



INTERIM REPORT 2018

Stock Code: 1972

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FINANCIAL HIGHLIGHTS

| | | Six months ended 30th June | | |
|---|-----------------|-----------------------------------|---------------|----------|
| | | 2018 | 2017 | |
| | <i>Note</i> | HK\$M | HK\$M | Change |
| Results | | | | |
| Revenue | | 7,309 | 11,525 | -37% |
| Operating profit | | 21,309 | 15,537 | +37% |
| Profit attributable to the Company's shareholders | | | | |
| Underlying | <i>(a), (b)</i> | 6,219 | 4,628 | +34% |
| Adjusted underlying | <i>(b)</i> | 3,732 | 4,624 | -19% |
| Reported | | 21,205 | 14,763 | +44% |
| Cash generated from operations | | 5,308 | 8,870 | -40% |
| Net cash inflow before financing | | 7,628 | 4,578 | +67% |
| | | HK\$ | HK\$ | |
| Earnings per share | | | | |
| Underlying | <i>(c)</i> | 1.06 | 0.79 | +34% |
| Adjusted underlying | <i>(c)</i> | 0.64 | 0.79 | -19% |
| Reported | <i>(c)</i> | 3.62 | 2.52 | +44% |
| Dividends per share | | | | |
| First interim | | 0.27 | 0.25 | +8% |
| | | 30th June | 31st December | |
| | | 2018 | 2017 | |
| | | HK\$M | HK\$M | Change |
| Financial Position | | | | |
| Total equity (including non-controlling interests) | | 277,061 | 259,378 | +7% |
| Net debt | | 30,862 | 35,347 | -13% |
| Gearing ratio | <i>(a)</i> | 11.1% | 13.6% | -2.5%pt. |
| | | HK\$ | HK\$ | |
| Equity attributable to the Company's shareholders per share | <i>(a)</i> | 47.01 | 44.00 | +7% |

Notes:

(a) Refer to glossary on page 55 for definition.

(b) A reconciliation between reported profit and underlying profit attributable to the Company's shareholders is provided on page 6.

(c) Refer to note 11 in the financial statements for the weighted average number of shares.

CHAIRMAN'S STATEMENT

Our consolidated profit attributable to shareholders in the first half of 2018 was HK\$21,205 million, compared to HK\$14,763 million in the first half of 2017.

Underlying profit attributable to shareholders, which principally adjusts for changes in the valuation of investment properties, increased by HK\$1,591 million from HK\$4,628 million in the first half of 2017 to HK\$6,219 million in the first half of 2018.

Dividends

The Directors have declared a first interim dividend of HK\$0.27 (2017: HK\$0.25) per share for the year ending 31st December 2018. The first interim dividend, which totals HK\$1,580 million (2017: HK\$1,463 million), will be paid on 4th October 2018 to shareholders registered at the close of business on the record date, being Friday, 7th September 2018. Shares of the Company will be traded ex-dividend from Wednesday, 5th September 2018.

Key Developments

In January 2018, One Taikoo Place, the first of two premium Grade-A office buildings in the Taikoo Place redevelopment, was topped out. One Taikoo Place has an aggregate gross floor area ("GFA") of around one million square feet, and is expected to be completed later in 2018.

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"). Each of Swire Properties and LJZ holds a 50% interest in Shanghai Qianxiu, and the joint venture will develop a retail project with an aggregate GFA of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. The development 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, including a hotel, is expected to be completed later in 2018 and the retail portion is expected to open in the first quarter 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 sale in new developments and does not intend to pay a special dividend.

Operating Performance

The increase in underlying profit from HK\$4,628 million in the first half of 2017 to HK\$6,219 million in the first half of 2018 principally reflected profit arising from the sale of our interests in an office building in Kowloon Bay and in other investment properties in Hong Kong, partly offset by a substantial decrease in profit from property trading.

Adjusted underlying profit (which excludes the profit on sale of interests in investment properties) was HK\$3,732 million in the first half of 2018, compared with HK\$4,624 million in the first half of 2017.

Recurring underlying profit from property investment increased by 9% in the first half of 2018, with the Mainland China developments doing particularly well. Gross rental income increased by 8% (to HK\$5,996 million in the first half of 2018, compared with HK\$5,555 million in the first half of 2017). This reflected positive rental reversions at the office properties and higher retail sales.

