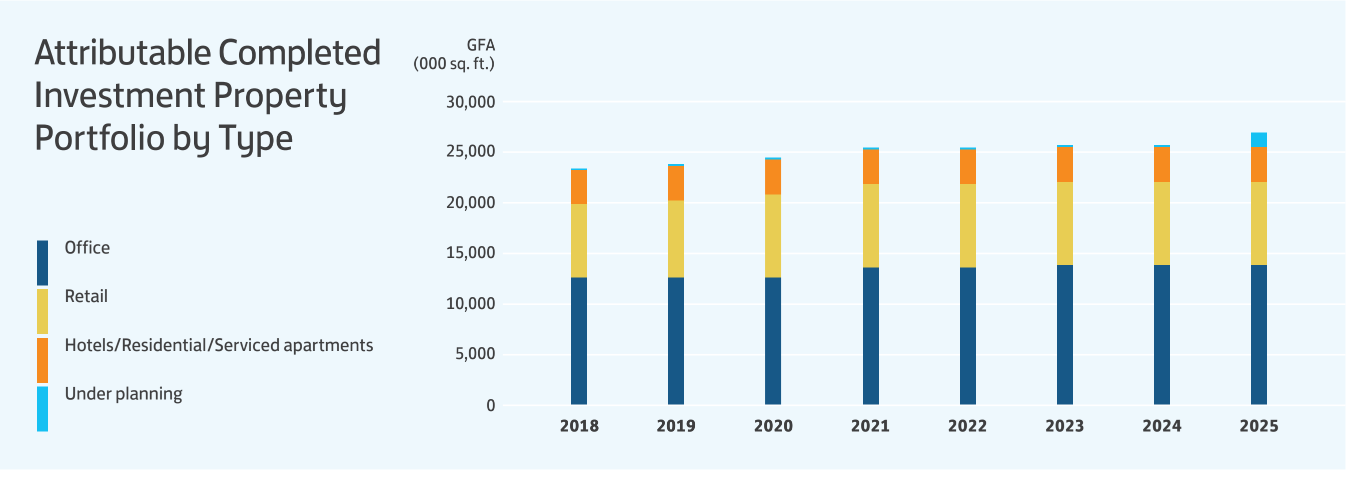



## Underlying Operating Profit




## Attributable Completed Investment Property Portfolio by Location






## Portfolio Overview

The aggregate GFA attributable to the Group at 31st December 2018 was approximately 29.1 million square feet.

Of the aggregate GFA attributable to the Group, approximately 26.7 million square feet are investment properties, comprising completed investment properties of approximately 23.2 million square feet and investment properties under development or held for future development of approximately 3.5 million square feet. In Hong Kong, the investment property portfolio comprises approximately 14.5 million square feet attributable to the Group of primarily Grade-A office and retail premises, hotels, serviced apartments and other luxury residential accommodation. In Mainland China, Swire Properties has interests in six major commercial developments in prime locations in Beijing, Guangzhou, Chengdu and Shanghai. These developments are expected to comprise approximately 9.4 million square feet of attributable GFA when they are all completed. Outside Hong Kong and Mainland China, the investment property portfolio principally comprises the Brickell City Centre development in Miami, U.S.A.

The tables below illustrate the GFA (or expected GFA) attributable to the Group of the investment property portfolio at 31st December 2018.

**Completed Investment Properties**
**(GFA attributable to the Group in million square feet)**

| | Office | Retail | Hotels [1] | Residential/ Serviced Apartments | Under Planning | **Total** |
|---|---|---|---|---|---|---|
| Hong Kong | 9.4 [2] | 2.5 | 0.7 | 0.6 | – | **13.2** |
| Mainland China | 2.9 | 4.5 | 1.2 | 0.2 | – | **8.8** |
| U.S.A. | 0.3 | 0.3 | 0.5 | 0.1 | – | **1.2** |
| **Total** | **12.6** | **7.3** | **2.4** | **0.9** | **–** | **23.2** |

**Investment Properties Under Development or Held for Future Development (expected GFA attributable to the Group in million square feet)**

| | Office | Retail | Hotels [1] | Residential/ Serviced Apartments | Under Planning | **Total** |
|---|---|---|---|---|---|---|
| Hong Kong | 1.2 | 0.1 | – | – | – | **1.3** |
| Mainland China | – | 0.6 | – | – | – | **0.6** |
| U.S.A. and elsewhere | – | – | – | 0.1 | 1.5 [3] | **1.6** |
| **Total** | **1.2** | **0.7** | **–** | **0.1** | **1.5** | **3.5** |

**Total Investment Properties (GFA (or expected GFA) attributable to the Group in million square feet)**

| | Office | Retail | Hotels [1] | Residential/ Serviced Apartments | Under Planning | **Total** |
|---|---|---|---|---|---|---|
| **Total** | **13.8** | **8.0** | **2.4** | **1.0** | **1.5** | **26.7** |

(1) Hotels are accounted for under property, plant and equipment in the financial statements.

(2) The remainder of Cityplaza Three and the whole of Cityplaza Four (the immediate holding company of a wholly-owned property holding subsidiary owning such remainder and such whole having been conditionally agreed to be sold in June 2018) are excluded.

(3) This property is accounted for under properties held for development in the financial statements.

The trading portfolio comprises completed developments available for sale in Mainland China and Miami, U.S.A. The principal completed developments available for sale are the remaining portion of the Pinnacle One office property at Sino-Ocean Taikoo Li Chengdu in Mainland China and the Reach and Rise developments at Brickell City Centre in Miami. A residential development is being planned in Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida, U.S.A.

The table below illustrates the GFA (or expected GFA) attributable to the Group of the trading property portfolio at 31st December 2018.

**Trading Properties (GFA (or expected GFA) attributable to the Group in million square feet)**

| | Completed | Under Development or Held for Development | **Total** |
|---|---|---|---|
| Hong Kong [1] | – | – | **–** |
| Mainland China | 0.2 | – | **0.2** |
| U.S.A. | 0.3 | 1.9 | **2.2** |
| **Total** | **0.5** | **1.9** | **2.4** |

(1) The aggregate GFA in Hong Kong is less than 0.1 million.

# Investment Properties – Hong Kong

## Offices

### Overview

The completed office portfolio in Hong Kong comprises an aggregate of 10.0 million square feet of space on a 100% basis. Total attributable gross rental income from our office properties in Hong Kong was HK$6,208 million in 2018. At 31st December 2018, our office properties in Hong Kong were valued at HK$179,378 million. Of this amount, Swire Properties' attributable interest was HK$169,097 million.

**Hong Kong Office Portfolio**

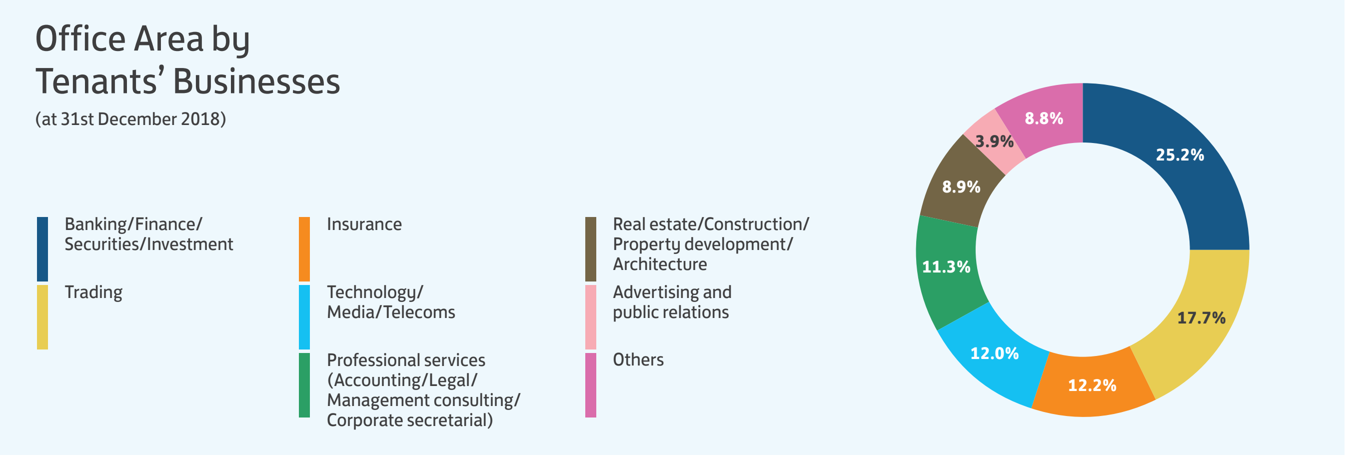
| | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Pacific Place | 2,186,433 | 100% | 100% |
| Cityplaza One | 628,785 | 99% | 100% |
| Taikoo Place Office Towers(1) | 3,136,717 | 99% | 50%/100% |
| One Island East and One Taikoo Place | 2,550,379 | 99% | 100% |
| Others(2) | 1,459,660 | 95% | 20%/50%/100% |
| **Total** | **9,961,974** | | |

(1) Including PCCW Tower, of which Swire Properties owns 50%.

(2) Others comprise One Citygate (20% owned), 625 King's Road (50% owned), Berkshire House (50% owned), Generali Tower (wholly-owned), 28 Hennessy Road (wholly-owned) and South Island Place (50% owned).

Gross rental income from the Hong Kong office portfolio in 2018 was HK$5,876 million, a 4% increase from 2017. There were positive rental reversions and occupancy was firm. The increase also reflected in part rental income from One Taikoo Place as it opened in the last quarter of 2018. At 31st December 2018, the office portfolio was 99% let (including by way of letters of intent). Demand for the Group's office space in Hong Kong was strong in all districts.

The chart below shows the mix of tenants of the office properties by the principal nature of their businesses (based on internal classifications) as a percentage of the office area at 31st December 2018.




At 31st December 2018, the top ten office tenants (based on attributable gross rental income in the twelve months ended 31st December 2018) together occupied approximately 20% of the Group's total attributable office area in Hong Kong.

### Pacific Place

The offices at One, Two and Three Pacific Place performed well in 2018. Occupancy and rental rates were robust, as vacant space was quickly relet. Demand from Mainland China entities was strong. The occupancy rate was almost 100% at 31st December 2018. British American Tobacco, Transpac Capital, Boyu Capital, Vision Credit, Tianfu Group and Top East Holding became tenants. CLSA, Sino-Ocean, FIL Asia, NH Investment and Securities, Interactive Brokers and Schroders leased more space. Daiwa, John Swire & Sons, Moody's, Northern Trust, Schroders, Carlyle Asia, Visa, Mirae Asset, Pinebridge Investment, Sino-Ocean, Bank of Japan, Sequoia Capital, China Minsheng Drawin, Bank of Jinzhou, HSBC and Take Good Investment renewed their leases.

### Cityplaza

The occupancy rate at Cityplaza One was 99% at 31st December 2018. Hewlett Packard Inc., Enterprise Services, Tahoe Life Insurance and Toyo Securities became tenants. Hewlett-Packard HK SAR and Guardian Property renewed their leases. Savills Property Management and Well Link Insurance leased more space.

### Taikoo Place

There are six office towers at Taikoo Place (including PCCW Tower, in which we have a 50% interest). The occupancy rate was 99% at 31st December 2018. Bayer HealthCare, DDMC Fortis, FTI Consulting, Oreana Financial Services, Veritas, Speedcast, Joint Dynamics, H-Kore, RDM Asia, Standard Life (Asia) and The Body Shop became tenants. Aspen Pharmacare, LVMH, China CITIC Bank and Philip Morris International leased more space. ADMIS Hong Kong, Beiersdorf, BRAND'S Suntory, CTBAT, Margiela Asia, Total Lubricants, BMC Software, GODIVA, Baroque, CJ E&M, CITIC Telecom International, Nikoyo (HK), TIME Asia, Vodafone and Warner Bros. renewed their leases.

One Island East had an occupancy rate of 99% at 31st December 2018. Airwallex became a tenant. La Prairie leased more space. Amgen, Citrix and SWIFT renewed their leases.

One Taikoo Place is 100% leased. Over 60% of the office space has been leased by tenants providing professional and insurance services. Other tenants include communications, luxury retail and environmental services companies.

# South Island Place

Hong Kong

### South Island Place

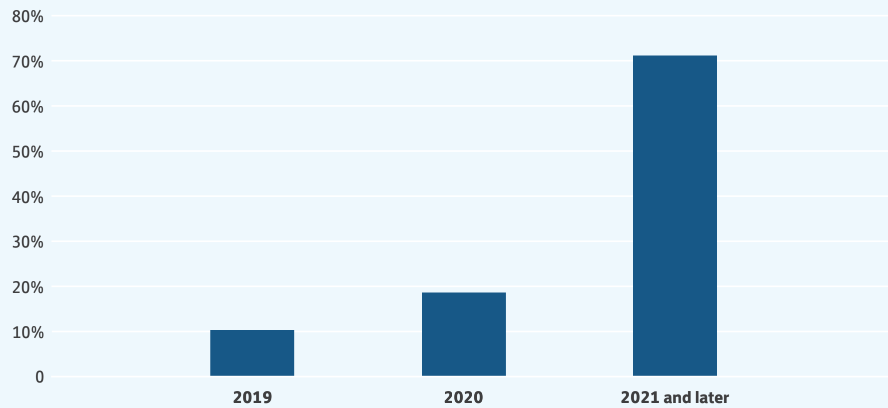
The development of an office building at 8-10 Wong Chuk Hang Road, Hong Kong with an aggregate GFA of approximately 382,500 square feet was completed in August 2018. Commitments (including by way of letters of intent) to lease more than 73% of the space in the building have been obtained. Tenants include media, insurance, financial services and logistics companies. Swire Properties has a 50% interest in the development.

### Hong Kong Office Market Outlook

In the central district of Hong Kong, reduced demand is expected to exert downward pressure on office rents. However, high occupancy and limited supply are expected to underpin office rents at Pacific Place. High occupancy and strong demand are expected to result in office rents at our Taikoo Place developments being resilient despite increased supply in Kowloon East and other districts.

The following chart shows the percentage of attributable gross rental income from the office properties in Hong Kong, for the month ended 31st December 2018, derived from leases expiring in the periods with no committed renewals or new lettings. Tenancies accounting for approximately 10.3% of the attributable gross rental income in the month of December 2018 are due to expire in 2019, with tenancies accounting for a further 18.6% of such rental income due to expire in 2020.

Office Lease Expiry Profile
(at 31st December 2018)




## Retail

### Overview

The completed retail portfolio in Hong Kong comprises an aggregate of 2.8 million square feet of space on a 100% basis. The portfolio principally consists of The Mall at Pacific Place, Cityplaza at Taikoo Shing and Citygate Outlets at Tung Chung. The malls are wholly-owned by Swire Properties (except for Citygate Outlets, in which Swire Properties has a 20% interest) and are managed by Swire Properties. Total attributable gross rental income from our retail properties in Hong Kong was HK$2,836 million in 2018. At 31st December 2018, our retail properties in Hong Kong were valued at HK$56,414 million. Of this amount, Swire Properties' attributable interest was HK$48,251 million.

**Hong Kong Retail Portfolio**

| | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| The Mall, Pacific Place | 711,182 | 100% | 100% |
| Cityplaza | 1,105,227 | 100% | 100% |
| Citygate Outlets | 462,428 | 100% | 20% |
| Others[1] | 542,779 | 100% | 20%/60%/100% |
| **Total** | **2,821,616** | | |

(1) Others largely comprise Taikoo Shing neighbourhood shops and StarCrest retail premises (which are wholly-owned), Island Place retail premises (60% owned) and Tung Chung Crescent neighbourhood shops (20% owned).

The Hong Kong retail portfolio's gross rental income was HK$2,755 million in 2018, a 6% increase from 2017. The Group's malls were almost fully let throughout the year.

Retail sales in 2018 increased by 12% at The Mall, Pacific Place, by 6% at Cityplaza and by 4% at Citygate.

The chart below shows the mix of the tenants of the retail properties by the principal nature of their businesses (based on internal classifications) as a percentage of the retail area at 31st December 2018.

## Retail Area by Tenants' Businesses

(at 31st December 2018)


At 31st December 2018, the top ten retail tenants (based on attributable gross rental income in the twelve months ended 31st December 2018) together occupied approximately 26% of our total attributable retail area in Hong Kong.

### The Mall at Pacific Place

The Mall at Pacific Place is an integral part of the mixed-use Pacific Place development. The offices and the four hotels at Pacific Place provide a secure flow of shoppers for The Mall. There was a 12% increase in retail sales at The Mall in 2018. The growth reflected improved market conditions, previous changes to the trade mix and the introduction of a loyalty programme.

The Mall was fully let during the year, with the only void periods resulting from tenant changes and reconfiguration works. Ashworth, Ba&sh, Boucheron, Devialet, i.d., Isabel Marant, J. Lindeberg, Lumi, Muji, Mr & Mrs Italy, RIMOWA, Shake Shack, Sun's Bazaar and Sweet World became tenants. Cova, HSBC, Il Colpo, IWC and Sandro were relocated within The Mall. The premises occupied by Hogan, Le Sportsac, Lenscrafters, Montblanc and Shanghai Tang were refitted.

# Citygate Outlets

Hong Kong

### Cityplaza

Cityplaza is one of the most popular regional shopping centres in Hong Kong and is the largest shopping centre on Hong Kong Island, with a total floor area of approximately 1.1 million square feet. It is directly accessible from Tai Koo MTR station. There are more than 170 shopping and dining options, a cinema, an indoor ice rink and more than 800 indoor parking spaces. Cityplaza principally serves customers who live or work in the eastern part of Hong Kong Island. Patronage is also derived from business and leisure travellers who stay at the EAST, Hong Kong hotel.

Cityplaza was fully let in 2018, except for void periods during tenancy changes and reconfiguration works. Retail sales increased by 6%. Food and beverages, entertainment, sports, lifestyle, beauty, wellbeing and accessories tenants did well. MOViE MOViE Cityplaza was fully opened. LEGO® Certified Store, Vans, As Know As Ponpoko, NorieM, Kipling, blackyard, Melissa, ORiental TRaffic, Melvita, On-Yasai, Glasshouse, initial GENTLEMAN and ASICS became tenants.

### Citygate Outlets

Citygate Outlets was fully let in 2018, except for the area being reconstructed as part of the adjacent Tung Chung Town Lot No. 11 development. Citygate Outlets is in a good location near tourist attractions and transport links. It attracts tourists and local shoppers. Retail sales increased by 4%, despite the closure of the area which is being reconstructed. The adjacent development is expected to open in the summer of 2019.

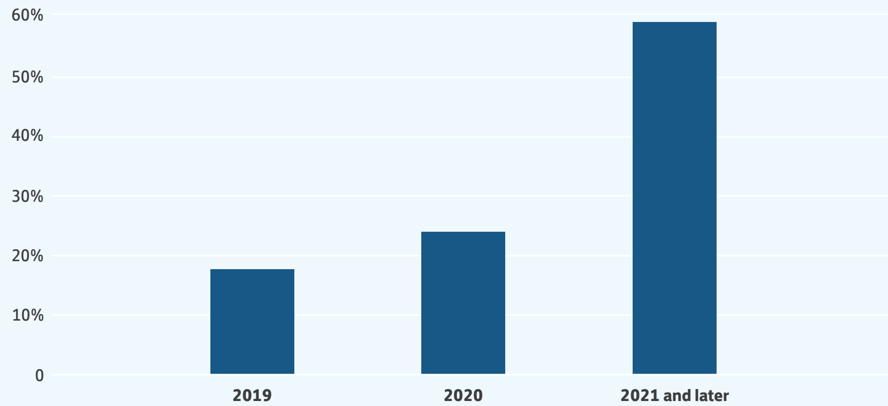
### Hong Kong Retail Market Outlook

In Hong Kong, we expect retail sales to remain stable in 2019. The opening of the Hong Kong-Zhuhai-Macao Bridge is increasing tourist arrivals. But both Mainland China tourists and Hong Kong residents are becoming cautious about spending, because of global trade uncertainties and the adverse effect of the weakening Renminbi (in the case of the former).

The following chart shows the percentage of attributable gross rental income from the retail properties in Hong Kong, for the month ended 31st December 2018, derived from leases expiring in the periods with no committed renewals or new lettings. Tenancies accounting for approximately 17.5% of the attributable gross rental income in the month of December 2018 are due to expire in 2019, with tenancies accounting for a further 23.8% of such rental income due to expire in 2020.

## Retail Lease Expiry Profile

(at 31st December 2018)




## Residential

The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments in Quarry Bay, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island, with an aggregate GFA of 583,590 square feet. The occupancy rate at the residential portfolio was approximately 85% at 31st December 2018. Rental demand for our residential investment properties is expected to be stable in 2019.

## Investment Properties Under Development

### Taikoo Place Redevelopment

The development of the first phase of the Taikoo Place redevelopment (One Taikoo Place) was completed in September 2018.

The second phase of the Taikoo Place redevelopment (the redevelopment of Cornwall House and Warwick House) is the construction of an office building with an aggregate GFA of approximately 1,000,000 square feet, to be called Two Taikoo Place. Demolition of Warwick House and Cornwall House has been completed and foundation works are in progress. Completion of the redevelopment is expected in 2021 or 2022.

### Tung Chung Town Lot No. 11

This commercial site next to Citygate Outlets is being developed into a commercial building with an aggregate retail and hotel GFA of approximately 474,000 square feet. Superstructure works have been completed and fitting out works are in progress. The development is expected to be completed in the summer of 2019. Swire Properties has a 20% interest in the development.

### Po Wah Building, 1-11 Landale Street and 2-12 Anton Street

Planning permission to develop this site for office use was obtained in November 2018. The site area is approximately 14,400 square feet. The proposed development has an aggregate GFA of approximately 218,000 square feet. Completion is expected in 2023.

## Others

### Wah Ha Factory Building, No. 8 Shipyard Lane and Zung Fu Industrial Building, No. 1067 King's Road

In February 2018, Swire Properties submitted compulsory sale applications in respect of two sites (Wah Ha Factory Building, No. 8 Shipyard Lane and Zung Fu Industrial Building, No. 1067 King's Road) in Hong Kong. Subject to Swire Properties having successfully bid in the compulsory sale of the sites, the sites are intended to be redeveloped for office and other commercial uses with an aggregate GFA of approximately 779,000 square feet.

**983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay**

In October 2018, a joint venture company in which Swire Properties holds a 50% interest submitted a compulsory sale application in respect of this site. Subject to the joint venture company having successfully bid in the compulsory sale and in accordance with applicable town planning controls, it is expected that the site can be redeveloped for residential and retail uses with a GFA of approximately 400,000 square feet.

**Chai Wan Inland Lot No. 88**

In August and October 2018, a joint venture company held as to 80% by Swire Properties and as to 20% by China Motor Bus Company, Limited received general building plans approvals for a residential development in Chai Wan, Hong Kong. The joint venture company was formed in 2015 to acquire, subject to conditions (including the agreement of a land premium with the Hong Kong government), the relevant land. The joint venture company is negotiating land exchange terms with the Hong Kong government. Subject to agreement with the Hong Kong government, the proposed development is expected to have an aggregate GFA of approximately 694,000 square feet.

## Investment Properties – Mainland China

The property portfolio in Mainland China comprised an aggregate of 14.1 million square feet of space at 31st December 2018, 9.6 million square feet of which is attributable to the Group. Completed properties amount to 12.9 million square feet, with 1.2 million square feet under development. Total attributable gross rental income from our investment properties in Mainland China grew by 20% to HK$3,958 million in 2018. At 31st December 2018, our investment property portfolio in Mainland China was valued at HK$73,227 million. Of this amount, Swire Properties' attributable interest was HK$51,446 million.

**Mainland China Property Portfolio(1)**

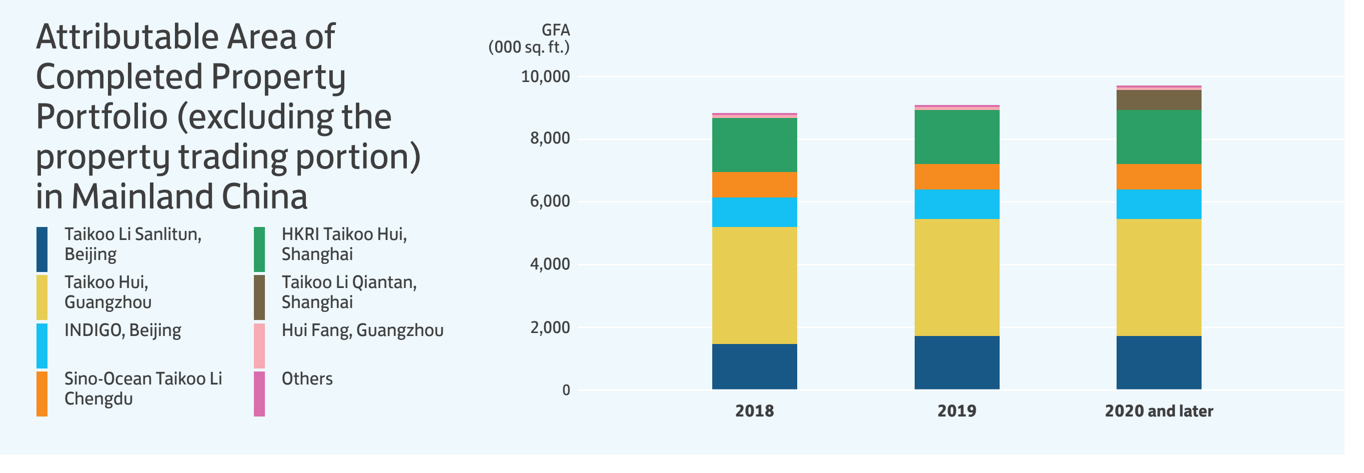
| | GFA (sq. ft.) (100% Basis) | | | |
|---|---|---|---|---|
| | Total | Investment Properties | Hotels, Trading Properties and Others | Attributable Interest |
| *Completed* | | | | |
| Taikoo Li Sanlitun, Beijing | 1,465,771 | 1,296,308 | 169,463 | 100% |
| Taikoo Hui, Guangzhou | 3,840,197 | 3,256,013 | 584,184 | 97% |
| INDIGO, Beijing | 1,886,865 | 1,528,564 | 358,301 | 50% |
| Sino-Ocean Taikoo Li Chengdu(2) | 2,092,341 | 1,424,830 | 667,511 | 50% |
| HKRI Taikoo Hui, Shanghai | 3,468,806 | 3,080,979 | 387,827 | 50% |
| Hui Fang, Guangzhou | 90,847 | 90,847 | – | 100% |
| Others | 2,917 | 1,458 | 1,459 | 100% |
| **Sub-Total** | **12,847,744** | **10,678,999** | **2,168,745** | |
| *Under Development* | | | | |
| Taikoo Li Qiantan, Shanghai(3) | 1,246,913 | 1,246,913 | – | 50% |
| **Total** | **14,094,657** | **11,925,912** | **2,168,745** | |

(1) Including the hotel and property trading portions of these projects.
(2) The office portion of Sino-Ocean Taikoo Li Chengdu, Pinnacle One, was developed for trading purposes.
(3) Construction of the shopping mall at Taikoo Li Qiantan is in progress. The development is expected to be completed in 2020.

The Group's gross rental income from investment properties in Mainland China increased by 12% to HK$2,567 million in 2018. HK$2,163 million was from retail properties and HK$391 million was from office properties.

The chart below shows the mix of the tenants of the retail properties by the principal nature of their businesses (based on internal classifications) as a percentage of the retail area at 31st December 2018.


The chart below illustrates the expected attributable area of the completed property portfolio (excluding the property trading portion) in Mainland China.




## Completed Investment Properties

### Taikoo Li Sanlitun, Beijing

Situated in the Sanlitun area of the Chaoyang district of Beijing, Taikoo Li Sanlitun was our first retail development in Mainland China. It comprises two neighbouring retail sites, South and North. There are approximately 250 retail outlets.

Taikoo Li Sanlitun South concentrates on contemporary fashion and lifestyle brands, with tenants including adidas's brand centre, the first Apple store in Mainland China, H&M, Starbucks, Uniqlo, and a 1,597-seat Megabox cinema. In 2018, ASH, Champion, Fresh, Furla, YSL Beauty, The Kooples, Aoyama Lab, Hulu Restaurant and Vintage Restaurant became tenants. Tenants in Taikoo Li Sanlitun North are principally retailers of luxury, designer fashion and lifestyle brands, including Alexander McQueen, Alexander Wang, Balenciaga, Christian Louboutin, Delvaux, Givenchy, OFF-WHITE, Moncler and Thom Browne. I.T Beijing Market became Dover Street Market in 2018. Acne Studios, AMI, Canada Goose, CK Calvin Klein and Isabel Marant became tenants in 2018.

Gross rental income at Taikoo Li Sanlitun recorded satisfactory growth in 2018, reflecting positive growth in reversionary rents. Retail sales grew by 11%. The occupancy rate was 100% at 31st December 2018.

Demand for retail space at Taikoo Li Sanlitun is solid as it reinforces its position as a fashionable retail destination. Improvement works are being carried out and are expected to have a positive impact on occupancy and rents.

The refurbishment of Taikoo Li Sanlitun West (formerly known as the Beijing Sanlitun Yashow Building) as an extension to Taikoo Li Sanlitun (with an aggregate GFA of approximately 296,000 square feet) is expected to be completed later in 2019.

### Beijing Retail Market Outlook

Retail sales are expected to grow steadily in Beijing in 2019. Demand for luxury, fashion and lifestyle brands and for food and beverages is expected to be solid.

| **Taikoo Li Sanlitun, Beijing** | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Retail | 1,296,308 | 100% | 100% |

### Taikoo Hui, Guangzhou

Taikoo Hui is a large-scale retail-led mixed-use development in a prime location in the Tianhe district of Guangzhou. The development comprises a shopping mall, two Grade-A office towers, a cultural centre owned by a third party and a 287-room luxury hotel with serviced apartments (Mandarin Oriental).

Gross rental income grew satisfactorily in 2018. Retail sales increased by 11%, reflecting in part improvements to the tenant mix. Tenants include Bottega Veneta, Cartier, Chanel, DIOR, Gucci, Hermes, I.T, Louis Vuitton, Uniqlo, Fangsuo bookstore, Victoria's Secret and Ole Supermarket. Atelier Cologne, EMPHASIS, Fendi (menswear), Happy Socks, ICICLE, LA MER, NESPRESSO, RIMOWA, Tory Burch, Imperial Treasure Fine Teochew Restaurant, Pizza Marzano, TaoTaoJu (Gold Label) Restaurant, Ice Monster, Taoyuan Village and Greybox Cafe became tenants in 2018. At 31st December 2018, the occupancy rate at the shopping mall was 100%.

| **Taikoo Hui, Guangzhou** | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Retail | 1,472,730 | 100% | 97% |
| Office | 1,731,766 | 99% | 97% |
| Serviced apartments | 51,517 | 92% | 97% |
| **Total** | **3,256,013** | | **97%** |

At 31st December 2018, the occupancy rate at the office towers at Taikoo Hui was 99%.

The Mandarin Oriental, Guangzhou is a leading luxury hotel in Guangzhou. Occupancy improved in 2018 and its performance was good.

Swire Properties has a 97% interest in the Taikoo Hui development, which is a joint venture with Guangzhou Da Yang Properties Investment Limited.

## Taikoo Hui

Guangzhou

### Guangzhou Market Outlook

With the absence of significant new supply in the central business district of Guangzhou and stable demand, office vacancy rates are expected to decrease (and rents to increase slightly) in 2019.

Retail sales are expected to grow steadily in Guangzhou in 2019. Demand for retail space from international retailers and food and beverage operators is strong.

### INDIGO, Beijing

INDIGO is a retail-led mixed-use development in the Jiang Tai area in the Chaoyang district of Beijing. The development consists of a shopping mall, a Grade-A office tower (ONE INDIGO) and a 369-room business hotel (EAST, Beijing). The development is directly linked to the Beijing Metro Line 14 and is near the airport expressway.

Occupancy at the shopping mall was 99% at 31st December 2018. Retail sales increased by 0.3% in 2018. H&M, Massimo Dutti, Muji, Page One bookstore, BHG supermarket and a seven-house, 1,000-seat CGV cinema are tenants. apm Monaco, bebe, Denham, Descente, Fancy CD, NIKE Sports-M, Fissler, Onitsuka Tiger, LEGO, Pure Tea, Theory, LITTLE B, Coucou Hot Pot and Venchi became tenants in 2018. The mall is becoming a significant lifestyle shopping centre in north-east Beijing.

ONE INDIGO was 97% leased at 31st December 2018. Business at EAST, Beijing improved in 2018.

INDIGO is a 50:50 joint venture with Sino-Ocean Group Holding Limited.

### Beijing Office Market Outlook

Office rents in Beijing are expected to come under pressure in 2019, with increased supply in the central business district and higher vacancy rates.

| INDIGO, Beijing | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Retail | 939,493 | 99% | 50% |
| Office | 589,071 | 97% | 50% |
| **Total** | **1,528,564** | | **50%** |

# Sino-Ocean Taikoo Li

Chengdu


### Sino-Ocean Taikoo Li Chengdu

Sino-Ocean Taikoo Li Chengdu is in the Jinjiang district of Chengdu and is part of the Chunxi Road/Daci Temple shopping district. It is a large-scale retail-led development consisting of a retail complex, a boutique hotel (The Temple House), which has 100 guest rooms and 42 serviced apartments, and a Grade-A office tower (Pinnacle One). It is directly connected to the Chunxi Road metro station.

Sino-Ocean Taikoo Li Chengdu is our second Taikoo Li project in Mainland China. adidas, Apple, Cartier, Gucci, Hermes, I.T/i.t, Muji, ZARA, Fangsuo bookstore, Ole Supermarket and a 1,720-seat Palace Cinema are tenants. Champion, Isabel Marant and Valextra opened their first stores in south-west Mainland China at the development in 2018. Retail sales increased by 22% in 2018. The development is gaining popularity as a shopping destination in Chengdu. At 31st December 2018, the occupancy rate at the retail complex was 99%.

Sino-Ocean Taikoo Li Chengdu is a 50:50 joint venture with Sino-Ocean Group Holding Limited.

### Chengdu Retail Market Outlook

Retail sales in Chengdu are expected to grow moderately in 2019. Demand for retail space in prime locations is expected to be strong in 2019. Retail rents are expected to grow moderately despite an increase in the availability of competing space.

| Sino-Ocean Taikoo Li Chengdu | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Retail | 1,314,973 | 99% | 50% |
| Serviced apartments | 109,857 | 69% | 50% |
| **Total** | **1,424,830** | | **50%** |

### HKRI Taikoo Hui, Shanghai

HKRI Taikoo Hui is a large-scale retail-led mixed-use development. It occupies a prime location on Nanjing West Road, one of Shanghai's major shopping and business thoroughfares, in the Jing'an district of Puxi, Shanghai. It has excellent transport connections, being adjacent to the existing Nanjing West Road metro station (which serves three metro lines) and near the Yan'an Expressway. The development comprises a retail mall, two office towers, two hotels and a serviced apartment tower and has become a landmark development in Shanghai.

| **HKRI Taikoo Hui, Shanghai** | GFA (sq. ft.) (100% Basis) | Occupancy (at 31st December 2018) | Attributable Interest |
|---|---|---|---|
| Retail | 1,105,646 | 97% | 50% |
| Office | 1,828,060 | 98% | 50% |
| Serviced apartments | 147,273 | 86% | 50% |
| **Total** | **3,080,979** | | **50%** |

HKRI Taikoo Hui is our second Taikoo Hui development in Mainland China. The world's largest Starbucks Reserve Roastery, Atelier Cologne, Cha Ling, Champion, COS, diptyque, The Disney Store, G Givenchy, Guerlain, i.t, Kenzo, Lululemon, McQ, Nike Kicks Lounge, Nio, Puma, SpaceCycle, Tesla, Zwilling Home, Shanghai Club, Ho Hung Kee and a city'super supermarket are tenants. At 31st December 2018, tenants had committed (including by way of letters of intent) to take 97% of the retail space. 92% of the retail space was open.

At 31st December 2018, the occupancy rate at the office towers at HKRI Taikoo Hui was 98%.

Two hotels (The Middle House and The Sukhothai Shanghai) and a serviced apartment tower (The Middle House Residences) opened in May 2018.

HKRI Taikoo Hui is a 50:50 joint venture with HKR International Limited.

### Shanghai Market Outlook

Retail sales are expected to grow steadily in 2019. Retail rents are expected to grow moderately despite an increase in the availability of competing space.

With limited new supply in the central business district of Jing'an and robust demand from domestic and international companies, office rentals are likely to be resilient in 2019 in Shanghai.

## Investment Property Under Development

### Taikoo Li Qiantan, Shanghai

Taikoo Li Qiantan is a low-rise retail development in Qiantan, Pudong New District. It is our second development in Shanghai and the third Taikoo Li project in Mainland China. Qiantan International Business Zone is envisaged as a new international business district of Shanghai and as a commercial, residential and cultural centre. The development will be connected to a three-line metro interchange station. In March 2018, a 50:50 joint venture was formed with a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. for the purpose of undertaking this development. Construction is in progress. The development is expected to be completed in 2020.

| **Taikoo Li Qiantan, Shanghai** | GFA (sq. ft.) (100% Basis) | Attributable Interest |
|---|---|---|
| Retail | 1,246,913 | 50% |


# Brickell City Centre

Miami

## Investment Properties – U.S.A.

**Brickell City Centre, Miami**

Brickell City Centre is an urban mixed-use development in the Brickell financial district of Miami, Florida. It has a site area of 504,017 square feet (approximately 11.6 acres).

The first phase of the Brickell City Centre development consists of a shopping centre, two office buildings (Two Brickell City Centre and Three Brickell City Centre), a hotel and serviced apartments (EAST, Miami) managed by Swire Hotels and two residential towers (Reach and Rise). The residential towers have been developed for sale.

The first phase of the Brickell City Centre development was completed in 2016. Its components opened in 2016 and 2017. Gross rental income increased in 2018, mainly because more shops were open at the shopping centre. At 31st December 2018, Two and Three Brickell City Centre were fully leased and the shopping centre was 89% let (including by way of letters of intent).

The shopping centre was developed jointly with Bal Harbour Shops and Simon Property Group. Swire Properties is the primary developer of the Brickell City Centre project.

At 31st December 2018, Swire Properties owned 100% of the office, hotel and unsold residential portions and 62.93% of the shopping centre at the Brickell City Centre development. The remaining interest in the shopping centre was owned by Simon Property Group (25%) and Bal Harbour Shops (12.07%). Bal Harbour Shops has an option, exercisable from 2020, to sell its interest to Swire Properties.

One Brickell City Centre is planned to be a mixed-use development comprising retail, office, hotel and residential space in an 80-storey tower. It will incorporate the site at 700 Brickell Avenue acquired by Swire Properties in 2013. Development of this site will connect the Brickell City Centre development with Brickell Avenue. Swire Properties owns 100% of One Brickell City Centre.

**Brickell City Centre, Miami**

| | GFA (sq. ft.)[1] (100% Basis) | Attributable Interest |
|---|---|---|
| *Completed* | | |
| Shopping centre | 496,508 | 62.9% |
| Two and Three Brickell City Centre | 263,384 | 100% |
| EAST, Miami – hotel[2] | 218,000 | 100% |
| EAST, Miami – serviced apartments | 109,000 | 100% |
| Reach and Rise[3] | 263,215 | 100% |
| **Sub-Total** | **1,350,107** | |
| *Future Development* | | |
| Residential | 523,000 | 100% |
| One Brickell City Centre | 1,444,000 | 100% |
| **Total** | **3,317,107** | |

(1) Represents leasable/saleable area except for the carpark, roof top and circulation areas.

(2) The hotel is accounted for under property, plant and equipment in the financial statements.

(3) Remaining unsold units at 31st December 2018.

### Miami Market Outlook

In Miami, retail sales are increasing steadily. Demand for retail space in the metropolitan area is correspondingly steady.

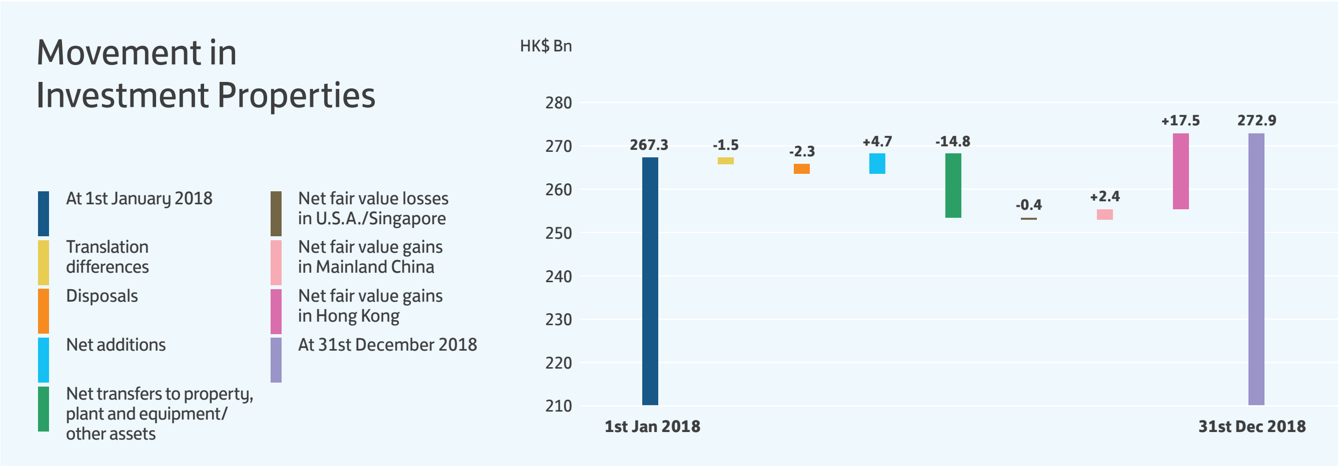
In Miami, the supply of new Grade-A office space in the central business district and the Brickell area is low and demand is firm.