Underlying profit from property trading in the first half of 2018 arose mainly from the sale of houses at the WHITESANDS development and of carpark at the AZURA development in Hong Kong.

Losses from hotels were higher in the first half of 2018 than in the first half of 2017, principally due to pre-opening costs at hotels in Shanghai in Mainland China. The results of our hotels in Hong Kong and the U.S.A. and of our other hotels in Mainland China improved.

Net finance charges in the first half of 2018 were HK\$503 million, a 6% increase from HK\$476 million in

the first half of 2017. The increase principally reflected higher finance charges as a result of interest ceasing to be capitalised following completion of the development of an office building in Kowloon Bay, Hong Kong and an increase in the cost of borrowings in the U.S.A., partially offset by a decrease in the amount of borrowings in Mainland China and a decrease in the cost of borrowings in Hong Kong. The latter decrease reflected repayment of the amount due to Swire Finance Limited by reason of the redemption of that company's US\$300 million perpetual capital securities in May 2017.

On an attributable basis, net investment property valuation gains in the first half of 2018, after deferred tax relating to investment properties, were HK\$16,233 million, compared to net gains of HK\$10,193 million in the first half of 2017.

Finance

Net debt at 30th June 2018 was HK\$30,862 million, compared with HK\$35,347 million at 31st December 2017. Gearing decreased from 13.6% at 31st December 2017 to 11.1% at 30th June 2018. The reduction in net debt reflected receipt of the balance of the proceeds of sale of an office building in Kowloon Bay, Hong Kong and a deposit in respect of the sale of our interests in Cityplaza Three and Cityplaza Four in Quarry Bay, Hong Kong, partially offset by funding for the acquisition of a 50% equity interest in the Qiantan project in Shanghai, Mainland China and capital expenditure on Hong Kong investment properties. Cash and undrawn committed facilities were HK\$14,728 million at 30th June 2018, compared with HK\$12,269 million at 31st December 2017.

Prospects

In the central district of Hong Kong, high occupancy and limited supply will continue to exert upward pressure on office rents at Pacific Place. High occupancy is expected to result in office rents in our Taikoo Place development being resilient despite increased supply in Kowloon East and other districts. There has been limited new supply of office space in the core areas of Guangzhou and there is strong demand from existing office tenants to expand or upgrade their accommodation. Vacancy rates have declined. Despite the availability of new office space in Guangzhou in the second half of 2018, rentals are expected to be resilient. Demand for office space in Beijing and the Jingan District of Shanghai is expected to underpin rentals in the second half of 2018, despite new supply. In Miami, new supply of Grade-A office space is limited and demand is firm.

Improved market sentiment and a better tenant mix should support stable sales growth at our retail malls in Hong Kong. Retail sales are expected to grow satisfactorily in Chengdu, steadily in Guangzhou and Beijing and modestly in Shanghai in the second half of 2018. Demand for retail space for lifestyle brands and food and beverage outlets is expected to be solid. Demand for luxury goods has improved in Beijing and is strong in Guangzhou and Chengdu. Retail rents are expected to grow satisfactorily in Guangzhou and moderately in Shanghai and Chengdu in the second half of 2018 despite an increase in the availability of

competing space. In Miami, there is too much retail space available for rent and weak retail sales have made some retailers cautious about expansion.

In Hong Kong, rental demand for our residential investment properties is expected to be stable in the second half of 2018.

In Miami, the majority of the demand for condominiums is from South American buyers. That demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. In Hong Kong, profits are expected to be recognised in the second half of 2018 from the sales of six houses at the WHITESANDS development.

Trading conditions for our hotels are expected to be stable in the second half of 2018. The two new hotels in Shanghai are building 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 in 2019.

Merlin Swire

Chairman

Hong Kong, 9th August 2018

REVIEW OF OPERATIONS

| | Six months ended 30th June | | Year ended 31st December |
|--|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Revenue | | | |
| Gross Rental Income derived from | | | |
| Offices | 3,141 | 3,042 | 6,124 |
| Retail | 2,579 | 2,274 | 4,616 |
| Residential | 276 | 239 | 512 |
| Other Revenue ⁽¹⁾ | 63 | 61 | 128 |
| Property Investment | 6,059 | 5,616 | 11,380 |
| Property Trading | 530 | 5,258 | 5,833 |
| Hotels | 720 | 651 | 1,345 |
| Total Revenue | 7,309 | 11,525 | 18,558 |
| Operating Profit/(Loss) derived from | | | |
| Property investment | | | |
| From operation | 4,448 | 4,196 | 8,163 |
| Sale of interests in investment properties | 1,254 | (2) | 9 |
| Valuation gains on investment properties | 15,535 | 9,946 | 25,463 |
| Property trading | 73 | 1,447 | 1,397 |
| Hotels | (1) | (50) | (102) |
| Total Operating Profit | 21,309 | 15,537 | 34,930 |
| Share of Post-tax Profits from Joint Venture and Associated Companies | 1,064 | 719 | 1,792 |
| Profit Attributable to the Company's Shareholders | 21,205 | 14,763 | 33,957 |

(1) Other revenue is mainly estate management fees.

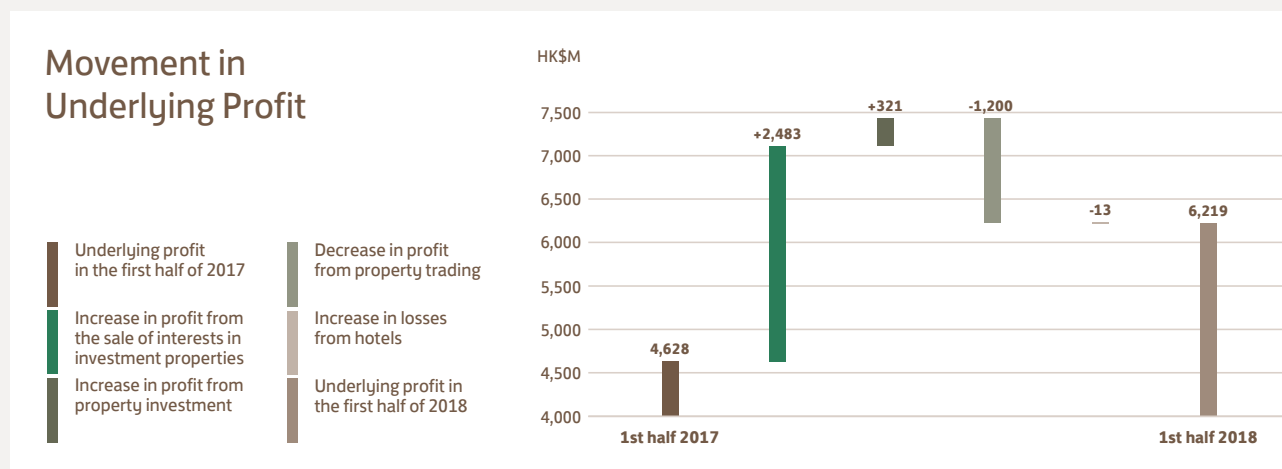
Additional information is provided in the following section to reconcile reported and underlying profit attributable to the Company's shareholders. These reconciling items principally adjust for the net revaluation movements on investment properties and the associated deferred tax in Mainland China and 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 | Six months ended 30th June | | Year ended 31st December |
|---|------|-------------------------------|---------------|-----------------------------|
| | | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Underlying Profit | | | | |
| Profit attributable to the Company's shareholders per financial statements | | 21,205 | 14,763 | 33,957 |
| Adjustments in respect of investment properties: | | | | |
| Revaluation of investment properties | (a) | (16,360) | (10,471) | (26,846) |
| Deferred tax on investment properties | (b) | 121 | 306 | 574 |
| Realised profit on sale of interests in investment properties | (c) | 1,233 | 47 | 50 |
| Depreciation of investment properties occupied by the Group | (d) | 11 | 10 | 20 |
| Non-controlling interests' share of revaluation movements less deferred tax | | 6 | (28) | 54 |
| Movement in the fair value of the liability in respect of a put option in favour of the owner of a non-controlling interest | (e) | 3 | 1 | 25 |
| Underlying Profit Attributable to the Company's Shareholders | | 6,219 | 4,628 | 7,834 |
| Profit on sale of interests in investment properties | | (2,487) | (4) | (21) |
| Adjusted Underlying Profit Attributable to the Company's Shareholders | | 3,732 | 4,624 | 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