## Valuation of Investment Properties

The portfolio of investment properties was valued at 31st December 2018 on the basis of market value (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK$272,927 million, compared to HK$267,292 million at 31st December 2017.

The increase in the valuation of the investment property portfolio is mainly due to an increase in the valuation of the office properties in Hong Kong following rental increases and a reduction of 12.5 basis points in the capitalisation rate applicable to office properties in Hong Kong. This was partially offset by the removal from the valuation of our interests in the Cityplaza Three and Cityplaza Four properties as a result of their transfer to “assets classified as held for sale” in the financial statements at 31st December 2018.

Under HKAS 40, hotel properties are not accounted for as investment properties but are included within property, plant and equipment at cost less accumulated depreciation and any provision for impairment.




## Property Trading

The trading portfolio comprises completed developments available for sale in Mainland China and Miami, U.S.A. The principal completed developments available for sale are the remaining portion of the Pinnacle One office property at Sino-Ocean Taikoo Li Chengdu in Mainland China, and the Reach and Rise developments at Brickell City Centre in Miami. A residential development is being planned in Wanchai, Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida, U.S.A.

**Property Trading Portfolio (At 31st December 2018)**

| | GFA (sq. ft.) (100% Basis) | Actual/Expected Construction Completion Date | Attributable Interest |
|---|---|---|---|
| *Completed* (1) | | | |
| Mainland China | | | |
| – Pinnacle One, Chengdu | 471,003(1) | 2014 | 50% |
| U.S.A. | | | |
| – ASIA, Miami | 5,359(2) | 2008 | 100% |
| – Reach, Miami | 51,053(2) | 2016 | 100% |
| – Rise, Miami | 212,162(2) | 2016 | 100% |
| *Held for Development* | | | |
| Hong Kong | | | |
| – 21-31 Wing Fung Street, Wanchai | 30,511 | 2022 | 100% |
| U.S.A. | | | |
| – Fort Lauderdale, Florida | 825,000 | N/A | 75% |
| – South Brickell Key, Miami, Florida | 550,000 | N/A | 100% |
| – Brickell City Centre, Miami, Florida – North Squared site | 523,000 | N/A | 100% |

(1) Remaining unsold portion.

(2) Remaining saleable area.

# WHITESANDS

Hong Kong

## Hong Kong

**WHITESANDS, 160 South Lantau Road, Lantau**

All 28 houses at the WHITESANDS development had been sold at 31st December 2018. The profit from the sale of 12 houses was recognised in 2018. The property is managed by Swire Properties.

**21-31 Wing Fung Street, Wanchai**

In 2017, Swire Properties completed the acquisition of a 100% interest in a property at 21-31 Wing Fung Street, Wanchai, Hong Kong. The property has the potential to be redeveloped into a 34,000 square feet residential block with a retail podium. Vacant possession of the site was obtained in May 2018. The development is expected to be completed in 2022.

**Hong Kong Residential Market Outlook**

In Hong Kong, demand for residential accommodation has weakened, but is likely to remain resilient in the long term.

## Mainland China

At Sino-Ocean Taikoo Li Chengdu, 89% of the office's total GFA (approximately 1.15 million square feet) and 350 carparking spaces were pre-sold in 2013 and the profit from the sales of approximately 52% of the pre-sold GFA was recognised in 2015. Application was made to the court to cancel the sale of the remaining pre-sold GFA and 350 carparking spaces as part of the consideration was not received on time. The application succeeded (after an unsuccessful appeal by the buyer). The profit from the sale of approximately 122,136 square feet of the GFA and 44 carparking spaces was recognised in 2018.

## U.S.A.

The residential portion of the first phase of the Brickell City Centre development was developed for trading purposes. There are 780 units in Reach and Rise, with an aggregate GFA of 1,134,078 square feet.

The Reach and Rise developments were completed, and handover to purchasers commenced, in 2016. 363 units at Reach and 258 units at Rise had been sold at 12th March 2019. The profits from the sales of two units at Reach and 35 units at Rise were recognised in 2018.

Since the ASIA development was completed in 2008, all 123 units have been sold.

**Miami Residential Market Outlook**

In Miami, the majority of the demand for condominiums is from South American buyers. The demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. Trading profits are expected to be recognised in 2019 from sales of units at the Reach and Rise developments.

## Estate Management

Swire Properties manages 19 residential estates which it has developed. It also manages OPUS HONG KONG, a residential property in Hong Kong which Swire Properties redeveloped for Swire Pacific. The management services include day to day assistance for occupants, management, maintenance, cleaning, security and renovation of common areas and facilities. Swire Properties places great emphasis on maintaining good relationships with occupants.

## Hotels

### Managed Hotels and Restaurants

**Overview**

Swire Properties owns and manages (through Swire Hotels) hotels in Hong Kong, Mainland China and the U.S.A. The House Collective, comprising The Upper House in Hong Kong, The Opposite House in Beijing, The Temple House in Chengdu and The Middle House in Shanghai, is a group of small and distinctive luxury hotels. EAST hotels are business hotels in Hong Kong, Beijing and Miami.

The operating profit before depreciation for managed hotels increased by 15% to HK$200 million in 2018, mainly due to improved results in Hong Kong and in the U.S.A.

The Middle House (including serviced apartments known as The Middle House Residences) at HKRI Taikoo Hui in Shanghai opened in May 2018.

**Hotel Portfolio (managed by Swire Hotels)**

| | No. of Rooms (100% Basis) | Attributable Interest |
|---|---|---|
| *Completed* | | |
| Hong Kong | | |
| – The Upper House | 117 | 100% |
| – EAST, Hong Kong | 345 | 100% |
| – Headland Hotel(1) | 501 | 0% |
| Mainland China | | |
| – The Opposite House | 99 | 100% |
| – EAST, Beijing | 369 | 50% |
| – The Temple House(2) | 142 | 50% |
| – The Middle House(2) | 213 | 50% |
| U.S.A. | | |
| – EAST, Miami(3) | 352 | 100% |
| **Total** | **2,138** | |

(1) Headland Hotel is owned by Airline Property Limited, a wholly-owned subsidiary of Cathay Pacific Airways Limited.

(2) Comprising one hotel tower and one serviced apartment tower.

(3) Including serviced apartments in a hotel tower.

# The Middle House

Shanghai

**The Upper House**

At The Upper House, a 117-room luxury hotel at Pacific Place, revenue per available room and occupancy improved in 2018. During the year, TripAdvisor named the hotel number 3 in its "Top 25 Luxury Hotels in the World" category and number 1 in its "Top 25 Hotels in China" category. The hotel also received awards from Condé Nast Traveler and TripSavvy. Café Gray Deluxe received an award from Hong Kong Tatler Dining.

**EAST, Hong Kong**

At EAST, Hong Kong, a 345-room hotel in Taikoo Shing, revenue per available room and occupancy improved in 2018. During the year, the hotel received awards from Expedia and was named the "Best Business Hotel, Hong Kong" in Global Brands Magazine.

**The Opposite House**

The Opposite House is a 99-room luxury hotel at Taikoo Li Sanlitun, Beijing. Its occupancy and revenue per available room were stable in 2018. Its food and beverage business was affected by increased competition. During the year, the hotel received an award from Condé Nast Traveler and was named number 4 by TripAdvisor in its "Top 25 Hotels in China" category.

**EAST, Beijing**

EAST, Beijing is a 369-room business hotel at INDIGO in Beijing, in which Swire Properties holds a 50% interest. Revenue per available room and occupancy improved in 2018. During the year, the hotel received awards from The Bund and Airtime. The hotel's Feast (Food by EAST) restaurant received an award from Tatler.

**The Temple House**

The Temple House is a luxury property consisting of 100 hotel rooms and 42 serviced apartments at Sino-Ocean Taikoo Li Chengdu, in which Swire Properties holds a 50% interest. Revenue per available room and occupancy improved in 2018. During the year, the hotel received awards from Travel + Leisure and Condé Nast Traveler. TripAdvisor named the hotel number 6 in its "Top 25 Hotels in China" category. TIVANO restaurant and Jing bar received awards from China Wine List of the Year. The hotel's MI XUN Spa received awards from Condé Nast Traveler and SpaChina. It was also named "Asia's Best Wellness Retreat 2018" at the World Spa Awards 2018.

**The Middle House**

The Middle House is a luxury property consisting of 111 hotel rooms and 102 serviced apartments at HKRI Taikoo Hui, Shanghai, in which Swire Properties holds a 50% interest. It officially opened in May 2018 and is building up its occupancy.

**EAST, Miami**

EAST, Miami at the Brickell City Centre development in Miami consists of 263 hotel rooms and 89 serviced apartments. Its revenue per available room and operating margins improved in 2018 as the business stabilised. During the year, the hotel received awards from Condé Nast Traveler and HT-NEXT.

### Swire Restaurants

Swire Hotels operates restaurants in Hong Kong. There are PUBLIC cafés at One Island East and North Point, and a REPUBLIC café at Devon House. The Continental is a European restaurant at Pacific Place. Mr & Mrs Fox is a restaurant with an international menu in Quarry Bay. The Plat du Jour restaurants are French bistros at Pacific Place and in Quarry Bay. During the year, Mr & Mrs Fox and The Continental received awards from the South China Morning Post and the Travel & Hospitality Awards.

## Non-managed Hotels

### Overview

Swire Properties has ownership interests in (but does not manage) hotels with 3,140 rooms in aggregate.

**Hotel Portfolio (not managed by the Group)**

| | No. of Rooms (100% Basis) | Attributable Interest |
|---|---|---|
| *Completed* | | |
| Hong Kong | | |
| – Island Shangri-La Hong Kong | 565 | 20% |
| – JW Marriott Hotel Hong Kong | 602 | 20% |
| – Conrad Hong Kong | 513 | 20% |
| – Novotel Citygate Hong Kong | 440 | 20% |
| Mainland China | | |
| – Mandarin Oriental, Guangzhou[(1)] | 287 | 97% |
| – The Sukhothai Shanghai | 201 | 50% |
| U.S.A. | | |
| – Mandarin Oriental, Miami | 326 | 75% |
| *Under Development* | | |
| Hong Kong | | |
| – Hotel at Tung Chung Town Lot No. 11 | 206 | 20% |
| **Total** | **3,140** | |

(1) Including serviced apartments in the hotel tower.

The performance of the non-managed hotels in Hong Kong was stable. The Mandarin Oriental, Guangzhou is a leading luxury hotel in Guangzhou. Occupancy improved in 2018 and its performance was good. The operating results of the Mandarin Oriental, Miami in 2018 were better than last year.

The Sukhothai Shanghai opened in May 2018 and has established itself as one of the leading luxury boutique hotels in Shanghai. Occupancy started to be built up. Food and beverage performance was satisfactory.

### Hotels Market Outlook

Trading conditions for our existing hotels are expected to be stable in 2019. Our new hotels in Shanghai are expected to continue to build up their occupancy. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open later this year.

# Capital Commitments

## Capital Expenditure and Commitments

Capital expenditure in 2018 on Hong Kong investment properties and hotels, including the Group's share of the capital expenditure of joint venture companies, amounted to HK$5,479 million (2017: HK$5,017 million). Outstanding capital commitments at 31st December 2018 were HK$15,213 million (2017: HK$12,170 million), including the Group's share of the capital commitments of joint venture companies of HK$251 million (2017: HK$775 million). The Group was committed to funding HK$64 million (2017: HK$305 million) of the capital commitments of joint venture companies in Hong Kong.

Capital expenditure in 2018 on Mainland China investment properties and hotels, including the Group's share of the capital expenditure of joint venture companies, amounted to HK$2,463 million (2017: HK$917 million). Outstanding capital commitments at 31st December 2018 were HK$2,081 million (2017: HK$1,553 million), including the Group's share of the capital commitments of joint venture companies of HK$1,500 million (2017: HK$652 million). The Group was committed to funding HK$400 million (2017: HK$36 million) of the capital commitments of joint venture companies in Mainland China.

Capital expenditure in 2018 on investment properties and hotels in the U.S.A. and elsewhere amounted to HK$168 million (2017: HK$926 million). Outstanding capital commitments at 31st December 2018 were HK$328 million (2017: HK$477 million).

**Profile of Capital Commitments at 31st December 2018 for Investment Properties and Hotels**

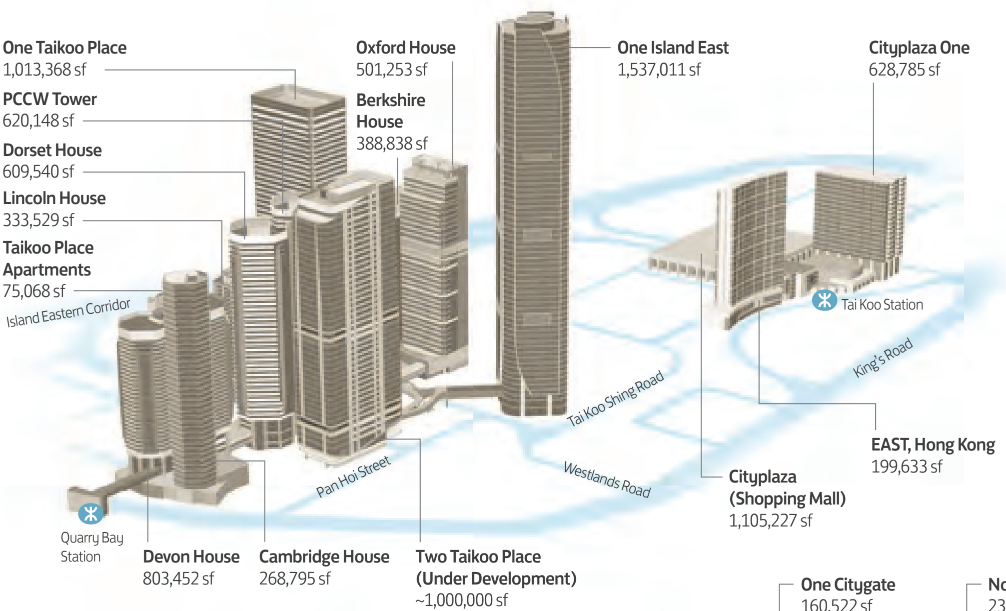
| | **Expenditure** | **Forecast expenditure** | | | | **Commitments** [1] |
|---|---|---|---|---|---|---|
| | **2018 HK$M** | 2019 HK$M | 2020 HK$M | 2021 HK$M | 2022 and later HK$M | **At 31st December 2018 HK$M** |
| Hong Kong | **5,479** | 1,734 | 3,924 | 2,908 | 6,647 | **15,213** |
| Mainland China | **2,463** | 1,440 | 406 | 90 | 145 | **2,081** |
| U.S.A. and elsewhere | **168** | 266 | 18 | 44 | – | **328** |
| **Total** | **8,110** | 3,440 | 4,348 | 3,042 | 6,792 | **17,622** |

[1] The capital commitments represent the Group's capital commitments of HK$15,871 million plus the Group's share of the capital commitments of joint venture companies of HK$1,751 million. The Group was committed to funding HK$464 million of the capital commitments of joint venture companies.

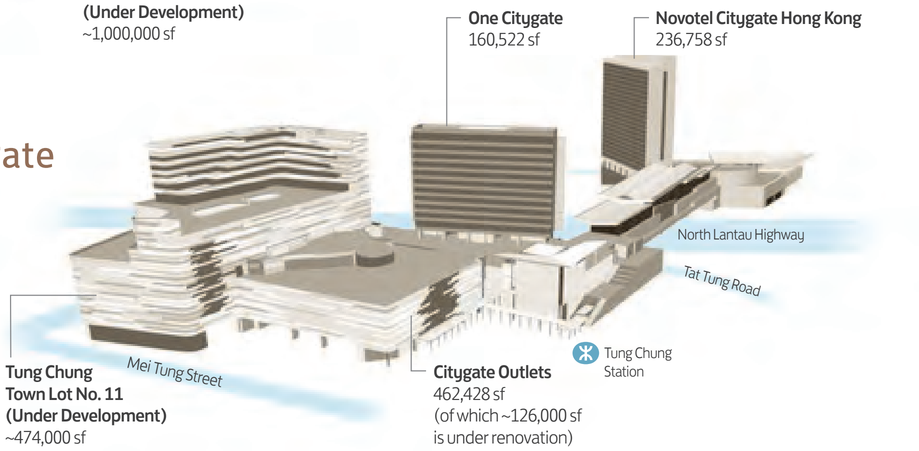
# Hong Kong

## Taikoo Place

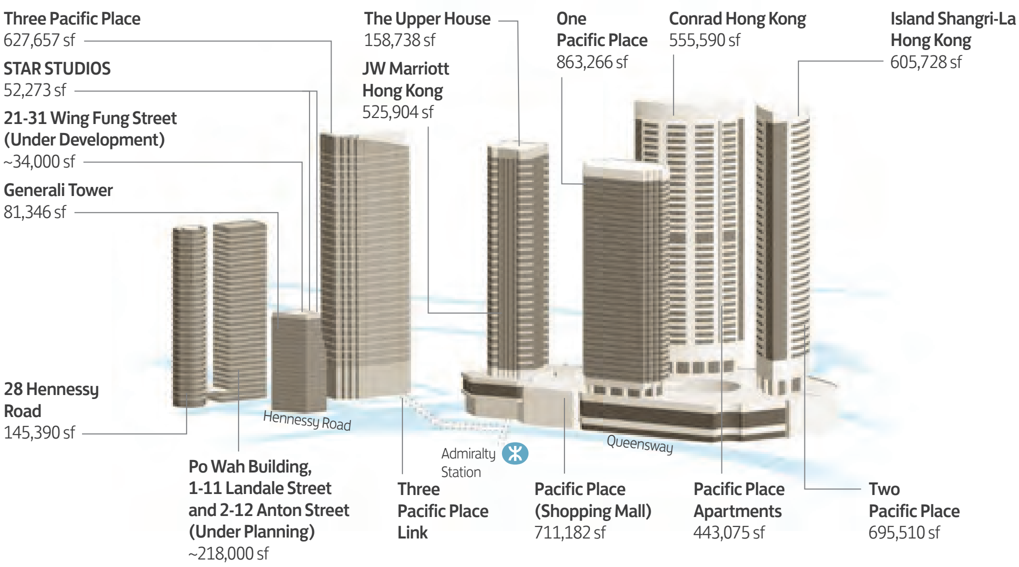
## Cityplaza




## Citygate



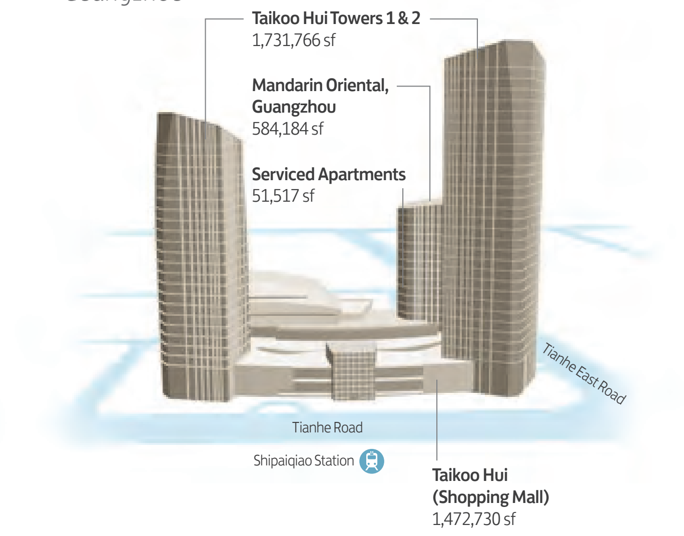

## Pacific Place



# Mainland China

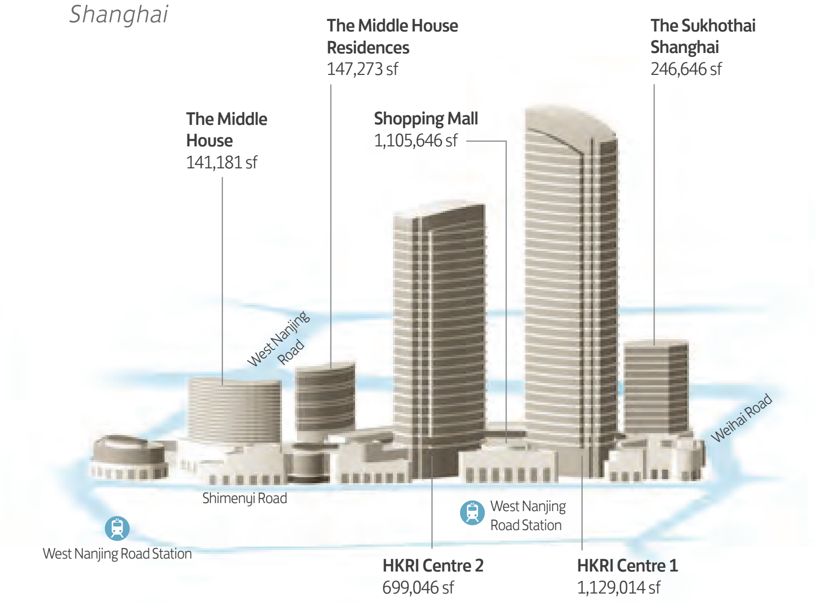
## Taikoo Hui

*Guangzhou*



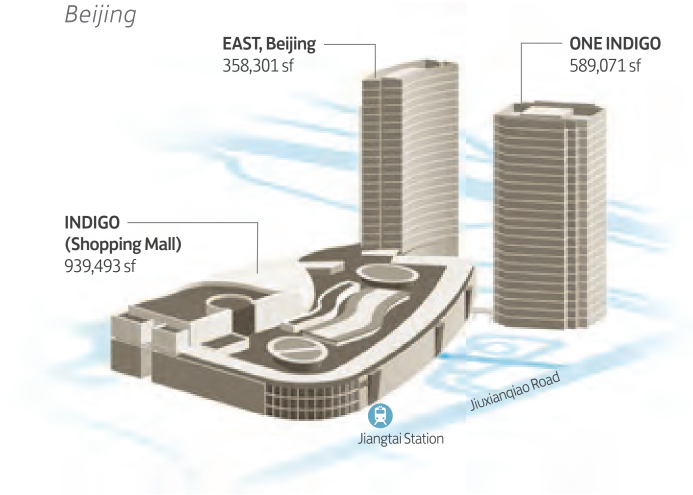

## HKRI Taikoo Hui

*Shanghai*



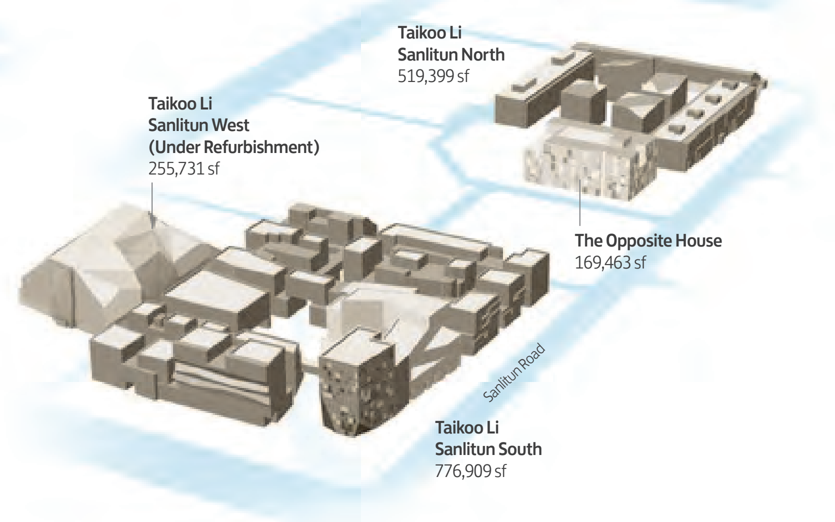

## INDIGO

*Beijing*




## Taikoo Li Sanlitun

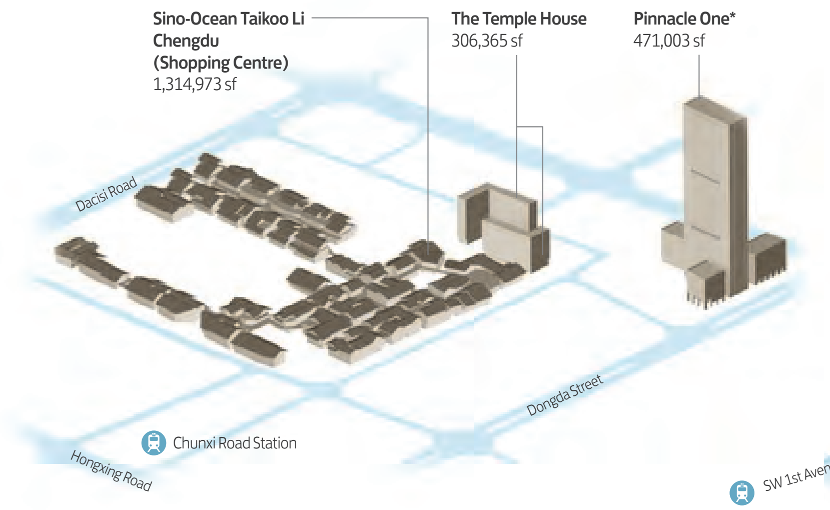
*Beijing*



## U.S.A.

## Sino-Ocean Taikoo Li Chengdu

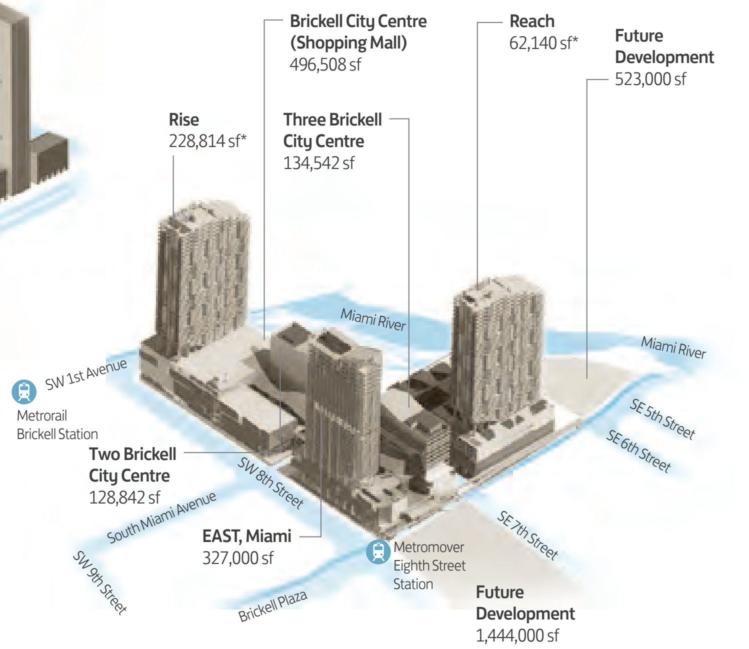
*Chengdu*




*Pinnacle One is developed for trading purpose. Floor area shown represents the remaining unsold portion.

## Brickell City Centre

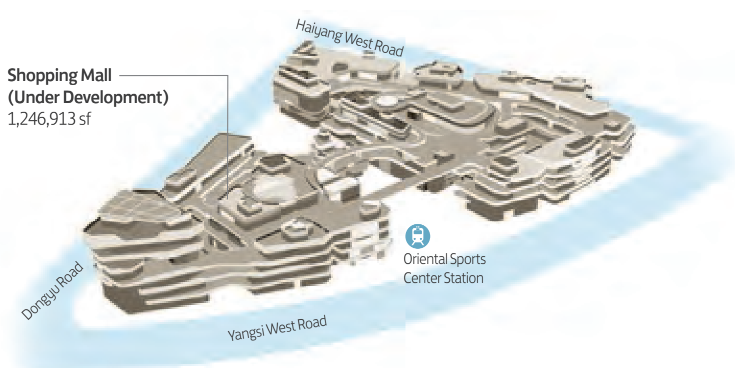
*Miami, Florida*




*Rise and Reach are developed for trading purpose. Floor area shown represents the unclosed portion.

## Taikoo Li Qiantan

*Shanghai*




Note:

These diagrams are not to scale and are for illustration purpose only.

These diagrams illustrate the major developments of Swire Properties. For details of other developments, please refer to the Schedule of Principal Group Properties on pages 170 to 180.

We have investments across Hong Kong, Mainland China, Singapore and the U.S.A. Adhering to our core values of integrity, originality, long-term focus and quality, we aim to create sustained value by developing and managing large-scale mixed-use projects that serve as focal points of the surrounding urban areas.

One Island East, Hong Kong

# Financial Review

References are to “Notes to the Financial Statements” on pages 101 to 163.

## Consolidated Statement of Profit or Loss

| | **2018 HK$M** | 2017 HK$M | Reference |
|---|---|---|---|
| **Revenue**<br>The decrease in revenue of HK$3,839 million compared to 2017 was principally due to lower revenue from property trading, offset in part by higher gross rental income from investment properties.<br><br>Revenue from property trading decreased by HK$4,772 million from 2017. In 2018, revenue was recognised from the sale of 12 WHITESANDS houses and carparks at the AZURA development in Hong Kong and from the sale of two Reach units and 35 Rise units in Miami, U.S.A. In 2017, revenue was recognised from the sale of 197 ALASSIO units and 14 WHITESANDS houses in Hong Kong and from the sale of 12 Reach units and 28 Rise units in Miami, U.S.A.<br><br>Rental income from investment properties increased by HK$865 million. In Hong Kong, gross rental income increased by HK$372 million, reflecting higher gross office and retail rental income. In Mainland China, gross rental income increased by HK$264 million, reflecting higher retail rents. In the U.S.A., gross rental income increased by HK$229 million, mainly because more shops were open at the shopping centre at Brickell City Centre.<br><br>Revenue from hotels increased by HK$59 million, reflecting better results from hotels in all regions. | **14,719** | 18,558 | Note 4 |

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

| | 2018 HK$M | 2017 HK$M | Reference |
|---|---|---|---|
| **Gross Profit**<br>Gross profit decreased by HK$763 million. Gross profit from property trading decreased by HK$1,562 million. This was offset in part by higher gross profit from investment properties and from hotels. Gross profit from property trading reflected the recognition of profits on the sale of houses at WHITESANDS and carparks at AZURA in Hong Kong, and profits on the sale of units at the Reach and Rise developments in the U.S.A. Gross profit from investment properties increased by HK$749 million, principally reflecting better performances from the office and retail portfolios in Hong Kong, the retail portfolio at the Brickell City Centre development in the U.S.A. and the retail portfolio in Mainland China. Gross profit from hotels increased by HK$50 million, due mainly to a better performance at EAST, Miami and at the hotels in Hong Kong. | **10,226** | 10,989 | |
| **Operating Profit**<br>The decrease in operating profit of HK$5,565 million was principally due to lower net revaluation gains on investment properties and a lower gross profit from property trading. This was offset in part by a higher gross profit from investment properties and higher profit on sale of subsidiary companies and interests in other investment properties in Hong Kong.<br><br>A net revaluation gain on investment properties of HK$19,452 million was recorded in 2018, HK$6,011 million less than that in 2017. Investment properties in Hong Kong recorded a net revaluation gain of HK$17,541 million, principally due to higher rents at the offices in Pacific Place and Taikoo Place, and a reduction of 12.5 basis points in the capitalisation rate applicable to office properties in Hong Kong. Investment properties in Mainland China recorded a revaluation gain of HK$2,364 million, principally due to higher rents at Taikoo Hui and Taikoo Li Sanlitun, and a reduction of 25 basis points in the capitalisation rate applicable to Taikoo Li Sanlitun North and the Taikoo Hui offices. The investment properties at Brickell City Centre in Miami, U.S.A. recorded a revaluation loss of HK$384 million, mainly due to an increase of 50 basis points in the discount rate applicable to the retail portfolio.<br><br>Administrative and selling expenses increased by HK$207 million compared to 2017. The increase principally reflected a provision made in respect of a capital contribution receivable from the owner of a non-controlling interest in a subsidiary and expenditure on feasibility studies in respect of Mainland China projects. | **29,365** | 34,930 | Notes 6 and 8(a) |
| **Net Finance Charges**<br>The reduction of HK$18 million principally reflected a decrease in the amount of borrowings in Hong Kong and Mainland China and a decrease in the cost of borrowings in Hong Kong. This was partially offset by an increase in finance charges as a result of interest ceasing to be capitalised in respect of an office building in Kowloon Bay when it was completed at the end of 2017. | **882** | 900 | Note 10 |

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

| | 2018 HK$M | 2017 HK$M | Reference |
|---|---|---|---|
| **Share of Profits Less Losses of Joint Venture Companies**<br>The increase of HK$179 million principally reflected higher operating profit from HKRI Taikoo Hui and Sino-Ocean Taikoo Li Chengdu in Mainland China, offset in part by lower net revaluation gains of HK$138 million. | **1,825** | 1,646 | Note 8(a) |
| **Taxation**<br>The decrease of HK$67 million was principally due to lower operating profit after excluding non-assessable income (principally revaluation gains on Hong Kong investment properties), offset in part by the effect of an increase in the fair value gains in respect of investment properties in Mainland China. | **1,740** | 1,807 | Note 11 |
| **Profit Attributable to the Company's Shareholders**<br>The decrease of HK$5,291 million reflected lower net revaluation gains from investment properties, offset in part by higher profits on sales of subsidiary companies and interests in other investment properties in Hong Kong, higher profits from investment properties and a higher share of profits from joint venture companies. | **28,666** | 33,957 | Note 8(a) |

## Consolidated Statement of Financial Position

| | 2018 HK$M | 2017 HK$M | Reference |
|---|---|---|---|
| **Property, Plant and Equipment**<br>The decrease in property, plant and equipment was principally due to depreciation, the reclassification of certain owner-occupied properties in Hong Kong as investment properties and the transfer of owner-occupied properties to assets classified as held for sale, offset in part by additions to plant and equipment and other capital expenditure in Hong Kong and Mainland China. | **7,877** | 8,371 | Note 15 |
| **Investment Properties**<br>The increase in investment properties of HK$5,655 million was principally due to a revaluation gain of HK$19,452 million and additions during the year of HK$4,743 million (including capital expenditure at the Taikoo Place redevelopment and other projects in Hong Kong and Mainland China), offset in part by the transfer of properties to assets classified as held for sale and a foreign exchange translation loss (principally in respect of investment properties in Mainland China) of HK$1,459 million. | **273,186** | 267,531 | Note 16 |

## Consolidated Statement of Financial Position *(continued)*

| | **2018 HK$M** | 2017 HK$M | Reference |
|---|---|---|---|
| **Joint Venture Companies and Loans Due from Joint Venture Companies**<br>The increase of HK$5,765 million principally reflected (i) equity funding of projects in Mainland China, (ii) debt funding of projects in Hong Kong and Mainland China, (iii) the Company's share of profits of joint venture companies (including revaluation gains), offset in part by (iv) the Company's share of foreign exchange translation losses in respect of joint venture companies in Mainland China. | **28,791** | 23,026 | Note 19 |
| **Properties Under Development and For Sale**<br>The decrease of HK$831 million reflected sales of houses at the WHITESANDS development and carparks at AZURA in Hong Kong and of units at the Reach and Rise developments at Brickell City Centre in the U.S.A. | **1,469** | 2,300 | Note 22 |
| **Other Current Assets**<br>The decrease reflected completion of the sale of the subsidiary undertaking the Kowloon Bay development in 2018. | **–** | 6,262 | Note 33 |
| **Assets Classified as Held For Sale**<br>Assets classified as held for sale mainly comprised interests in properties which were conditionally agreed to be sold to a third party in June 2018. | **15,526** | – | Note 34 |
| **Trade and Other Receivables**<br>The decrease of HK$595 million was partly due to settlement of trade debtors related to the WHITESANDS development. | **2,401** | 2,996 | Note 24 |
| **Trade and Other Payables and Contract Liabilities (including non-current portion)**<br>The increase of HK$2,226 million principally reflected a HK$672 million increase in accrued capital expenditure and a HK$1,932 million increase in deposits received in respect of the sale of subsidiary companies, offset in part by a HK$260 million decrease in other current payables, and by a HK$115 million decrease in the value of a put option in respect of a non-controlling interest. | **10,762** | 8,536 | Note 27 |
| **Long-Term Loans and Bonds (including the component due within one year)**<br>The increase of HK$385 million was principally due to the issue of medium term notes of US$500 million (such issue having been made in order to repay the amount due to Swire Finance Limited by reason of the maturity of that company's medium term notes during the year and to fund the Taikoo Li Qiantan development in Shanghai, Mainland China and capital expenditure in Hong Kong), offset in part by repayment and prepayment of bank loans in Hong Kong and Mainland China. | **31,765** | 31,380 | Note 28 |

## Consolidated Statement of Financial Position *(continued)*

| | 2018 HK$M | 2017 HK$M | Reference |
|---|---|---|---|
| **Loans Due to a Fellow Subsidiary Company – Swire Finance Limited (including the component due within one year)**<br>The decrease of HK$5,176 million reflected repayment of the amount due to Swire Finance Limited by reason of the maturity of that company's medium term notes during the year. | **–** | 5,176 | Note 29 |
| **Deferred Tax Liabilities**<br>The increase of HK$193 million principally reflected deferred tax in respect of depreciation allowances relating to investment properties and in respect of revaluation gains on investment properties in Mainland China. | **8,716** | 8,523 | Note 31 |
| **Equity Attributable to the Company's Shareholders**<br>The increase in equity attributable to the Company's shareholders represented the total comprehensive income for the year attributable to the Company's shareholders (HK$26,516 million), as reduced by dividends paid to the Company's shareholders. | **279,275** | 257,381 | Notes 36 and 37 |
| **Non-Controlling Interests**<br>The increase in non-controlling interests of HK$19 million reflected capital contributions of HK$8 million from the owner of a non-controlling interest at the Brickell City Centre development during the year plus profits earned by companies in which there are non-controlling interests, offset in part by dividends paid to the owners of non-controlling interests and by foreign exchange translation losses in respect of companies in Mainland China. | **2,016** | 1,997 | Note 39 |

## Consolidated Statement of Cash Flows

| | 2018 HK$M | 2017 HK$M | Reference |
|---|---|---|---|
| **Cash Generated from Operations**<br>Cash generated from operations of HK$11,619 million principally comprised cash inflows from investment properties of approximately HK$9,907 million, from property trading of approximately HK$1,125 million and from deposits received on the sale of subsidiary companies of HK$1,932 million, offset in part by operating expenses of approximately HK$1,151 million and expenditure on properties under development and for sale of approximately HK$227 million. | **11,619** | 13,680 | Note 44(a) |

## Consolidated Statement of Cash Flows *(continued)*

| | **2018 HK$M** | 2017 HK$M | Reference |
|---|---|---|---|
| **Tax Paid**<br>The increase principally reflected tax on the assessable profits arising in respect of the ALASSIO development in Hong Kong. | **1,443** | 1,044 | |
| **Purchase of Property, Plant and Equipment**<br>The amount of HK$121 million in 2018 principally reflected additions to plant and equipment and other capital expenditure. | **121** | 217 | Note 44(b) |
| **Additions to Investment Properties**<br>The amount of HK$3,917 million in 2018 principally reflected capital expenditure at the Taikoo Place redevelopment and other projects in Hong Kong, the U.S.A. and Singapore. | **3,917** | 5,179 | |
| **Additions to Assets Classified as Held for Sale/Other Current Assets**<br>The amount of HK$452 million represented additional capital expenditure and development costs incurred in respect of the property in Kowloon Bay, Hong Kong, the sale of the subsidiary owning which was completed in 2018. | **452** | 623 | |
| **Equity and Loans (Net of Repayment) to Joint Venture Companies**<br>The amount of HK$2,887 million in 2018 principally reflected funding by way of debt and equity for projects in Hong Kong and Mainland China. | **2,887** | 865 | |
| **Loans Drawn and Refinancing (Net of Repayment)**<br>The amount of HK$111 million in 2018 principally reflected the issue of medium term notes of US$500 million (such issue having been made in order to repay the amount due to Swire Finance Limited by reason of the maturity of that company's medium term notes during the year and to fund the Taikoo Li Qiantan development in Shanghai, Mainland China and capital expenditure in Hong Kong), offset in part by repayment and prepayment of bank loans in Hong Kong and Mainland China. Refer to Financing section on pages 51 to 59 for further details. | **111** | 1,889 | |
| **Decrease in Loans Due to a Fellow Subsidiary Company – Swire Finance Limited**<br>The amount of HK$5,177 million in 2018 reflected repayment of the amount due to Swire Finance Limited by reason of the maturity of that company's medium term notes during the year. | **5,177** | 2,329 | |

## Investment Appraisal and Performance Review

| | Net Assets Employed | | Capital Commitments[1] | |
|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| Property investment | **299,659** | 283,045 | **17,407** | 13,940 |
| Property trading | **4,143** | 3,942 | **–** | – |
| Hotels | **7,394** | 7,738 | **215** | 260 |
| Total net assets employed | **311,196** | 294,725 | **17,622** | 14,200 |
| Less: net debt | **(29,905)** | (35,347) | | |
| Less: non-controlling interests | **(2,016)** | (1,997) | | |
| Equity attributable to the Company's shareholders | **279,275** | 257,381 | | |

| | Equity Attributable to the Company's Shareholders[2] | | Return on Average Equity Attributable to the Company's Shareholders[2] | |
|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018** | 2017 |
| Property investment | **270,307** | 248,783 | **11.0%** | 14.1% |
| Property trading | **2,611** | 1,853 | **4.4%** | 56.8% |
| Hotels | **6,357** | 6,745 | **-0.6%** | -0.6% |
| Total | **279,275** | 257,381 | **10.7%** | 14.1% |

(1) The capital commitments represent the Group's capital commitments plus the Group's share of the capital commitments of joint venture companies.

(2) Refer to Glossary on page 181 for definitions.