Underlying profit in the first half of 2018 increased by HK\$1,591 million, from HK\$4,628 million to HK\$6,219 million. This principally reflected profit arising from the sale of our interests in an office building in Kowloon Bay and in other investment properties in Hong Kong. Recurring underlying profit from property investment increased by 9% in the first half of 2018, with the Mainland China developments doing particularly well. Gross rental income increased by 8% (to HK\$5,996 million in the first half of 2018, compared with HK\$5,555 million in the first half of 2017). This reflected positive rental reversions at the office properties and higher retail sales. Underlying profit from property trading in the first half of 2018 arose mainly from the sale of houses at the WHITESANDS development and of car parks at the AZURA development in Hong Kong. Losses from hotels were higher in the first half of 2018 than in the first half of 2017, principally due to pre-opening costs at hotels in Shanghai in Mainland China. The results of our hotels in Hong Kong and the U.S.A. and of our other hotels in Mainland China improved.

Portfolio Overview

The aggregate GFA attributable to the Group at 30th June 2018 was approximately 29.0 million square feet.

Of the aggregate GFA attributable to the Group, approximately 26.5 million square feet are investment properties, comprising completed investment properties of approximately 22.1 million square feet and investment properties under development or held for future development of approximately 4.4 million square feet. In Hong Kong, this investment property portfolio comprises approximately 14.4 million square feet attributable to the Group of primarily Grade-A office and retail premises, hotels, serviced apartments and 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 30th June 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 | 8.3 ⁽²⁾ | 2.5 | 0.7 | 0.6 | – | 12.1 |
| 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 | 11.5 | 7.3 | 2.4 | 0.9 | – | 22.1 |

| 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 | 2.2 | 0.1 | – | – | – | 2.3 |
| Mainland China | – | 0.6 | – | – | – | 0.6 |
| U.S.A. and elsewhere | – | – | – | 0.1 | 1.4 ⁽³⁾ | 1.5 |
| Total | 2.2 | 0.7 | – | 0.1 | 1.4 | 4.4 |

| 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 | 13.7 | 8.0 | 2.4 | 1.0 | 1.4 | 26.5 |

(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 small 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 30th June 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 | 0.3 | – | 0.3 |
| U.S.A. | 0.3 | 1.9 | 2.2 |
| Total | 0.6 | 1.9 | 2.5 |

⁽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 8.6 million square feet of space on a 100% basis. Total attributable gross rental income from our office properties in Hong Kong was HK\$3,056 million in the first half of 2018. At 30th June 2018, the office properties in Hong Kong were valued at HK\$155,531 million. Of this amount, Swire Properties' attributable interest represented HK\$147,773 million.

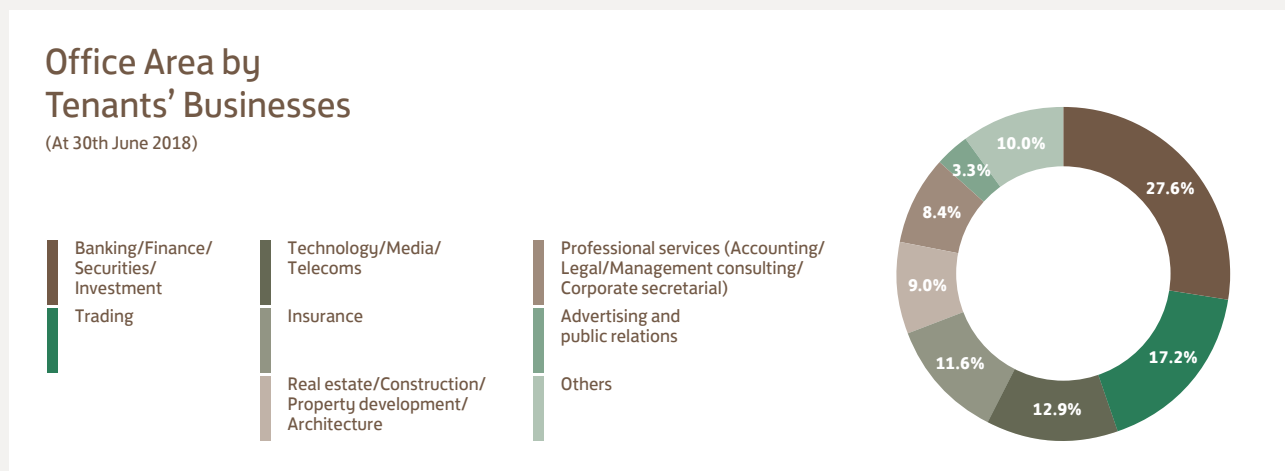
| Hong Kong Office Portfolio | | | |
|---|-------------------------------|----------------------------------|--------------------------|
| | GFA (sq. ft.) (100% Basis) | Occupancy (at 30th June 2018) | Attributable Interest |
| Pacific Place | 2,186,433 | 100% | 100% |
| Cityplaza One | 628,785 | 99% | 100% |
| Taikoo Place Office Towers ⁽¹⁾ | 3,136,717 | 100% | 50%/100% |
| One Island East | 1,537,011 | 100% | 100% |
| Others ⁽²⁾ | 1,077,161 | 98% | 20%/50%/100% |
| Total | 8,566,107 | | |

⁽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) and 28 Hennessy Road (wholly-owned).

Gross rental income from the Hong Kong office portfolio in the first half of 2018 was HK\$2,887 million, HK\$67 million higher than the same period in 2017. Demand for the Group's office space in Hong Kong was strong. This was reflected in positive rental reversions. Occupancy was high at Taikoo Place, Cityplaza One and Pacific Place. At 30th June 2018, the office portfolio was almost fully let.

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 30th June 2018.

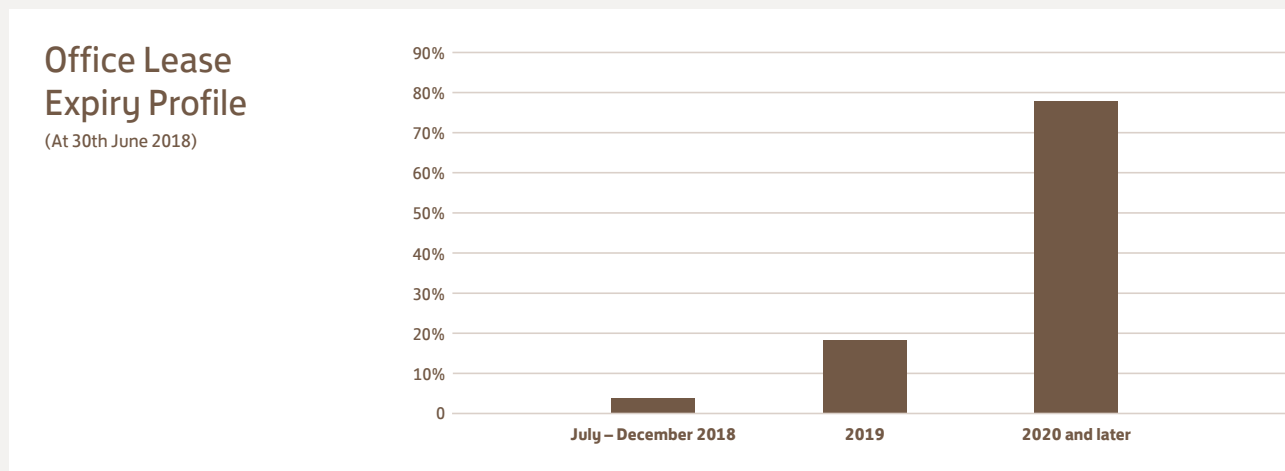


At 30th June 2018, the top ten office tenants (based on attributable gross rental income in the six months ended 30th June 2018) together occupied approximately 23% of the Group's total attributable office area in Hong Kong.

Hong Kong Office Market Outlook

In the central district of Hong Kong, high occupancy and limited supply will continue to exert upward pressure on office rents at Pacific Place. High occupancy is expected to result in office rents in our Taikoo Place development 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 30th June 2018, derived from leases expiring in the periods with no committed renewals or new lettings. Tenancies accounting for approximately 3.8% of the attributable gross rental income in the month of June 2018 are due to expire in the second half of 2018, with tenancies accounting for a further 18.3% of such rental income due to expire in 2019.



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 in 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\$1,408 million in the first half of 2018. At 30th June 2018, our retail properties in Hong Kong were valued at HK\$55,748 million. Of this amount, Swire Properties' attributable interest represented HK\$47,841 million.