# Financing

- Capital Structure
- Medium Term Note Programme
- Changes in Financing
- Net Debt
- Sources of Finance
  – Loans and Bonds
  – Bank Balances and Short-term Deposits
- Maturity Profile and Refinancing
- Currency Profile
- Finance Charges
- Gearing Ratio and Interest Cover
- Capital Management
- Attributable Net Debt
- Debt in Joint Venture and Associated Companies

## Capital Structure

The Group aims to maintain a capital structure which enables it to invest in and finance projects in a disciplined and targeted manner.

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders, and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of its investments.

## Medium Term Note Programme

In 2012, Swire Properties MTN Financing Limited, a wholly-owned subsidiary of the Company, established a US$3 billion Medium Term Note ("MTN") Programme. The aggregate nominal amount of the MTN Programme was increased to US$4 billion in 2017. Notes issued under the MTN Programme are unconditionally and irrevocably guaranteed by the Company. At 31st December 2018, the MTN Programme was rated A by Fitch and (P)A2 by Moody's, in each case in respect of notes with a maturity of more than one year.

The MTN Programme enables the Group to raise money directly from the capital markets. Under the MTN Programme, notes may be issued in US dollars or in other currencies, in various amounts and for various tenors.

## Changes in Financing

**Audited Financial Information**

During the year, the Group raised approximately HK$6,267 million. This comprised:

- medium term notes of US$500 million
- refinancing of a revolving loan facility of US$300 million

During the year, the Group made various repayments of debt including of the amount due under a loan agreement with Swire Finance Limited corresponding to HK$5,177 million of notes issued by Swire Finance Limited which matured, and prepayment of term loan facilities and repayment of revolving loan facilities totalling HK$2,600 million and RMB1,122 million.

| | Loans and bonds | | Loans due to Swire Finance Limited | | | |
|---|---|---|---|---|---|---|
| | due within one year HK$M | due after one year HK$M | due within one year HK$M | due after one year HK$M | 2018 HK$M | 2017 HK$M |
| **Bank loans, bonds and loans from Swire Finance Limited** | | | | | | |
| At 1st January | **3,161** | **28,718** | **5,176** | **–** | **37,055** | 37,058 |
| Loans drawn and refinanced | **106** | **2,320** | **–** | **–** | **2,426** | 6,475 |
| Bonds issued | **–** | **3,917** | **–** | **–** | **3,917** | 2,090 |
| Bonds matured | **–** | **–** | **–** | **–** | **–** | (500) |
| Repayment of loans | **(3,837)** | **(2,395)** | **(5,177)** | **–** | **(11,409)** | (8,505) |
| Reclassification | **1,822** | **(1,822)** | **–** | **–** | **–** | – |
| Currency adjustment | **(32)** | **(22)** | **–** | **–** | **(54)** | 367 |
| Other non-cash movements | **10** | **53** | **1** | **–** | **64** | 70 |
| At 31st December | **1,230** | **30,769** | **–** | **–** | **31,999** | 37,055 |

## Net Debt

**Audited Financial Information**

The Group's borrowings are principally denominated in Hong Kong dollars, Renminbi and US dollars. Outstanding borrowings at 31st December 2018 and 2017 were as follows:

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| **Borrowings included in non-current liabilities** | | |
| Bank borrowings – unsecured | **9,547** | 11,136 |
| Bonds – unsecured | **21,222** | 17,582 |
| **Borrowings included in current liabilities** | | |
| Bank borrowings – unsecured | **930** | 3,161 |
| Bonds – unsecured | **300** | – |
| Borrowings from Swire Finance Limited – unsecured | **–** | 5,176 |
| **Total borrowings** | **31,999** | 37,055 |
| Less: short-term deposits and bank balances | **2,094** | 1,708 |
| **Net debt** | **29,905** | 35,347 |

## Sources of Finance

**Audited Financial Information**

At 31st December 2018, committed loan facilities and debt securities amounted to HK$43,990 million, of which HK$12,053 million (27%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK$858 million. Sources of funds at 31st December 2018 comprised:

| | Available HK$M | Drawn HK$M | Undrawn Expiring Within One Year HK$M | Undrawn Expiring After One Year HK$M |
|---|---|---|---|---|
| **Facilities from third parties** | | | | |
| Term loans | 7,593 | 7,593 | – | – |
| Revolving loans | 14,800 | 2,747 | 2,178 | 9,875 |
| Bonds | 21,597 | 21,597 | – | – |
| **Total committed facilities** | 43,990 | 31,937 | 2,178 | 9,875 |
| **Uncommitted facilities** | | | | |
| Bank loans and overdrafts | 1,092 | 234 | 858 | – |
| **Total** | 45,082 | 32,171 | 3,036 | 9,875 |

Note:
The figures above are stated before unamortised loan fees of HK$172 million.

### i) Loans and Bonds

**Audited Financial Information**

For accounting purposes, loans and bonds are classified as follows:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | Drawn, Before Unamortised Loan Fees HK$M | Unamortised Loan Fees HK$M | Carrying Value HK$M | Drawn, Before Unamortised Loan Fees HK$M | Unamortised Loan Fees HK$M | Carrying Value HK$M |
| **Group** | | | | | | |
| Uncommitted bank loans and overdrafts | | | | | | |
| – unsecured | 234 | – | 234 | 499 | – | 499 |
| Long-term loans and bonds at amortised cost | | | | | | |
| – unsecured | 31,937 | (172) | 31,765 | 36,762 | (206) | 36,556 |
| Less: amount due within one year included under current liabilities | 998 | (2) | 996 | 7,842 | (4) | 7,838 |
| | 30,939 | (170) | 30,769 | 28,920 | (202) | 28,718 |

### ii) Bank Balances and Short-term Deposits

The Group had bank balances and short-term deposits of HK$2,094 million at 31st December 2018, compared to HK$1,708 million at 31st December 2017.

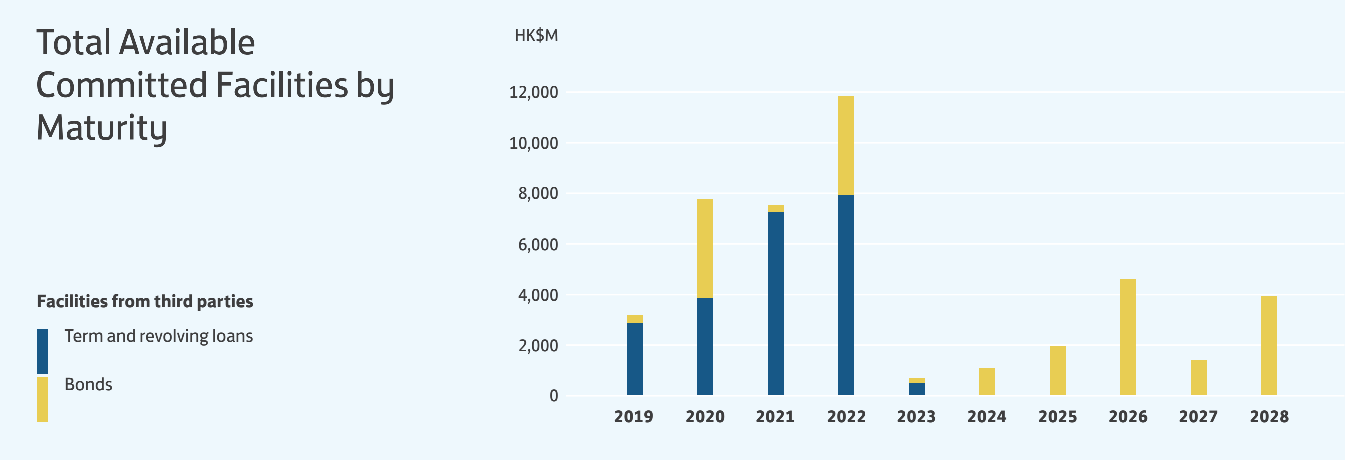
## Maturity Profile and Refinancing

Bank loans and other borrowings are repayable on various dates up to 2028 (2017: up to 2027). The weighted average term and cost of the Group's debt are:

| | **2018** | 2017 |
|---|---|---|
| Weighted average term of debt | **3.9 years** | 3.8 years |
| Weighted average cost of debt | **3.3%** | 3.5% |

Note:
The weighted average cost of debt above is stated on gross debt basis. This was stated on net debt basis in prior years.

The maturity profile of the Group's available committed facilities is set out below:



**Audited Financial Information**

The table below sets forth the maturity profile of the Group's borrowings:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | HK$M | | HK$M | |
| **Bank borrowings and bonds from third parties due** | | | | |
| Within 1 year | **1,230** | **4%** | 3,161 | 9% |
| 1-2 years | **6,951** | **22%** | 2,232 | 6% |
| 2-5 years | **10,915** | **34%** | 17,297 | 46% |
| After 5 years | **12,903** | **40%** | 9,189 | 25% |
| **Borrowings from Swire Finance Limited due** | | | | |
| Within 1 year | **–** | **–** | 5,176 | 14% |
| **Total** | **31,999** | **100%** | 37,055 | 100% |
| Less: Amount due within one year included under current liabilities | **1,230** | | 8,337 | |
| Amount due after one year included under non-current liabilities | **30,769** | | 28,718 | |

## Currency Profile

**Audited Financial Information**

An analysis of the carrying amounts of gross borrowings by currency (after cross-currency swaps) is shown below:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | HK$M | | HK$M | |
| **Currency** | | | | |
| Hong Kong dollars | **24,834** | **78%** | 28,639 | 77% |
| United States dollars | **6,234** | **20%** | 6,215 | 17% |
| Renminbi | **455** | **1%** | 1,826 | 5% |
| Singapore dollars | **476** | **1%** | 375 | 1% |
| **Total** | **31,999** | **100%** | 37,055 | 100% |

## Finance Charges

**Audited Financial Information**

An analysis of outstanding borrowings by reference to whether they bear interest at fixed or floating rates is shown below:

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | HK$M | | HK$M | |
| Fixed | **24,104** | **75%** | 24,394 | 65% |
| Floating | **8,067** | **25%** | 12,867 | 35% |
| Sub-total | **32,171** | **100%** | 37,261 | 100% |
| Less: Unamortised loan fee | **172** | | 206 | |
| **Total** | **31,999** | | 37,055 | |

**Audited Financial Information** *(continued)*

The exposure of the Group's borrowings to fixed and floating interest rates can be illustrated as follows:

| | Floating Interest Rates HK$M | Fixed Interest Rates Maturing in: 1 Year or Less HK$M | 1 to 5 Years HK$M | Over 5 Years HK$M | Total HK$M |
|---|---|---|---|---|---|
| **At 31st December 2018** | **7,984** | **300** | **10,812** | **12,903** | **31,999** |
| At 31st December 2017 | 12,748 | 5,176 | 9,943 | 9,188 | 37,055 |

Interest charged and earned during the year was as follows:

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| **Interest charged on:** | | |
| Bank loans and overdrafts | **314** | 291 |
| Bonds | **722** | 572 |
| Loans from fellow subsidiary companies | **95** | 328 |
| Loans from joint venture and related companies | **6** | 6 |
| Net fair value (gains)/losses on derivative instruments | | |
| Cash flow hedges – transferred from other comprehensive income | **(21)** | 2 |
| Other financing costs | **162** | 150 |
| | **1,278** | 1,349 |
| (Gain)/Loss on the movement in the fair value of the liability in respect of a put option in favour of the owner of a non-controlling interest | **(16)** | 6 |
| Capitalised on: | | |
| Investment properties | **(265)** | (212) |
| Properties under development and for sale | **(2)** | – |
| Other current assets | **–** | (160) |
| | **995** | 983 |
| **Interest income on:** | | |
| Short-term deposits and bank balances | **(34)** | (14) |
| Loans to joint venture companies | **(78)** | (69) |
| Others | **(1)** | – |
| | **(113)** | (83) |
| **Net finance charges** | **882** | 900 |

The capitalised interest rates on funds both borrowed generally and used for the development of investment properties, properties under development and for sale and other current assets were between 2.1% and 3.6% per annum (2017: 1.4% and 3.9% per annum).

The amount transferred from other comprehensive income in respect of cash flow hedges in 2018 includes HK$1 million relating to currency basis.

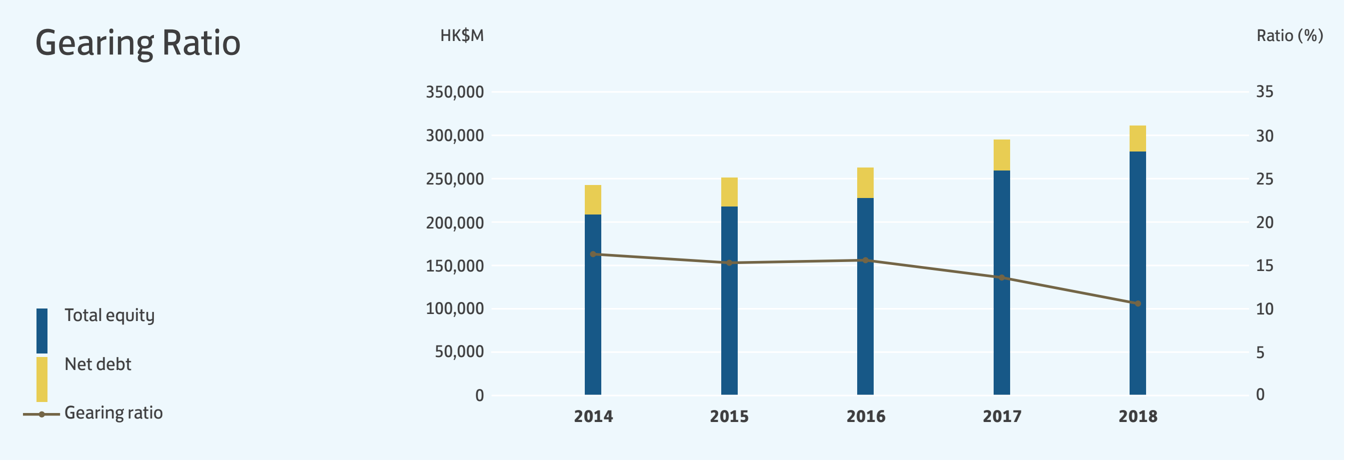
**Audited Financial Information** *(continued)*

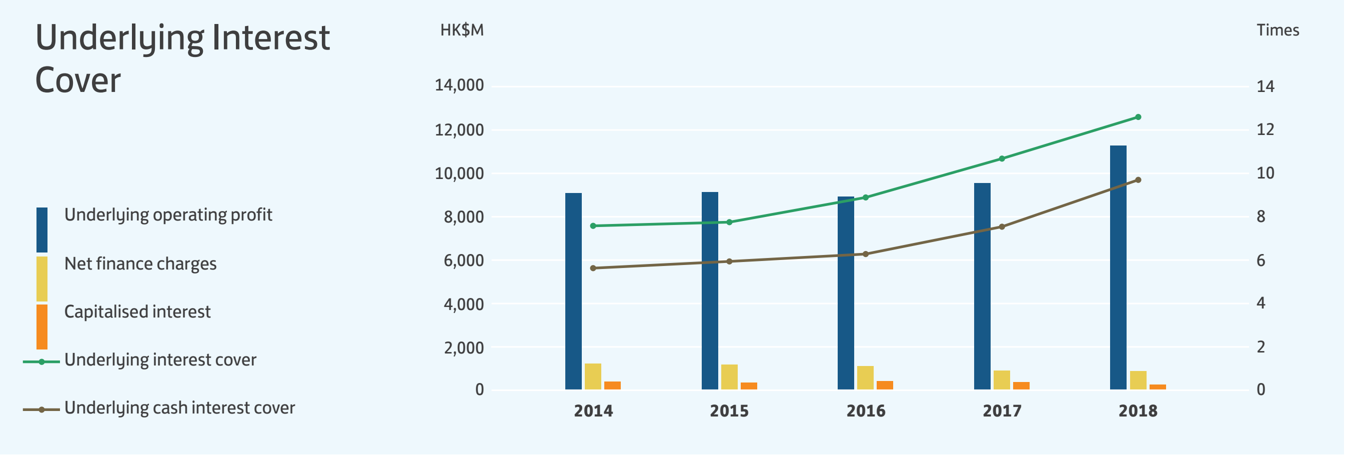
The interest rates per annum (after interest rate and cross-currency swaps) at 31st December were as follows:

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **HK$ %** | **US$ %** | **RMB %** | **SGD %** | HK$ % | US$ % | RMB % | SGD % |
| Uncommitted bank loans and overdrafts | **–** | **–** | **4.4** | **2.4** | – | – | 4.1-4.4 | 1.8 |
| Long-term loans and bonds | **1.8-4.4** | **2.9-3.4** | **4.3-4.4** | **2.4** | 1.3-5.2 | 2.0-2.9 | 4.3-4.4 | 1.8-2.0 |

## Gearing Ratio and Interest Cover

The following graphs illustrate the gearing ratio and underlying interest cover for each of the last five years:



| | **2018** | 2017 |
|---|---|---|
| **Gearing ratio**[(1)] | **10.6%** | 13.6% |
| **Interest cover – times**[(1)] | | |
| Per financial statements | **33.3** | 38.8 |
| Underlying | **12.6** | 10.7 |
| **Cash interest cover – times**[(1)] | | |
| Per financial statements | **25.6** | 27.5 |
| Underlying | **9.7** | 7.5 |

(1) Refer to Glossary on page 181 for definitions.

## Capital Management

**Audited Financial Information**

The Group's primary objectives when managing capital are to safeguard the Group's ability to operate as a going concern, so that it can continue to provide returns for shareholders, and to secure access to finance at a reasonable cost.

The Group considers a number of factors in monitoring its capital structure, which principally include the gearing ratio, cash interest cover and the return cycle of its investments. For the purpose of the gearing ratio, the Group defines net debt as total borrowings less short-term deposits and bank balances. Capital comprises total equity, as shown in the consolidated statement of financial position.

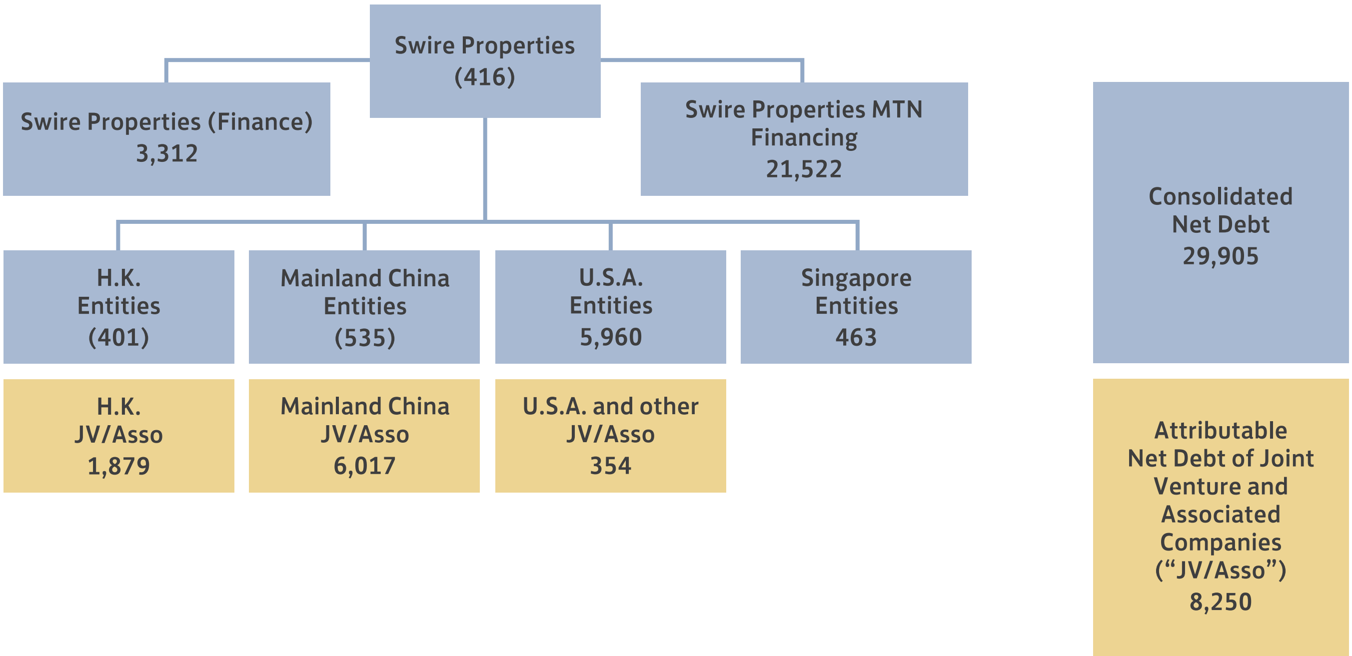
In order to maintain or adjust the gearing ratio, the Group may adjust the amount of dividends paid to shareholders, repurchase shares, raise new debt financing or sell assets to reduce debt. The gearing ratios at 31st December 2018 and 31st December 2017 were as follows:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Total borrowings | **31,999** | 37,055 |
| Less: Short-term deposits and bank balances | **2,094** | 1,708 |
| Net debt | **29,905** | 35,347 |
| Total equity | **281,291** | 259,378 |
| Gearing ratio | **10.6%** | 13.6% |

The Group has given certain covenants under facilities from third-parties, including maintenance of a minimum amount of tangible net worth. The Group has significant headroom on all covenants, and does not expect any breach in the foreseeable future.

## Attributable Net Debt

The chart below illustrates, by entity, the Group's attributable net debt (in HK$ million):



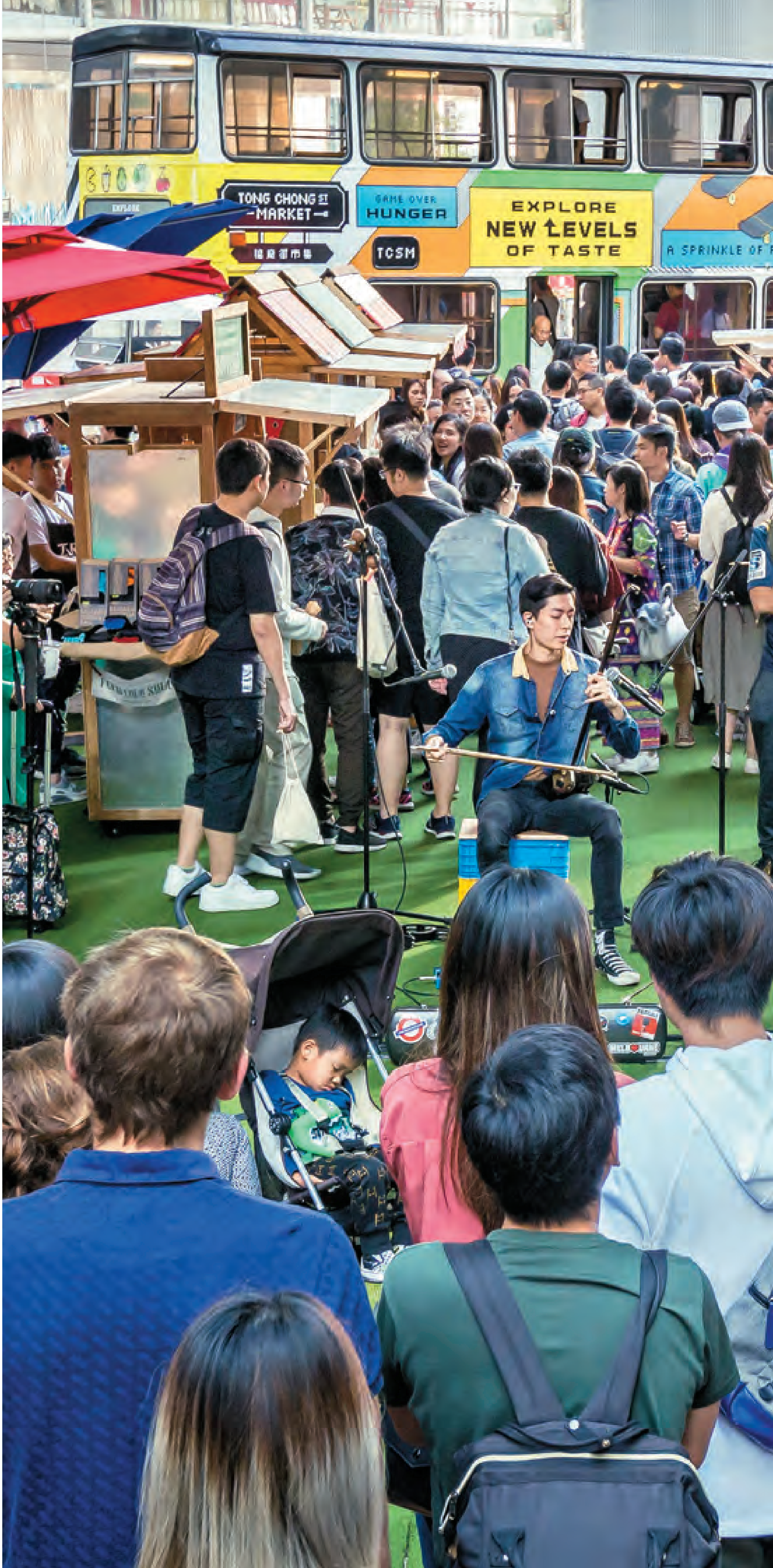

## Debt in Joint Venture and Associated Companies

In accordance with Hong Kong Financial Reporting Standards, the net debt of Swire Properties reported in the consolidated statement of financial position does not include the net debt of its joint venture and associated companies. These companies had the following net debt positions at the end of 2018 and 2017:

| | Net Debt of Joint Venture and Associated Companies | | Portion of Net Debt Attributable to the Group | | Debt Guaranteed by the Group | |
|---|---|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| Hong Kong Entities | **4,533** | 4,189 | **1,879** | 1,903 | **1,295** | 1,005 |
| Mainland China Entities | **12,033** | 12,686 | **6,017** | 6,343 | **–** | – |
| U.S.A. and other Entities | **458** | 459 | **354** | 364 | **476** | 478 |
| **Total** | **17,024** | 17,334 | **8,250** | 8,610 | **1,771** | 1,483 |

If the attributable portion of the net debt in joint venture and associated companies were to be added to the Group's net debt, gearing would rise to 13.6%.

# Corporate Governance & Sustainability



Taikoo Place
Hong Kong

# Corporate Governance

## Governance Culture

Swire Properties is committed to ensuring that its affairs are conducted in accordance with high ethical standards. This reflects its belief that, in the achievement of its long-term objectives, it is imperative to act with probity, transparency and accountability. By so acting, Swire Properties believes that shareholder wealth will be maximised in the long term and that its employees, those with whom it does business and the communities in which it operates will all benefit.

Corporate governance is the process by which the Board instructs management of the Group to conduct its affairs with a view to ensuring that its objectives are met. The Board is committed to maintaining and developing robust corporate governance practices that are intended to ensure:

- satisfactory and sustainable returns to shareholders
- that the interests of those who deal with the Company are safeguarded
- that overall business risk is understood and managed appropriately
- the delivery of high-quality products and services to the satisfaction of customers and
- that high standards of ethics are maintained

## Corporate Governance Statement

The Corporate Governance Code (the "CG Code") as published by The Stock Exchange of Hong Kong Limited sets out the principles of good corporate governance and provides two levels of recommendation:

- code provisions, with which issuers are expected to comply, but with which they may choose not to comply, provided they give considered reasons for non-compliance
- recommended best practices, with which issuers are encouraged to comply, but which are provided for guidance only

The Company supports the principles-based approach of the CG Code and the flexibility this provides for the adoption of corporate policies and procedures which recognise the individuality of companies. Swire Properties has adopted its own corporate governance code which is available on its website www.swireproperties.com. Corporate governance does not stand still; it evolves with each business and operating environment. The Company is always ready to learn and adopt best practices.

The Company complied with all the code provisions set out in the CG Code contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role

## The Board of Directors

### Role of the Board

The Company is governed by a Board of Directors, which has responsibility for strategic leadership and control of the

Group designed to maximise shareholder value, while taking due account of the interests of those with whom the Group does business and others.

Responsibility for achieving the Company's objectives and running the business on a day-to-day basis is delegated to management. The Board exercises a number of reserved powers which include:

- maintaining and promoting the culture of the Company
- formulation of long-term strategy
- approving public announcements, including financial statements
- committing to major acquisitions, divestments and capital projects
- authorising significant changes to the capital structure and material borrowings
- any issue, or buy-back, of equity securities under the relevant general mandates
- approving treasury policy
- setting dividend policy
- approving appointments to the Board
- reviewing the board diversity policy with a view to the Board having a balance of skills, experience and diversity of perspectives appropriate to the Company's businesses
- ensuring that appropriate management development and succession plans are in place
- setting the Group remuneration policy
- approving annual budgets and forecasts
- reviewing operational and financial performance
- reviewing the effectiveness of the Group's risk management and internal control systems
- ensuring the adequacy of the resources, staff qualifications and experience, training programmes and budget of the Company's accounting, internal audit and financial reporting functions

To assist it in fulfilling its duties, the Board has established two primary committees, the Audit Committee (see pages 69 to 70) and the Remuneration Committee (see page 67).

## Chairman and Chief Executive

The CG Code requires that the roles of Chairman and Chief Executive be separate and not performed by the same individual to ensure there is a clear division of responsibilities between the running of the Board and the executives who run the business.

M.B. Swire, the Chairman, is responsible for:

- leadership of the Board
- setting its agenda and taking into account any matters proposed by other Directors for inclusion in the agenda
- facilitating effective contributions from and dialogue with all Directors and constructive relations between them
- ensuring that all Directors are properly briefed on issues arising at Board meetings and that they receive accurate, timely and clear information
- obtaining consensus amongst the Directors
- ensuring, through the Board, that good corporate governance practices and procedures are followed

G.M.C. Bradley, the Chief Executive, is responsible for implementing the policies and strategies set by the Board in order to ensure the successful day-to-day management of the Group's business.

Throughout the year, there was a clear division of responsibilities between the Chairman and the Chief Executive.

## Board Composition

The Board is structured with a view to ensuring it is of a high calibre and has a balance of key skills and knowledge so that it works effectively as a team and individuals or groups do not dominate decision-making.

The Board comprises the Chairman, two other Executive Directors and eight Non-Executive Directors. Their biographical details are set out in the section of this annual report headed Directors and Officers and are posted on the Company's website.

G.M.C. Bradley, N.A.H. Fenwick, P. Healy, M.M.S. Low and F.N.Y. Lung are directors and/or employees of the John Swire & Sons Limited ("Swire") group. M.B. Swire is a shareholder, director and employee of Swire. R.S.K. Lim is an adviser to the Swire group. Before he ceased to be a director of the Company, J.R. Slosar was a director and an employee of the Swire group.

The Non-Executive Directors bring independent advice, judgement and, through constructive challenge, scrutiny of executives and review of performance and risks. The Audit and Remuneration Committees of the Board comprise only Non-Executive Directors.

The Board considers that four of the eight Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules. Confirmation has been received from all Independent Non-Executive Directors that they are independent as set out in Rule 3.13 of the Listing Rules. None of the Independent Non-Executive Directors holds cross-directorships or has significant links with other Directors through involvements in other companies or bodies.

The Independent Non-Executive Directors:

- provide open and objective challenge to management and other Board members

- raise intelligent questions and challenge constructively and with vigour
- bring outside knowledge of the businesses and markets in which the Group operates, providing informed insight and responses to management

The number of Independent Non-Executive Directors represents at least one-third of the Board of Directors.

## Appointment and Re-election

Potential new Directors are identified and considered for appointment by the Board. A Director appointed by the Board is subject to election by shareholders at the first annual general meeting after his or her appointment, and all Executive and Non-Executive Directors are subject to re-election by shareholders every three years.

Potential new Board members are identified on the basis of skills and experience which, in the opinion of the Directors, will enable them to make a positive contribution to the performance of the Board.

On 12th March 2019, the Board, having reviewed the Board's composition, nominated M.B. Swire, G.M.C. Bradley, N.A.H. Fenwick and S.T. Fung for recommendation to shareholders for election/re-election at the 2019 Annual General Meeting. The nominations were made in accordance with objective criteria (including gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders), with due regard for the benefits of diversity, as set out in the board diversity policy. The Board also took into account the respective contributions of M.B. Swire, G.M.C. Bradley, N.A.H. Fenwick and S.T. Fung to the Board and their firm commitment to their roles. The Board is satisfied with the independence of S.T. Fung having regard to the criteria laid down in the Listing Rules. The particulars of the Directors standing for election/re-election are set out in the section of this annual report headed Directors and Officers and will also be set out in the circular to shareholders to be distributed with this annual report and posted on the Company's website.

Full details of changes in the Board during the year and to the date of this report are provided in the section of this annual report headed Directors' Report.

## Board Diversity

The Board has adopted a board diversity policy, which is available on the Company's website. The Board's composition reflects an appropriate mix of skills, experience and diversity among its members that are relevant to the Company's strategy, governance and business and contribute to the Board's effectiveness. A summary is set out in the table below:

| Age | Gender | Ethnicity | Years of service as Director | Skills, expertise and experience |
|---|---|---|---|---|
| 39-47 years (28%) | Male (64%) | British (36%) | 1-5 years (55%) | company executive (64%) |
| 48-56 years (36%) | Female (36%) | Chinese (55%) | 6-10 years (36%) | accounting, banking and finance (27%) |
| 57-65 years (36%) | | Singaporean (9%) | over 10 years (9%) | e-commerce (9%) |

In order to achieve a diversity of perspectives among members of the Board, it is the policy of the Company to consider a number of factors when deciding on appointments to the Board and the continuation of those appointments. Such factors include gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge, length of service and the legitimate interests of the Company's principal shareholders.

## Responsibilities of Directors

On appointment, the Directors receive information about the Group including:

- the role of the Board and the matters reserved for its attention
- the role and terms of reference of Board Committees
- the Group's corporate governance practices and procedures
- the powers delegated to management and
- the latest financial information

Directors update their skills, knowledge and familiarity with the Group through their participation at meetings of the Board and its committees and through regular meetings with management at the head office and in the divisions. Directors are regularly updated by the Company Secretary on their legal and other duties as Directors of a listed company.

Through the Company Secretary, Directors are able to obtain appropriate professional training and advice.

Each Director ensures that he/she can give sufficient time and attention to the affairs of the Group. All Directors disclose to the Board on their first appointment their interests as a Director or otherwise in other companies or organisations and such declarations of interests are updated regularly.

Details of Directors' other appointments are shown in their biographies in the section of this annual report headed Directors and Officers.

## Board Processes

All committees of the Board follow the same processes as the full Board.

The dates of the 2018 Board meetings were determined in 2017 and any amendments to this schedule were notified to Directors at least 14 days before regular meetings. Suitable arrangements are in place to allow Directors to include items in the agenda for regular Board meetings.

The Board met six times in 2018. The attendance of individual Directors at meetings of the Board and its committees is set out in the table on page 65. Average attendance at Board meetings was 99%. All Directors attended Board meetings in person or through electronic means of communication during the year.

Agendas and accompanying Board papers are circulated with sufficient time to allow the Directors to prepare before meetings.

The Chairman takes the lead to ensure that the Board acts in the best interests of the Company, that there is effective communication with the shareholders and that their views are communicated to the Board as a whole.

Board decisions are made by vote at Board meetings and supplemented by the circulation of written resolutions between Board meetings.

Minutes of Board meetings are taken by the Company Secretary and, together with any supporting papers, are made available to all Directors. The minutes record the matters considered by the Board, the decisions reached, and any concerns raised or dissenting views expressed by Directors. Draft and final versions of the minutes are sent to all Directors for their comment and records respectively.

Board meetings are structured so as to encourage open discussion, frank debate and active participation by Directors in meetings.

| | Meetings Attended/Held | | | | Continuous Professional Development |
|---|---|---|---|---|---|
| **Directors** | **Board** | **Audit Committee** | **Remuneration Committee** | **2018 Annual General Meeting** | **Type of Training (Note)** |
| **Executive Directors** | | | | | |
| M.B. Swire – Chairman (elected on 1st July 2018) | 6/6 | | 1/1 | √ | A |
| J.R. Slosar – Chairman (retired on 30th June 2018) | 4/4 | | | √ | A |
| G.M.C. Bradley | 6/6 | | | √ | A |
| F.N.Y. Lung | 6/6 | | | √ | A |
| **Non-Executive Directors** | | | | | |
| N.A.H. Fenwick (appointed on 31st May 2018) | 3/3 | | 1/1 | N/A | A |
| P. Healy | 6/6 | | | √ | A |
| R.S.K. Lim | 6/6 | | | √ | A |
| M.M.S. Low | 6/6 | 3/3 | | √ | A |
| **Independent Non-Executive Directors** | | | | | |
| S.E. Bradley (resigned on 9th August 2018) | 5/5 | | 1/1 | √ | A |
| L.K.L. Cheng | 6/6 | 3/3 | | √ | A |
| S.T. Fung | 5/6 | | 1/1 | √ | A |
| S.C. Liu | 6/6 | | 2/2 | √ | A |
| M.Y. Wu | 6/6 | 3/3 | | √ | A |
| Average attendance | 99% | 100% | 100% | 100% | |

Note:

A: All the Directors received training materials, including from the Company's external legal advisor, about matters relevant to their duties as directors. They also kept abreast of matters relevant to their role as directors by such means as attendance at seminars and conferences and reading and viewing materials about financial, commercial, economic, legal, regulatory and business affairs.

A typical Board meeting would consist of:

- review of a report by the Chief Executive on the results since the last meeting and an explanation of changes in the business environment and their impact on budgets and the longer-term plan
- the raising of new initiatives and ideas
- the presentation of papers to support decisions requiring Board approval
- an update of legal and compliance matters for the Board's consideration
- any declarations of interest

The executive management provides the Board with such information and explanations as are necessary to enable Directors to make an informed assessment of the financial and other information put before the Board. Queries raised by Directors are answered fully and promptly.

When necessary, the Independent Non-Executive Directors meet privately to discuss matters which are their specific responsibility.

The Chairman meets at least annually with the Independent Non-Executive Directors without the presence of other Directors.

## Continuous Professional Development

All Directors named above have received the training referred to above and have been provided with "A Guide on Directors' Duties" issued by the Companies Registry and "Guidelines for Directors" and "Guide for Independent Non-Executive Directors" issued by the Hong Kong Institute of Directors. The Company makes available continuous professional development for all Directors at the expense of the Company so as to develop and refresh their knowledge and skills.

## Directors' and Officers' Insurance

The Company has arranged appropriate insurance cover in respect of potential legal actions against its Directors and Officers.

## Conflicts of Interest

If a Director has a material conflict of interest in relation to a transaction or proposal to be considered by the Board, the individual is required to declare such interest and abstains from voting. The matter is considered at a Board meeting and voted on by Directors who have no material interest in the transaction.

## Delegation by the Board

Responsibility for delivering the Company's strategies and objectives, as established by the Board, and responsibility for day-to-day management is delegated to the Chief Executive. The Chief Executive has been given clear guidelines and directions as to his powers and, in particular, the circumstances under which he should report back to, and obtain prior approval from, the Board before making commitments on behalf of the Company.

The Board monitors management's performance against the achievement of financial and non-financial measures, the principal items monitored being:

- detailed monthly management accounts consisting of statements of profit or loss, financial position and cash flows compared to budget, together with forecasts
- internal and external audit reports
- feedback from external parties such as customers, others with whom the Group does business, trade associations and service providers

## Securities Transactions

The Company has adopted a code of conduct (the "Securities Code") regarding securities transactions by Directors and officers on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules. These rules are available on the Company's website.

A copy of the Securities Code has been sent to each Director of the Company and will be sent to each Director twice annually, immediately before the two financial period ends, with a reminder that the Director cannot deal in the securities and derivatives of the Company during the blackout period before the Group's interim and annual results have been published, and that all their dealings must be conducted in accordance with the Securities Code.

Under the Securities Code, Directors and senior executives of the Company are required to notify the Chairman and receive a dated written acknowledgement before dealing in the securities and derivatives of the Company and, in the case of the Chairman himself, he must notify the Chairman of the Audit Committee and receive a dated written acknowledgement before any dealing.

On specific enquiries made, all the Directors of the Company have confirmed that they have complied with the required standard set out in the Securities Code.

Directors' interests at 31st December 2018 in the shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) are set out in the section of this annual report headed Directors' Report.

## Remuneration Committee

Full details of the remuneration of the Directors are provided in note 9 to the financial statements.

The Remuneration Committee comprises three Non-Executive Directors, S.C. Liu, N.A.H. Fenwick and S.T. Fung. Two of the Committee Members are Independent Non-Executive Directors, one of whom, S.C. Liu, is Chairman. N.A.H. Fenwick succeeded M.B. Swire as a member of the Remuneration Committee with effect from 31st May 2018. S.T. Fung succeeded S.E. Bradley as a member of the Remuneration Committee with effect from 10th August 2018. S.C. Liu served for the whole of 2018.

The Remuneration Committee reviews and approves the management's remuneration proposals with reference to the Board's corporate goals and objectives.

The Remuneration Committee exercises the powers of the Board to determine the remuneration packages of individual Executive Directors (including salaries, bonuses, benefits in kind and the terms on which they participate in any provident fund or other retirement benefit scheme), taking into consideration salaries paid by comparable companies, time commitments and responsibilities and employment conditions elsewhere in the group.

The terms of reference of the Remuneration Committee have been reviewed with reference to the CG Code and are posted on the Company's website.

A Services Agreement exists between the Company and John Swire & Sons (H.K.) Limited, a wholly-owned subsidiary of John Swire & Sons Limited, which is the parent company of the Swire group. This agreement has been considered in detail and approved by the Independent Non-Executive Directors of the Company. Under the terms of the agreement, staff at various levels, including Executive Directors, are seconded to the Company. These staff report to and take instructions from the Board of the Company but remain employees of the Swire group. Given its substantial equity interest in the Company, it is in the best interests of the Swire group to ensure that executives of high quality are seconded to and retained within the Swire Properties group.

In order to be able to attract and retain staff of suitable calibre, the Swire group provides a competitive remuneration package designed to be commensurate, overall, with those of its peer group. This typically comprises salary, housing, retirement benefits, leave passage and education allowances and, after three years' service, a bonus related to the overall profit of the Swire Pacific group. Although the remuneration of these executives is not directly linked to the profits of the Company, it is considered that these arrangements have contributed considerably to the maintenance of a flexible, motivated and high-calibre management team within the Group.

The Remuneration Committee reviewed the structure and levels of remuneration paid to Executive Directors at its meeting in October 2018. At this meeting the Committee considered a report prepared for it by Mercer Limited, an independent firm of consultants, which confirmed that the remuneration of the Company's Executive Directors, as disclosed in note 9 to the financial statements, was comparable with that paid to equivalent executives in peer group companies.

No Director takes part in any discussion about his or her own remuneration.

The following fee levels have been approved by the Board:

| Fee | **2018 HK$** | 2019 HK$ |
|---|---|---|
| Director's Fee | **575,000** | 575,000 |
| Fee for Audit Committee Chairman | **268,000** | 268,000 |
| Fee for Audit Committee Member | **186,000** | 186,000 |
| Fee for Remuneration Committee Chairman | **83,000** | 83,000 |
| Fee for Remuneration Committee Member | **60,000** | 60,000 |

# Accountability and Audit

## Financial Reporting

The Board acknowledges its responsibility for:

- the proper stewardship of the Company's affairs, to ensure the integrity of financial information
- preparing annual and interim financial statements and other related information that give a true and fair view of the Group's affairs and of its results and cash flows for the relevant periods, in accordance with Hong Kong Financial Reporting Standards and the Hong Kong Companies Ordinance
- selecting appropriate accounting policies and ensuring that these are consistently applied
- making judgements and estimates that are prudent and reasonable; and
- ensuring that the application of the going concern assumption is appropriate

## Risk Management and Internal Control

The Board acknowledges its responsibility to establish, maintain and review the effectiveness of the Group's risk management and internal control systems. This responsibility is primarily fulfilled on its behalf by the Audit Committee as discussed on pages 69 to 70.

The foundation of strong risk management and internal control systems is dependent on the ethics and culture of the organisation, the quality and competence of its personnel, the direction provided by the Board, and the effectiveness of management.

Since profits are, in part, the reward for successful risk taking in business, the risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The key components of the Group's control structure are as follows:

**Culture:** The Board believes that good governance reflects the culture of an organisation. This is more significant than any written procedures.

The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by example from the Board down. The Company has a Code of Conduct, which is posted on its internal intranet site.

The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Group, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established, allowing employees a means of communicating their views upwards with a willingness on the part of more senior personnel to listen. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause.

Through the Company's Code of Conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

**Risk assessment:** The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated.

**Management structure:** The Group has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

A control self-assessment process requires management to assess, through the use of detailed questionnaires, the adequacy and effectiveness of risk management and internal controls over the reliability of financial reporting, the effectiveness and efficiency of operations and compliance with applicable laws and regulations. This process and its results are reviewed by internal auditors and form part of the Audit Committee's annual assessment of control effectiveness.

**Controls and review:** The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subjected to periodic checks
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time-frame intended to ensure that staff carry out their designated responsibilities.

**Internal audit:** Independent of management, the Internal Audit department reports directly to the Chairman and performs regular reviews of key risk areas and monitors compliance with Group accounting, financial and operational procedures. The role of Internal Audit is discussed further on pages 70 to 71.

## Audit Committee

The Audit Committee, consisting of three Non-Executive Directors, M.Y. Wu, L.K.L. Cheng and M.M.S. Low, assists the Board in discharging its responsibilities for corporate governance and financial reporting. Two of the Committee members are Independent Non-Executive Directors, one of whom, M.Y. Wu, is Chairman. All the members served for the whole of 2018.

The terms of reference of the Audit Committee follow the guidelines set out by the Hong Kong Institute of Certified Public Accountants and comply with the CG Code. They are available on the Company's website.

The Audit Committee met three times in 2018. Regular attendees at the meetings are the Finance Director, the Head of Internal Audit of the Swire group and the external auditors. The Audit Committee meets at least twice a year with the external auditors, and at least once a year with the Head of Internal Audit, without the presence of management. Each meeting receives written reports from the external auditors and Internal Audit. The valuer (Cushman & Wakefield Limited) also attended two of the meetings.

The work of the Committee during 2018 included reviews of the following matters:

- the completeness, accuracy and integrity of formal announcements relating to the Group's performance including the 2017 annual and 2018 interim reports and announcements, with recommendations to the Board for approval
- the Group's compliance with regulatory and statutory requirements
- the Group's risk management and internal control systems
- the Group's risk management processes
- the approval of the 2019 annual Internal Audit programme and review of progress on the 2018 programme
- periodic reports from Internal Audit and progress in resolving any matters identified in them
- significant accounting and audit issues
- the Company's policy regarding connected transactions and the nature of such transactions
- the relationship with the external auditors as discussed on page 71
- the Company's compliance with the CG Code

In 2019, the Committee has reviewed, and recommended to the Board for approval, the 2018 financial statements.

### Assessing the Effectiveness of Risk Management and Internal Control Systems

On behalf of the Board, the Audit Committee reviews annually the continued effectiveness of the Group's risk management and internal control systems dealing with risk and financial accounting and reporting, the effectiveness and efficiency of operations, compliance with laws and regulations, and risk management functions.

This assessment considers:

- the scope and quality of management's ongoing monitoring of risks and of the risk management and internal control systems, the work and effectiveness of Internal Audit and the assurances provided by the Finance Director

- the changes in the nature and extent of significant risks since the previous review and the Group's ability to respond to changes in its business and the external environment
- the extent and frequency with which the results of monitoring are communicated, enabling the Committee to build up a cumulative assessment of the state of control in the Group and the effectiveness with which risk is being managed
- the incidence of any significant control failings or weaknesses that have been identified at any time during the period and the extent to which they have resulted in unforeseen outcomes or contingencies that have had, could have had, or may in the future have, a material impact on the Company's financial performance or condition
- the effectiveness of the Company's processes in relation to financial reporting and statutory and regulatory compliance
- areas of risk identified by management
- significant risks reported by Internal Audit
- work programmes proposed by both Internal Audit and the external auditors
- significant issues arising from internal and external audit reports
- the results of management's control self assessment exercise

As a result of the above review, the Board confirms, and management has also confirmed to the Board, that the Group's risk management and internal control systems are effective and adequate and have complied with the CG Code provisions on risk management and internal control throughout the year and up to the date of this annual report.

## Company Secretary

The Company Secretary is an employee of the Company and is appointed by the Board. The Company Secretary is responsible for facilitating the Board's processes and communications among Board members, with shareholders and with management. The Company Secretary undertakes at least 15 hours of relevant professional training annually to update his skills and knowledge.

## Internal Audit Department

The Swire group has had an Internal Audit Department ("IA") in place for 23 years. IA plays a critical role in monitoring the governance of the Group. The department is staffed by 25 audit professionals and conducts audits of the Group and of other companies in the Swire group. The 25 professionals include a team based in Mainland China which reports to IA in Hong Kong.

IA reports directly to the Audit Committee without the need to consult with management, and via the Audit Committee to the Board. IA has unrestricted access to all areas of the Group's business units, assets, records and personnel in the course of conducting its work.

The annual IA work plan and resources are reviewed and agreed with the Audit Committee.

### Scope of Work

Business unit audits are designed to provide assurance that the risk management and internal control systems of the Company are implemented properly and operating effectively, and that the risks associated with the achievement of business objectives are being properly identified, monitored and managed.

The frequency of each audit is determined by IA using its own risk assessment methodology, which is based on the COSO (Committee of Sponsoring Organizations of the Treadway Commission) internal control framework, considering such factors as recognised risks, organisational change, overall materiality of each unit, previous IA results, external auditors' comments, output from the work of the Swire Pacific Group Risk Management Committee and management's views. Each business unit is typically audited at least once every three years. Acquired businesses would normally be audited within 12 months. 18 assignments were conducted for Swire Properties in 2018.

IA specifically assists the Audit Committee in carrying out the analysis and independent appraisal of the adequacy and effectiveness of the Group's risk management and internal control systems through its review of the process by which management has completed the annual Control Self Assessment, and the results of this assessment.

IA conducts ad-hoc projects and investigative work as may be required by management or the Audit Committee.

### Audit Conclusion and Response

Copies of IA reports are sent to the Chairman of the Board, the Chief Executive, the Finance Director and the external auditors. The results of each review are also presented to the Audit Committee.

Management is called upon to present action plans in response to IA's recommendations, including those aimed at resolving material internal control defects. These are agreed by IA, included in its reports and followed up with a view to ensuring that they are satisfactorily undertaken.

## External Auditors

The Audit Committee acts as a point of contact, independent from management, with the external auditors (the "auditors"). The auditors have direct access to the Chairman of the Audit Committee, who meets with them periodically without management present.

The Audit Committee's duties in relation to the auditors include:

- recommending to the Board, for approval by shareholders, the auditors' appointment
- approval of the auditors' terms of engagement
- consideration of the letters of representation to be provided to the auditors in respect of the interim and annual financial statements
- review of reports and other ad-hoc papers from the auditors
- annual appraisal of the quality and effectiveness of the auditors
- assessment of the auditors' independence and objectivity, including the monitoring of non-audit services provided, with a view to ensuring that their independence and objectivity are not, and are not seen to be, compromised
- approval of audit and non-audit fees

### Auditors' Independence

Independence of the auditors is of critical importance to the Audit Committee, the Board and shareholders. The auditors write annually to the members of the Audit Committee confirming that they are independent accountants within the meaning of Section 290 of the Code of Ethics for Professional Accountants of the Hong Kong Institute of Certified Public Accountants and that they are not aware of any matters which may reasonably be thought to bear on their independence. The Audit Committee assesses the independence of the auditors by considering and discussing each such letter (and having regard to the fees payable to the auditors for audit and non-audit work and the nature of the non-audit work) at a meeting of the Audit Committee.

### Provision of Non-audit Services

In deciding whether the auditors should provide non-audit services the following key principles are considered:

- the auditors should not audit their own firm's work
- the auditors should not make management decisions
- the auditors' independence should not be impaired
- quality of service

In addition, any services which may be considered to be in conflict with the role of the auditors must be submitted to the Audit Committee for approval prior to engagement, regardless of the amounts involved.

Fees paid to the auditors are disclosed in note 7 to the financial statements.

## Inside Information

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information

## Shareholders

### Communication with Shareholders and Investors

The Board and senior management recognise their responsibility to represent the interests of all shareholders and to maximise shareholder value. Communication with shareholders and accountability to shareholders is a high priority of the Company.

The methods used to communicate with shareholders include the following:

- The Chief Executive and Finance Director make themselves available for meetings with major shareholders, investors and analysts over two-month periods immediately after the announcement of the interim and annual results and at certain other times during the year. In addition, they attended regular meetings with analysts and investors in Hong Kong, analyst briefings, investor group briefings, overseas roadshows and investor conferences during the year
- through the Company's website. This includes electronic copies of financial reports, audio webcasts of analyst presentations given at the time of the interim and annual results announcements, slides of presentations given at investor conferences, latest news, public announcements and general information about the Group's businesses
- through publication of interim and annual reports
- through the Annual General Meeting as discussed below

Shareholders may send their enquiries and concerns to the Board by post or email at ir@swireproperties.com. The relevant contact details are set out in the Financial Calendar and Information for Investors section of this Annual Report.

## The Annual General Meeting

The Annual General Meeting is an important forum in which to engage with shareholders. The most recent Annual General Meeting was held on 8th May 2018. The meeting was open to all shareholders and to the press. The Directors who attended the meeting are shown in the table on page 65.

At the Annual General Meeting, separate resolutions were proposed for each issue and were voted on by poll. The procedures for conducting a poll were explained at the meeting prior to the polls being taken. The agenda items were:

- receiving the report of the Directors and the audited financial statements for the year ended 31st December 2017
- electing/re-electing Directors
- re-appointing the auditors and authorising the Directors to set their remuneration
- a general mandate authorising the Directors to make on-market share buy-backs
- a general mandate authorising the Directors to allot and issue shares up to 20% of the number of shares then in issue, provided that the aggregate number of the shares so allotted wholly for cash would not exceed 5% of the number of the shares then in issue

Minutes of the meeting together with voting results are available on the Company's website.

## Dividend Policy

The Company has a policy on the payment of dividends, which is set out in the section of this annual report headed Directors' Report.

## Shareholder Engagement

Pursuant to Article 95 of the Company's Articles of Association, if a shareholder wishes to propose a person other than a retiring Director for election as a Director at a general meeting, he or she should deposit a written notice of nomination at the registered office of the Company within the 7-day period commencing on and including the day after the despatch of the notice of the meeting. The procedures for nominating candidates to stand for election as Directors at general meetings are set out in the Corporate Governance Section of the Company's website.

If they wish to propose a resolution relating to other matters to be considered at a general meeting, shareholders are requested to follow the requirements and procedures set out in the Corporate Governance Section of the Company's website.

Shareholder(s) representing at least 5% of the total voting rights of all members may request the Board to convene a general meeting. The objects of the meeting must be stated in the related requisition deposited at the Company's registered office. Detailed requirements and procedures are set out in the Corporate Governance Section of the Company's website.

## Other Information for Shareholders

Key shareholder dates for 2019 are set out in the section of this annual report headed Financial Calendar and Information for Investors and in the Financial Calendar on the Company's website.

No amendment has been made to the Company's Articles of Association during the year.

# Risk Management

The Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and ensuring that the Company establishes and maintains appropriate and effective risk management and internal control systems.

The Board and management are responsible for identifying and analysing the risks underlying the achievement of business objectives, and for determining how such risks should be managed and mitigated. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems, and management provides confirmations to the Board on the effectiveness of these systems.

The management of risks is subject to audit by the IA, with support from specialist external consultants where necessary.

Further discussion of risk management is set out in the sections of the Corporate Governance Report headed "Accountability and Audit – Risk Management and Internal Control", "Audit Committee – Assessing the Effectiveness of Risk Management and Internal Control Systems" and "Internal Audit Department – Scope of Work" on pages 68 to 69, pages 69 to 70 and page 70 respectively.

## Executive Committee

The Executive Committee meets twice a month and is responsible for overseeing the day-to-day operations of the Company. It comprises two Executive Directors and nine members of senior management. The Chief Executive chairs the Executive Committee.

The Executive Committee provides oversight of all the risks to which the Group is subject and is responsible for the design, implementation and monitoring of the relevant risk management and internal control systems of the Group. Matters of significance that arise are reported as appropriate via the Audit Committee to the Board of Directors.

## Risk Governance Framework


## Financial Risk Management

The Group's approach to financial risk management is discussed in note 2 to the financial statements.

# Directors and Officers

## Executive Directors

**SWIRE, Merlin Bingham,** aged 45, has been a Director of the Company since January 2009 and its Chairman since July 2018. He is also Chairman of John Swire & Sons (H.K.) Limited and Swire Pacific Limited. He is also Deputy Chairman and a shareholder of John Swire & Sons Limited and a Director of Cathay Pacific Airways Limited. He joined the Swire group in 1997 and has worked with the group in Hong Kong, Australia, Mainland China and London.

**BRADLEY, Guy Martin Coutts,** aged 53, has been a Director of the Company since January 2008 and Chief Executive since January 2015. He is also a Director of John Swire & Sons (H.K.) Limited. He joined the Swire group in 1987 and has worked with the group in Hong Kong, Papua New Guinea, Japan, the United States, Vietnam, Mainland China, Taiwan and the Middle East. He is a chartered surveyor and a member of The Royal Institution of Chartered Surveyors and The Hong Kong Institute of Surveyors.

**LUNG, Ngan Yee Fanny,** aged 52, has been Finance Director of the Company since October 2017. She was previously Group Director Finance of Hong Kong Aircraft Engineering Company Limited. She joined the Swire group in 1992.

## Non-Executive Directors

**FENWICK, Nicholas Adam Hodnett,** aged 58, has been a Director of the Company since May 2018. He is also a Director of John Swire & Sons Limited. He was employed by the Swire group from 1985 to 1995 and worked for the group in Hong Kong, Singapore, Taiwan, the Philippines and the U.S.A.

**HEALY, Patrick,** aged 53, has been a Director of the Company since January 2015. He is also a Director of John Swire & Sons (H.K.) Limited and Executive Director of the Beverages Division of Swire Pacific Limited. He joined the Swire group in 1988 and has worked with the group in Hong Kong, Germany and Mainland China.

**LIM, Siang Keat Raymond,** aged 59, has been a Director of the Company since July 2013. He is also Senior Adviser to John Swire & Sons (H.K.) Limited. He is Executive Chairman of APS Asset Management Pte Ltd and a Director of Hong Leong Finance Limited and Raffles Medical Group Ltd. He was a Member of the Singapore Parliament from 2001 to 2015.

**LOW, Mei Shuen Michelle,** aged 58, has been a Director of the Company since September 2010. She is also Finance Director of Swire Pacific Limited and a Director of John Swire & Sons (H.K.) Limited and Cathay Pacific Airways Limited. She joined the Swire group in 1987.

## Independent Non-Executive Directors

**CHENG, Lily Ka Lai,** aged 40, has been a Director of the Company since March 2017. She is an Independent Non-Executive Director of Octopus Cards Limited as well as a Board Observer and Adviser to HotelBeds Group. She is an Executive Director of Hubel Labs Limited. She served in senior management roles at TripAdvisor, Inc. and Expedia, Inc. from 2008 to 2016.

**FUNG, Spencer Theodore,** aged 45, has been a Director of the Company since December 2012. He is an Executive Director and Group Chief Executive Officer of Li & Fung Limited. He is also a Member of the General Committee of The Hong Kong Exporters' Association, Young Presidents' Organization and the Board of Trustees at Northeastern University.

**LIU, Sing Cheong, JP,** aged 63, has been a Director of the Company since April 2010. He is Chairman of My Top Home (China) Holdings Limited and Grosvenor Asia Pacific Limited and an Independent Non-Executive Director of Prada S.p.A.

**WU, May Yihong,** aged 51, has been a Director of the Company since May 2017. She is Chief Strategy Officer of Homeinns Hotel Group and an Independent Director of Noah Holdings Limited.

## Company Secretary

**FU, Yat Hung David,** aged 55, has been Company Secretary since February 2010. He joined the Swire group in 1988. He is a member of the Takeovers and Mergers Panel and the Takeovers Appeal Committee of the Securities and Futures Commission of Hong Kong. He is also a member of the Standing Committee on Company Law Reform and President of The Hong Kong Institute of Chartered Secretaries.

Notes:

1. The Audit Committee comprises M.Y. Wu (committee chairman), L.K.L. Cheng and M.M.S. Low.
2. The Remuneration Committee comprises S.C. Liu (committee chairman), N.A.H. Fenwick and S.T. Fung.
3. G.M.C. Bradley, P. Healy, M.M.S. Low, F.N.Y. Lung and M.B. Swire are employees of the John Swire & Sons Limited group.

# Directors' Report

The Directors submit their report together with the audited financial statements for the year ended 31st December 2018, which are set out on pages 96 to 169.

## Principal Activities

The principal activities of Swire Properties Limited (the "Company") and its subsidiaries (together, the "Group") are: (i) property investment, that is the development, leasing and management of commercial, retail and some residential properties; (ii) property trading, that is the development and construction of properties, principally residential apartments, for sale; and (iii) investment in and operation of hotels.

The principal activities of the Company's principal subsidiary, joint venture and associated companies are shown on pages 167 to 169. An analysis of the Group's performance for the year by reportable business segment and geographical area is set out in note 8 to the financial statements.

## Consolidated Financial Statements

The consolidated Financial Statements incorporate the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") together with the Group's interests in joint venture and associated companies. Details of the joint venture and associated companies are provided in notes 19 and 20 to the financial statements.

## Dividends

The Directors have declared a second interim dividend of HK$0.57 per share for the year ended 31st December 2018. Together with the first interim dividend of HK$0.27 per share paid on 4th October 2018, this makes a total dividend for the year of HK$0.84 (2017: HK$0.77) per share. This represents a total distribution for the year of HK$4,914 million. The second interim dividend, which totals HK$3,334 million (2017: HK$3,042 million), will be paid on 9th May 2019 to shareholders registered at the close of business on the record date, being Thursday, 4th April 2019. Shares of the Company will be traded ex-dividend as from Tuesday, 2nd April 2019.

The Company's dividend policy is to deliver sustainable growth in dividends and to pay out approximately half of our underlying profits in ordinary dividend over time.

## Closure of Register of Members

The register of members will be closed on Thursday, 4th April 2019, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 3rd April 2019.

To facilitate the processing of proxy voting for the annual general meeting to be held on 14th May 2019, the register of members will be closed from 9th May 2019 to 14th May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 8th May 2019.

## Business Review

A fair review of the Group's business, a description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of the likely future development of the Group's business (including, in each case to the extent necessary for an understanding of the development, performance or position of the Group's business and key performance indicators) are provided in the sections of this annual report headed Chairman's Statement, Key Business Strategies, Review of Operations, Financial Review and Financing and in the notes to the financial statements. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's environmental policies and performance and an account of the Group's key relationships with its employees, customers and suppliers and others that have a significant impact on the Group and on which the Group's success depends are provided in the section of this annual report headed Sustainable Development. To the extent necessary for an understanding of the development, performance or position of the Group's business, a discussion of the Group's compliance with the relevant laws and regulations that have a significant impact on the Group is provided in the sections of this annual report headed Sustainable Development, Corporate Governance and Directors' Report.

## Reserves

Movements in the reserves of the Group and the Company during the year are set out in notes 37 and 38 to the financial statements.

## Share Capital

There was no purchase, sale or redemption by the Company, or any of its subsidiaries, of the Company's shares during the year and the Group has not adopted any share option scheme.

At 31st December 2018, 5,850,000,000 shares were in issue (31st December 2017: 5,850,000,000 shares). Details of the movement of share capital are set out in note 36 to the financial statements.

## Accounting Policies

The principal accounting policies of the Group are set out in the section of this annual report headed Principal Accounting Policies.

## Auditors

PricewaterhouseCoopers retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

## Financial Review

A review of the consolidated results, financial position and cash flows is shown in the section of this annual report headed Financial Review. A ten-year financial summary of the results and of the assets and liabilities of the Group is shown in the section of this annual report headed Ten-Year Financial Summary.

## Corporate Governance

The Company complied with all the code provisions set out in the Corporate Governance Code ("CG Code") contained in Appendix 14 to the Listing Rules throughout the year covered by the annual report with the following exceptions which it believes do not benefit shareholders:

- Sections A.5.1 to A.5.4 of the CG Code in respect of the establishment, terms of reference and resources of a nomination committee. The Board has considered the merits of establishing a nomination committee but has concluded that it is in the best interests of the Company and potential new appointees that the Board collectively reviews and approves the appointment of any new Director as this allows a more informed and balanced decision to be made by the Board as to suitability for the role

Details of the Company's corporate governance practices are set out in the section of this annual report headed Corporate Governance.

## Environmental, Social and Governance

The Company has complied or will comply with all the applicable provisions set out in the Environmental, Social and Governance Reporting Guide contained in Appendix 27 to the Listing Rules for the year covered by the annual report.

## Donations

During the year, the Group made donations for charitable purposes of HK$15 million and donations towards various scholarships of HK$0.2 million.

## Fixed Assets

For details of movements in fixed assets refer to notes 15 and 16 to the financial statements.

The annual valuation of the Group's investment property portfolio, whether completed or in the course of development, was carried out by professionally qualified valuers (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer) on the basis of market value at 31st December 2018. This valuation resulted in an increase of HK$19,452 million in the carrying value of the investment property portfolio.

A schedule of the principal properties of the Group and its joint venture and associated companies is given in the section of this annual report headed Schedule of Principal Group Properties.

## Borrowings

For details of the Group's borrowings refer to the section of this annual report headed Financing.

## Interest

For details of the amount of interest capitalised by the Group refer to page 56.

## Major Customers and Suppliers

During the year, less than 30% of the Group's sales and less than 30% of the Group's purchases were attributable to the Group's five largest customers and suppliers respectively.

## Directors

The Directors of the Company at the date of this report are listed in the section of this annual report headed Directors and Officers. N.A.H. Fenwick was appointed as a Director of the Company with effect from 31st May 2018. With effect from 1st July 2018, J.R. Slosar retired as Chairman and an Executive Director and M.B. Swire was elected as Chairman and re-designated from a Non-Executive Director to an Executive Director. S.E. Bradley resigned as a Director of the Company with effect from 10th August 2018. All the other Directors at the date of this report served throughout the year 2018.

### Independence Confirmation

The Company has received from all of its Independent Non-Executive Directors (listed in the section of this annual report headed Directors and Officers) confirmation of their independence pursuant to Listing Rule 3.13 and considers all of them to be independent.

The Board considers that all of its Independent Non-Executive Directors are independent in character and judgement and fulfil the independence guidelines set out in Rule 3.13 of the Listing Rules.

### Term of Appointment

Article 93 of the Company's Articles of Association provides for all Directors to retire at the third annual general meeting following their election by ordinary resolution. In accordance therewith, M.B. Swire, G.M.C. Bradley and S.T. Fung retire this year and, being eligible, offer themselves for re-election. S.C. Liu will also retire this year but does not offer himself for re-election. N.A.H. Fenwick, having been appointed to the Board under Article 91 since the last annual general meeting, also retires this year and offers himself for election.

Each of the Directors has entered into a letter of appointment, which constitutes a service contract, with the Company for a term of up to three years until retirement under Article 91 or Article 93 of the Articles of Association of the Company, which will be renewed for a term of three years upon each election or re-election. No Director has a service contract with the Company which is not determinable by the employer within one year without payment of compensation (other than statutory compensation).

## Fees and Emoluments

Full details of Directors' fees and emoluments are set out in note 9 to the financial statements.

Directors' fees paid to the Independent Non-Executive Directors during the year totalled HK$3.2 million. They received no other emoluments from the Group.

# Directors' Interests

At 31st December 2018, the register maintained under Section 352 of the Securities and Futures Ordinance ("SFO") showed that Directors held the following interests in the shares of Swire Properties Limited and its associated corporations (within the meaning of Part XV of the SFO), John Swire & Sons Limited and Swire Pacific Limited:

| | Capacity | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial Interest | | | | | |
| | Personal | Family | Trust Interest | Total No. of Shares | Percentage of Voting Shares (%) | Note |
| **Swire Properties Limited** | | | | | | |
| L.K.L. Cheng | 1,000 | – | – | 1,000 | 0.00002 | |

| | Capacity | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial Interest | | | | | |
| | Personal | Family | Trust Interest | Total No. of Shares | Percentage of Issued Share Capital (comprised in the class) (%) | Note |
| **John Swire & Sons Limited** | | | | | | |
| **Ordinary Shares of £1** | | | | | | |
| N.A.H. Fenwick | – | – | 3,136,000 | 3,136,000 | 3.14 | (1) |
| M.B. Swire | 2,077,523 | 130,000 | 18,734,220 | 20,941,743 | 20.94 | (2) |
| **8% Cum. Preference Shares of £1** | | | | | | |
| N.A.H. Fenwick | – | – | 2,822,400 | 2,822,400 | 3.14 | (1) |
| M.B. Swire | 2,769,489 | – | 16,010,222 | 18,779,711 | 20.87 | (2) |

| | Capacity | | | | | |
|---|---|---|---|---|---|---|
| | Beneficial Interest | | | | | |
| | Personal | Family | Trust Interest | Total No. of Shares | Percentage of Voting Shares (comprised in the class) (%) | Note |
| **Swire Pacific Limited** | | | | | | |
| **'A' shares** | | | | | | |
| L.K.L. Cheng | 10,000 | – | – | 10,000 | 0.0011 | |
| **'B' shares** | | | | | | |
| M.B. Swire | – | – | 1,353,585 | 1,353,585 | 0.0454 | |

Notes:

(1) N.A.H. Fenwick is a trustee of a trust which held 3,136,000 ordinary shares and 2,822,400 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.

(2) M.B. Swire is a trustee and/or a potential beneficiary of trusts which held 7,410,884 ordinary shares and 5,797,820 preference shares in John Swire & Sons Limited included under "Trust interest" and does not have any beneficial interest in those shares.

Other than as stated above, no Director or Chief Executive of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares or underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO).

Neither during nor prior to the year under review has any right been granted to, or exercised by, any Director of the Company, or to or by the spouse or minor child of any Director, to subscribe for shares, warrants or debentures of the Company.

Other than as stated in this report, no transaction, arrangement or contract of significance to which the Group was a party and in which a Director or an entity connected with a Director is or was materially interested, either directly or indirectly, subsisted during or at the end of the year.

At no time during the year was the Company, or any of its associated corporations, a party to any arrangements to enable the Directors of the Company to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

## Directors' Interests in Competing Businesses

None of the Directors or their respective close associates has any competing interests which need to be disclosed pursuant to Rule 8.10 of the Listing Rules.

## Directors of Subsidiaries

The names of all directors who have served on the boards of the subsidiaries of the Company during the year ended 31st December 2018 or during the period from 1st January 2019 to the date of this Report are kept at the Company's registered office and made available for inspection by the members of the Company in accordance with Section 390(6) of the Companies Ordinance (Cap. 622 of the Laws of Hong Kong).

## Permitted Indemnity

Subject to the Companies Ordinance (Cap. 622 of the Laws of Hong Kong), every Director is entitled under the Company's Articles of Association to be indemnified out of the assets of the Company against all costs, charges, expenses, losses and liabilities which he or she may sustain or incur in or about the execution or discharge of his or her duties and/or the exercise of his or her powers and/or otherwise in relation to or in connection with his or her duties, powers or office. To the extent permitted by such Ordinance, the Company has taken out insurance against the liability and costs associated with defending any proceedings which may be brought against directors of companies in the Group.

## Substantial Shareholders' and Other Interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 31st December 2018 the Company had been notified of the following interests in the shares of the Company held by substantial shareholders and other persons:

| Long position | Number of Shares | Percentage of Voting Shares (%) | Type of Interest (notes) |
|---|---|---|---|
| 1. Swire Pacific Limited | 4,796,765,835 | 82.00 | Beneficial owner (1) |
| 2. John Swire & Sons Limited | 4,796,765,835 | 82.00 | Attributable interest (2) |

Notes:

At 31st December 2018:

(1) Swire Pacific Limited was interested in 4,796,765,835 shares of the Company as beneficial owner;

(2) John Swire & Sons Limited and its wholly owned subsidiary John Swire & Sons (H.K.) Limited were deemed to be interested in a total of 4,796,765,835 shares of the Company, in which Swire Pacific Limited was interested, by virtue of the John Swire & Sons Limited group being interested in 55.10% of the equity of Swire Pacific Limited and controlling 63.97% of the voting rights attached to shares in Swire Pacific Limited.

## Public Float

Listing Rule 8.08(1) of the Listing Rules requires that at least 25% of an issuer's total number of issued shares must at all times be held by the public. The Company has been granted by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") a waiver from strict compliance with Listing Rule 8.08(1) so as to allow a lower public float percentage of 10% (or such higher percentage as was held by the public upon completion of the listing of the shares of the Company on the Stock Exchange). On such completion on 18th January 2012, the public float percentage was approximately 10.28%. From information that is publicly available to the Company and within the knowledge of its Directors at the date of this report, at least 10.28% of the Company's total number of issued shares are held by the public.

## Termination of American Depositary Receipts Programme

The Company's sponsored Level 1 American Depositary Receipts ("ADR") programme came into effect on 5th September 2014. The Bank of New York Mellon is the sponsor. Under the programme, the Company's ADRs are traded in the over-the-counter market, but not listed, on the New York Stock Exchange under the depositary receipt symbol 'SWROY' and in the ratio of 1 ADR to 5 shares of the Company. As participation in the programme was low and declining, and outstanding ADRs represented only approximately 0.000003% of the Company's total issued shares in 2018, a notice of termination was sent to The Bank of New York Mellon (as sponsor of the programme) on 18th December 2018 and the programme will be terminated on 5th September 2019.

## Continuing Connected Transactions

During the year ended 31st December 2018, the Group had the following continuing connected transactions, details of which are set out below:

### (a) Services Agreement

There is an agreement for services ("Services Agreement"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK"), a wholly-owned subsidiary of John Swire & Sons Limited ("Swire"), provided to the Company and its subsidiaries advice and expertise of the directors and senior officers of the Swire group, full or part time services of members of the staff of the Swire group, other administrative and similar services and such other services as may be agreed from time to time, and procured for the Company and its subsidiary, joint venture and associated companies the use of relevant trademarks owned by Swire. No fee is payable in consideration of such procuration obligation or such use. The procuration obligation would fall away if the Services Agreement were terminated or not renewed.

In return for these services, JSSHK receives annual service fees calculated as 2.5% of the Company's consolidated profit before taxation and non-controlling interests after certain adjustments. The fees for each year are payable in cash in arrear in two instalments, an interim payment by the end of October and a final payment by the end of April of the following year, adjusted to take account of the interim payment. The Company also reimburses the Swire group at cost for all the expenses incurred in the provision of the services.

The Services Agreement, which was entered into between JSSHK and the Company on 1st December 2004, took effect from 1st January 2005, was renewed on 1st October 2007, was amended and restated with effect from 1st January 2010, and was renewed again on 1st October 2010, 14th November 2013 and 1st October 2016. The current term of the Services Agreement is from 1st January 2017 to 31st December 2019 and it is renewable for successive periods of three years thereafter unless either party to it gives to the other notice of termination of not less than three months expiring on any 31st December.

Particulars of the fees paid and the expenses reimbursed for the year ended 31st December 2018 are given in note 43 to the financial statements.

### (b) Tenancy Framework Agreement

The Company, JSSHK and Swire Pacific entered into a tenancy framework agreement ("Tenancy Framework Agreement") on 14th August 2014 to govern existing and future tenancy agreements between members of the Group, members of the JSSHK group and members of the Swire Pacific group. The Tenancy Framework Agreement, which took effect from 1st January 2014 and was renewed on 1st October 2015, was renewed again on 1st October 2018 for a term of three years from 1st January 2019 to 31st December 2021. It is renewable for successive periods of three years thereafter unless any party to it gives to the other parties notice of termination of not less than three months expiring on any 31st December. Pursuant to the Tenancy Framework Agreement, members of the Group, members of the JSSHK group and members of the Swire Pacific group enter into tenancy agreements from time to time on normal commercial terms based on prevailing market rentals.

For the year ended 31st December 2018, the aggregate rentals payable to the Group under tenancies subject to the Tenancy Framework Agreement totalled HK$220 million.

At 31st December 2018, the Swire group was interested in 55.10% of the equity of Swire Pacific and controlled 63.97% of the voting rights attached to shares in Swire Pacific and Swire Pacific owned 82.00% of the Company's total number of issued shares. JSSHK, as a wholly-owned subsidiary of Swire, and Swire Pacific are therefore connected persons of the Company under the Listing Rules. The transactions under the Services Agreement and the Tenancy Framework Agreement are continuing connected transactions in respect of which announcements dated 19th August 2016 and 10th May 2018 respectively were published.

As directors and/or employees of (or in one case as an adviser to) the Swire group, G.M.C. Bradley, N.A.H. Fenwick, P. Healy, R.S.K. Lim, M.M.S. Low, F.N.Y. Lung and M.B. Swire are interested in the Services Agreement and the Tenancy Framework Agreement. Before he ceased to be a director of the Company, J.R. Slosar was so interested as a director and an employee of the Swire group. N.A.H. Fenwick and M.B. Swire are so interested as shareholders of Swire.

The Independent Non-Executive Directors of the Company, who are not interested in any connected transactions with the Group, have reviewed and confirmed that the continuing connected transactions as set out above have been entered into by the Group in the ordinary and usual course of business of the Group, on normal commercial terms or better, and according to the agreements governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company have also reviewed these transactions and confirmed to the Board that nothing has come to their attention that causes them to believe that they have not been approved by the Board of the Company; that they were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group; that they were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and that the relevant annual caps have been exceeded.

## Discloseable Transaction

The Company (as the seller's guarantor), Improve Fame Limited (as the seller), Henglilong Investments Limited (as the purchaser) and Mr. Chen Chang Wei (as the purchaser's guarantor) entered into a sale and purchase agreement on 15th June 2018 for the sale of the seller's 100% interest in Thrive Power Limited to the purchaser for a total cash consideration of HK$15,000 million, subject to certain adjustments at completion. Thrive Power Limited is the immediate holding company of a wholly-owned property holding subsidiary of the Company which is the owner of its interests in the buildings known as Cityplaza Three and Cityplaza Four located in Quarry Bay, Hong Kong. The transaction was a discloseable transaction under the Listing Rules, in respect of which announcements dated 15th June 2018 and 2nd November 2018 were published. The transaction is expected to be completed on or before 11th April 2019.

On behalf of the Board

Merlin Swire
*Chairman*
*Hong Kong, 14th March 2019*

# Sustainable Development

## Places

**Through effective placemaking and long-term placekeeping, we aim to continue to transform the places in which we invest so as to create value, whilst retaining their character, supporting communities and enhancing people's lives.**

### Impact Reporting

In 2018, we began to develop a methodology for assessing, measuring, and reporting on the impacts of our places. In 2019, we plan to disclose our findings in a Places Impact Report and seek feedback from our stakeholders.

## People

**We aim to create an environment where our employees will be healthier, happier and more productive, to invest in our employees and to provide rewarding career paths so as to develop a diverse and industry-leading team.**

### Talent Retention

**>128,000** training hours delivered

**22** training hours/employee/year

### Diversity & Inclusion ("D&I")

| **2020 KPI** | **2018 Progress** |
|---|---|
| Establish a D&I Committee and adopt a D&I Policy | Achieved and adopted **D&I Policy** |
| Public disclosure of data on gender, age, job level, pay, and ethnicity | Women hold **49%** of management positions<br>Gender pay ratio (female to male): **1** to **1** |

## Partners

**We aim to continue to develop long-term, mutually beneficial relationships with our business partners and other key parties so as to improve our environmental, social and economic performance.**

### Suppliers

**HK$217 million** of Green Procurement spending[1]

### Tenants

**8.6 million kWh** potential annual energy savings from **free energy audits** for Hong Kong & Mainland China tenants (since 2008)

1 Products that meet specific environmental criteria such as green certification or accreditation by reputable, independent third parties.
2 Carbon intensity reduction target references the business-as-usual ("BAU") baseline level in 2008 for our HK portfolio, and the BAU baseline level in the first year for which a complete calendar year of data was available for projects in our Mainland China portfolio.
3 HK portfolio and Mainland China portfolio refer to office and retail portfolio in Hong Kong and Mainland China respectively, excluding hotels.
4 Energy consumption refers to purchased electricity for the provision of shared services for and in the common parts of our buildings with reference to the BAU baseline level in 2008 for HK portfolio, and the BAU baseline level in the first year for which a complete calendar year of data was available for projects in Mainland China portfolio.
5 HK portfolio refers to office and retail portfolio and hotels in Hong Kong.
6 BEAM Plus/LEED/China Green Building Design Label/WELL certification.
7 Projects under development refer to projects that are under construction or in pre-certification stage. It includes non joint venture projects only.
8 Measured as the percentage of total gross floor area.
9 Disclaimer: www.swireproperties.com/sd/awards/mscidisclaimer.html

## We believe that long-term value creation depends on the sustainable development of our business and the communities in which we operate.

In 2018, Swire Properties continued with its sustainable development 2030 strategy ("SD 2030 Strategy"). The strategy incorporates specific commitments. Working closely with all relevant parties, the strategy is designed to build sustainable development ("SD") capability in all of our business activities. Our SD 2030 Strategy is built on five strategic pillars:

Places | People | Partners | Performance (Environment) | Performance (Economic)

## Performance (Environment)

**We aim to continue to design, construct and manage high quality developments that contribute positively to the communities in which we operate and the environment.**

### Climate Change

| 2020 KPI | 2018 Progress |
|---|---|
| Carbon intensity[2] | |
| HK Portfolio[3] | HK Portfolio[3] |
| ↓27% | ↓25% |
| Mainland China Portfolio[3] | Mainland China Portfolio[3] |
| ↓21% | ↓20% |

### Energy

| 2020 KPI | 2018 Progress |
|---|---|
| Energy consumption[4] | |
| HK Portfolio[5] | HK Portfolio[5] |
| ↓ 64 million kWh/year | ↓ 56.9 million kWh/year |
| ↓26% | ↓25% |
| Mainland China Portfolio[3] | Mainland China Portfolio[3] |
| ↓ 23 million kWh/year | ↓ 17.5 million kWh/year |
| ↓20% | ↓19.8% |

### Building/Asset Investment

| 2020 KPI | 2018 Progress |
|---|---|
| Target the highest environmental building assessment scheme[6] rating for all projects under development[7] | **100%** of projects under development achieved the highest ratings<br>**92%** of all existing buildings[8] are certified green buildings, of which 75% achieving the highest ratings |

## Performance (Economic)

**We aim to deliver sustainable economic performance coupled with good corporate governance and high ethical standards.**

### Green Financing

| 2020 KPI | 2018 Progress |
|---|---|
| Review, develop and issue green bond | Issued first green bond of **US$500 million;**<br>**80%** of proceeds have been allocated<br>First **Green Bond Report** published |

### Disclosure & Reporting

**2020 KPI**

Disclose SD information in accordance with requirements of relevant major global sustainability benchmarks

**2018 Progress**

Dow Jones Sustainability Indices — Member of World Index

GRESB Real Estate Sector Leader 2018 — Global Sector Leader

Hang Seng Corporate Sustainability Index Series Member 2018-2019 — Highest total score among constituents; "AAA" rating

MSCI 2018 Constituent[9] MSCI ESG Leaders Indexes — "AAA" rating

The Sustainability Yearbook 2019 — The only HK developer listed

FTSE4Good

### Launched "HOMETOWN HEROES" community-engagement programme

Hong Kong

### Hosted "A Mindful Miami" mass meditation at Brickell City Centre

Miami

## Places

*Places are at the heart of, and central to, the achievement of our SD 2030 Strategy.*

### Hometown Heroes

In July 2018, we introduced a community-outreach programme in Hong Kong called "HOMETOWN HEROES". There are four projects in the programme. We invited members of the community to join together to enhance the places where they work and live by participating in music, food, drink and arts themed projects. More than 500 people participated in the projects.