The Hong Kong retail market improved in the first half of 2018. Retail sales at our malls have shown significant improvements compared with those in the first half of 2017.

| Hong Kong Retail Portfolio | | | |
|-----------------------------------|-------------------------------|----------------------------------|--------------------------|
| | GFA (sq. ft.) (100% Basis) | Occupancy (at 30th June 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).

Gross rental income from the Group's retail portfolio in Hong Kong was HK\$1,367 million in the first half of 2018, representing an increase of 4% compared to the same period in 2017. Rental income from Cityplaza increased by 10%. Rental income from The Mall at Pacific Place was stable. Occupancy levels at the Group's malls were effectively 100% during the period.

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 30th June 2018.

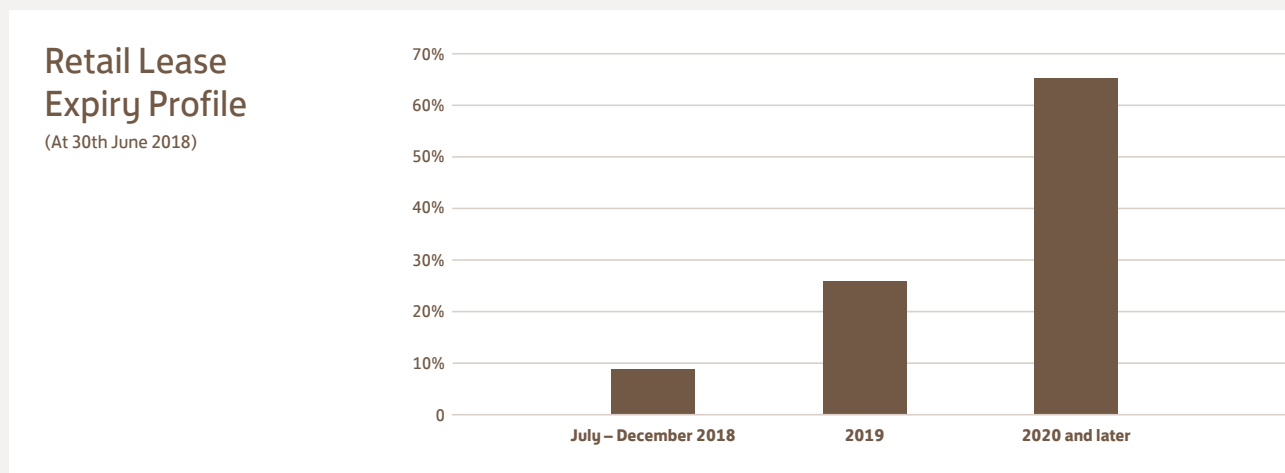


At 30th June 2018, the top ten retail tenants (based on attributable gross rental income in the six months ended 30th June 2018) together occupied approximately 25% of the Group's total attributable retail area in Hong Kong.

Hong Kong Retail Market Outlook

Improved market sentiment and a better tenant mix should support stable sales growth at our retail malls in Hong Kong.

The following chart shows the percentage of attributable gross rental income from the retail properties in Hong Kong, for the month ended 30th June 2018, derived from leases expiring in the periods with no committed renewals or new lettings. Tenancies accounting for approximately 8.9% of the attributable gross rental income in the month of June 2018 are due to expire in the second half of 2018, with tenancies accounting for a further 25.8% of such rental income due to expire in 2019.



Residential

The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments at Quarry Bay, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island, with an aggregate GFA of 586,908 square feet. The occupancy rate at the residential portfolio was approximately 92% at 30th June 2018. Rental demand for our residential investment properties is expected to be stable in the second half of 2018.

Investment Properties Under Development

Taikoo Place Redevelopment

The first phase of the Taikoo Place redevelopment (the redevelopment of Somerset House) is the construction of One Taikoo Place, a 48-storey (above 2-storey basement) Grade-A office building with an aggregate GFA of approximately 1,020,000 square feet. The building was topped out in January 2018. Interior finishing works are in progress. The redevelopment is expected to be completed later in 2018. Tenants have committed (including by way of letters of intent) to lease over 90% of the space in the building.

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 building was topped out in May 2018. The development is expected to be completed later in 2018. Swire Properties has a 20% interest in the development.