### Communities and Local Economy

During our Arts Month in March 2018, we worked with Art Basel for the sixth year, hosting a VIP Lounge at the Hong Kong Convention and Exhibition Centre. At Pacific Place, we exhibited two art installations (The Strokes and Shaved Ice) by Scottish artist Jim Lambie.

In April 2018, we held our annual charity book sale BOOKS for LOVE @ $10 at Taikoo Place. The event attracted more than 60,000 visitors and raised over HK$700,000. All proceeds were donated to The Boys' and Girls' Clubs Association of Hong Kong and The Agency for Volunteer Service.

In April 2018, Brickell City Centre held a second annual mass meditation in honour of Earth Day. More than 700 people participated.

In August 2018, our Taikoo Li Sanlitun development held a photographic exhibition to celebrate its 10th anniversary. The photographs demonstrated the development's commitment to sustainable development and its work with local communities.

In September 2018, Pacific Place collaborated with the Victoria and Albert Museum to host the final stage of the "Shoes: Pleasure and Pain" exhibition. The exhibition displayed over 140 pairs of shoes from around the world.

In September 2018, we organised mental health and healthy diet workshops in Beijing to support the Chaoyang District Government's National Health District initiative.

In November and December 2018, Swire Properties held its sixth annual White Christmas Street Fair at the Starstreet Precinct and on Tong Chong Street in order to raise funds for Operation Santa Claus. More than 80,000 visitors attended.

## People

*The contributions of our employees are critical to our success.*

### Employees – Talent

Swire Properties employs over 5,000 people in Hong Kong, Mainland China and the U.S.A. Attracting and developing talented employees is central to our success. We are an equal opportunities employer and aim to provide an

## Hosted the V&A "Shoes: Pleasure and Pain" Exhibition at Pacific Place

Hong Kong

## Held "CSR Day" and first cross-city Community Ambassador event at the Chengdu Community Centre

Mainland China

environment at work that is respectful, challenging, rewarding and safe. We have policies covering training and development, labour practices, human rights and workplace health and safety.

In 2018, we provided more than 128,000 hours of training and development in leadership and management, health and safety and employee wellness.

### Health and Safety

In 2018, our lost time injury rate increased by 2.8% and our lost day rate increased by 12.6% compared to 2017. The increase was primarily due to injuries resulting from slips, trips, falls, lifting and carrying. We have carried out corrective measures and reviewed the compulsory induction safety training for frontline staff to identify ways to address these sources of injury.

In 2018, our safety management systems in Hong Kong became compliant with the new ISO 45001:2018 standard. We are among the first few companies in Hong Kong to achieve such standard.

Our 2017 sustainable development report won the Bronze Award at the 2018 Occupational Safety and Health Annual Report Award in Hong Kong. A senior building engineer won a merit award at the 10th Outstanding Occupational Safety and Health Employee Award Scheme, which is organised by the Hong Kong Occupational Safety and Health Council.

### Volunteering

In 2018, 2,656 of our community ambassadors participated in 93 activities, contributing more than 8,400 hours of service in Hong Kong, Mainland China and Miami. In May 2018, 40 ambassadors from Hong Kong and Mainland China participated in a corporate social responsibility day at a community centre in Chengdu. They taught English and special skills to local students and female residents. In June 2018, 23 ambassadors from Hong Kong and Guangzhou helped to build safe and durable homes for families in the remote San Cun village in Conghua, Guangdong.

## Partners

*Our business partners play a critical part in the success of our SD 2030 Strategy.*

### Suppliers

We include our suppliers in our approach to sustainable development. We address ethical conduct, labour standards, human rights, product responsibility and environmental impact. We address sustainability and manage risk in our supply chain through our supplier monitoring and evaluation system and our supplier code of conduct.

We monitor our green purchasing with a green procurement tracking system. In 2018, 12 types of building materials, building services equipment and office supplies were monitored. HK$217 million worth of green products was procured.

## Launched "Maker House", a new incubation programme at Cityplaza

Hong Kong

## Debuted the original English musical comedy "PROJECT AFTER 6: Cube Culture" at ArtisTree

Hong Kong

### Tenants

We aim to work closely with our commercial tenants to integrate sustainability practices into their operations. We offer office tenants in Hong Kong, Beijing, Guangzhou and Chengdu free energy audits to help them to identify energy saving opportunities. At 31st December 2018, our energy audits had covered more than five million square feet of tenanted area.

At 31st December 2018, tenants occupying approximately 53% of the office space in Taikoo Hui, in Guangzhou had signed sustainability memoranda with Swire Properties.

67 of our Hong Kong retail tenants have joined the Green Shop Alliance, which is intended to embed sustainability in their daily operations.

In May 2018, we introduced Maker House at Cityplaza. This six-month programme allows young local entrepreneurs to operate sustainability-related business at the shopping mall.

In May 2018, a musical called "PROJECT AFTER 6: Cube Culture" was performed at ArtisTree in Taikoo Place. Office tenants at Taikoo Place and residents in Quarry Bay auditioned for parts and 30 were cast.

Approximately 23,000 visitors attended 14 events and performances at ArtisTree in 2018.

## Performance (Environment)

*As a leading property developer, we are committed to building and managing our developments sustainably.*

### Climate Change

We recognise that climate change poses risks to and opportunities for our business. In 2018, we continued to assess climate risks for our properties, with a view to protecting them from the impact of climate change and to building climate resilience into our business. We aim to reduce carbon emissions from our buildings and operations and are committed to setting a science based target to guide us in this aim.

### Energy

In 2018, our energy intensity* decreased by 2.5% compared to 2017 in our Hong Kong and Mainland China properties. The reduction reflected better monitoring of heating, ventilation and air conditioning systems, the introduction of electrically-commutated motor plug fans, the retrofitting of air conditioning systems and the use of more energy efficient lighting.

We intend to reduce our energy consumption* in our Hong Kong properties by 64 million kWh per year by 2020, as compared to the baseline year of 2008. We intend to reduce the energy consumption* in our Mainland China properties by 23 million kWh per year by 2020 from its amount in the first complete calendar year for which electricity consumption data was collected.


## Introduced reusable tableware and water dispensers at the White Christmas Street Fair

Hong Kong

## Won World Green Building Council's Asia Pacific Leadership in Green Building Awards

Hong Kong

### Waste

We aim to reduce waste as much as we can. In 2018, we introduced guidelines intended to minimise waste generated at our community events. At the White Christmas Street Fair, we introduced reusable tableware and water dispensers in order to reduce the consumption of disposables.

### Green Building

In 2018, Two Taikoo Place achieved Platinum precertification under LEED for Building Design and Construction (2009): Core and Shell v3. 12 of our existing office buildings** and two shopping malls*** in Hong Kong have obtained final Platinum ratings under the BEAM Plus Existing Buildings Version 2.0 Comprehensive Scheme. Our ALASSIO development in Hong Kong achieved a BEAM Plus New Buildings Version 1.1 Final Platinum rating.

Our HKRI Taikoo Hui office towers and mall achieved Final Platinum and gold certification respectively under LEED for Building Design and Construction: Core and Shell v2.

Swire Properties received a Business Leadership in Sustainability Award and a Special Recognition: Better Places for People at the World Green Building Council's Asia Pacific Leadership in Green Building Awards 2018.

## Performance (Economic)

*We believe that long-term value creation depends on the sustainable development of our business.*

Details of our financial performance in 2018 are set out in the rest of this report.

Swire Properties is included in the DJSI World, the GRESB, the FTSE4Good Index, the Hang Seng Corporate Sustainability Index and the MSCI World ESG Leaders Index. Swire Properties was the only company from Hong Kong and Mainland China to be included in the DJSI World Index in 2018.

In January 2018, Swire Properties issued its first green bond, raising US$500 million for 10 years at a coupon rate of 3.5%. Approximately 80% of the proceeds from the bond have been allocated, mainly to the development of green buildings and energy efficiency projects. Further details can be found in our Green Bond Report 2018.

Further details of our sustainable development performance, including details of our SD 2030 Strategy, will be set out in our Sustainable Development Report 2018.

* Energy intensity and energy consumption are measured by reference to the consumption of electricity for the provision of shared services and in the common parts of our buildings.

** Three Pacific Place, Cityplaza Three, Cityplaza Four, One Citygate, Cambridge House, One Island East, Oxford House, Cityplaza One, Dorset House, PCCW Tower, Devon House and 28 Hennessy Road (in chronological order by certification date)

*** Citygate and Cityplaza

# Financial Contents



The Middle House
Shanghai

# Independent Auditor's Report

pwc

To the shareholders of Swire Properties Limited
(incorporated in Hong Kong with limited liability)

## Opinion

***What we have audited***

The consolidated financial statements of Swire Properties Limited ("the Group financial statements") and its subsidiaries ("the Group") set out on pages 96 to 169, which comprise:

- The consolidated statement of financial position as at 31st December 2018;
- 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 cash flows for the year then ended;
- The consolidated statement of changes in equity for the year then ended; and
- The notes to the financial statements, which include a summary of significant accounting policies.

***Our opinion***

In our opinion, the Group financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2018, 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 Group 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 Group financial statements as at and for the year ended 31st December 2018. These matters were addressed in the context of our audit of the Group financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

## Key Audit Matter

**Valuation of investment properties**

*Refer to note 16 in the Group financial statements*

The fair value of the Group's investment properties amounted to HK$273,186 million at 31st December 2018, with a revaluation gain of HK$19,452 million recorded in the consolidated statement of profit or loss for the year.

On 15th June 2018, the Group entered into a sale and purchase agreement for the disposal of subsidiaries holding its interests in the Cityplaza Three and Cityplaza Four office buildings (CP3 and CP4) for a total cash consideration of HK$15,000 million, subject to adjustments. These investment properties were revalued to the agreed disposal price and a corresponding gain in the fair value of these investment properties of HK$5,389 million has been recorded in the consolidated statement of profit or loss. Given the sale had not been completed at 31st December 2018, these subsidiaries are classified as held for sale in the Group's statement of financial position and the carrying value is the agreed disposal price. Management expects this transaction to be completed on or before 11th April 2019.

Valuations were obtained from third party valuers (the 'valuers') in respect of 97% of the remaining investment properties as at 31st December 2018. 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.

**How our audit addressed the Key Audit Matter**

Our procedures in relation to management's valuation of investment properties focused on the highest value properties and included:

- Evaluation of the valuers' competence, capabilities and objectivity;
- Attendance at meetings with the valuers to discuss the valuations and key assumptions used;
- Review of the external valuation reports to assess the appropriateness of methodologies used;
- Comparison of the capitalisation rates and market rents used by the valuers to an estimated range, determined by reference to publicly available information by our in-house valuation experts; and
- 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.

Our procedures in relation to the carrying value of CP3 and CP4 included:

- Obtaining and reviewing the sale and purchase agreement to determine the key contract terms, conditions of sale and accounting implications;
- Agreeing the deposit and part payments of HK$3,700 million received from the purchaser to bank statements; and
- Enquiring of management the status of this transaction to re-confirm that, based on latest information, they continue to expect it to be completed at the disposal price on or before 11th April 2019.

We found the key assumptions were supported by the available evidence. We found the disclosures in note 16 to be appropriate.

## Other Information in the Annual Report

The directors are responsible for the Other Information. The Other Information comprises all the information in the Swire Properties 2018 annual report other than the Group financial statements and our auditor's report thereon ("the Other Information").

Our opinion on the Group 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 Group financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the Group 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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of the directors for the Group Financial Statements

The directors are responsible for the preparation of Group 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 Group financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Group 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 assists the directors in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the Group 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 Group 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 Group 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 Group 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 Group financial statements, including the disclosures, and whether the Group 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 Group 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 to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the Group 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, 14 March 2019*

# Consolidated Statement of Profit or Loss

For the year ended 31st December 2018

| | Note | 2018 HK$M | 2017 HK$M |
|---|---|---|---|
| Revenue | *4* | **14,719** | 18,558 |
| Cost of sales | *5* | **(4,493)** | (7,569) |
| Gross profit | | **10,226** | 10,989 |
| Administrative and selling expenses | | **(1,576)** | (1,369) |
| Other operating expenses | | **(206)** | (227) |
| Other net gains | *6* | **246** | 72 |
| Profit on sale of subsidiary companies | *44(c)* | **1,223** | 2 |
| Change in fair value of investment properties | | **19,452** | 25,463 |
| Operating profit | | **29,365** | 34,930 |
| Finance charges | | **(995)** | (983) |
| Finance income | | **113** | 83 |
| Net finance charges | *10* | **(882)** | (900) |
| Share of profits less losses of joint venture companies | | **1,825** | 1,646 |
| Share of profits less losses of associated companies | | **153** | 146 |
| Profit before taxation | | **30,461** | 35,822 |
| Taxation | *11* | **(1,740)** | (1,807) |
| Profit for the year | | **28,721** | 34,015 |
| Profit for the year attributable to: | | | |
| The Company's shareholders | *37* | **28,666** | 33,957 |
| Non-controlling interests | *39* | **55** | 58 |
| | | **28,721** | 34,015 |
| | | **HK$** | HK$ |
| Earnings per share from profit attributable to the Company's shareholders (basic and diluted) | *14* | **4.90** | 5.80 |

The notes on pages 101 to 163 and the principal accounting policies on pages 164 to 166 form part of these financial statements.

# Consolidated Statement of Other Comprehensive Income

For the year ended 31st December 2018

| | 2018<br>HK$M | 2017<br>HK$M |
|---|---|---|
| **Profit for the year** | **28,721** | 34,015 |
| **Other comprehensive income** | | |
| **Items that will not be reclassified to profit or loss** | | |
| Revaluation of properties previously occupied by the Group | | |
| – gains recognised during the year | **11** | 128 |
| – deferred tax charge | **–** | (2) |
| Defined benefit plans | | |
| – remeasurement losses recognised during the year | **(44)** | (6) |
| – deferred tax credit | **8** | 1 |
| | **(25)** | 121 |
| **Items that can be reclassified subsequently to profit or loss** | | |
| Cash flow hedges | | |
| – losses recognised during the year | **(137)** | (294) |
| – reclassification to profit or loss | **(21)** | 2 |
| – deferred tax credit | **26** | 48 |
| Share of other comprehensive (losses)/income of joint venture and associated companies | **(632)** | 645 |
| Net translation differences on foreign operations | **(1,381)** | 1,839 |
| | **(2,145)** | 2,240 |
| **Other comprehensive (losses)/income for the year, net of tax** | **(2,170)** | 2,361 |
| **Total comprehensive income for the year** | **26,551** | 36,376 |
| Total comprehensive income attributable to: | | |
| The Company's shareholders | **26,516** | 36,283 |
| Non-controlling interests | **35** | 93 |
| | **26,551** | 36,376 |

The notes on pages 101 to 163 and the principal accounting policies on pages 164 to 166 form part of these financial statements.

# Consolidated Statement of Financial Position

At 31st December 2018

| | Note | 2018 HK$M | 2017 HK$M |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 15 | **7,877** | 8,371 |
| Investment properties | 16 | **273,186** | 267,531 |
| Intangible assets | 17 | **212** | 178 |
| Properties held for development | 18 | **1,360** | 1,342 |
| Joint venture companies | 19 | **13,540** | 8,651 |
| Loans due from joint venture companies | 19 | **15,251** | 14,375 |
| Associated companies | 20 | **413** | 374 |
| Derivative financial instruments | 30 | **64** | 51 |
| Deferred tax assets | 31 | **123** | 85 |
| Other financial assets at amortised cost | 32 | **37** | – |
| | | **312,063** | 300,958 |
| **Current assets** | | | |
| Properties under development and for sale | 22 | **1,469** | 2,300 |
| Stocks | 23 | **63** | 66 |
| Trade and other receivables | 24 | **2,401** | 2,996 |
| Contract assets | 24 | **16** | 14 |
| Other current assets | 33 | **–** | 6,262 |
| Amount due from immediate holding company – Swire Pacific Limited | 25 | **15** | 5 |
| Short-term deposits maturing after three months | | **1** | – |
| Cash and cash equivalents | 26 | **2,093** | 1,708 |
| | | **6,058** | 13,351 |
| Assets classified as held for sale | 34 | **15,526** | – |
| **Total current assets** | | **21,584** | 13,351 |
| **Current liabilities** | | | |
| Trade and other payables | 27 | **10,154** | 7,820 |
| Contract liabilities | 27 | **7** | – |
| Tax payable | | **392** | 638 |
| Bank overdrafts and short-term loans | 28 | **234** | 499 |
| Long-term loans and bonds due within one year | 28 | **996** | 2,662 |
| Loans due to a fellow subsidiary company – Swire Finance Limited | 29 | **–** | 5,176 |
| | | **11,783** | 16,795 |
| Liabilities directly associated with assets classified as held for sale | 34 | **207** | – |
| **Total current liabilities** | | **11,990** | 16,795 |
| **Net current assets/(liabilities)** | | **9,594** | (3,444) |
| **Total assets less current liabilities** | | **321,657** | 297,514 |
| **Non-current liabilities** | | | |
| Long-term loans and bonds | 28 | **30,769** | 28,718 |
| Other payables | 27 | **601** | 716 |
| Derivative financial instruments | 30 | **70** | 34 |
| Deferred tax liabilities | 31 | **8,716** | 8,523 |
| Retirement benefit liabilities | 35 | **210** | 145 |
| | | **40,366** | 38,136 |
| **NET ASSETS** | | **281,291** | 259,378 |
| **EQUITY** | | | |
| Share capital | 36 | **10,449** | 10,449 |
| Reserves | 37 | **268,826** | 246,932 |
| **Equity attributable to the Company's shareholders** | | **279,275** | 257,381 |
| **Non-controlling interests** | 39 | **2,016** | 1,997 |
| **TOTAL EQUITY** | | **281,291** | 259,378 |

**Merlin B. Swire**
**May Y. Wu**
Directors

*Hong Kong, 14th March 2019*

The notes on pages 101 to 163 and the principal accounting policies on pages 164 to 166 form part of these financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31st December 2018

| | Note | 2018 HK$M | 2017 HK$M |
|---|---|---|---|
| **Operating activities** | | | |
| Cash generated from operations | 44(a) | **11,619** | 13,680 |
| Interest paid | | **(1,116)** | (1,213) |
| Interest received | | **110** | 84 |
| Tax paid | | **(1,443)** | (1,044) |
| | | **9,170** | 11,507 |
| Dividends received from joint venture and associated companies and financial assets at fair value through other comprehensive income (2017: available-for-sale assets) | | **221** | 249 |
| **Net cash from operating activities** | | **9,391** | 11,756 |
| **Investing activities** | | | |
| Purchase of property, plant and equipment | 44(b) | **(121)** | (217) |
| Additions to investment properties | | **(3,917)** | (5,179) |
| Additions to assets classified as held for sale/other current assets | | **(452)** | (623) |
| Purchase of intangible assets | | **(16)** | (21) |
| Proceeds from sale of investment properties | | **350** | 40 |
| Proceeds from sale of subsidiary companies | | **7,857** | 2 |
| Equity and loans to joint venture companies | | **(3,225)** | (989) |
| Repayment of loans by joint venture companies | | **338** | 124 |
| Increase in deposits maturing after three months | | **(1)** | – |
| Initial leasing costs incurred | | **(60)** | (24) |
| **Net cash from/(used in) investing activities** | | **753** | (6,887) |
| **Net cash inflow before financing** | | **10,144** | 4,869 |
| **Financing activities** | | | |
| Loans drawn and refinanced | | **2,426** | 6,475 |
| Bonds issued | | **3,917** | 2,090 |
| Repayment of loans and bonds | | **(6,232)** | (6,676) |
| | | **111** | 1,889 |
| Repayment of loans to a fellow subsidiary company | | **(5,177)** | (2,329) |
| Dividends paid to the Company's shareholders | 37 | **(4,622)** | (4,271) |
| Dividends paid to non-controlling interests | 39 | **(24)** | (193) |
| **Net cash used in financing activities** | | **(9,712)** | (4,904) |
| **Increase/(Decrease) in cash and cash equivalents** | | **432** | (35) |
| Cash and cash equivalents at 1st January | | **1,708** | 1,681 |
| Currency adjustment | | **(47)** | 62 |
| **Cash and cash equivalents at end of the year** | | **2,093** | 1,708 |
| **Represented by:** | | | |
| Bank balances and short-term deposits maturing within three months | 26 | **2,093** | 1,708 |

The notes on pages 101 to 163 and the principal accounting policies on pages 164 to 166 form part of these financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2018

| | Note | Attributable to the Company's shareholders Share capital HK$M | Revenue reserve HK$M | Other reserves HK$M | Total HK$M | Non-controlling interests HK$M | Total equity HK$M |
|---|---|---|---|---|---|---|---|
| **At 1st January 2018** | | **10,449** | **245,002** | **1,930** | **257,381** | **1,997** | **259,378** |
| **Profit for the year** | | **–** | **28,666** | **–** | **28,666** | **55** | **28,721** |
| **Other comprehensive income** | | **–** | **(36)** | **(2,114)** | **(2,150)** | **(20)** | **(2,170)** |
| **Total comprehensive income for the year** | *37, 39* | **–** | **28,630** | **(2,114)** | **26,516** | **35** | **26,551** |
| **Dividends paid** | | **–** | **(4,622)** | **–** | **(4,622)** | **(24)** | **(4,646)** |
| **Capital contribution from a non-controlling interest accrued** | | **–** | **–** | **–** | **–** | **8** | **8** |
| **At 31st December 2018** | | **10,449** | **269,010** | **(184)** | **279,275** | **2,016** | **281,291** |

| | Note | Attributable to the Company's shareholders Share capital HK$M | Revenue reserve HK$M | Other reserves HK$M | Total HK$M | Non-controlling interests HK$M | Total equity HK$M |
|---|---|---|---|---|---|---|---|
| At 1st January 2017 | | 10,449 | 215,318 | (398) | 225,369 | 1,856 | 227,225 |
| Profit for the year | | – | 33,957 | – | 33,957 | 58 | 34,015 |
| Other comprehensive income | | – | (5) | 2,331 | 2,326 | 35 | 2,361 |
| Total comprehensive income for the year | *37, 39* | – | 33,952 | 2,331 | 36,283 | 93 | 36,376 |
| Transfer | | – | 3 | (3) | – | – | – |
| Dividends paid | | – | (4,271) | – | (4,271) | (193) | (4,464) |
| Capital contribution from a non-controlling interest accrued | | – | – | – | – | 241 | 241 |
| At 31st December 2017 | | 10,449 | 245,002 | 1,930 | 257,381 | 1,997 | 259,378 |

The notes on pages 101 to 163 and the principal accounting policies on pages 164 to 166 form part of these financial statements.

# 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 167 to 169.

## 1. Changes in Accounting Policies and Disclosures

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

| | |
|---|---|
| HKFRSs (Amendment) | Annual Improvements to HKFRSs 2014-2016 Cycle |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| Amendments to HKAS 40 | Transfers of Investment Property |
| Amendments to HKFRS 15 | Clarifications of HKFRS 15 |
| HK(IFRIC) Int-22 | Foreign Currency Transactions and Advance Consideration |

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

**HKFRS 15 Revenue from Contracts with Customers – Impact of adoption**

HKFRS 15 deals with revenue recognition and establishes principles for reporting information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The Group has used the practical expedient for completed contracts under the modified retrospective approach by adjusting opening retained earnings when it adopted HKFRS 15 effective 1st January 2018 without restatement of prior periods.

The adoption does not have an impact on the recognition of the Group's main revenue streams. Rental income from lease agreements is specifically excluded from the scope of HKFRS 15. The nature of the Group's current trading property sales in its primary markets in Hong Kong and the U.S.A., the terms of the relevant contracts and the associated laws mean that revenue from these sales continues to be recognised at the point in time of transfer of effective ownership. As a result, adjustment of the Group's opening retained earnings to reflect the adoption of HKFRS 15 is not required.

The transfer of control in future property sales may occur over time or at a point in time, and this will be assessed on a case by case and territory by territory basis. No significant changes to the Group's accounting policies are required.

As a result, the effects of adopting HKFRS 15 on the financial statements for the year ended 31st December 2018 are as follows:

| | Year ended 31st December 2018 HK$M |
|---|---|
| **Effect on Consolidated Statement of Financial Position:** | |
| **Increase in contract assets** | **2** |
| **Increase in contract liabilities** | **7** |

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

**HKFRS 9 Financial Instruments**

The complete version of HKFRS 9 replaced HKAS 39.

***(i) Classification and measurement***

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

The Group elected to present in "Other Comprehensive Income" changes in the fair values of all its equity investments previously classified as "Available-for-sale assets", because these equity investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of less than HK$1 million were reclassified from available-for-sale assets to equity investments at fair value through other comprehensive income on 1st January 2018.

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

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

***(ii) Impairment of financial assets***

The incurred loss impairment model used in HKAS 39 has been replaced by an expected credit loss model, with the result that a loss event will no longer need to occur before an impairment allowance is recognised. For trade and other receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables. This has no significant impact on the Group's financial statements as rental income is received in advance.

For further details on accounting policy for credit loss, please see note 2 (iii).

***(iii) Derivatives and hedging activities***

Hedge accounting under HKFRS 9 requires an economic relationship between the hedged item and hedging instrument and for the hedged ratio to be the same as the one used by an entity's management for risk management purposes. This replaces the hedge effectiveness test under HKAS 39. The Group adopted the hedge accounting aspects of HKFRS 9 prospectively from 1st January 2018 and adoption has not had a material impact on the financial position or the financial results of the Group.

For an explanation of how the Group applies hedge accounting, please see note 30.

**HKAS 40 (Amendment) Transfers of Investment Property**

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

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

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

| | |
|---|---|
| HKFRSs (Amendment) | Annual Improvements to HKFRSs 2015-2017 Cycle[1] |
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation[1] |
| Amendments to HKAS 19 | Plan Amendment, Curtailment or Settlement[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Ventures[1] |
| Amendments to HKAS 28 | Long-term interests in Associates and Joint Ventures[1] |
| HKFRS 16 | Leases[1] |
| HK(IFRIC) Int-23 | Uncertainty over Income Tax Treatments[1] |

[1] To be applied by the Group from 1st January 2019

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

**HKFRS 16 Leases**

HKFRS 16 replaces HKAS 17 and related interpretations and introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. The distinction between operating and finance leases is removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised on the balance sheet for all leases by lessees. HKFRS 16 also amends the definition of investment property under HKAS 40 to include property held by a lessee as a right-of-use asset to earn rentals or for capital appreciation or both, and the Group will be required to apply the fair value method under HKAS 40 for such right-of-use assets. The standard does not significantly change the accounting of lessors. Application of HKFRS 16 will result in the Group's recognition of right-of-use assets and corresponding liabilities in respect of the Group's operating lease arrangements. These assets and liabilities are currently not required to be recognised but certain relevant information is disclosed as commitments in note 42. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses.

The impact on the Group's revenue reserve on adopting HKFRS 16 from 1st January 2019 is expected to be a decrease of approximately HK$155 million.

## 2. Financial Risk Management

**Financial risk factors**

The Group is exposed to financial risks attributable to interest rates, currency, credit and liquidity. Management manages and monitors these exposures to ensure appropriate measures are implemented in a timely and effective manner. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

***(i) Interest rate exposure***

The Group's interest rate risk arises mainly from borrowings from banks and issuance of bonds. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group earns interest income on cash deposits and some loans due from joint venture companies.

The Group has entered into cross-currency swap contracts in relation to US dollar medium-term notes. The Group has entered into interest rate swaps to manage its long-term interest rate exposure.

## 2. Financial Risk Management *(continued)*

### *(i) Interest rate exposure (continued)*

The impact on the Group's statement of profit or loss and other comprehensive income of a 100 basis-points increase or decrease in market interest rates from the rates applicable at 31st December, with all other variables held constant, would have been:

| | 100 basis-points increase in interest rates HK$M | 100 basis-points decrease in interest rates HK$M |
|---|---|---|
| **At 31st December 2018** | | |
| **Impact on statement of profit or loss: (loss)/gain** | **(60)** | **60** |
| **Impact on other comprehensive income: gain/(loss)** | **78** | **(81)** |
| At 31st December 2017 | | |
| Impact on statement of profit or loss: (loss)/gain | (112) | 112 |
| Impact on other comprehensive income: gain/(loss) | 38 | (38) |

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 variable financial assets and liabilities are held constant

### *(ii) Currency exposure*

The Group operates internationally and the foreign currency denomination of commercial transactions, assets and liabilities, and net investments in foreign operations are mainly in US dollars and Renminbi.

The Group is not subject to any significant foreign currency risk as the revenue, expenses and borrowings of the Group's foreign operating subsidiaries are denominated in the functional currencies of those operations. However, the Group is exposed to insignificant foreign exchange risk on US dollar medium-term notes and the Group managed this exposure by hedging through cross-currency swap contracts entered by the Group.

Foreign currency funding and deposit exposure are monitored on a continuous basis. Exposure arising from the Group's investments in operating subsidiaries with net assets denominated in foreign currencies is reduced, where practical, by providing funding in the same currency.

The impact on the Group's statement of profit or loss and other comprehensive income of a strengthening or weakening in the Hong Kong dollar against the US dollar from the year-end rate of 7.8336 (2017: 7.8157), with all other variables held constant, would have been:

| | Strengthening in HK$ to lower peg limit (7.75) HK$M | Weakening in HK$ to upper peg limit (7.85) HK$M |
|---|---|---|
| **At 31st December 2018** | | |
| **Impact on statement of profit or loss:** | **–** | **–** |
| **Impact on other comprehensive income: (loss)/gain** | **(6)** | **6** |
| At 31st December 2017 | | |
| Impact on statement of profit or loss: | – | – |
| Impact on other comprehensive income: (loss)/gain | (5) | 7 |

## 2. Financial Risk Management *(continued)*

### *(ii) Currency exposure (continued)*

The 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

### *(iii) Credit exposure*

The Group's credit risk is mainly attributable to trade debtors, deposits with financial institutions, receivables from joint venture companies and associated companies.

*Risk management*
The exposure to these credit risks is closely monitored on a continuous basis by reference to established credit policies. For financial institutions, only independently rated parties with investment grade credit ratings are accepted. Tenants are assessed and rated based on their credit quality, taking into account their financial position, past experience and other factors. The Group does not grant credit terms to its customers, except to corporate customers in the hotel division where commercial trade credit terms are given. The Group also holds non-interest bearing rental deposits as security against trade debtors. In addition, the Group and the Company monitor the exposure to credit risk in respect of the financial assistance provided to subsidiaries, joint venture companies and associated companies through exercising control or significant influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

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

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

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

Trade and other receivables and contract assets are written off when there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, 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. The financial positions and performances of these companies are regularly monitored and reviewed by management of the Group.

## 2. Financial Risk Management *(continued)*

### *(iv) Liquidity exposure*

The Group takes liquidity risk into consideration when deciding its sources of funds and their respective tenors. Cash flow forecasting is performed in the operating entities of the Group and aggregated by the head office. The head office monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all times so that the Group does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities. Such forecasting takes into consideration the Group's debt financing plans, covenant compliance, compliance with internal balance sheet ratio targets and, if applicable, external regulatory or legal requirements.

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

**At 31st December 2018**

| | *Note* | **Carrying amount HK\$M** | **Total contractual undiscounted cash flow HK\$M** | **Within 1 year or on demand HK\$M** | **More than 1 year but less than 2 years HK\$M** | **More than 2 years but less than 5 years HK\$M** | **More than 5 years HK\$M** |
|---|---|---|---|---|---|---|---|
| **Trade creditors** | *27* | **419** | **419** | **419** | **–** | **–** | **–** |
| **Rental deposits from tenants** | *27* | **2,751** | **2,751** | **453** | **580** | **1,242** | **476** |
| **Other current payables** | *27* | **3,746** | **3,746** | **3,746** | **–** | **–** | **–** |
| **Contract liabilities** | *27* | **7** | **7** | **7** | **–** | **–** | **–** |
| **Put option in respect of a non-controlling interest** | *27* | **601** | **644** | **–** | **644** | **–** | **–** |
| **Deposits from the sale of subsidiary companies** | *27* | **3,238** | **3,238** | **3,238** | **–** | **–** | **–** |
| **Borrowings (including interest obligations)** | *28* | **31,999** | **36,861** | **2,265** | **7,865** | **12,698** | **14,033** |
| **Financial guarantee contracts** | *41* | **–** | **1,945** | **1,149** | **–** | **796** | **–** |
| | | **42,761** | **49,611** | **11,277** | **9,089** | **14,736** | **14,509** |

At 31st December 2017

| | *Note* | Carrying amount HK\$M | Total contractual undiscounted cash flow HK\$M | Within 1 year or on demand HK\$M | More than 1 year but less than 2 years HK\$M | More than 2 years but less than 5 years HK\$M | More than 5 years HK\$M |
|---|---|---|---|---|---|---|---|
| Trade creditors | *27* | 542 | 542 | 542 | – | – | – |
| Rental deposits from tenants | *27* | 2,616 | 2,616 | 669 | 576 | 1,004 | 367 |
| Other current payables | *27* | 3,356 | 3,356 | 3,356 | – | – | – |
| Put option in respect of a non-controlling interest | *27* | 716 | 813 | – | – | 813 | – |
| Deposits from the sale of a subsidiary company | *27* | 1,306 | 1,306 | 1,306 | – | – | – |
| Borrowings (including interest obligations) | *28* | 31,879 | 36,236 | 5,639 | 3,033 | 17,480 | 10,084 |
| Loans due to a fellow subsidiary company (including interest obligations) | *29* | 5,176 | 5,272 | 5,272 | – | – | – |
| Financial guarantee contracts | *41* | – | 1,668 | 663 | 975 | 30 | – |
| | | 45,591 | 51,809 | 17,447 | 4,584 | 19,327 | 10,451 |

## 3. Critical Accounting Estimates and Judgements

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:

Carrying value of property, plant and equipment (note 15)
Fair value of investment properties (note 16)
Retirement benefit (note 35)

## 4. Revenue

**Accounting Policy**

Provided the collectability of the related receivable is reasonably assured, revenue is recognised as follows:

Rental income is recognised when a lease commences. According to the contractual obligations, the properties on lease do not have alternative use to the Group after the leasing period 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.

The Group develops and sells residential properties. Sales of properties are recognised when effective control of ownership of the properties is transferred to the buyers. Owing to contractual restrictions, the properties generally do not have alternative use to the Group after the signing of sales contracts with the buyers. However, an enforceable right to payment does not arise until legal title of the property has been transferred to the buyer. Therefore, revenue is recognised upon completion of the transfer of legal title to the buyer.

Sales of services, including services provided by hotel operations and estate management, are recognised when the customers simultaneously receive and consume the benefits provided by the Group. Hence, revenue other than those related to food and beverages is recognised as the Group renders its services over time.

***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.

When the Group enters into sale and purchase contracts for properties or sale contracts for services other than tenancy agreements, if the performance obligations fulfilled by the Group exceed the total payments received to date, a contract asset is recognised; if the total payments to date exceed the performance obligation fulfilled, a contract liability is recognised. Deposits received upon signing of sale and purchase contracts, or sale contracts are recognised as contract liabilities.

Direct costs incurred to obtain a contract are capitalised if the Group expects to recover those costs. Costs of obtaining a contract are amortised on a straight line basis over the expected life of the contract. The Group has elected to adopt the practical expedient to expense such direct costs to profit or loss since the period of amortisation is one year or less with no material impact to the Group.

## 4. Revenue *(continued)*

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Gross rental income from investment properties | **12,117** | 11,252 |
| Property trading | **1,061** | 5,833 |
| Hotels | **1,404** | 1,345 |
| Rendering of other services | **137** | 128 |
| | **14,719** | 18,558 |

The following table presents the significant movements in contract liabilities for the year ended 31st December 2018.

| | HK$M |
|---|---|
| At 1st January 2018 | **–** |
| Increase in contract liabilities as a result of receiving deposits on sale of trading properties | **7** |
| At 31st December 2018 | **7** |

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

| | HK$M |
|---|---|
| Aggregate amount of the transaction price allocated to revenue contracts that are partially or fully unsatisfied at 31st December 2018 | **195** |

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

## 5. Cost of Sales

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Direct rental outgoings in respect of investment properties that | | |
| – generated rental income | **2,237** | 2,090 |
| – did not generate rental income | **152** | 177 |
| | **2,389** | 2,267 |
| Property trading | **870** | 4,080 |
| Hotels | **1,193** | 1,184 |
| Rendering of other services | **41** | 38 |
| | **4,493** | 7,569 |

## 6. Other Net Gains

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Profit on sale of investment properties | **53** | 9 |
| Loss on disposal of property, plant and equipment | **(9)** | (1) |
| Net foreign exchange (losses)/gains | **(3)** | 32 |
| Recognition of income on forfeited deposits in respect of trading properties | **5** | 2 |
| Others | **200** | 30 |
| | **246** | 72 |

## 7. Expenses by Nature

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Depreciation of property, plant and equipment (note 15) | **324** | 348 |
| Amortisation of | | |
| – intangible assets (note 17) | **31** | 27 |
| – initial leasing costs in respect of investment properties | **39** | 51 |
| Staff costs | **1,854** | 1,795 |
| Operating lease rentals | | |
| – properties | **91** | 52 |
| – plant and equipment | **6** | 7 |
| Auditors' remuneration | | |
| – audit services | **13** | 12 |
| – tax services | **6** | 3 |
| – other services | **2** | 3 |

## 8. Segment Information

The Group is organised on a divisional basis: Property investment, Property trading and Hotels. The reportable segments that make up each of the three divisions are classified according to the nature of business.

### 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 discloseable separately because they cannot be aggregated or because they exceed certain quantitative thresholds.

(a) Information about reportable segments

**Analysis of Consolidated Statement of Profit or Loss**

| | External revenue HK$M | Inter-segment revenue HK$M | Operating profit/(loss) after depreciation and amortisation 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$M | Profit/(Loss) before taxation HK$M | Taxation HK$M | Profit/(Loss) for the year HK$M | Profit/(Loss) attributable to the Company's shareholders HK$M | Depreciation and amortisation charged to operating profit HK$M |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Year ended 31st December 2018** | | | | | | | | | | | | |
| **Property investment** | **12,254** | **40** | **9,873** | **(913)** | **112** | **772** | **–** | **9,844** | **(1,052)** | **8,792** | **8,732** | **(160)** |
| **Property trading** | **1,061** | **–** | **65** | **(40)** | **1** | **107** | **–** | **133** | **(24)** | **109** | **99** | **–** |
| **Hotels** | **1,404** | **5** | **(25)** | **(42)** | **–** | **(117)** | **153** | **(31)** | **(10)** | **(41)** | **(41)** | **(234)** |
| **Change in fair value of investment properties** | **–** | **–** | **19,452** | **–** | **–** | **1,063** | **–** | **20,515** | **(654)** | **19,861** | **19,876** | **–** |
| **Inter-segment elimination** | **–** | **(45)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** |
| | **14,719** | **–** | **29,365** | **(995)** | **113** | **1,825** | **153** | **30,461** | **(1,740)** | **28,721** | **28,666** | **(394)** |
| Year ended 31st December 2017 | | | | | | | | | | | | |
| Property investment | 11,380 | 34 | 8,172 | (908) | 82 | 500 | – | 7,846 | (1,170) | 6,676 | 6,671 | (167) |
| Property trading | 5,833 | – | 1,397 | (36) | 1 | (11) | – | 1,351 | (240) | 1,111 | 1,111 | – |
| Hotels | 1,345 | 5 | (102) | (39) | – | (44) | 146 | (39) | (5) | (44) | (43) | (259) |
| Change in fair value of investment properties | – | – | 25,463 | – | – | 1,201 | – | 26,664 | (392) | 26,272 | 26,218 | – |
| Inter-segment elimination | – | (39) | – | – | – | – | – | – | – | – | – | – |
| | 18,558 | – | 34,930 | (983) | 83 | 1,646 | 146 | 35,822 | (1,807) | 34,015 | 33,957 | (426) |

Note:
Sales between business segments are accounted for at competitive prices charged to unaffiliated customers for similar goods and services.

## 8. Segment Information *(continued)*

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

**Analysis of external revenue of the Group**

| | Timing of revenue recognition | | |
|---|---|---|---|
| | At a point in time HK$M | Over time HK$M | Total HK$M |
| **Year ended 31st December 2018** | | | |
| **Property investment** | **1** | **12,253**[1] | **12,254** |
| **Property trading** | **1,061** | **–** | **1,061** |
| **Hotels** | **664** | **740** | **1,404** |
| | **1,726** | **12,993** | **14,719** |

There are no differences from the last annual financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss except for the additional disclosure for the timing of revenue recognition following the adoption of HKFRS 15 with effect from 1st January 2018.

[1] Includes rental income of HK$12,117 million.

**Analysis of total assets of the Group**

| | Segment assets HK$M | Joint venture companies HK$M | Associated companies HK$M | Bank deposits and cash HK$M | Total assets HK$M | Additions to non-current assets HK$M |
|---|---|---|---|---|---|---|
| **At 31st December 2018** | | | | | | |
| **Property investment** | **293,340** | **26,133** | **–** | **1,820** | **321,293** | **4,938** |
| **Property trading** | **3,034** | **1,411** | **–** | **118** | **4,563** | **52** |
| **Hotels** | **5,975** | **1,247** | **413** | **156** | **7,791** | **(19)** |
| | **302,349** | **28,791** | **413** | **2,094** | **333,647** | **4,971** |
| At 31st December 2017 | | | | | | |
| Property investment | 278,862 | 21,119 | – | 1,440 | 301,421 | 4,946 |
| Property trading | 3,976 | 670 | – | 103 | 4,749 | 53 |
| Hotels | 6,363 | 1,237 | 374 | 165 | 8,139 | 86 |
| | 289,201 | 23,026 | 374 | 1,708 | 314,309 | 5,085 |

Note:
Additions to non-current assets exclude joint venture and associated companies, financial assets at fair value through other comprehensive income (2017: available-for-sale assets), financial instruments, deferred tax assets, retirement benefit assets and other financial assets at amortised cost.

## 8. Segment Information *(continued)*

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

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

| | Segment liabilities HK$M | Current and deferred tax liabilities HK$M | Gross borrowings HK$M | Total liabilities HK$M | Non-controlling interests HK$M |
|---|---|---|---|---|---|
| **At 31st December 2018** | | | | | |
| **Property investment** | **10,751** | **9,063** | **29,275** | **49,089** | **1,897** |
| **Property trading** | **257** | **45** | **1,558** | **1,860** | **92** |
| **Hotels** | **241** | **–** | **1,166** | **1,407** | **27** |
| | **11,249** | **9,108** | **31,999** | **52,356** | **2,016** |
| At 31st December 2017 | | | | | |
| Property investment | 8,101 | 8,835 | 33,812 | 50,748 | 1,890 |
| Property trading | 378 | 326 | 2,110 | 2,814 | 82 |
| Hotels | 236 | – | 1,133 | 1,369 | 25 |
| | 8,715 | 9,161 | 37,055 | 54,931 | 1,997 |

(b) Information about geographical areas

The activities of the Group are principally based in Hong Kong, Mainland China and the U.S.A.

An analysis of revenue and non-current assets of the Group by principal markets is outlined below:

| | Revenue | | Non-current assets | |
|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| Hong Kong | **10,704** | 14,947 | **239,779** | 235,350 |
| Mainland China | **2,903** | 2,627 | **32,247** | 31,323 |
| U.S.A. | **1,112** | 984 | **9,460** | 9,656 |
| Others | **–** | – | **1,149** | 1,093 |
| | **14,719** | 18,558 | **282,635** | 277,422 |

Note:
The above non-current assets exclude joint venture and associated companies, financial assets at fair value through other comprehensive income (2017: available-for-sale assets), financial instruments, deferred tax assets, retirement benefit assets and other financial assets at amortised cost.

## 9. Directors' and Executive Officers' Emoluments

(a) The total emoluments of Directors of the Company 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 HK$'000 | Fee HK$'000 | Discretionary bonus (note (i)) HK$'000 | Allowances and benefits HK$'000 | Retirement schemes contributions HK$'000 | Discretionary bonus paid to retirement schemes HK$'000 | Housing and other benefits (note (ii)) HK$'000 | Total 2018 HK$'000 | Total 2017 HK$'000 |
| **For the year ended 31st December 2018** | | | | | | | | | |
| **Executive Directors** | | | | | | | | | |
| M.B. Swire (Chairman) (note (iii)) | **300** | **–** | **–** | **–** | **1** | **–** | **561** | **862** | – |
| J.R. Slosar (note (iv)) | **460** | **–** | **–** | **3** | **97** | **–** | **392** | **952** | 1,863 |
| G.M.C. Bradley | **4,674** | **–** | **1,840** | **485** | **1,028** | **755** | **2,381** | **11,163** | 13,114 |
| F.N.Y. Lung (note (v)) | **2,963** | **–** | **244** | **99** | **534** | **–** | **115** | **3,955** | 824 |
| D.C.Y. Ho (note (vi)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | 253 |
| G.J. Ongley (note (vii)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | 1,460 |
| **Non-Executive Directors** | | | | | | | | | |
| M.M.S. Low (note (viii)) | **–** | **–** | **1,492** | **–** | **–** | **–** | **–** | **1,492** | 7,643 |
| P. Healy | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | – |
| R.S.K. Lim | **–** | **575** | **–** | **–** | **–** | **–** | **–** | **575** | 575 |
| N.A.H. Fenwick (note (ix)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | – |
| **Independent Non-Executive Directors** | | | | | | | | | |
| S.E. Bradley (note (x)) | **–** | **384** | **–** | **–** | **–** | **–** | **–** | **384** | 633 |
| J.C.C. Chan (note (xi)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | 155 |
| L.K.L. Cheng (note (xii)) | **–** | **761** | **–** | **–** | **–** | **–** | **–** | **761** | 600 |
| P.K. Etchells (note (xiii)) | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | 311 |
| S.T. Fung | **–** | **599** | **–** | **–** | **–** | **–** | **–** | **599** | 575 |
| S.C. Liu | **–** | **658** | **–** | **–** | **–** | **–** | **–** | **658** | 655 |
| M.Y. Wu (note (xiv)) | **–** | **843** | **–** | **–** | **–** | **–** | **–** | **843** | 528 |
| **Total 2018** | **8,397** | **3,820** | **3,576** | **587** | **1,660** | **755** | **3,449** | **22,244** | N/A |
| Total 2017 | 8,037 | 4,032 | 7,976 | 2,128 | 2,417 | 1,152 | 3,447 | N/A | 29,189 |

Notes:

(i) The bonuses disclosed above are related to services as executive directors for the previous year.
(ii) Other benefits include medical and insurance benefits and overseas tax subsidies.
(iii) M.B. Swire was a non-executive director until 30th June 2018. He was appointed as Chairman and was re-designated as an executive director from 1st July 2018.
(iv) J.R. Slosar retired as Chairman and an executive director on 30th June 2018.
(v) F.N.Y. Lung was appointed as Finance Director on 1st October 2017.
(vi) D.C.Y. Ho resigned as an executive director on 14th April 2016 with 2016 final bonus payment made in 2017.
(vii) G.J. Ongley retired as an executive director on 10th May 2016 with 2016 final bonus payment made in 2017.
(viii) M.M.S. Low was Finance Director until 30th September 2017 and was re-designated as a non-executive director from 1st October 2017. Her emoluments were related to her role as an executive director (in respect of the period before her redesignation).
(ix) N.A.H. Fenwick was appointed as a non-executive director on 31st May 2018.
(x) S.E. Bradley resigned as an independent non-executive director on 9th August 2018.
(xi) J.C.C. Chan resigned as an independent non-executive director on 16th March 2017.
(xii) L.K.L. Cheng was appointed as an independent non-executive director on 17th March 2017.
(xiii) P.K. Etchells resigned as an independent non-executive director on 16th May 2017.
(xiv) M.Y. Wu was appointed as an independent non-executive director on 15th May 2017.

## 9. Directors' and Executive Officers' Emoluments *(continued)*

(b) Five highest paid individuals

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

| | Year ended 31st December | |
|---|---|---|
| | **2018** | 2017 |
| Number of individuals: | | |
| Executive directors (note (i)) | **1** | 2 |
| Executive officers (note (ii)) | **4** | 3 |
| | **5** | 5 |

Notes:
(i) Details of the emoluments paid to these directors were included in the disclosure as set out in note 9(a) above.
(ii) Details of emoluments paid to the above executive officers are as follows:

| | Year ended 31st December | |
|---|---|---|
| | **2018 HK$'000** | 2017 HK$'000 |
| Cash: | | |
| Salary | **10,140** | 7,579 |
| Discretionary bonus | **4,947** | 3,786 |
| Allowance and benefits | **2,197** | 2,207 |
| Non-cash: | | |
| Retirement scheme contributions | **1,608** | 1,489 |
| Bonus paid into retirement scheme | **448** | 688 |
| Housing and other benefits | **10,277** | 6,962 |
| | **29,617** | 22,711 |

Note:
The bonuses disclosed above are related to services for the previous year.

The number of the above executive officers whose emoluments fell within the following bands:

| | Year ended 31st December | |
|---|---|---|
| | **2018** | 2017 |
| HK$7,500,001 – HK$9,000,000 | **2** | 1 |
| HK$7,000,001 – HK$7,500,000 | **–** | 1 |
| HK$6,500,001 – HK$7,000,000 | **2** | 1 |
| | **4** | 3 |

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

Refer to the table with heading "Audited Financial Information" on page 55 to 57 for details of the Group's net finance charges.

## 11. Taxation

**Accounting Policy**

The tax expense comprises current and deferred tax. Tax 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 in equity. In this case, the tax is also recognised in other comprehensive income or directly in 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.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **HK$M** | **HK$M** | HK$M | HK$M |
| Current taxation: | | | | |
| Hong Kong profits tax | **960** | | 1,104 | |
| Overseas tax | **356** | | 271 | |
| (Over)/Under-provisions in prior years | **(2)** | | 25 | |
| | | **1,314** | | 1,400 |
| Deferred taxation: (note 31) | | | | |
| Changes in fair value of investment properties | **501** | | 460 | |
| Origination and reversal of temporary differences | **(75)** | | 215 | |
| Effect of change in tax rate in the U.S.A. | **–** | | (268) | |
| | | **426** | | 407 |
| | | **1,740** | | 1,807 |

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

## 11. Taxation *(continued)*

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Profit before taxation | **30,461** | 35,822 |
| Calculated at a tax rate of 16.5% (2017: 16.5%) | **5,026** | 5,911 |
| Results of joint venture and associated companies reported net of tax | **(326)** | (296) |
| Effect of different tax rates in other countries | **291** | 252 |
| Effect of change in tax rate in the U.S.A. | **–** | (268) |
| Fair value gains on investment properties | **(2,894)** | (3,859) |
| Income not subject to tax | **(481)** | (91) |
| Expenses not deductible for tax purposes | **74** | 103 |
| Unused tax losses not recognised | **34** | 140 |
| Utilisation of previously unrecognised tax losses | **(4)** | (20) |
| Recognition of previously unrecognised tax losses | **–** | (14) |
| Reversal of temporary differences | **–** | (78) |
| Withholding tax | **22** | 2 |
| (Over)/Under-provisions in prior years | **(2)** | 25 |
| Tax charge | **1,740** | 1,807 |

The Group's share of joint venture and associated companies' tax charges of HK$355 million (2017: HK$219 million) and HK$29 million (2017: HK$29 million) respectively are included in the share of profits less losses of joint venture and associated companies shown in the consolidated statement of profit or loss.

## 12. Profit Attributable to the Company's Shareholders

Of the profit attributable to the Company's shareholders, HK$25,272 million (2017: HK$7,733 million) is dealt with in the financial statements of the Company.

## 13. Dividends

**Accounting Policy**

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| First interim dividend paid on 4th October 2018 of HK$0.27 per share (2017: HK$0.25) | **1,580** | 1,463 |
| Second interim dividend declared on 14th March 2019 of HK$0.57 per share (2017: HK$0.52) | **3,334** | 3,042 |
| | **4,914** | 4,505 |

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

The Directors have declared a second interim dividend of HK$0.57 (2017: HK$0.52) per share which, together with the first interim dividend of HK$0.27 per share paid in October 2018, amounts to full year dividends of HK$0.84 (2017: HK$0.77) per share. The second interim dividend, which totals HK$3,334 million (2017: HK$3,042 million), will be paid on Thursday, 9th May 2019 to shareholders registered at the close of business on the record date, being Thursday, 4th April 2019. Shares of the Company will be traded ex-dividend from Tuesday, 2nd April 2019.

The register of members will be closed on Thursday, 4th April 2019, during which day no transfer of shares will be effected. In order to qualify for entitlement to the second interim dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 3rd April 2019.

To facilitate the processing of proxy voting for the annual general meeting to be held on 14th May 2019, the register of members will be closed from 9th May 2019 to 14th May 2019, both days inclusive, during which period no transfer of shares will be effected. In order to be entitled to attend and vote at the annual general meeting, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrars, Computershare Hong Kong Investor Services Limited, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Wednesday, 8th May 2019.

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

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders of HK$28,666 million (2017: HK$33,957 million) by the weighted average number of 5,850,000,000 ordinary shares in issue during 2018 (2017: 5,850,000,000 ordinary shares).

## 15. 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. 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. All other repairs and maintenance are expensed in the statement of profit or loss during the financial period in which they are incurred.

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

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

| | |
|---|---|
| Leasehold land | Over the lease term |
| Buildings | 2% to 5% per annum |
| Plant and equipment | 10% to 33 ⅓% per annum |

The assets' expected useful lives and residual values are regularly reviewed and adjusted, if appropriate, at each period-end date 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 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 loss is recognised in the statement of profit or loss.

## 15. Property, Plant and Equipment *(continued)*

| | Leasehold land held for own use HK$M | Land and buildings HK$M | Plant and equipment HK$M | Total HK$M |
|---|---|---|---|---|
| *Cost:* | | | | |
| At 1st January 2018 | 3,488 | 5,696 | 1,627 | 10,811 |
| Translation differences | – | (96) | (25) | (121) |
| Additions | – | 17 | 118 | 135 |
| Cost written back | – | (64) | (3) | (67) |
| Disposals | – | – | (33) | (33) |
| Net transfers (to)/from investment properties | (43) | 3 | – | (40) |
| Transfers to assets classified as held for sale | (93) | (32) | – | (125) |
| Disposal of a subsidiary company | (5) | – | – | (5) |
| Revaluation surplus | 11 | – | – | 11 |
| At 31st December 2018 | 3,358 | 5,524 | 1,684 | 10,566 |
| *Accumulated depreciation and impairment:* | | | | |
| At 1st January 2018 | 178 | 1,038 | 1,224 | 2,440 |
| Translation differences | – | (29) | (18) | (47) |
| Charge for the year (note 7) | 27 | 173 | 124 | 324 |
| Disposals | – | – | (24) | (24) |
| Transfers to assets classified as held for sale | – | (4) | – | (4) |
| At 31st December 2018 | 205 | 1,178 | 1,306 | 2,689 |
| *Net book value:* | | | | |
| At 31st December 2018 | 3,153 | 4,346 | 378 | 7,877 |

At 31st December 2018 and 2017, none of the Group's property, plant and equipment was pledged as security for the Group's long-term loans.

Properties occupied by the Group (together with the associated leasehold land) were transferred to investment properties following the end of occupation by the Group. The valuation increase from carrying amount to fair value in respect of such transfers during the year ended 31st December 2018 was HK$11 million (2017: HK$128 million).

Refer to the table with heading "Audited Financial Information" on page 56 for details of the Group's capitalised interest rates and the amount of interest capitalised.

## 15. Property, Plant and Equipment *(continued)*

| | Leasehold land held for own use HK$M | Land and buildings HK$M | Plant and equipment HK$M | Total HK$M |
|---|---|---|---|---|
| *Cost:* | | | | |
| At 1st January 2017 | 3,547 | 5,517 | 1,497 | 10,561 |
| Translation differences | – | 151 | 37 | 188 |
| Additions | – | 69 | 142 | 211 |
| Disposals | – | – | (51) | (51) |
| Net transfers from other assets | – | – | 3 | 3 |
| Revaluation surplus | 124 | 4 | – | 128 |
| Net transfers to investment properties | (183) | (45) | (1) | (229) |
| At 31st December 2017 | 3,488 | 5,696 | 1,627 | 10,811 |
| *Accumulated depreciation and impairment:* | | | | |
| At 1st January 2017 | 153 | 835 | 1,102 | 2,090 |
| Translation differences | – | 37 | 26 | 63 |
| Charge for the year (note 7) | 26 | 176 | 146 | 348 |
| Disposals | – | – | (50) | (50) |
| Transfers to investment properties | (1) | (10) | – | (11) |
| At 31st December 2017 | 178 | 1,038 | 1,224 | 2,440 |
| *Net book value:* | | | | |
| At 31st December 2017 | 3,310 | 4,658 | 403 | 8,371 |

## 16. Investment Properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group, is classified as investment property.

**Accounting Policy**

Investment property comprises freehold land, leasehold land and buildings. Land held under an operating lease and classified as investment property is accounted for as if it was a finance lease. Any premium paid for a lease is treated as part of the minimum lease payments and is included in the cost of the asset, but is excluded from the liability.

Investment properties (including those under development) 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 the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors and are on the basis of market value, relate 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 investment properties under development. Changes in fair values are recognised in the consolidated 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 consolidated statement of profit or loss during the financial period in which they are incurred.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its deemed 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 consolidated statement of profit or loss upon occupation of the property over a period not exceeding the term of the lease.

**Critical Accounting Estimates and Judgements**

Cushman & Wakefield Limited, an independent property valuer, was engaged to carry out a valuation of the major portion of the Group's investment property portfolio at 31st December 2018. This valuation was carried out in accordance with the HKIS Valuation Standards 2017 published by The Hong Kong Institute of Surveyors, which define market value as "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's length transaction, after proper marketing and where the parties each acted knowledgeably, prudently and without compulsion". The assumptions are principally in respect of market rents and yields.

Management has reviewed the independent property valuation and compared it with its own assumptions, with reference to comparable sales transaction data where such information is available, and has concluded that the independent property valuation of the Group's investment property portfolio is reasonable.

## 16. Investment Properties *(continued)*

| | Completed HK$M | Under Development HK$M | Total HK$M |
|---|---|---|---|
| **At 1st January 2018** | **231,295** | **35,997** | **267,292** |
| **Translation differences** | **(1,440)** | **(19)** | **(1,459)** |
| **Additions** | **725** | **4,018** | **4,743** |
| **Cost written back** | **(15)** | **(1)** | **(16)** |
| **Disposals** | **(285)** | **–** | **(285)** |
| **Transfer from properties under development and for sale** | **142** | **–** | **142** |
| **Net transfers (to)/from property, plant and equipment** | **(32)** | **72** | **40** |
| **Transfer between categories** | **17,076** | **(17,076)** | **–** |
| **Transfers to assets classified as held for sale** | **(14,546)** | **(435)** | **(14,981)** |
| **Disposal of subsidiary companies** | **–** | **(2,001)** | **(2,001)** |
| **Net fair value gains** | **16,746** | **2,706** | **19,452** |
| | **249,666** | **23,261** | **272,927** |
| **Add: Initial leasing costs** | **259** | **–** | **259** |
| **At 31st December 2018** | **249,925** | **23,261** | **273,186** |
| At 1st January 2017 | 205,605 | 29,496 | 235,101 |
| Translation differences | 2,028 | 89 | 2,117 |
| Additions | 1,311 | 3,438 | 4,749 |
| Cost written back | (2) | (1) | (3) |
| Disposals | (8) | (7) | (15) |
| Transfer to properties under development and for sale | – | (338) | (338) |
| Net transfers from property, plant and equipment | 25 | 193 | 218 |
| Net fair value gains | 22,336 | 3,127 | 25,463 |
| | 231,295 | 35,997 | 267,292 |
| Add: Initial leasing costs | 239 | – | 239 |
| At 31st December 2017 | 231,534 | 35,997 | 267,531 |

### Geographical Analysis of Investment Properties

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Held in Hong Kong: | | |
| On medium-term leases (10 to 50 years) | **34,640** | 33,224 |
| On long-term leases (over 50 years) | **199,969** | 196,740 |
| | **234,609** | 229,964 |
| Held in Mainland China: | | |
| On medium-term leases (10 to 50 years) | **30,575** | 29,468 |
| Held in U.S.A. and elsewhere: | | |
| Freehold | **7,743** | 7,860 |
| | **272,927** | 267,292 |

Refer to the table with heading “Audited Financial Information” on page 56 for details of the Group’s capitalised interest rates and the amount of interest capitalised.

## 16. 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 2018. 95% by value were valued by Cushman & Wakefield Limited and 2% by value were valued by another independent valuer, in each case on the basis of market value. The independent professionally qualified valuers hold recognised relevant professional qualifications in the jurisdictions in which they valued the Group's investment properties and have recent experience in the locations and types of investment properties valued. The remaining properties were valued by management. The current use of the investment properties equates to the highest and best use.

The valuation of the Group's completed investment property portfolio is derived by capitalising the rental income derived from existing tenancies with due provision for reversionary income potential and by making reference to recent comparable sales transactions available in the relevant property market.

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 the 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.

## 16. Investment Properties *(continued)*

### Fair value hierarchy

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

| | Completed | | | | Under Development | | | |
|---|---|---|---|---|---|---|---|---|
| | Hong Kong HK$M | Mainland China HK$M | U.S.A. HK$M | Total HK$M | Hong Kong HK$M | Others HK$M | Total HK$M | 2018 Total HK$M |
| **Fair value hierarchy** | | | | | | | | |
| **Level 2** | **3,525** | **186** | **–** | **3,711** | **11,091** | **–** | **11,091** | **14,802** |
| **Level 3** | **208,973** | **30,388** | **6,594** | **245,955** | **11,021** | **1,149** | **12,170** | **258,125** |
| **Total** | **212,498** | **30,574** | **6,594** | **249,666** | **22,112** | **1,149** | **23,261** | **272,927** |
| **Add: initial leasing costs** | | | | | | | | **259** |
| **At 31st December 2018** | | | | | | | | **273,186** |

| | Completed | | | | Under Development | | | |
|---|---|---|---|---|---|---|---|---|
| | Hong Kong HK$M | Mainland China HK$M | U.S.A. HK$M | Total HK$M | Hong Kong HK$M | Others HK$M | Total HK$M | 2017 Total HK$M |
| Fair value hierarchy | | | | | | | | |
| Level 2 | 3,442 | 196 | – | 3,638 | 12,217 | – | 12,217 | 15,855 |
| Level 3 | 191,618 | 29,272 | 6,767 | 227,657 | 22,687 | 1,093 | 23,780 | 251,437 |
| Total | 195,060 | 29,468 | 6,767 | 231,295 | 34,904 | 1,093 | 35,997 | 267,292 |
| Add: initial leasing costs | | | | | | | | 239 |
| At 31st December 2017 | | | | | | | | 267,531 |

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.

The above investment properties principally comprise completed commercial and residential properties in Hong Kong and Mainland China and commercial and residential properties under development in Hong Kong. The Group has other investment property projects, principally comprising a mixed-use development at the first phase of Brickell City Centre in Miami which was completed in 2016. Because of the unique nature of the Group's investment properties, most of them are valued by reference to a Level 3 fair value measurement.

## 16. Investment Properties *(continued)*

### Fair value hierarchy *(continued)*

The change in Level 3 fair value of investment properties during the year is as follows:

| | Completed | | | | Under Development | | | |
|---|---|---|---|---|---|---|---|---|
| | Hong Kong HK$M | Mainland China HK$M | U.S.A. HK$M | Total HK$M | Hong Kong HK$M | Others HK$M | Total HK$M | 2018 Total HK$M |
| ***Fair value – Level 3:*** | | | | | | | | |
| **At 1st January 2018** | **191,618** | **29,272** | **6,767** | **227,657** | **22,687** | **1,093** | **23,780** | **251,437** |
| **Translation differences** | **–** | **(1,444)** | **14** | **(1,430)** | **–** | **(19)** | **(19)** | **(1,449)** |
| **Additions** | **458** | **210** | **55** | **723** | **3,067** | **144** | **3,211** | **3,934** |
| **Cost written back** | **(2)** | **–** | **–** | **(2)** | **–** | **–** | **–** | **(2)** |
| **Net transfers to property, plant and equipment** | **(32)** | **–** | **–** | **(32)** | **–** | **–** | **–** | **(32)** |
| **Transfer between categories** | **17,076** | **–** | **–** | **17,076** | **(17,076)** | **–** | **(17,076)** | **–** |
| **Transfer from properties under development and for sale** | **–** | **–** | **142** | **142** | **–** | **–** | **–** | **142** |
| **Transfers to assets classified as held for sale** | **(14,546)** | **–** | **–** | **(14,546)** | **–** | **–** | **–** | **(14,546)** |
| **Fair value gains/(losses)** | **14,401** | **2,350** | **(384)** | **16,367** | **2,343** | **(69)** | **2,274** | **18,641** |
| **At 31st December 2018** | **208,973** | **30,388** | **6,594** | **245,955** | **11,021** | **1,149** | **12,170** | **258,125** |

| | Completed | | | | Under Development | | | |
|---|---|---|---|---|---|---|---|---|
| | Hong Kong HK$M | Mainland China HK$M | U.S.A. HK$M | Total HK$M | Hong Kong HK$M | Others HK$M | Total HK$M | 2017 Total HK$M |
| *Fair value – Level 3:* | | | | | | | | |
| At 1st January 2017 | 170,990 | 25,217 | 6,098 | 202,305 | 15,396 | 956 | 16,352 | 218,657 |
| Translation differences | – | 1,966 | 46 | 2,012 | – | 89 | 89 | 2,101 |
| Additions | 479 | 40 | 791 | 1,310 | 2,658 | 109 | 2,767 | 4,077 |
| Cost written back | – | (1) | – | (1) | – | – | – | (1) |
| Net transfers from property, plant and equipment | – | 16 | – | 16 | 197 | – | 197 | 213 |
| Transfer from Level 2 | – | – | – | – | 1,380 | – | 1,380 | 1,380 |
| Transfer to properties under development and for sale | – | – | – | – | (338) | – | (338) | (338) |
| Fair value gains/(losses) | 20,149 | 2,034 | (168) | 22,015 | 3,394 | (61) | 3,333 | 25,348 |
| At 31st December 2017 | 191,618 | 29,272 | 6,767 | 227,657 | 22,687 | 1,093 | 23,780 | 251,437 |

## 16. Investment Properties *(continued)*

**Information about Level 3 fair value measurements using significant unobservable inputs**

| | Fair value HK$M | Valuation technique | Market rent per month[1] HK$ per sq. ft. (lettable) | Capitalisation rate |
|---|---|---|---|---|
| **At 31st December 2018** | | | | |
| **Completed** | | | | |
| **Hong Kong** | **208,973** | **Income capitalisation** | **Less than 10 – Mid 500's** | **2.50% – 4.88%[3]** |
| **Mainland China** | **30,388** | **Income capitalisation** | **Less than 10 – Low 200's** | **6.25% – 6.75%** |
| **U.S.A.** | **6,106** | **Income capitalisation** | **Low 10's – Low 100's** | **4.75% – 5.75%** |
| **U.S.A.** | **488** | **Sales comparison** | **–** | **–** |
| **Sub-total** | **245,955** | | | |
| **Under development** | | | | |
| **Hong Kong** | **11,021** | **Residual[2]** | **High 50's – Mid 80's** | **3.63% – 3.75%** |
| **Others** | **1,149** | **Residual[2]** | **–** | **–** |
| **Sub-total** | **12,170** | | | |
| **Total (Level 3)** | **258,125** | | | |
| At 31st December 2017 | | | | |
| Completed | | | | |
| Hong Kong | 191,618 | Income capitalisation | Less than 10 – Low 500's | 2.50% – 4.88% |
| Mainland China | 29,272 | Income capitalisation | Less than 10 – Low 200's | 6.50% – 7.00% |
| U.S.A. | 6,242 | Income capitalisation | Low 10's – Low 100's | 4.75% – 5.50% |
| U.S.A. | 525 | Sales comparison | – | – |
| Sub-total | 227,657 | | | |
| Under development | | | | |
| Hong Kong | 22,687 | Residual[2] | High 50's – Mid 60's | 3.88% |
| Others | 1,093 | Residual[2] | – | – |
| Sub-total | 23,780 | | | |
| Total (Level 3) | 251,437 | | | |

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 an 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.

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.

3 Within the disclosed capitalisation rates, there was a reduction of 12.5 basis points in the capitalisation rate applicable to office portfolio investment properties in Hong Kong.

## 17. Intangible Assets

**Accounting Policy**

*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 five 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 five years).

| | **Computer Software HK$M** | **Others HK$M** | **Total HK$M** |
|---|---|---|---|
| ***Cost:*** | | | |
| **At 1st January 2018** | **133** | **156** | **289** |
| **Additions** | **16** | **49** | **65** |
| **At 31st December 2018** | **149** | **205** | **354** |
| ***Accumulated amortisation:*** | | | |
| **At 1st January 2018** | **94** | **17** | **111** |
| **Amortisation for the year (note 7)** | **12** | **19** | **31** |
| **At 31st December 2018** | **106** | **36** | **142** |
| ***Net book value:*** | | | |
| **At 31st December 2018** | **43** | **169** | **212** |

| | Computer Software HK$M | Others HK$M | Total HK$M |
|---|---|---|---|
| *Cost:* | | | |
| At 1st January 2017 | 114 | 124 | 238 |
| Additions | 19 | 32 | 51 |
| At 31st December 2017 | 133 | 156 | 289 |
| *Accumulated amortisation:* | | | |
| At 1st January 2017 | 81 | 3 | 84 |
| Amortisation for the year (note 7) | 13 | 14 | 27 |
| At 31st December 2017 | 94 | 17 | 111 |
| *Net book value:* | | | |
| At 31st December 2017 | 39 | 139 | 178 |

Amortisation of HK$31 million (2017: HK$27 million) is included in cost of sales and administrative expenses in the consolidated statement of profit or loss.

## 18. Properties Held for Development

**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.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Properties held for development | | |
| Freehold land | **1,141** | 1,126 |
| Development cost | **219** | 216 |
| | **1,360** | 1,342 |

## 19. Joint Venture 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 has rights to the net assets of those companies. The use of the equity method by the Group to account for the investment in joint venture companies is disclosed in the "Basis of Consolidation" of the Principal Accounting Policies on pages 164 to 166.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Share of net assets, unlisted | **13,540** | 8,651 |
| Loans due from joint venture companies less provisions | | |
| – Interest-free | **13,839** | 12,997 |
| – Interest-bearing at 1.7% to 7.5% (2017: 1.7% to 7.5%) | **1,412** | 1,378 |
| | **15,251** | 14,375 |

The loans due from joint venture companies are unsecured and have no fixed terms of repayment. These loans are considered to have low credit risk. The financial positions, and performances of these companies are regularly monitored and reviewed by management of the Group.

## 19. Joint Venture Companies *(continued)*

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Non-current assets | **39,167** | 34,759 |
| Current assets | **3,372** | 2,392 |
| Current liabilities | **(2,627)** | (4,643) |
| Non-current liabilities | **(26,372)** | (23,857) |
| **Net assets** | **13,540** | 8,651 |
| Revenue | **2,839** | 2,013 |
| Change in fair value of investment properties | **1,344** | 1,383 |
| Expenses | **(2,003)** | (1,531) |
| Profit before taxation | **2,180** | 1,865 |
| Taxation | **(355)** | (219) |
| **Profit for the year** | **1,825** | 1,646 |
| Other comprehensive (losses)/gains for the year | **(632)** | 645 |
| **Total comprehensive income for the year** | **1,193** | 2,291 |

Capital commitments and contingencies in respect of joint venture companies are disclosed in notes 40 and 41.

The principal joint venture companies of Swire Properties Limited are shown on pages 167 to 169. There are no joint venture companies that are considered individually material to the Group.

## 20. Associated Companies

**Accounting Policy**

Associated companies are those companies over which the Group has significant influence, but not control or joint control, over their management including participation in the financial and operating policy decisions, generally accompanying a shareholding of between 20% and 50% of the voting rights. The use of the equity method by the Group to account for the investment in associated companies is disclosed in the "Basis of Consolidation" of the Principal Accounting Policies on pages 164 to 166.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Share of net assets, unlisted | **413** | 374 |

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Non-current assets | **564** | 552 |
| Current assets | **258** | 267 |
| Current liabilities | **(126)** | (110) |
| Non-current liabilities | **(283)** | (335) |
| **Net assets** | **413** | 374 |
| Revenue | **624** | 598 |
| **Profit and total comprehensive income for the year** | **153** | 146 |

The principal associated companies of Swire Properties Limited are shown on pages 167 to 169. There are no associated companies that are considered individually material to the Group.

## 21. Financial Instruments by Category

**Accounting Policy**

**Financial Assets**

*(a) Classification*

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

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

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

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

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

*(b) Recognition and derecognition*

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

*(c) Measurement*

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried 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. Impairment losses are presented as separate line item in the statement of profit or loss.

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

## 21. Financial Instruments by Category *(continued)*

**Accounting Policy *(continued)***

Financial Assets *(continued)*

*(c) Measurement (continued)*

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

– Equity instruments

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

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

*(d) Impairment*

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

For trade and other receivables and contract assets, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

*(e) Significant increases in credit risk*

In assessing whether the credit risk of a financial asset has increased significantly since initial recognition, the Group considers that a default event occurs when the borrower is unlikely to pay its credit obligations to the Group in full, without recourse to actions such as realising security. The Group considers information that is reasonable and supportable, including historical experience and forward looking information that is available.

*(f) Write-off policy*

The gross carrying amount of a financial asset is written off to the extent that there is no realistic prospect of recovery.

*(g) Accounting policies applied until 31st December 2017*

– Classification

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

(i) At fair value through profit or loss

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

## 21. Financial Instruments by Category *(continued)*

**Accounting Policy *(continued)***

Financial Assets *(continued)*

*(g) Accounting policies applied until 31st December 2017 (continued)*

(ii) Derivatives used for hedging

Derivative instruments were classified within this category if they qualified for hedge accounting.

(iii) Available-for-sale

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

(iv) Loans and receivables

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

– Recognition and measurement:

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

Derivatives were subsequently carried at fair value.

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

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

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

Financial liabilities

Non-derivative financial liabilities with fixed or determinable payments and fixed maturities are measured at amortised cost. They are included in non-current liabilities, except for maturities less than 12 months after the period-end date where these are classified as current liabilities.

Put options in respect of non-controlling interests in subsidiary companies included in trade and other payables are measured at fair value through profit or loss.

## 21. Financial Instruments by Category *(continued)*

| | At fair value through profit or loss HK$M | Derivatives used for hedging HK$M | Loans and receivables HK$M | Amortised cost HK$M | Total carrying amount HK$M | Fair value HK$M |
|---|---|---|---|---|---|---|
| **Assets as per consolidated statement of financial position** | | | | | | |
| **At 31st December 2018** | | | | | | |
| **Amount due from immediate holding company** | **–** | **–** | **–** | **15** | **15** | **15** |
| **Trade and other receivables excluding prepayments (note 24)** | **–** | **–** | **–** | **2,162** | **2,162** | **2,162** |
| **Short-term deposits maturing after three months** | **–** | **–** | **–** | **1** | **1** | **1** |
| **Cash and cash equivalents (note 26)** | **–** | **–** | **–** | **2,093** | **2,093** | **2,093** |
| **Derivative financial assets (note 30)** | **–** | **64** | **–** | **–** | **64** | **64** |
| **Other financial assets at amortised cost (note 32)** | **–** | **–** | **–** | **37** | **37** | **37** |
| **Total** | **–** | **64** | **–** | **4,308** | **4,372** | **4,372** |
| At 31st December 2017 | | | | | | |
| Amount due from immediate holding company | – | – | 5 | – | 5 | 5 |
| Trade and other receivables excluding prepayments (note 24) | – | – | 2,745 | – | 2,745 | 2,745 |
| Cash and cash equivalents (note 26) | – | – | 1,708 | – | 1,708 | 1,708 |
| Derivative financial assets (note 30) | – | 51 | – | – | 51 | 51 |
| Total | – | 51 | 4,458 | – | 4,509 | 4,509 |
| **Liabilities as per consolidated statement of financial position** | | | | | | |
| **At 31st December 2018** | | | | | | |
| **Trade and other payables excluding non-financial liabilities (note 27)** | **601** | **–** | **–** | **10,145** | **10,746** | **10,746** |
| **Bank overdrafts and short-term loans (note 28)** | **–** | **–** | **–** | **234** | **234** | **234** |
| **Long-term loans and bonds (note 28)** | **–** | **–** | **–** | **31,765** | **31,765** | **31,596** |
| **Derivative financial liabilities (note 30)** | **–** | **70** | **–** | **–** | **70** | **70** |
| **Total** | **601** | **70** | **–** | **42,144** | **42,815** | **42,646** |
| At 31st December 2017 | | | | | | |
| Trade and other payables excluding non-financial liabilities (note 27) | 716 | – | – | 7,804 | 8,520 | 8,520 |
| Bank overdrafts and short-term loans (note 28) | – | – | – | 499 | 499 | 499 |
| Long-term loans and bonds (note 28) | – | – | – | 31,380 | 31,380 | 31,731 |
| Loans due to a fellow subsidiary company (note 29) | – | – | – | 5,176 | 5,176 | 5,176 |
| Derivative financial liabilities (note 30) | – | 34 | – | – | 34 | 34 |
| Total | 716 | 34 | – | 44,859 | 45,609 | 45,960 |

## 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, 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 markers 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:

| | Level 2 HK$M | Level 3 HK$M | Total carrying amount HK$M |
|---|---|---|---|
| **Assets as per consolidated statement of financial position** | | | |
| **At 31st December 2018** | | | |
| **Derivatives used for hedging (note 30)** | **64** | **–** | **64** |
| At 31st December 2017 | | | |
| Derivatives used for hedging (note 30) | 51 | – | 51 |
| **Liabilities as per consolidated statement of financial position** | | | |
| **At 31st December 2018** | | | |
| **Derivatives used for hedging (note 30)** | **70** | **–** | **70** |
| **Put option in respect of a non-controlling interest (note 27)** | **–** | **601** | **601** |
| | **70** | **601** | **671** |
| At 31st December 2017 | | | |
| Derivatives used for hedging (note 30) | 34 | – | 34 |
| Put option in respect of a non-controlling interest (note 27) | – | 716 | 716 |
| | 34 | 716 | 750 |

Notes:
The levels in the hierarchy represent the following:
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 fair value of derivatives used for hedging in Level 2 has been determined based on quotes from market makers or alternative market participants supported by observable inputs. The most significant observable inputs are market interest rates, exchange rates and yields.

There were no transfers of financial instruments between Level 2 and Level 3 fair value hierarchy classifications and there were no transfers into or out of Level 3 fair value hierarchy classifications. The Group's policy is to recognise any transfer into and out of fair value hierarchy levels at the date of the event or change in circumstances that caused the transfer.

There has been no change in the valuation techniques for Level 2 and Level 3 fair value hierarchy classifications.

The Group's finance department performs the valuations of financial instruments required for reporting purposes, including Level 3 fair values. The valuations are reviewed and approved by the Finance Director.

The following table presents the changes in Level 3 financial instruments for the year ended 31st December 2018:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Put options in respect of non-controlling interests in subsidiary companies | | |
| At 1st January | **716** | 670 |
| Translation differences | **1** | 5 |
| Addition during the year | **50** | 35 |
| Change in percentage of interest | **(150)** | – |
| Change in fair value recognised as net finance charges | **(16)** | 6 |
| At 31st December | **601** | 716 |
| Total (gains)/losses for the year included in profit or loss in respect of financial instruments held at 31st December | **(16)** | 6 |

The fair value of the put option in respect of a non-controlling interest in a subsidiary company and unlisted investments classified within Level 3 are determined using discounted cash flow valuations. The significant unobservable inputs used are expected future growth rates and discount rates.

The fair value estimate of the put option in respect of a non-controlling interest in the retail portion of Brickell City Centre is classified within Level 3 because it is based on a number of unobservable inputs, including the expected fair value of the investment property at the expected exercise date, the expected exercise date itself and the discount rate used. The expected exercise date is in 2020 and the discount rate used is 6.3%.

The investment property's fair value at the expected exercise date is, itself, subject to a number of unobservable inputs which are similar to the inputs for the Group's other already completed investment properties, including the expected market rent and the expected capitalisation rate. If the investment property's expected fair value at the exercise date is higher, the fair value of the put option would also be higher at 31st December 2018. If the expected exercise date 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 date or a lower discount rate.

## 22. Properties under Development and for Sale

**Accounting Policy**

Properties under development and for sale comprise freehold and leasehold land at cost, construction costs and interest costs capitalised, less provisions for possible losses. Properties under development are active construction projects which are expected to be sold within the Group's normal operating cycle and are classified as current assets. Properties for sale are available for immediate sale and are classified as current assets.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Properties for sale | | |
| Properties under development | | |
| – development costs | **30** | 17 |
| – leasehold land | **338** | 338 |
| Completed properties | | |
| – development costs | **1,008** | 1,658 |
| – freehold land | **92** | 120 |
| – leasehold land | **1** | 167 |
| | **1,469** | 2,300 |

Refer to the table with heading "Audited Financial Information" on page 56 for details of the Group's capitalised interest rates and the amount of interest capitalised.

## 23. Stocks

**Accounting Policy**

Stocks 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 comprise direct material and labour costs and an appropriate proportion of production overhead expenses less provisions for foreseeable losses.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Stores and spare parts | **63** | 66 |

## 24. Trade and Other Receivables and Contract Assets

**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 impairment. Trade and other receivables and contract assets in the statement of financial position are stated net of such provisions.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Trade debtors | **216** | 370 |
| Prepayments and accrued income | **240** | 254 |
| Other receivables | **1,945** | 2,372 |
| | **2,401** | 2,996 |
| Contract assets (previously accounted as work in progress) | **16** | 14 |

The analysis of the age of trade debtors at year-end (based on the invoice date) is as follows:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Under three months | **209** | 368 |
| Between three and six months | **6** | 2 |
| Over six months | **1** | – |
| | **216** | 370 |

Other receivables include receivables for rent free periods of HK$992 million (2017: HK$915 million), which are amortised over lease terms. Their carrying values approximate their fair values as the impact of discounting is not significant.

There is no concentration of credit risk with respect to trade and other receivables, as the Group has a large number of customers.

The Group does not grant any credit terms to its customers, except to corporate customers in the hotel division where commercial trade credit terms are given. The Group also holds non-interest bearing rental deposits as security against trade debtors. At 31st December 2018, trade debtors of HK$165 million (2017: HK$214 million) were past due but not impaired. The majority of the amount past due but not impaired is under three months. These relate to a number of independent customers for whom there is no recent history of default. The other classes within trade and other receivables do not contain impaired assets.

The maximum exposure to credit risk at 31st December 2018 and 31st December 2017 is the carrying value of trade debtors and other receivables disclosed above. The value of rental deposits from tenants at 31st December 2018 was HK$2,751 million (2017: HK$2,616 million).

## 25. Amount Due from Immediate Holding Company – Swire Pacific Limited

The amount due from immediate holding company is unsecured, interest free and repayable within one year.

## 26. Cash and Cash Equivalents

**Accounting Policy**

In the consolidated statement of cash flows, 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. In the consolidated statement of financial position, cash and cash equivalents exclude bank overdrafts which are shown within borrowings in current liabilities.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Short-term deposits maturing within three months | **413** | 122 |
| Bank balances | **1,680** | 1,586 |
| | **2,093** | 1,708 |

The effective interest rates on short-term deposits of the Group ranged from 1.6% to 2.7% (2017: 0.6% to 1.8%); these deposits have maturities from 2 to 45 days (2017: 2 to 78 days).