South Island Place

This commercial site at 8-10 Wong Chuk Hang Road is being developed into an office building with an

aggregate GFA of approximately 382,500 square feet. Interior finishing works are in progress. The development is expected to be completed later in 2018. Swire Properties has a 50% interest in the development.

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

Redevelopment of this site is being planned. The site area is approximately 14,400 square feet. There are six tenement blocks and a 13-storey composite building on the site. An application for planning permission to develop the site for office purposes has been made. The redevelopment is expected to be completed after 2022.

Other

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. The site areas of Wah Ha Factory Building and Zung Fu Industrial Building are approximately 27,000 square feet and 25,000 square feet, respectively.

Investment Properties – Mainland China

Overview

The property portfolio in Mainland China comprises an aggregate of 14.2 million square feet of space, 9.7 million square feet of which is attributable to the Group. Completed properties amount to 13.0 million square feet, with 1.2 million square feet under development. Total attributable gross rental income from investment properties in Mainland China was HK\$1,995 million in the first half of 2018. At 30th June 2018, the investment properties in Mainland China were valued at HK\$69,774 million. Of this amount, Swire Properties' attributable interest represented HK\$49,344 million.

| | GFA (sq. ft.) (100% Basis) | | | |
|---|----------------------------|-----------------------|---------------------------------------|-----------------------|
| | Total | Investment Properties | Hotels, Trading Properties and Others | Attributable Interest |
| <i>Completed</i> | | | | |
| 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 | 1,886,833 | 1,528,564 | 358,269 | 50% |
| Sino-Ocean Taikoo Li Chengdu ⁽²⁾ | 2,214,477 | 1,424,830 | 789,647 | 50% |
| HKRI Taikoo Hui, Shanghai | 3,466,395 | 3,078,568 | 387,827 | 50% |
| Hui Fang, Guangzhou | 90,847 | 90,847 | – | 100% |
| Others | 2,917 | 1,458 | 1,459 | 100% |
| Sub-Total | 12,967,437 | 10,676,588 | 2,290,849 | |
| <i>Under Development</i> | | | | |
| Qiantan project, Shanghai ⁽³⁾ | 1,247,052 | 1,247,052 | – | 50% |
| Total | 14,214,489 | 11,923,640 | 2,290,849 | |

(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.

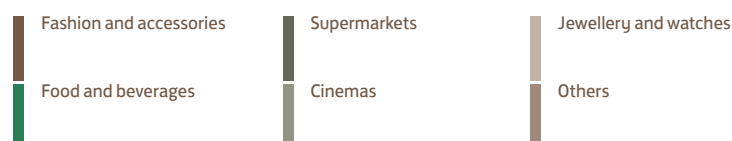
(3) Construction of the shopping mall at the Qiantan project is in progress. The development is expected to be completed in 2020.

Gross rental income from the Group's investment property portfolio in Mainland China was HK\$1,302 million in the first half of 2018, HK\$212 million higher than in the same period in 2017, reflecting a 9% increase of the Renminbi against the Hong Kong dollar, positive rental reversions and higher retail sales.

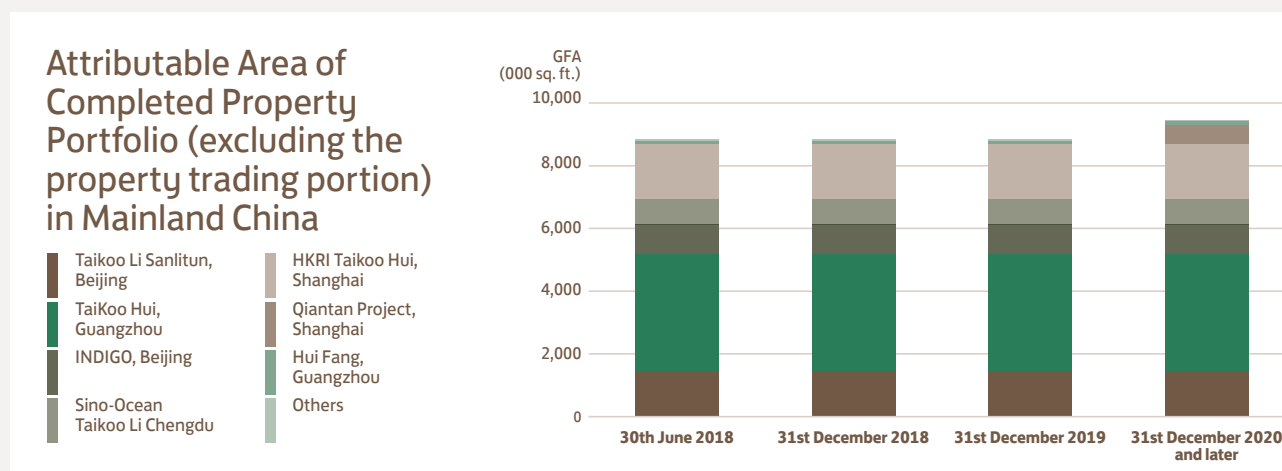
The chart below shows the mix of the tenants of the retail properties by the principal nature of their businesses (based on internal classifications) as a percentage of the retail area at 30th June 2018.