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

## 27. Trade and Other Payables and Contract Liabilities

**Accounting Policy**

Trade and other payables (except put options in respect of non-controlling interests in subsidiary companies) are and contract liabilities recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Put options in respect of non-controlling interests in subsidiary companies are measured at the fair value of the expected redemption amounts, and are designated at fair value through profit or loss.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Trade and other payables – current: | | |
| Trade creditors | **419** | 542 |
| Rental deposits from tenants | **2,751** | 2,616 |
| Deposits received on the sale of subsidiary companies | **3,238** | 1,306 |
| Other current payables | | |
| Accrued capital expenditure | **1,211** | 539 |
| Deposits received on the sale of properties | **–** | 25 |
| Amounts due to intermediate holding company | **109** | 90 |
| Amounts due to a fellow subsidiary company | **–** | 51 |
| Amounts due to an associated company | **15** | 31 |
| Interest-bearing advances from fellow subsidiary companies (2017: 3.3%) | **–** | 72 |
| Interest-bearing advances from joint venture and related companies (2017: 2.8%) | **–** | 240 |
| Advances from a non-controlling interest | **35** | 34 |
| Others | **2,376** | 2,274 |
| | **3,746** | 3,356 |
| | **10,154** | 7,820 |
| Contract Liabilities | **7** | – |
| Other payables – non-current: | | |
| Put option in respect of a non-controlling interest | **601** | 716 |

In relation to other current payables, apart from certain amounts due to fellow subsidiary companies, and joint venture and related companies, which are interest-bearing as specified above, the balances are interest free, unsecured and have no fixed term of repayment.

The analysis of the age of trade creditors at year-end is as follows:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Under three months | **419** | 542 |

## 28. 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. Transaction costs are incremental costs that are directly attributable to the initiation of the borrowings, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. 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 headings "Audited Financial Information" on pages 52 to 55 for details of the Group's borrowings.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Bank overdrafts and short-term loans – unsecured | **234** | 499 |
| Long-term bank loans – unsecured: | | |
| Repayable within one year | **696** | 2,662 |
| Repayable between one and two years | **3,040** | 1,933 |
| Repayable between two and five years | **6,507** | 9,203 |
| | **10,243** | 13,798 |
| Other borrowings – unsecured: | | |
| Repayable within one year | **300** | – |
| Repayable between one and two years | **3,911** | 299 |
| Repayable between two and five years | **4,408** | 8,094 |
| Repayable after five years | **12,903** | 9,189 |
| | **21,522** | 17,582 |
| Amount due within one year included under current liabilities | **(996)** | (2,662) |
| | **30,769** | 28,718 |

(a) The effective interest rates per annum (before interest rate and cross-currency swaps) at 31st December were as follows:

| | **2018** | | | | 2017 | | | |
|---|---|---|---|---|---|---|---|---|
| | **HK$ %** | **US$ %** | **RMB %** | **SGD %** | HK$ % | US$ % | RMB % | SGD % |
| Uncommitted bank loans and overdrafts | **–** | **–** | **4.4** | **2.4** | – | – | 4.1-4.4 | 1.8 |
| Long-term loans and bonds | **1.8-3.6** | **2.8-4.4** | **4.3-4.4** | **2.4** | 1.3-3.6 | 2.0-4.4 | 4.3-4.4 | 1.8-2.0 |

Bank loans and other borrowings are repayable on various dates up to 2028 (2017: up to 2027).

## 28. Borrowings *(continued)*

(b) The carrying amounts of these long-term bank loans and other borrowings (before cross-currency swaps) are denominated in the following currencies:

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Hong Kong dollars | **9,209** | 11,772 |
| United States dollars | **21,859** | 17,905 |
| Renminbi | **301** | 1,406 |
| Singapore dollars | **396** | 297 |
| | **31,765** | 31,380 |

## 29. Loans Due to a Fellow Subsidiary Company – Swire Finance Limited

The loans due to a fellow subsidiary company were unsecured, interest bearing and were repaid in 2018 (2017: 5.0% per annum).

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Repayable within one year | **–** | 5,176 |
| Repayable between one and two years | **–** | – |
| | **–** | 5,176 |
| Loans due within one year included under current liabilities | **–** | (5,176) |
| | **–** | – |

## 30. Derivative Financial Instruments

**Accounting Policy**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to 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 this is the case, the nature of the item being hedged.

The Group documents at the inception of the transactions the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting cash flows of hedged items.

All of the Group's derivatives relate to cash flow hedges. The effective portions of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in OCI. The gains or losses relating to ineffective portions are recognised immediately in the statement of profit or loss.

When cross-currency swap contracts are used to hedge future cash flows, the Group designates only the change in fair value of the swap contract after exclusion of the foreign currency basis spread component as the hedging instrument. Gains or losses relating to the effective portion of the swap contract after exclusion of foreign currency basis spread component are recognised in the cash flow hedge reserve within equity. The change in fair value of the foreign currency basis spread of the swap contract, to the extent it relates to the hedged item, is recognised separately as a cost of hedging within OCI in equity. The basis spreads priced into the terms of the hedging instrument, to the extent that it relates to the hedged item, are expensed on a systematic and rational basis over the period of the hedging relationship. 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. 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 costs at the same time as the interest expense on the hedged borrowings.

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.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the statement of profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statement of profit or loss.

| | **2018** | | 2017 | |
|---|---|---|---|---|
| | **Assets HK$M** | **Liabilities HK$M** | Assets HK$M | Liabilities HK$M |
| Interest rate and cross-currency swaps – cash flow hedges – due after one year | **64** | **70** | 51 | 34 |

The interest rate swaps hedge long-term interest rate exposure. The cross-currency swaps hedge the foreign currency risk relating to US dollar note issues. Gains and losses recognised in other comprehensive income on interest rate and cross-currency swaps at 31st December 2018 are expected to affect the statement of profit or loss in the years to redemption of the notes and expiry of loans (up to and including 2028).

## 30. Derivative Financial Instruments *(continued)*

The notional principal amounts of the outstanding derivative financial instruments are as follows:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Cross-currency swaps | **15,667** | 11,724 |
| Interest rate swaps | **2,507** | 1,563 |

In most of the cases, the hedging instruments have a one-to-one hedge ratio with the hedged terms.

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

## 31. 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 tax relating to investment properties in Hong Kong and the U.S.A. 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.

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| At 1st January | **8,438** | 7,767 |
| Translation differences | **(239)** | 311 |
| Charged to statement of profit or loss (note 11) | **426** | 407 |
| Credited to other comprehensive income | **(34)** | (47) |
| Transfers to assets classified as held for sale | **5** | – |
| Disposal of subsidiary companies | **(3)** | – |
| At 31st December | **8,593** | 8,438 |

## 31. Deferred Taxation *(continued)*

Deferred tax assets are recognised in respect of tax losses carried forward to the extent that realisation of the related tax benefits through future taxable profits is probable. These were recognised as these entities are expected to generate sufficient taxable profits in the future. The Group has unrecognised tax losses of HK$1,975 million (2017: HK$2,303 million) to carry forward against future taxable income. These amounts are analysed as follows:

| | Unrecognised tax losses | |
|---|---|---|
| | **2018 HK$M** | 2017 HK$M |
| No expiry date | **1,020** | 1,291 |
| Expiring within 1 year | **31** | 160 |
| Expiring between 1 – 5 years | **223** | 151 |
| Expiring between 5 – 10 years | **–** | – |
| Expiring between 10 – 20 years | **701** | 701 |
| | **1,975** | 2,303 |

The movement in deferred tax assets and liabilities (prior to offsetting balances within the same taxation jurisdiction) during the year was as follows:

***Deferred tax liabilities***

| | Accelerated tax depreciation | | Valuation of Investment Properties | | Others | | Total | |
|---|---|---|---|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| At 1st January | **3,733** | 3,537 | **4,535** | 4,033 | **487** | 515 | **8,755** | 8,085 |
| Translation differences | **(33)** | 33 | **(205)** | 278 | **(2)** | 6 | **(240)** | 317 |
| Charged/(Credited) to statement of profit or loss | **165** | 163 | **501** | 224 | **(31)** | 1 | **635** | 388 |
| Credited to other comprehensive income | **–** | – | **–** | – | **–** | (35) | **–** | (35) |
| Transfers to assets classified as held for sale | **5** | – | **–** | – | **–** | – | **5** | – |
| Disposal of subsidiary companies | **(3)** | – | **–** | – | **–** | – | **(3)** | – |
| At 31st December | **3,867** | 3,733 | **4,831** | 4,535 | **454** | 487 | **9,152** | 8,755 |

## 31. Deferred Taxation *(continued)*

***Deferred tax assets***

| | Tax losses | | Others | | Total | |
|---|---|---|---|---|---|---|
| | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| At 1st January | **156** | 160 | **161** | 158 | **317** | 318 |
| Exchange difference | **(1)** | 4 | **–** | 2 | **(1)** | 6 |
| Credited/(Charged) to statement of profit or loss | **137** | (8) | **72** | (11) | **209** | (19) |
| Credited to other comprehensive income | **–** | – | **34** | 12 | **34** | 12 |
| At 31st December | **292** | 156 | **267** | 161 | **559** | 317 |

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 in the statement of financial position:

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Deferred tax assets: | | |
| – to be recovered after more than 12 months | **(123)** | (85) |
| – to be recovered within 12 months | **–** | – |
| | **(123)** | (85) |
| Deferred tax liabilities: | | |
| – to be settled after more than 12 months | **8,716** | 8,523 |
| – to be settled within 12 months | **–** | – |
| | **8,716** | 8,523 |
| | **8,593** | 8,438 |

## 32. Other Financial Assets at Amortised Cost

Financial assets at amortised cost include the following debt investment:

| | 2018 | | | 2017 | | |
|---|---|---|---|---|---|---|
| | **Current HK$M** | **Non-current HK$M** | **Total HK$M** | Current HK$M | Non-current HK$M | Total HK$M |
| Other receivables | **–** | **37** | **37** | – | – | – |
| Less: loss allowance for debt investments at amortised cost | **–** | **–** | **–** | – | – | – |
| At 31st December | **–** | **37** | **37** | – | – | – |

Other receivables consist of mortgage financing offered to certain buyers of trading properties in the U.S.A. Mortgages are offered at up to a 80% loan-to-value ratio and at a fixed interest rate of 5.5%. Loan repayments for the first four years are at a rate that would repay the loan over 30 years, but there is a balloon payment in the fifth year upon maturity. The non-current other receivables are due and payable within 2-4 years from the end of the reporting period.

The Group holds the other receivables to collect contractual cash flows and its contractual terms give rise to cash flows on specified dates which are solely payments of principal and interest on the principal amounts outstanding.

The Group applies expected credit loss model to measure the impairment of other financial assets at amortised cost.

## 33. Other Current Assets

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

## 34. Assets Classified as Held for Sale

**Accounting Policy**

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

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

Assets held for sale also include several wholly owned subsidiaries holding investment properties in respect of which a sale and purchase agreement was entered into on 28th August 2018. The fair value of these investment properties is measured in accordance with the policies, processes and techniques described in note 16. The total consideration on the sale of HK$2,037 million resulted in a profit on sale of subsidiaries being recorded on 18th January 2019 when the transaction was completed.

## 35. Retirement Benefits

The Group operates a number of defined benefit and defined contribution retirement benefit schemes for its employees, the assets of which are held in separate trustee-administered funds.

A defined benefit scheme is a retirement plan that defines the benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. The Group has an obligation to provide participating employees with these benefits.

A defined contribution scheme is a retirement plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

**Accounting Policy**

For defined benefit schemes, retirement benefit costs are assessed using the projected unit credit method. Under this method, the cost of providing retirement benefits is charged to the statement of profit or loss so as to spread the regular cost over the service lives of employees.

The asset or liability recognised on the statement of financial position is the present value of the cost of providing these benefits (the defined benefit obligation) less the fair value of the plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries and is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds. The plan assets are valued on a bid price basis.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions on obligation 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 plan 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 present value of defined benefit assets and liabilities depend on a number of factors that are determined using a number of actuarial assumptions. The assumptions used in determining the net cost (income) for retirement benefits assets and liabilities include the discount rate. Any changes in these assumptions will have an impact on the carrying amount of retirement benefit assets and liabilities. The details of the discount rate and other assumptions used, including applicable sensitivities, are included in this note.

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

## 35. Retirement Benefits *(continued)*

Most new employees 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 by way of voluntary contributions. Employees engaged outside Hong Kong are covered by appropriate local arrangements.

Contributions by the Group 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 provisions of Hong Kong's Occupational Retirement Schemes Ordinance. The latest actuarial valuations indicate that the funding level for the year was 111% (2017: 98%) of the accrued liabilities on an ongoing basis. The Group expects to make contributions of HK$74 million to its defined benefit schemes in 2019.

Total retirement benefit costs recognised in the consolidated statement of profit or loss for the year ended 31st December 2018 amounted to HK$111 million (2017: HK$97 million), including HK$20 million (2017: HK$18 million) in respect of defined contribution schemes.

The defined benefit scheme is valued using the projected unit credit method in accordance with HKAS 19. For the year ended 31st December 2018, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2018. For the year ended 2017, disclosures are based on valuations prepared by Mercer (Hong Kong) Limited at 31st December 2015, which was updated to reflect the position at 31st December 2017 by Cannon Trustees Limited, the main administration manager of the Group's defined benefit schemes.

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Present value of funded obligations | **1,101** | 1,086 |
| Fair value of plan assets | **(891)** | (941) |
| Net retirement benefit liabilities | **210** | 145 |
| Represented by: | | |
| Retirement benefit liabilities | **210** | 145 |

## 35. Retirement Benefits *(continued)*

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| At 1st January | **1,086** | 907 |
| Current service cost | **89** | 76 |
| Interest cost | **30** | 33 |
| Remeasurements from changes in: | | |
| – demographic assumptions | **–** | – |
| – financial assumptions | **(48)** | 98 |
| Experience losses | **4** | 27 |
| Transfer | **9** | (2) |
| Benefits paid | **(69)** | (53) |
| At 31st December | **1,101** | 1,086 |

The weighted average duration of the defined benefit obligations is 10.68 years (2017: 11.61 years).

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| At 1st January | **941** | 769 |
| Interest income | **28** | 30 |
| Remeasurements of plan assets | **(88)** | 119 |
| Contributions by employers | **70** | 78 |
| Transfer | **9** | (2) |
| Benefits paid | **(69)** | (53) |
| At 31st December | **891** | 941 |

There were no plan amendments, curtailments and settlements during the year.

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Current service cost | **89** | 76 |
| Net interest cost | **2** | 3 |
| | **91** | 79 |

The above net expenses were included in cost of sales and administrative expenses in the consolidated statement of profit or loss.

The actual return on defined benefit plan assets was a loss of HK$60 million (2017: HK$149 million gain).

## 35. Retirement Benefits *(continued)*

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

The make-up of the Trust is the result of the asset allocation of each plan. The asset allocation of each plan targets a mix of equities and bonds.

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:

| | Defined benefit plans | |
|---|---|---|
| | **2018 HK$M** | 2017 HK$M |
| Equities | | |
| Asia Pacific | **91** | 175 |
| Europe | **80** | 91 |
| North America | **130** | 174 |
| Emerging markets | **223** | 179 |
| Bonds | | |
| Global | **305** | 305 |
| Emerging markets | **18** | 16 |
| Cash | **44** | 1 |
| | **891** | 941 |

At 31st December 2018, the prices of 96% of equities and 39% of bonds were quoted on active markets (2017: 96% and 54% respectively). The remainder of the prices were not quoted on active markets.

The most significant risk facing the defined benefit schemes of the Group is market risk. This risk embodies the potential for losses and gains and includes price risk, interest rate risk and currency risk as well as factors specific to an individual investment or its issuer or risk specific to a certain market. Market risk is managed principally through diversification of investments by the appointed investment managers. Investment managers enter into agreements that stipulate the performance objective of the investments, which is referenced to a recognised benchmark. The investment committee monitors the overall market risk position on a quarterly basis.

## 35. Retirement Benefits *(continued)*

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

| | 2018 | 2017 |
|---|---|---|
| Discount rate | **3.34%** | 2.84% |
| Expected rate of future salary increases | **4.50% p.a. for 2020 to 2021; 4.00% p.a. thereafter** | 4.00% |

The sensitivity of the defined benefit obligations to changes in actuarial assumptions is:

| | **2018 Increase/(Decrease) in defined benefit obligation** | | | 2017 Increase/(Decrease) in defined benefit obligation | | |
|---|---|---|---|---|---|---|
| | **Change in assumption** | **Increase in assumption HK$M** | **Decrease in assumption HK$M** | Change in assumption | Increase in assumption HK$M | Decrease in assumption HK$M |
| Discount rate | **0.5%** | **(55)** | **59** | 0.5% | (62) | 67 |
| Expected rate of future salary increases | **0.5%** | **58** | **(54)** | 0.5% | 66 | (61) |

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.

## 36. Share Capital

| | Ordinary shares | HK$M |
|---|---|---|
| ***Issued and fully paid:*** | | |
| **At 1st January 2018 and 31st December 2018** | **5,850,000,000** | **10,449** |
| At 1st January 2017 and 31st December 2017 | 5,850,000,000 | 10,449 |

There was no purchase, sale or redemption by the Company of its shares during the years ended 31st December 2018 and 31st December 2017.

## 37. Reserves

| | Revenue reserve HK$M | Merger reserve HK$M | Property revaluation reserve HK$M | Cash flow hedge reserve HK$M | Translation reserve HK$M | Total HK$M |
|---|---|---|---|---|---|---|
| At 1st January 2018 | 245,002 | (1,108) | 1,812 | (62) | 1,288 | 246,932 |
| Profit for the year | 28,666 | – | – | – | – | 28,666 |
| Other comprehensive income | | | | | | |
| Revaluation of properties previously occupied by the Group | | | | | | |
| – gains recognised during the year | – | – | 11 | – | – | 11 |
| Defined benefit plans | | | | | | |
| – remeasurement losses recognised during the year | (44) | – | – | – | – | (44) |
| – deferred tax credit | 8 | – | – | – | – | 8 |
| Cash flow hedges | | | | | | |
| – losses recognised during the year | – | – | – | (137) | – | (137) |
| – reclassification to profit or loss | – | – | – | (21) | – | (21) |
| – deferred tax credit | – | – | – | 26 | – | 26 |
| Share of other comprehensive income of joint venture and associated companies | – | – | – | (1) | (631) | (632) |
| Net translation differences on foreign operations | – | – | – | – | (1,361) | (1,361) |
| Total comprehensive income/(losses) for the year | 28,630 | – | 11 | (133) | (1,992) | 26,516 |
| 2017 second interim dividend (note 13) | (3,042) | – | – | – | – | (3,042) |
| 2018 first interim dividend (note 13) | (1,580) | – | – | – | – | (1,580) |
| At 31st December 2018 | 269,010 | (1,108) | 1,823 | (195) | (704) | 268,826 |

## 37. Reserves *(continued)*

| | Revenue reserve HK$M | Merger reserve HK$M | Property revaluation reserve HK$M | Cash flow hedge reserve HK$M | Translation reserve HK$M | Total HK$M |
|---|---|---|---|---|---|---|
| At 1st January 2017 | 215,318 | (1,108) | 1,689 | 181 | (1,160) | 214,920 |
| Profit for the year | 33,957 | – | – | – | – | 33,957 |
| Other comprehensive income | | | | | | |
| Revaluation of properties previously occupied by the Group | | | | | | |
| – gains recognised during the year | – | – | 128 | – | – | 128 |
| – deferred tax charge | – | – | (2) | – | – | (2) |
| Defined benefit plans | | | | | | |
| – remeasurement losses recognised during the year | (6) | – | – | – | – | (6) |
| – deferred tax credit | 1 | – | – | – | – | 1 |
| Cash flow hedges | | | | | | |
| – losses recognised during the year | – | – | – | (294) | – | (294) |
| – reclassification to profit or loss | – | – | – | 2 | – | 2 |
| – deferred tax credit | – | – | – | 48 | – | 48 |
| Share of other comprehensive income of joint venture and associated companies | – | – | – | 1 | 644 | 645 |
| Net translation differences on foreign operations | – | – | – | – | 1,804 | 1,804 |
| Total comprehensive income/(losses) for the year | 33,952 | – | 126 | (243) | 2,448 | 36,283 |
| Transfer | 3 | – | (3) | – | – | – |
| 2016 second interim dividend | (2,808) | – | – | – | – | (2,808) |
| 2017 first interim dividend (note 13) | (1,463) | – | – | – | – | (1,463) |
| At 31st December 2017 | 245,002 | (1,108) | 1,812 | (62) | 1,288 | 246,932 |

(a) The Group revenue reserve includes retained revenue reserves from joint venture companies amounting to HK$9,790 million (2017: HK$5,855 million) and retained revenue reserves from associated companies amounting to HK$319 million (2017: HK$279 million).

(b) The Group revenue reserve has not yet had deducted from it the second interim dividend for the year of HK$3,334 million declared after the year end date (2017: HK$3,042 million) (note 13).

(c) The Group adopted merger accounting in accordance with Accounting Guideline 5, Merger Accounting for Common Control Combinations (issued by the HKICPA) to account for the acquisition of all the shares of Swire Properties US Inc and Swire Properties One LLC in January 2010. These companies were wholly-owned subsidiaries of the immediate holding company of Swire Properties Limited.

(d) At 31st December 2018, the Group's cash flow hedge reserve included HK$67 million (net of tax) relating to the currency basis element of the Group's derivatives which is recognised separately as a cost of hedging.

## 38. Company Statement of Financial Position and Reserves

(a) Company Statement of Financial Position

| At 31st December 2018 | Note | 2018 HK$M | 2017 HK$M |
|---|---|---|---|
| **ASSETS AND LIABILITIES** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | | **47** | 50 |
| Intangible assets | | **43** | 40 |
| Subsidiary companies | | **81,262** | 62,726 |
| Loans due from joint venture companies | | **1,598** | 1,718 |
| Associated companies | | **3** | 3 |
| Deferred tax assets | | **23** | 16 |
| | | **82,976** | 64,553 |
| **Current assets** | | | |
| Trade and other receivables | | **201** | 225 |
| Cash and cash equivalents | | **416** | 127 |
| | | **617** | 352 |
| **Current liabilities** | | | |
| Trade and other payables | | **7,251** | 9,235 |
| Taxation payable | | **11** | 11 |
| | | **7,262** | 9,246 |
| **Net current liabilities** | | **(6,645)** | (8,894) |
| **Total assets less current liabilities** | | **76,331** | 55,659 |
| **Non-current liabilities** | | | |
| Retirement benefit liabilities | | **174** | 128 |
| **NET ASSETS** | | **76,157** | 55,531 |
| **EQUITY** | | | |
| **Equity attributable to the Company's shareholders** | | | |
| Share capital | 36 | **10,449** | 10,449 |
| Reserves | 37(b) | **65,708** | 45,082 |
| **TOTAL EQUITY** | | **76,157** | 55,531 |

**Merlin B. Swire**
**May Y. Wu**
Directors

*Hong Kong, 14th March 2019*

## 38. Company Statement of Financial Position and Reserves *(continued)*

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

| | Revenue reserve HK$M |
|---|---|
| **Company** | |
| **At 1st January 2018** | **45,082** |
| **Profit for the year (note 12)** | **25,272** |
| **Other comprehensive income** | |
| **Defined benefit plans** | |
| **– remeasurement losses recognised during the year** | **(29)** |
| **– deferred tax credit** | **5** |
| **Total comprehensive income for the year** | **25,248** |
| **2017 second interim dividend (note 13)** | **(3,042)** |
| **2018 first interim dividend (note 13)** | **(1,580)** |
| **At 31st December 2018** | **65,708** |
| Company | |
| At 1st January 2017 | 41,627 |
| Profit for the year (note 12) | 7,733 |
| Other comprehensive income | |
| Defined benefit plans | |
| – remeasurement losses recognised during the year | (9) |
| – deferred tax credit | 2 |
| Total comprehensive income for the year | 7,726 |
| 2016 second interim dividend | (2,808) |
| 2017 first interim dividend (note 13) | (1,463) |
| At 31st December 2017 | 45,082 |

(i) Distributable reserves of the Company at 31st December 2018 amounted to HK$65,708 million (2017: HK$45,082 million).

(ii) The Company revenue reserve has not yet deducted the second interim dividend for the year of HK$3,334 million declared after the year end date (2017: HK$3,042 million) (note 13).

## 39. Non-controlling Interests

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| At 1st January | **1,997** | 1,856 |
| Share of profits less losses for the year | **55** | 58 |
| Share of translation differences on foreign operations | **(20)** | 35 |
| Share of total comprehensive income | **35** | 93 |
| Dividends paid and payable | **(24)** | (193) |
| Capital contribution from a non-controlling interest accrued | **8** | 241 |
| At 31st December | **2,016** | 1,997 |

## 40. Capital Commitments

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Outstanding capital commitments at the year-end in respect of: | | |
| Property, plant and equipment | | |
| Contracted for | **–** | – |
| Authorised by Directors but not contracted for | **93** | 5 |
| Investment properties | | |
| Contracted for | **1,192** | 3,961 |
| Authorised by Directors but not contracted for | **14,586** | 8,807 |
| | **15,871** | 12,773 |
| The Group's share of capital commitments of joint venture companies at the year-end* | | |
| Contracted for | **1,388** | 776 |
| Authorised by Directors but not contracted for | **363** | 651 |
| | **1,751** | 1,427 |

* of which the Group is committed to funding HK$464 million (2017: HK$341 million).

At 31st December 2018, the Group had unprovided contractual obligations for future repairs and maintenance on investment properties of HK$219 million (2017: HK$190 million).

## 41. Provisions and Contingencies

**Accounting Policy**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Contingent liabilities are possible obligations that arise from past events and the existence of which will only be confirmed by the occurrence or non-occurrence of one or more future events not wholly within the control of the Group. Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of an outflow of economic benefits is remote.

Financial guarantees are initially recognised as a financial liability in the financial statements at fair value on the date the guarantee was given. Subsequent to initial recognition, the liabilities under such guarantees are measured at the higher of the 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.

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Guarantees provided in respect of bank loans and other liabilities of joint venture companies | **1,771** | 1,483 |
| Bank guarantees given in lieu of utility deposits and others | **174** | 185 |
| | **1,945** | 1,668 |

The directors have assessed the fair value of the above guarantees and do not consider them to be material. They have therefore not been recognised in the Group's statement of financial position.

## 42. Operating Lease Arrangements

**Accounting Policy**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Receipts or payments made under operating leases (net of any incentives paid to lessees or received from the lessors) are recognised as income or expense in the statement of profit or loss on a straight-line basis over the period of the lease.

The Group acts as both lessor and lessee under operating leases. Details of the Group's commitments under non-cancellable operating leases are set out as follows:

**(a) Lessor**

The Group leases out investment properties under operating leases. The leases for investment properties typically run for periods of three to six years. The turnover-related rental income received during the year amounted to HK$526 million (2017: HK$389 million).

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Investment properties: | | |
| Not later than one year | **9,308** | 8,633 |
| Later than one year but not later than five years | **22,609** | 18,503 |
| Later than five years | **8,342** | 5,987 |
| | **40,259** | 33,123 |

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Investment properties at fair value | **249,666** | 231,295 |

## 42. Operating Lease Arrangements *(continued)*

**(b) Lessee**

The Group leases land and buildings, and equipment under operating leases. These leases typically run for an initial period of one to fifteen years with some leases having an option to renew them after that date, at which time all terms are renegotiated.

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

| | **2018 HK$M** | 2017 HK$M |
|---|---|---|
| Land and buildings: | | |
| Not later than one year | **68** | 75 |
| Later than one year but not later than five years | **191** | 238 |
| Later than five years | **437** | 507 |
| | **696** | 820 |
| Equipment: | | |
| Not later than one year | **3** | 4 |
| Later than one year but not later than five years | **1** | 4 |
| | **4** | 8 |

## 43. Related Party Transactions

**Accounting Policy**

Related parties are individuals and companies, including subsidiary, fellow subsidiary, joint venture and associated companies and key management (including close members of their families), where the individual, company or Group 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 is an agreement for services ("Services Agreement"), in respect of which John Swire & Sons (H.K.) Limited ("JSSHK"), an intermediate holding company, provides services to the Company and its subsidiary companies and under which costs are reimbursed and fees payable. In return for these services, JSSHK receives annual fees calculated as 2.5% of the Group's relevant consolidated profits before taxation and non-controlling interests after certain adjustments. The current Services Agreement commenced on 1st January 2017 for a period of three years, expiring on 31st December 2019. For the year ended 31st December 2018, service fees payable amounted to HK$206 million (2017: HK$227 million). Expenses of HK$69 million (2017: HK$59 million) were reimbursed at cost; in addition, HK$57 million (2017: HK$63 million) in respect of shared administrative services was reimbursed.

## 43. Related Party Transactions *(continued)*

Under a tenancy framework agreement (the "Tenancy Framework Agreement") between JSSHK, Swire Pacific Limited and the Company dated 14th August 2014, members of the Group enter into tenancy agreements with members of the JSSHK group and members of the Swire Pacific group from time to time on normal commercial terms based on prevailing market rentals. The last Tenancy Framework Agreement commenced on 1st January 2016 for a period of three years expiring on 31st December 2018. The Tenancy Framework Agreement was renewed on 1st October 2018 for a further term of three years commencing on 1st January 2019. For the year ended 31st December 2018, the aggregate rentals payable to the Group by members of the JSSHK group and members of the Swire Pacific group under the tenancies subject to the Tenancy Framework Agreement amounted to HK$105 million (2017: HK$100 million) and HK$115 million (2017: HK$115 million) respectively.

The above transactions under the Services Agreement and the Tenancy Framework Agreement are continuing connected transactions, in respect of which the Company has complied with the disclosure requirements of Chapter 14A of the Listing Rules.

In addition, the following is a summary of significant transactions between the Group and related parties (including transactions under the 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 | | Fellow subsidiary companies | | Immediate holding company | | Intermediate holding company | | Other related parties | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | *Notes* | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M | **2018 HK$M** | 2017 HK$M |
| Purchases of services | *(a)* | **–** | – | **14** | 17 | **–** | – | **–** | – | **–** | – |
| Rendering of services | *(a)* | **–** | – | **–** | 1 | **–** | – | **2** | 2 | **–** | – |
| Rental revenue | *(b)* | **–** | – | **101** | 102 | **14** | 13 | **105** | 100 | **6** | 6 |
| Revenue from hotels | | **–** | – | **1** | 1 | **–** | – | **2** | 2 | **–** | 1 |
| Interest income | *(c)* | **78** | 69 | **–** | – | **–** | – | **–** | – | **–** | – |
| Interest charges | *(c)* | **–** | – | **95** | 328 | **–** | – | **–** | – | **6** | 6 |

Notes:

(a) Purchases of goods and rendering of services from and to related parties were conducted in the normal course of business at prices and on terms no less favourable to the Group than those charged by/to and contracted with other suppliers/customers of the Group.

(b) The Group has, in the normal course of its business, entered into lease agreements with related parties to lease premises for varying periods up to six years. The leases were entered into on normal commercial terms.

(c) Loans advanced to joint venture and associated companies at 31st December 2018 are disclosed in notes 19 and 20 respectively. Advances from fellow subsidiary, joint venture, associated and related companies are disclosed in note 27. There are a number of loan agreements between the Group and the Swire Pacific group, details of which are disclosed on pages 52 to 59. The loans due to Swire Finance Limited, a fellow subsidiary company, are disclosed in note 29.

The amount due from the immediate holding company at 31st December 2018 is disclosed in note 25. The balance arises in the normal course of business, is non-interest-bearing and repayable within one year. Remuneration of key management, which includes executive and non-executive directors and executive officers, is disclosed in note 9.

# 44. Notes to the Consolidated Statement of Cash Flows

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Operating profit | **29,365** | 34,930 |
| Change in fair value of investment properties | **(19,452)** | (25,463) |
| Depreciation | **324** | 348 |
| Amortisation of initial leasing costs on investment properties | **39** | 51 |
| Amortisation of intangible assets | **31** | 27 |
| Profit on disposal of subsidiary companies | **(1,223)** | (2) |
| Profit on disposal of investment properties | **(53)** | (9) |
| Loss on disposal of property, plant and equipment | **9** | 1 |
| Dividend income from financial assets at fair value through other comprehensive income (2017: available-for-sale assets) | **(4)** | – |
| Other items | **(132)** | 130 |
| **Operating profit before working capital changes** | **8,904** | 10,013 |
| (Increase)/Decrease in amount due from immediate holding company | **(10)** | 4 |
| Decrease in properties under development and for sale | **673** | 3,644 |
| (Increase)/Decrease in stocks | **(4)** | 1 |
| Decrease in trade and other receivables | **452** | 111 |
| Increase in contract assets | **(2)** | (2) |
| Increase/(Decrease) in trade and other payables | **1,578** | (92) |
| Increase in contract liabilities | **7** | – |
| Increase in retirement benefit liabilities | **21** | 1 |
| **Cash generated from operations** | **11,619** | 13,680 |

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

| | 2018 HK$M | 2017 HK$M |
|---|---|---|
| Land and buildings | **35** | 75 |
| Plant and equipment | **86** | 142 |
| Total | **121** | 217 |

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

Refer to the tables with the headings “Audited Financial Information” on page 52 for details of the changes in financing during the year.

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

### (c) Disposal of subsidiary companies

| | 2018 HK$M |
|---|---|
| Net assets disposed: | |
| Property, plant and equipment | 5 |
| Investment properties | 2,001 |
| Other current assets | 6,419 |
| Trade and other receivables | 1 |
| Trade and other payables | (2) |
| Deferred tax liabilities | (3) |
| | 8,421 |
| Gain on disposal | 1,223 |
| | 9,644 |
| Satisfied by: | |
| Cash received (net of transaction costs) | 7,857 |
| Other consideration | 1,787 |
| | 9,644 |

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

## 45. Immediate and Ultimate Holding Company

The immediate holding company is Swire Pacific Limited, a company incorporated and listed in Hong Kong.

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

# Principal Accounting Policies

Apart from the accounting policies presented within the corresponding notes to the financial statements, the other principal accounting policies applied in the preparation of these consolidated financial statements are set out below:

## 1. Basis of Preparation

The consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements include "Audited Financial Information" in the Financing section on pages 51 to 59. The consolidated financial statements have been prepared under the historical cost convention as modified in relation to the revaluation of certain investment properties, put options in respect of non-controlling interests, financial assets at fair value through other comprehensive income, defined benefits and derivative financial instruments, each of which are carried at fair value.

## 2. Basis of Consolidation

The consolidated financial statements incorporate the financial statements of Swire Properties Limited, its subsidiary companies (together referred to as the "Group") and the Group's interests in joint venture and associated companies.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary company represents the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are generally included in the cost of investment. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquired subsidiary either at fair value or at the non-controlling interest's proportionate share of the acquired subsidiary's net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquired subsidiary and the acquisition-date fair value of any previous equity interest in the acquired subsidiary over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the acquired subsidiary, in the case of a bargain purchase, the difference is recognised directly in the statement of profit or loss.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiary companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary company is recorded in equity. Gains or losses on disposals to non-controlling interests where control is not lost are also recorded in equity.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in the statement of profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture company or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to the statement of profit or loss.

Where the Group enters into a contract that contains an obligation (for example a written put option exercisable by the contract counterparty) to acquire shares in a partly-owned subsidiary company from the owner of the non-controlling interest, which is not part of a business combination, the Group records a financial liability in respect of the present value of the redemption amount reclassified from equity. Changes to the value of the financial liability are recognised in the statement of profit or loss within net finance charges.

In the Group's consolidated statement of financial position, its investments in joint venture and associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The excess of the cost of investment in joint venture and associated companies over the fair value of the Group's share of the identifiable net assets acquired at the date of acquisition represents goodwill. The Group's investments in joint venture and associated companies include goodwill identified on acquisitions, net of any accumulated impairment loss.

## 2. Basis of Consolidation *(continued)*

The Group's share of its joint venture and associated companies' post-acquisition profits or losses is recognised in the consolidated statement of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in the consolidated statement of comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses equals or exceeds its interest in the joint venture or associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint venture or associated company.

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 has 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 profit or loss in respect of the amount by which the carrying amount is higher than the higher of the investment's fair value less costs of disposal or value in use. Any reversal of such impairment loss in subsequent periods is credited to profit or loss.

The Group recognises the disposal of an interest in a joint venture company when it ceases to have joint control and the risks and rewards of ownership have passed to the acquirer.

If the ownership interest in an associated company is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Unrealised gains on transactions between the Group and its joint venture and associated companies are eliminated to the extent of the Group's interest in these companies. Unrealised losses on assets transferred between the Group and its joint venture and associated companies are also eliminated unless the transactions provide evidence of impairment of the assets transferred. Accounting policies of joint venture and associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in respect of investments in associated companies are recognised in the consolidated statement of profit or loss.

## 3. Subsidiary Companies

Subsidiary companies 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. Subsidiary companies are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

In the Company's statement of financial position, investments in subsidiary companies are stated at cost less provision for any impairment losses. Income from subsidiary companies is recognised by the Company in the statement of profit or loss on the basis of dividends received and receivable. Long-term loans to subsidiary companies are considered to be quasi-equity in nature where there is no defined repayment terms and no expectation of repayment.

## 4. Joint Venture and Associated Companies

In the Company's statement of financial position, its investments in joint venture and associated companies are stated at cost less provision for any impairment losses. Income from joint venture and associated companies is recognised by the Company in the statement of profit or loss on the basis of dividends received and receivable. Long-term loans to joint venture and associated companies are considered to be quasi-equity in nature where there is no defined repayment terms and no expectation of repayment.

## 5. Foreign Currency Translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and the Group's presentation currency.

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the statement of profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges or qualifying net investment hedges.

When a gain or loss on a non-monetary item is recognised directly in other comprehensive income, any associated translation difference is also recognised directly in other comprehensive income. When a gain or loss on a non-monetary item is recognised in the statement of profit or loss, any associated translation difference is also recognised in the statement of profit or loss.

### (c) Group companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) All resulting exchange differences are recognised in other comprehensive income and accumulated in a separate component in equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

# Principal Subsidiary, Joint Venture and Associated Companies

Showing proportion of capital owned at 31st December 2018

| | Attributable to the Group % | Owned directly % | Owned by subsidiaries % | Issued and fully paid up shares/Registered capital | Principal activities |
|---|---|---|---|---|---|
| *Subsidiary companies:* | | | | | |
| **Incorporated in Hong Kong with limited liability and operating in Hong Kong:** | | | | | |
| Cathay Limited | 100 | 100 | – | 807 shares (HK$8,070) | Property investment |
| Citiluck Development Limited | 100 | – | 100 | 1,000 shares (HK$1,000) | Property investment |
| Cityplaza Holdings Limited | 100 | 100 | – | 100 shares (HK$1,000) | Property investment |
| Coventry Estates Limited | 100 | – | 100 | 4 shares (HK$40) | Property investment |
| Joyful Sincere Limited | 80 | – | 100 | 1 share (HK$1) | Property trading |
| Keen Well Holdings Limited | 80 | – | 100 | 1 share (HK$1) | Property trading |
| One Queen's Road East Limited | 82 | 100 | – | 2 shares (HK$2) | Property investment |
| Oriental Landscapes Limited | 100 | 100 | – | 60,000 shares (HK$600,000) | Landscaping services |
| Pacific Place Holdings Limited | 100 | 100 | – | 2 shares (HK$2) | Property investment |
| Panorama Properties Holdings Limited (previously known as One Island East Limited) | 100 | 100 | – | 10,000 shares (HK$10,000) | Property investment |
| Redhill Properties Limited | 100 | 100 | – | 250,000 shares (HK$7,300,000) | Property investment |
| Super Gear Investment Limited | 100 | 100 | – | 2 shares (HK$2) | Property investment |
| Swire Properties (Finance) Limited | 100 | 100 | – | 1,000,000 shares (HK$1,000,000) | Financial services |
| Swire Properties Management Limited | 100 | 100 | – | 2 shares (HK$20) | Property management |
| Swire Properties MTN Financing Limited | 100 | 100 | – | 1 share (HK$1) | Financial services |
| Swire Properties Real Estate Agency Limited | 100 | 100 | – | 2 shares (HK$20) | Real estate agency |
| Taikoo Place Holdings Limited | 100 | 100 | – | 2 shares (HK$2) | Property investment |
| **Incorporated in Mainland China with limited liability and operating in Mainland China:** | | | | | |
| *(Sino-foreign joint venture)* | | | | | |
| Taikoo Hui (Guangzhou) Development Company Limited (b) | 97 | – | 97 | Registered capital of RMB3,050,000,000 | Property investment |
| *(Wholly foreign owned enterprises)* | | | | | |
| Beijing Sanlitun Hotel Management Company Limited (b) | 100 | – | 100 | Registered capital of RMB800,000,000 | Hotel investment |
| Beijing Sanlitun North Property Management Company Limited (b) | 100 | – | 100 | Registered capital of RMB2,784,000,000 | Property investment |
| Beijing Sanlitun South Property Management Company Limited (b) | 100 | – | 100 | Registered capital of RMB1,598,000,000 | Property investment |
| Sunshine Melody (Guangzhou) Properties Management Limited | 100 | – | 100 | Registered capital of RMB295,000,000 | Property investment |
| Swire Properties (China) Investment Company Limited (b) | 100 | – | 100 | Registered capital of US$30,000,000 | Holding company |
| *(Domestic company)* | | | | | |
| Beijing Tianlian Real Estate Company Limited (b)(d) | 100 | – | 100 | Registered capital of RMB865,000,000 | Holding company |

Notes:

(a) This table lists the principal subsidiary, joint venture and associated companies of the Group including those which, in the opinion of the Directors, materially contribute to the net income of the Group or hold a material portion of the assets or liabilities of the Group. To give full details of these companies would, in the opinion of the Directors, result in particulars of excessive length.

(b) Translated name.

(c) Group interest held through joint venture and associated companies.

(d) Companies the accounts of which are not audited by Pricewaterhousecoopers. These companies accounted for approximately 2.5% of attributable net assets at 31st December 2018.

## Principal Subsidiary, Joint Venture and Associated Companies

Showing proportion of capital owned at 31st December 2018

| | Attributable to the Group % | Owned directly % | Owned by subsidiaries % | Issued and fully paid up shares/Registered capital | Principal activities |
|---|---|---|---|---|---|
| *Subsidiary companies (continued):* | | | | | |
| **Incorporated in the United States with limited liability and operating in the United States:** | | | | | |
| 700 Brickell City Centre LLC | 100 | – | 100 | Limited Liability Company | Property trading |
| Brickell City Centre Plaza LLC | 100 | – | 100 | Limited Liability Company | Property investment |
| Brickell City Centre Project LLC | 100 | – | 100 | Limited Liability Company | Property trading and investment |
| Brickell City Centre Retail LLC | 62.93 | – | 87.93 | Limited Liability Company | Property investment |
| FTL/AD LTD | 75 | – | 75 | Florida Partnership | Property trading |
| Swire Jadeco LLC | 100 | – | 100 | Limited Liability Company | Property trading |
| Swire Pacific Holdings Asia LLC | 100 | – | 100 | Limited Liability Company | Property trading |
| Swire Properties Inc | 100 | – | 100 | 1,000 shares of US$0.01 each | Holding company |
| Swire Properties One LLC | 100 | – | 100 | Limited Liability Company | Property trading and investment |
| Swire Properties US Inc | 100 | – | 100 | 1,000 shares of US$0.01 each | Holding company |
| Swire Realty LLC | 100 | – | 100 | Limited Liability Company | Real estate agency |
| **Incorporated in the British Virgin Islands with limited liability and operating in Hong Kong:** | | | | | |
| Bao Wei Enterprises Limited | 100 | 100 | – | 1 share of US$1 | Property trading |
| Boom View Holdings Limited | 100 | 100 | – | 2 shares of US$1 each | Property investment |
| Endeavour Technology Limited | 87.5 | – | 87.5 | 1,000 shares of US$1 each | Holding company |
| Excel Free Ltd. | 100 | 100 | – | 1 share of US$1 | Property trading |
| High Grade Ventures Limited | 100 | 100 | – | 1 share of US$1 | Property trading and investment |
| Novel Ray Limited | 100 | 100 | – | 1 share of US$1 | Property investment |
| Peragore Limited | 80 | – | 80 | 1,000 shares of US$1 each | Holding company |
| Sino Flagship Investments Limited | 100 | 100 | – | 1 share of US$1 | Property investment |
| Swire and Island Communication Developments Limited | 60 | 60 | – | 100 shares of HK$10 each and 1 non-voting dividend share of HK$10 | Property investment |
| Swire Properties China Holdings Limited | 100 | 100 | – | 1 share of US$1 | Holding company |
| Wonder Cruise Group Limited | 100 | 100 | – | 1 share of US$1 | Property trading |
| *Joint venture companies:* | | | | | |
| **Incorporated in Hong Kong with limited liability and operating in Hong Kong:** | | | | | |
| Hareton Limited | 50 | – | 50 | 100 shares (HK$1,000) | Property investment |
| Pacific Grace Limited | 50 | – | (c) | 2 shares (HK$2) | Property investment |
| Richly Leader Limited | 50 | – | 50 | 1,000,000,000 shares (HK$700,000,000) | Property investment |
| **Incorporated in the United States with limited liability and operating in the United States:** | | | | | |
| Swire Brickell Key Hotel, Ltd. | 75 | – | 75 | Florida Partnership | Hotel investment |

| | Attributable to the Group % | Owned directly % | Owned by subsidiaries % | Issued and fully paid up shares/Registered capital | Principal activities |
|---|---|---|---|---|---|
| *Joint venture companies (continued):* | | | | | |
| **Incorporated in the British Virgin Islands with limited liability:** | | | | | |
| Dazhongli Properties Limited (operating in Mainland China) | 50 | – | 50 | 1,000 shares of US$1 each | Holding company |
| Great City China Holdings Limited (operating in Mainland China) | 50 | – | 50 | 100 shares of US$1 each | Holding company |
| Honster Investment Limited | 50 | – | 50 | 2 shares of US$1 each | Holding company |
| Island Land Development Limited (operating in Hong Kong) | 50 | 50 | – | 100 shares of HK$10 each | Property investment |
| Newfoundworld Investment Holdings Limited (operating in Hong Kong) | 20 | – | 20 | 5 shares of US$1 each | Holding company |
| **Incorporated in Mainland China with limited liability and operating in Mainland China:** | | | | | |
| *(Domestic company)* | | | | | |
| Beijing Linlian Real Estate Company Limited (b) | 50 | – | 50 | Registered capital of RMB400,000,000 | Property investment |
| *(Wholly foreign owned enterprises)* | | | | | |
| Chengdu Qianhao Real Estate Company Limited | 50 | – | (c) | Registered capital of US$329,000,000 | Property investment |
| Guan Feng (Shanghai) Real Estate Development Company Limited (b) | 50 | – | (c) | Registered capital of US$1,136,530,000 | Property investment |
| *(Sino-foreign owned enterprise)* | | | | | |
| Shanghai Qianxiu Company Limited (b) | 50 | – | 50 | Registered capital of RMB1,549,777,000 | Property investment |
| *Associated companies:* | | | | | |
| **Incorporated in Hong Kong with limited liability and operating in Hong Kong:** | | | | | |
| Greenroll Limited (d) | 20 | 20 | – | 45,441,000 shares (HK$454,410,000) | Hotel investment |
| Queensway Hotel Limited (d) | 20 | – | (c) | 100,000 shares (HK$1,000,000) | Hotel investment |
| Shangri-La International Hotels (Pacific Place) Limited | 20 | 20 | – | 10,005,000 shares (HK$10,005,000) | Hotel investment |

# Schedule of Principal Group Properties

At 31st December 2018

| | Hong Kong | | Mainland China | | U.S.A. | | Totals | |
|---|---|---|---|---|---|---|---|---|
| Gross floor areas in square feet | Held through subsidiaries | Held through other companies | Held through subsidiaries | Held through other companies | Held through subsidiaries | Held through other companies | Held through subsidiaries | Held through subsidiaries and other companies |
| **Completed properties for investment** | | | | | | | | |
| Retail | 2,323,135 | 99,696 | 2,859,885 | 1,680,056 | 496,508 | – | 5,679,528 | 7,459,280 |
| Office | 8,108,902 | 878,379 | 1,731,766 | 1,208,566 | 263,384 | – | 10,104,052 | 12,190,997 |
| Residential/serviced apartment | 583,590 | – | 51,517 | 128,565 | 109,000 | – | 744,107 | 872,672 |
| Hotels | 358,371 | 384,796 | 753,647 | 471,318 | 218,000 | 258,750 | 1,330,018 | 2,444,882 |
| | 11,373,998 | 1,362,871 | 5,396,815 | 3,488,505 | 1,086,892 | 258,750 | 17,857,705 | 22,967,831 |
| **Property developments for investment** | | | | | | | | |
| Retail | 3,281 | 68,514 | – | 623,457 | – | – | 3,281 | 695,252 |
| Office | 1,218,000 | – | – | – | – | – | 1,218,000 | 1,218,000 |
| Residential/serviced apartment | – | – | – | – | – | – | – | – |
| Hotels | – | 26,302 | – | – | – | – | – | 26,302 |
| Under planning | – | – | – | – | 1,444,000* | – | 1,444,000 | 1,444,000 |
| | 1,221,281 | 94,816 | – | 623,457 | 1,444,000 | – | 2,665,281 | 3,383,554 |
| **Completed properties for sale** | | | | | | | | |
| Retail | – | – | – | – | – | – | – | – |
| Residential | – | – | – | – | 296,313 | – | 296,313 | 296,313 |
| Office | – | – | – | 235,502 | – | – | – | 235,502 |
| | – | – | – | 235,502 | 296,313 | – | 296,313 | 531,815 |
| **Property developments for sale** | | | | | | | | |
| Office | – | – | – | – | – | – | – | – |
| Residential | 30,511 | – | – | – | 1,073,000 | – | 1,103,511 | 1,103,511 |
| Under planning | – | – | – | – | 825,000 | – | 825,000 | 825,000 |
| | 30,511 | – | – | – | 1,898,000 | – | 1,928,511 | 1,928,511 |
| | 12,625,790 | 1,457,687 | 5,396,815 | 4,347,464 | 4,725,205 | 258,750 | 22,747,810 | 28,811,711 |

* One Brickell City Centre is currently under planning. The site is included under "Land held for development" in the financial statements.

Notes:

1. All properties held through subsidiary companies are wholly-owned except for Island Place (60% owned), Taikoo Hui, Guangzhou (97% owned), Brickell City Centre (Retail: 62.93% owned), River Court and Fort Lauderdale (100% owned; 75% defined profits). The above summary table includes the floor areas of these five properties in 100%.
2. "Other companies" comprise joint venture or associated companies. The floor areas of properties held through such companies are shown on an attributable basis.
3. Gross floor areas in Hong Kong and Mainland China exclude carparking spaces; there are about 10,400 completed carparking spaces in Hong Kong and Mainland China, which are held by subsidiaries and other companies for investment.
4. When a Hong Kong property is held under a renewable lease, the expiry date of the renewal period is shown.
5. All properties in the U.S.A. are freehold.
6. Gross floor areas for all properties in the U.S.A. represent saleable/leasable areas for completed and nearly completed properties, which exclude carparking spaces; there are about 1,976 completed carparking spaces held by subsidiaries and other companies for investment.
7. Swire Properties Limited entered into a conditional sale and purchase agreement on 15th June 2018 for the sale of Swire Properties Limited's 100% interest in a subsidiary which owns the Cityplaza Three and Cityplaza Four properties. The relevant subsidiaries were classified as held for sale at 31st December 2018. Accordingly, they are not included in the summary above.

| Completed properties for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Office** | | | | | | | |
| 1. Pacific Place, 88 Queensway, Central | | | | | | | |
| One Pacific Place | IL 8571 (part) | 2135 | 115,066 (part) | 863,266 | – | 1988 | |
| Two Pacific Place | IL 8582 & Ext. (part) | 2047 | 203,223 (part) | 695,510 | – | 1990 | |
| 2. Three Pacific Place, One Queen's Road East | IL 47A sA RP<br>IL 47A sB RP<br>IL 47A sC RP<br>IL 47B sC RP<br>IL 47A RP<br>IL 47C sA ss1 RP<br>IL 47C sA RP<br>IL 47B sA RP<br>IL 47B sB RP<br>IL 47B RP<br>IL 47A sB ss2<br>IL 47A sD<br>IL 47B sD<br>IL 47C RP<br>IL 47D RP<br>IL 47D sA RP<br>IL 47 sA ss1<br>IL 47 sA RP<br>IL 47 sB ss1 & RP<br>IL 47 sC ss1 & ss2 sA & ss2 RP & ss3 sA & ss3 RP & ss4 & ss5 & ss6 sA & ss6 RP & ss7 RP & RP<br>IL 47 sP<br>IL 47 RP<br>IL 47 sC ss5 Ext.<br>IL 47 sC ss1 Ext. | 2050-2852 | 40,236 | 627,657 | 111 | 2004/07 | Linked to The Mall at Pacific Place and Admiralty MTR station. |
| 3. Cityplaza One, Taikoo Shing | QBML 2 & Ext. sR RP (part)<br>QBML 2 & Ext. sR ss1 sA (part)<br>QBML 2 & Ext. sQ RP (part)<br>QBML 2 & Ext. sQ ss7 sA (part)<br>QBML 2 & Ext. sQ ss7 RP (part)<br>QBML 2 & Ext. sQ ss2 sB (part)<br>QBML 2 & Ext. sQ ss2 sA ss1 (part)<br>QBML 2 & Ext. sQ ss2 sA RP (part)<br>QBML 2 & Ext. sJ RP (part) | 2899 | 146,184 (part) | 628,785 | – | 1997 | Above part of Cityplaza shopping centre. |
| 4. Devon House, Taikoo Place | QBML 1 sE ss2 (part)<br>QBML 1 sF ss1 (part)<br>QBML 1 sF RP (part)<br>ML 703 sN (part) | 2881 | 70,414 (part) | 803,452 | 311 | 1993 | Linked to Dorset House and Cambridge House. |
| 5. Dorset House, Taikoo Place | QBML 1 sQ (part)<br>QBML 1 sR ss1 (part)<br>QBML 1 sR RP (part)<br>QBML 1 sS (part)<br>QBML 1 sT ss1 (part)<br>QBML 1 sT ss2 (part)<br>QBML 1 sT RP (part)<br>QBML 1 sU (part)<br>QBML 1 sW (part)<br>QBML 1 RP (part) | 2881 | 238,582 (part) | 609,540 | 215 | 1994 | Linked to Devon House. |
| 6. Lincoln House, Taikoo Place | QBML 1 sQ (part)<br>QBML 1 sR ss1 (part)<br>QBML 1 sR RP (part)<br>QBML 1 sS (part)<br>QBML 1 sT ss1 (part)<br>QBML 1 sT ss2 (part)<br>QBML 1 sT RP (part)<br>QBML 1 sU (part)<br>QBML 1 sW (part)<br>QBML 1 RP (part) | 2881 | 238,582 (part) | 333,529 | 164 | 1998 | Linked to PCCW Tower and One Taikoo Place. |

## Schedule of Principal Group Properties

At 31st December 2018

| Completed properties for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Office** *(continued)* | | | | | | | |
| 7. Oxford House, Taikoo Place | QBML 1 sC ss4<br>QBML 1 sC ss7 (part)<br>QBML 2 & Ext. sD | 2881/2899 | 33,434 | 501,253 | 182 | 1999 | |
| 8. Cambridge House, Taikoo Place | QBML 1 sE ss2 (part)<br>QBML 1 sF ss1 (part)<br>QBML 1 sF RP (part)<br>ML 703 sN (part) | 2881 | 70,414 (part) | 268,795 | – | 2003 | Linked to Devon House. |
| 9. One Island East, Taikoo Place | QBML 1 sC ss5<br>QBML 1 sC ss6<br>QBML 2 & Ext. sF<br>QBML 2 & Ext. sG<br>QBML 2 & Ext. sH ss6 sB RP<br>QBML 2 & Ext. sH RP<br>QBML 2 & Ext. RP<br>QBIL 15 sD | 2881/2899 | 109,929 | 1,537,011 | – | 2008 | |
| 10. One Taikoo Place, Taikoo Place | QBML 1 sQ (part)<br>QBML 1 sR ss1 (part)<br>QBML 1 sR RP (part)<br>QBML 1 sS (part)<br>QBML 1 sT ss1 (part)<br>QBML 1 sT ss2 (part)<br>QBML 1 sT RP (part)<br>QBML 1 sU (part)<br>QBML 1 sW (part)<br>QBML 1 RP (part) | 2881 | 238,582 (part) | 1,013,368 | 82 | 2018 | Linked to Lincoln House. |
| 11. Generali Tower, Wanchai | IL 5250<br>IL 7948<br>IL 7950 | 2089/ 2103/2113 | 4,612 | 81,346 | – | 2013 (Refurbishment) | With ground floor retail. |
| 12. 28 Hennessy Road, Wanchai | ML 23<br>IL 2244 RP<br>IL 2245 RP | 2843 | 9,622 | 145,390 | – | 2012 | |
| | Total held through subsidiaries | | | **8,108,902** | **1,065** | | |
| 13. PCCW Tower, Taikoo Place | QBML 1 sQ (part)<br>QBML 1 sR ss1 (part)<br>QBML 1 sR RP (part)<br>QBML 1 sS (part)<br>QBML 1 sT ss1 (part)<br>QBML 1 sT ss2 (part)<br>QBML 1 sT RP (part)<br>QBML 1 sU (part)<br>QBML 1 sW (part)<br>QBML 1 RP (part) | 2881 | 238,582 (part) | 620,148 | 217 | 1994 | Linked to Dorset House. Floor area shown represents the whole development, in which the Group owns a 50% interest. |
| 14. Berkshire House, Taikoo Place | IL 8854 | 2047 | 25,926 | 388,838 | 84 | 1998 | Floor area shown represents the whole development, in which the Group owns a 50% interest. |
| 15. 625 King's Road, North Point | IL 7550 | 2108 | 20,000 | 301,065 | 84 | 1998 | Floor area shown represents the whole development, in which the Group owns a 50% interest. |
| 16. Citygate, Tung Chung, Lantau | TCTL 2 (part) | 2047 | 358,557 (part) | 160,522 | 63 | 1999/ 2000 | Above Citygate shopping centre. Floor area shown represents the whole of the office area of the development, in which the Group owns a 20% interest. Citygate also comprises a hotel, details of which are given in the Hotel Category below. |

| Completed properties for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Office** *(continued)* | | | | | | | |
| 17. South Island Place, Wong Chuk Hang | AIL 461 | 2064 | 25,500 | 382,499 | 137 | 2018 | Floor area shown represents the whole development, in which the Group owns a 50% interest. |
| | Total held through joint venture companies | | | **1,853,072** | **585** | | |
| | – of which attributable to the Group | | | **878,379** | | | |
| **Retail** | | | | | | | |
| 1. Pacific Place, 88 Queensway, Central | | | | | | | |
| The Mall at Pacific Place | IL 8571 (part)<br>IL 8582 & Ext. (part) | 2135/2047 | 318,289 (part) | 711,182 | 426 | 1988/90 | Shopping centre with restaurants and a cinema. Access to Admiralty MTR station. Pacific Place also comprises serviced apartments and hotels, details of which are given in the Residential and Hotel categories below. |
| 2. Cityplaza, Taikoo Shing | QBML 2 & Ext. sK ss5<br>QBML 2 & Ext. sR RP (part)<br>QBML 2 & Ext. sR ss1 sA (part)<br>QBML 2 & Ext. sQ RP (part)<br>QBML 2 & Ext. sQ ss7 sA (part)<br>QBML 2 & Ext. sQ ss7 RP (part)<br>QBML 2 & Ext. sQ ss2 sB (part)<br>QBML 2 & Ext. sQ ss2 sA ss1 (part)<br>QBML 2 & Ext. sQ ss2 sA RP (part)<br>QBML 2 & Ext. sJ RP (part) | 2899 | 334,475 (part) | 1,105,227 | 834 | 1983/87/ 97/2000 | Shopping centre with restaurants, ice-skating rink, cinema and access to Tai Koo MTR station. |
| 3. Commercial areas in Stages I - X of Taikoo Shing | SML 1 sA ss1, SML 1 sA RP<br>SML 1 sB, SML 2 sC RP<br>SML 2 sC ss2<br>SML 2 sD, SML 2 RP<br>QBML 2 & Ext. sJ ss1<br>QBML 2 & Ext. sJ ss3<br>QBML 2 & Ext. sL<br>QBML 2 & Ext. sN<br>QBML 2 & Ext. sQ ss4 & ss5<br>QBML 2 & Ext. sQ ss2 sC<br>QBML 2 & Ext. sS ss1<br>QBML 2 & Ext. sH ss1<br>QBML 2 & Ext. sH ss3 sA<br>QBML 2 & Ext. sK ss3 sA<br>QBML 2 & Ext. sU ss1<br>QBML 2 & Ext. sK ss3 RP<br>QBML 2 & Ext. sK ss4 sA & RP<br>QBML 2 & Ext. sT ss1 & RP<br>QBML 2 & Ext. sU RP<br>QBML 2 & Ext. sK ss9 & ss10 & ss11 & ss13 & ss16 (part) | 2081/ 2889/2899 | – | 331,079 | 3,826 | 1977-85 | Neighbourhood shops, schools and carparking spaces. |
| 4. Island Place 500 King's Road, North Point | IL 8849 (part) | 2047 | 106,498 (part) | 150,223 | 288 | 1996 | Floor area shown represents the whole shopping centre podium, in which the Group owns a 60% interest. |

## Schedule of Principal Group Properties

At 31st December 2018

| Completed properties for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Retail** *(continued)* | | | | | | | |
| 5. StarCrest, 9 Star Street, Wanchai | IL 8853 (part) | 2047 | 40,871 (part) | 13,112 | 83 | 1999 | Floor area shown represents the whole of the retail podium. |
| 6. Taikoo Place Apartments, 23 Tong Chong Street, Taikoo Place | ML 703 sI (part) | 2881 | 8,664 (part) | 12,312 | – | 2014 | Floor area shown represents the whole of a 3-storey retail podium (excluding serviced-suites above). |
| | Total held through subsidiaries | | | **2,323,135** | **5,457** | | |
| 7. Tung Chung Crescent, Tung Chung, Lantau | TCTL 1 (part) | 2047 | 331,658 (part) | 36,053 | 75 | 1998/ 1999 | Floor area shown represents the retail space, in which the Group owns a 20% interest. |
| 8. Citygate, Tung Chung Lantau | TCTL 2 (part) | 2047 | 358,557 (part) | 462,428 | 1,093 | 1999/ 2000 | Floor area shown represents the whole of the retail area of the development, in which the Group owns a 20% interest. Approximately 126,000 square feet of the shopping centre is currently under major renovation. |
| | Total held through joint venture companies | | | **498,481** | **1,168** | | |
| | – of which attributable to the Group | | | **99,696** | | | |
| **Residential** | | | | | | | |
| 1. Pacific Place Apartments, 88 Queensway | IL 8582 & Ext. (part) | 2047 | 203,223 (part) | 443,075 | – | 1990 | 270 serviced suites within the Conrad Hong Kong Hotel tower. |
| 2. Taikoo Place Apartments, 23 Tong Chong Street, Taikoo Place | ML 703 sI (part) | 2881 | 8,664 (part) | 62,756 | – | 2014 | 111 serviced suites above a 3-storey retail podium. Floor area shown excludes retail portion. |
| 3. STAR STUDIOS I & II 8-10 & 18 Wing Fung Street | IL 47 sF (part)<br>IL 47 sG (part)<br>IL 47 sH (part)<br>IL 47 sI (part)<br>IL 8464 (part) | 2056/2852 | 6,775 (part) | 47,076 | – | 2016 (Refurbishment) | 120 apartments above ground floor shops. Floor area shown excludes retail area (5,197 square feet). |
| 4. Rocky Bank 6 Deep Water Bay Road | RBL 613 RP | 2099 | 28,197 | 14,768 | – | 1981 | Six semi-detached houses. |
| 5. House B, 36 Island Road, Deep Water Bay | RBL 507 & Ext. (part) | 2097 | 20,733 (part) | 2,644 | – | 1980 | One detached house. |
| 6. Eredine, 38 Mount Kellett Road | RBL 587 & Ext. (part) | 2038 | 51,440 (part) | 13,271 | 4 | 1965 | Four apartment units. |
| | Total held through subsidiaries | | | **583,590** | **4** | | |

| Completed properties for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Hotel** | | | | | | | |
| 1. EAST, Hong Kong, Taikoo Shing | QBML 2 & Ext. sR RP (part)<br>QBML 2 & Ext. sR ss1 sA (part)<br>QBML 2 & Ext. sQ RP (part)<br>QBML 2 & Ext. sQ ss7 sA (part)<br>QBML 2 & Ext. sQ ss7 RP (part)<br>QBML 2 & Ext. sQ ss2 sB (part)<br>QBML 2 & Ext. sQ ss2 sA ss1 (part)<br>QBML 2 & Ext. sQ ss2 sA RP (part)<br>QBML 2 & Ext. sJ RP (part) | 2899 | 146,184 (part) | 199,633 | – | 2009 | 345-room hotel. |
| 2. The Upper House, Pacific Place | IL 8571 (part) | 2135 | 115,066 (part) | 158,738 | – | 2009 (Refurbishment) | 117-room hotel above the JW Marriott Hotel. |
| | Total held through subsidiaries | | | **358,371** | **–** | | |
| 3. JW Marriott Hotel, Pacific Place | IL 8571 (part) | 2135 | 115,066 (part) | 525,904 | – | 1988 | 602-room hotel, in which the Group owns a 20% interest. |
| 4. Conrad Hong Kong Hotel, Pacific Place | IL 8582 & Ext. (part) | 2047 | 203,223 (part) | 555,590 | – | 1990 | 513-room hotel, in which the Group owns a 20% interest. |
| 5. Island Shangri-La Hotel, Pacific Place | IL 8582 & Ext. (part) | 2047 | 203,223 (part) | 605,728 | – | 1991 | 565-room hotel, in which the Group owns a 20% interest. |
| | Total held through associated companies | | | **1,687,222** | **–** | | |
| | – of which attributable to the Group | | | **337,444** | | | |
| 6. Novotel Citygate Hong Kong Hotel, Citygate | TCTL 2 (part) | 2047 | 358,557 (part) | 236,758 | 7 | 2005 | 440-room hotel, in which the Group owns a 20% interest. |
| | Total held through joint venture companies | | | **236,758** | **7** | | |
| | – of which attributable to the Group | | | **47,352** | | | |

| Completed properties for investment in Mainland China | Address | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Retail** | | | | | | | |
| 1. Taikoo Li Sanlitun (Taikoo Li Sanlitun South) | 19 Sanlitun Road, Chaoyang District, Beijing | 2044 (2054 for Carpark) | 566,332 (part) | 776,909 | 417 | 2007 | Shopping centre with restaurants and cinema. |
| 2. Taikoo Li Sanlitun (Taikoo Li Sanlitun North) | 11 Sanlitun Road, Chaoyang District, Beijing | 2044 (2054 for Carpark) | 566,332 (part) | 519,399 | 340 | 2007 | Shopping centre with restaurants. |
| 3. Hui Fang | 75 Tianhe East Road, Tianhe District, Guangzhou | 2044 | 174,377 (part) | 90,847 | 100 | 2008 | Shopping centre with restaurants and carparking spaces. |
| 4. Taikoo Hui | 381-389 Tianhe Road (odd numbers), Tianhe District, Guangzhou | 2051 | 526,941 (part) | 1,472,730 | 718 | 2011 | Shopping centre with restaurants. Floor area shown represents the retail portion, in which the Group owns a 97% interest. |
| | Total held through subsidiaries | | | **2,859,885** | **1,575** | | |
| 5. INDIGO | 18 Jiuxianqiao Road, Chaoyang District, Beijing | 2044 (2054 for Carpark) | 631,072 (part) | 939,493 | 617 | 2012 | Shopping centre with restaurants and cinema. Floor area shown represents the retail portion, in which the Group owns a 50% interest. |

## Schedule of Principal Group Properties

At 31st December 2018

| Completed properties for investment in Mainland China | Address | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Retail** *(continued)* | | | | | | | |
| 6. Sino-Ocean Taikoo Li Chengdu | Daci Temple Area, 9 Dongda Street, Jinjiang District, Chengdu | 2051 | 814,604 (part) | 1,314,973 | 1,051 | 2014 | Shopping centre with restaurants and cinema. Floor area shown represents the retail portion, in which the Group owns a 50% interest. |
| 7. HKRI Taikoo Hui | South of West Nanjing Road and east of Shimenyi Road, Jingan District, Shanghai | 2049 | 676,091 (part) | 1,105,646 | 240 | 2016 | Floor area shown represents the retail portion, in which the Group owns a 50% interest. |
| | Total held through joint venture companies | | | **3,360,112** | **1,908** | | |
| | – of which attributable to the Group | | | **1,680,056** | | | |
| **Office** | | | | | | | |
| 1. Taikoo Hui | North of Tianhe Road and west of Tianhe East Road, Tianhe District, Guangzhou | 2051 | 526,941 (part) | 1,731,766 | – | 2011 | Floor area shown represents the office portion, in which the Group owns a 97% interest. |
| | Total held through subsidiaries | | | **1,731,766** | **–** | | |
| 2. INDIGO | 20 Jiuxianqiao Road, Chaoyang District, Beijing | 2054 | 631,072 (part) | 589,071 | 390 | 2011 | Floor area shown represents the office portion, in which the Group owns a 50% interest. |
| 3. HKRI Taikoo Hui | South of West Nanjing Road and east of Shimenyi Road, Jingan District, Shanghai | 2059 | 676,091 (part) | 1,828,060 | 798 | 2016 | Floor area shown represents the office portion, in which the Group owns a 50% interest. |
| | Total held through joint venture companies | | | **2,417,131** | **1,188** | | |
| | – of which attributable to the Group | | | **1,208,566** | | | |
| **Hotel** | | | | | | | |
| 1. The Opposite House | 11 Sanlitun Road, Chaoyang District, Beijing | 2044 (2054 for Carpark) | 566,332 (part) | 169,463 | 32 | 2007 | 99-room hotel. |
| 2. Mandarin Oriental, Guangzhou | North of Tianhe Road and west of Tianhe East Road, Tianhe District, Guangzhou | 2051 | 526,941 (part) | Hotel: 584,184<br>Serviced apartment: 51,517<br>635,701 | –<br>– | 2012 | 263-room hotel and 24 serviced apartments, in which the Group owns a 97% interest. |
| | Total held through subsidiaries | | | **805,164** | **32** | | |
| 3. EAST, Beijing | 22 Jiuxianqiao Road, Chaoyang District, Beijing | 2044 (2054 for Office and Carpark) | 631,072 (part) | 358,301 | 240 | 2012 | 369-room hotel, in which the Group owns a 50% interest. |

| Completed properties for investment in Mainland China | Address | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Hotel** *(continued)* | | | | | | | |
| 4. The Temple House | Daci Temple Area, 9 Dongda Street, Jinjiang District, Chengdu | 2051 | 814,604 (part) | Hotel: 196,508 | – | 2015 | 100-room hotel and 42 serviced apartments, in which the Group owns a 50% interest. |
| | | | | Serviced apartment: 109,857 | – | | |
| | | | | 306,365 | | | |
| 5. The Sukhothai Shanghai Hotel | 380 Weihai Road, Jingan District, Shanghai | 2049 | 676,091 (part) | Hotel: 246,646 | 79 | 2018 | 201-room hotel in which the Group owns 50% interest. |
| The Middle House | 366 Shi Men Yi Road, Jingan District, Shanghai | | | Hotel: 141,181 | 43 | 2018 | 111-room hotel, in which the Group owns 50% interest. |
| The Middle House Residences | 366 Shi Men Yi Road, Jingan District, Shanghai | | | Serviced apartment: 147,273 | 40 | 2018 | 102 serviced apartments, in which the Group owns a 50% interest. |
| | | | | 535,100 | | | |
| | Total held through joint venture companies | | | **1,199,766** | **402** | | |
| | – of which attributable to the Group | | | **599,883** | | | |

| Completed properties for investment in the United States | Address | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|
| **Retail** | | | | | | |
| 1. Brickell City Centre Retail | 701 S Miami Avenue, Miami, Florida | 380,670 (part) | 496,508 | 1,137 | 2016 | Floor area shown represents the whole shopping centre, in which the Group owns a 62.93% interest. |
| | Total held through subsidiaries | | **496,508** | **1,137** | | |
| **Office** | | | | | | |
| 1. Two Brickell City Centre | 78 SW 7th Street, Miami, Florida | 380,670 (part) | 128,842 | 145 | 2016 | |
| 2. Three Brickell City Centre | 98 Southeast Seventh Street, Miami, Florida | 380,670 (part) | 134,542 | 144 | 2016 | |
| | Total held through subsidiaries | | **263,384** | **289** | | |
| **Serviced apartments** | | | | | | |
| 1. EAST, Residences | 788 Brickell Plaza, Miami, Florida | 380,670 (part) | 109,000 | 20 | 2016 | 89 serviced suites within the EAST, Miami Hotel tower. |
| | Total held through subsidiaries | | **109,000** | **20** | | |
| **Hotel** | | | | | | |
| 1. Mandarin Oriental, Miami | South Brickell Key, Miami, Florida | 120,233 | 345,000 | 600 | 2000 | 326-room luxury hotel in central Miami, in which the Group owns a 75% interest. |
| | Total held through joint venture companies | | **345,000** | **600** | | |
| | – of which attributable to the Group | | **258,750** | | | |
| 2. EAST, Miami | 788 Brickell Plaza, Miami, Florida | 380,670 (part) | 218,000 | 80 | 2016 | 263-room hotel. |
| | Total held through subsidiaries | | **218,000** | **80** | | |

## Schedule of Principal Group Properties

At 31st December 2018

| Property developments for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Stage of completion | Expected completion date | Remarks |
|---|---|---|---|---|---|---|---|---|
| **Office** | | | | | | | | |
| 1. Two Taikoo Place, Taikoo Place | QBML 1 sQ (part)<br>QBML 1 sR ss1 (part)<br>QBML 1 sR RP (part)<br>QBML 1 sS (part)<br>QBML 1 sT ss1 (part)<br>QBML 1 sT ss2 (part)<br>QBML 1 sT RP (part)<br>QBML 1 sU (part)<br>QBML 1 sW (part)<br>QBML 1 RP (part) | 2881 | 238,582 (part) | 1,000,000 | 351 | Foundation works are in progress | 2021/ 2022 | Floor area shown is an approximation. |
| 2. Po Wah Building, 1-11 Landale Street and 2-12 Anton Street | IL 2242<br>IL 2244 sA<br>IL 2244 sB<br>IL 2244 sC<br>IL 2245 sA<br>IL 2245 sB<br>IL 2245 sC<br>IL 2245 sD<br>IL 2245 sE<br>IL 2245 sF | 2843 | 14,433 | 218,000 | 88 | Redevelopment under planning | 2023 | Proposed scheme is under planning. |
| | Total held through subsidiaries | | | **1,218,000** | **439** | | | |
| **Retail** | | | | | | | | |
| 1. 21-31 Wing Fung Street | IL 526 sA ss1 sC<br>IL 526 sA ss1 sB RP<br>IL 526 sA ss1 sB ss1<br>IL 526 sA ss2<br>IL 526 sA ss3<br>IL 526 sA RP | 2856 | 3,612 (part) | 3,281 | – | Foundation works are in progress | 2022 | Residential block over retail podium is proposed. Floor area shown represents the retail portion of the development. The area shown is subject to change. |
| | Total held through subsidiaries | | | **3,281** | **–** | | | |
| 2. Tung Chung Town Lot No. 11, Tung Chung, Lantau | TCTL 11 (part) | 2063 | 107,919 (part) | 342,569 | 122 | Fitting out works in progress | 2019 | Proposed scheme is under development. Floor area shown represents the retail portion of the development, in which the Group owns a 20% interest, and excludes the area of a public transport terminus. The area is an approximation and is subject to change. A public transport terminus of approximately 65,000 square feet is to be built and handed over to the Government upon completion. |
| | Total held through joint venture companies | | | **342,569** | **122** | | | |
| | – of which attributable to the Group | | | **68,514** | | | | |

| Property developments for investment in Hong Kong | Lot number | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Stage of completion | Expected completion date | Remarks |
|---|---|---|---|---|---|---|---|---|
| **Hotel** | | | | | | | | |
| 1. Tung Chung Town Lot No. 11, Tung Chung, Lantau | TCTL 11 (part) | 2063 | 107,919 (part) | 131,510 | 5 | Fitting out works in progress | 2019 | Proposed scheme is under development. Floor area shown represents the hotel portion of the development, in which the Group owns a 20% interest, and excludes the area of a public transport terminus. The area is an approximation and is subject to change. |
| | Total held through joint venture companies | | | **131,510** | **5** | | | |
| | – of which attributable to the Group | | | **26,302** | | | | |

| Property developments for investment in Mainland China | Address | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Stage of completion | Expected completion date | Remarks |
|---|---|---|---|---|---|---|---|---|
| 1. Taikoo Li Qiantan | East of Yangsi West Road, West of Dongyu Road, North of Haiyang West Road, Pudong New District, Shanghai | 2053 | 319,063 (part) | 1,246,913 (part) | 982 (part) | Superstructure in progress | 2020 | Proposed scheme is under development. Group owns a 50% interest. |
| | Total held through joint venture companies | | | **1,246,913** | **982** | | | |
| | – of which attributable to the Group | | | **623,457** | | | | |

| Property developments for investment in the United States | Site area in square feet | Gross floor area in square feet | Number of car parks | Expected completion date | Remarks |
|---|---|---|---|---|---|
| 1. One Brickell City Centre, Miami, Florida | 123,347 | Under planning: 1,444,000 | To be determined | To be determined | One Brickell City Centre is being planned as a future mixed-use development comprised of retail, Grade A office space, condominiums and a hotel. Located at the corner of Brickell Avenue and SW 8th Street, One Brickell City Centre (comprising approximately 1.4 million square feet) is planned as an 80-storey luxury high rise tower. |
| | Total held through subsidiaries | **1,444,000** | **–** | | |

| Completed properties for sale in Mainland China | Address | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|---|
| **Office** | | | | | | | |
| 1. Pinnacle One | Daci Temple Area, 9 Dongda Street, Jinjiang District, Chengdu | 2051 | 702,243 (part) | 471,003 | 403 | 2014 | Floor area shown represents the remaining unsold portion, in which the Group owns a 50% interest. |
| | Total held through joint venture companies | | | **471,003** | **403** | | |
| | – of which attributable to the Group | | | **235,502** | | | |

# Schedule of Principal Group Properties

At 31st December 2018

| Completed properties for sale in the United States | Address | Site area in square feet | Gross floor area in square feet | Number of car parks | Year of completion | Remarks |
|---|---|---|---|---|---|---|
| **Residential** | | | | | | |
| 1. ASIA | 900 Brickell Key, Miami, Florida | 173,531 | 5,359 | 4 | 2008 | 36-storey residential condominium tower comprising 123 units with 5-storey parking garage. At 31st December 2018, sales of 122 units had been closed. |
| 2. Reach, Brickell City Centre, Miami, Florida | 68 SE 6th Street, Miami, Florida | 380,670 (part) | 62,140 | 44 | 2016 | 43-storey residential condominium tower comprising 390 units. At 31st December 2018, sales of 361 units had been closed. |
| 3. Rise, Brickell City Centre, Miami, Florida | 1 SW 8 Street, Miami, Florida | 380,670 (part) | 228,814 | 225 | 2016 | 43-storey residential condominium tower comprising 390 units. At 31st December 2018, sales of 234 units had been closed. |
| | Total held through subsidiaries | | **296,313** | **273** | | |

| Property developments for sale in Hong Kong | Lot No | Leasehold expiry | Site area in square feet | Gross floor area in square feet | Number of car parks | Expected completion date | Remarks |
|---|---|---|---|---|---|---|---|
| 1. 21-31 Wing Fung Street | IL 526 sA ss1 sC<br>IL 526 sA ss1 sB RP<br>IL 526 sA ss1 sB ss1<br>IL 526 sA ss2<br>IL 526 sA ss3<br>IL 526 sA RP | 2856 | 3,612 (part) | Residential: 30,511 | – | 2022 | Residential block over retail podium is proposed. Floor area shown represents the residential portion of the development. The area shown is subject to change. |
| | Total held through subsidiaries | | | **30,511** | **–** | | |

| Property developments for sale in the United States | Site area in square feet | Gross floor area in square feet | Number of car parks | Expected completion date | Remarks |
|---|---|---|---|---|---|
| 1. South Brickell Key, Miami, Florida | 105,372 | Residential: 550,000 | 395 | – | Development site in central Miami acquired in January 1997 along with Mandarin Oriental site. Plans for condominium tower currently on hold. |
| 2. Development Site, Fort Lauderdale, Florida | 203,941 | Under planning: 825,000 | 1,050 | – | Development site in Fort Lauderdale acquired in October 2006, in which the Group owns 100%, with 75% defined profits. |
| 3. North Squared, Miami, Florida | 380,670 (part) | Residential: 523,000 | 544 | – | The development on the North Squared site is currently on hold. |
| | Total held through subsidiaries | **1,898,000** | **1,989** | | |

# Glossary

## Terms

**Attributable gross rental income** Gross rental income less amount shared by non-controlling interests plus the Group's share of gross rental income of joint venture and associated companies.

**Equity attributable to the Company's shareholders** Equity before non-controlling interests.

**Gross borrowings** Total of loans, bonds and overdrafts.

**Net assets employed** Total equity plus net debt.

**Net debt** Total borrowings less short-term deposits and bank balances.

**Underlying profit** Reported profit adjusted principally for the impact of changes in the fair value of investment properties and deferred tax on investment properties.

**Recurring underlying profit** Underlying profit adjusted for significant credits and charges of a non-recurring nature, including gains on the sale of interests in investment properties.

## Ratios

$$\text{Earnings per share} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the year}}$$

$$\text{Return on average equity attributable to the Company's shareholders} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Average equity during the year attributable to the Company's shareholders}}$$

$$\text{Equity attributable to the Company's shareholders per share} = \frac{\text{Equity before non-controlling interest}}{\text{Number of shares in issue at the end of the year}}$$

$$\text{Gearing ratio} = \frac{\text{Net debt}}{\text{Total equity}}$$

$$\text{Interest cover} = \frac{\text{Operating profit}}{\text{Net finance charges}}$$

$$\text{Cash interest cover} = \frac{\text{Operating profit}}{\text{Total of net finance charges and capitalised interest}}$$

$$\text{Dividend payout ratio} = \frac{\text{Dividends paid and proposed}}{\text{Profit attributable to the Company's shareholders}}$$

# Financial Calendar and Information for Investors

## Financial Calendar 2019

| | |
|---|---|
| Shares trade ex-dividend | 2nd April |
| Share register closed for 2018 second interim dividend entitlement | 4th April |
| Annual Report available to shareholders | 9th April |
| Payment of 2018 second interim dividend | 9th May |
| Share register closed for attending and voting at Annual General Meeting | 9th – 14th May |
| Annual General Meeting | 14th May |
| Interim results announcement | August 2019 |
| 2019 first interim dividend payable | October 2019 |

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1-201-680-6825

## Stock Code

| | |
|---|---|
| Hong Kong Stock Exchange | 1972 |
| ADR | SWROY |

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## Request for Feedback

In order that we may improve our reporting, we would be grateful to receive your comments on our public announcements and disclosures via e-mail to ir@swireproperties.com.

### Disclaimer

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