Retail Area by Tenants' Businesses

(At 30th June 2018)



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



Retail

The Mainland China retail portfolio's gross rental income for the first half of 2018 was HK\$1,093 million. In Renminbi terms, this represents an increase of 11% compared to the same period in 2017.

Gross rental income at Taikoo Li Sanlitun in Beijing increased in the first half of 2018. Retail sales increased by 10%. The overall occupancy rate was 97% at 30th June 2018. Demand for retail space in Taikoo Li Sanlitun remains solid as it reinforces its position as a fashionable retail destination in Beijing. Improvement works are being carried out and are expected to have a positive impact on occupancy and rents. The refurbishment of the Beijing Sanlitun Yashow Building as an extension to Taikoo Li Sanlitun (with a GFA of 296,000 square feet) is expected to be completed in 2019.

Gross rental income at TaiKoo Hui in Guangzhou increased in the first half of 2018, reflecting in part improvements to the tenant mix and a customer loyalty programme. Retail sales grew by 12%. The mall was 98% let at 30th June 2018.

The mall at INDIGO in Beijing was 100% occupied at 30th June 2018. Improvements to the tenant mix have been made. Retail sales increased by 6% in the first half of 2018. The mall is becoming a significant quality family shopping centre in north-east Beijing.

Gross rental income at Sino-Ocean Taikoo Li Chengdu increased in the first half of 2018. Retail sales increased by 29% in the first half of 2018. The development is gaining popularity as a downtown shopping destination in Chengdu. At 30th June 2018, the occupancy rate was 96%.

Gross rental income at HKRI Taikoo Hui increased in the first half of 2018 as more shops were open than in the first half of 2017. At 30th June 2018, tenants had committed (including by way of letters of intent) to lease 96% of the space and 90% of the shops were open. Retail sales and the number of visitors have grown steadily since the opening in May 2017.

Mainland China Retail Market Outlook

Retail sales are expected to grow satisfactorily in Chengdu, steadily in Guangzhou and Beijing and modestly in Shanghai in the second half of 2018.

Demand for retail space for lifestyle brands and food and beverage outlets is expected to be solid. Demand for luxury goods has improved in Beijing and is strong in Guangzhou and Chengdu. Retail rents are expected to grow satisfactorily in Guangzhou and moderately in Shanghai and Chengdu in the second half of 2018 despite an increase in the availability of competing space.

Offices

The Mainland China office portfolio's gross rental income for the first half of 2018 was HK\$202 million.

TaiKoo Hui's office towers in Guangzhou were fully let at 30th June 2018. Occupancy at ONE INDIGO in Beijing was 99% at 30th June 2018. Demand for office space in Beijing improved in the first half of 2018. The occupancy rate at HKRI Taikoo Hui in Shanghai was 91% at 30th June 2018.

Mainland China Office Market Outlook

There has been limited new supply of office space in the core areas of Guangzhou and there is strong demand from existing office tenants to expand or upgrade their accommodation. Vacancy rates have declined. Despite the availability of new office space in Guangzhou in the second half of 2018, rentals are expected to be resilient. Demand for office space in Beijing and the Jingan District of Shanghai is expected to underpin rentals in the second half of 2018, despite new supply.

Investment Property Under Development

Qiantan, Shanghai

In March 2018, Swire Properties and a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development

Co., Ltd. formed a joint venture to develop a retail project with an aggregate GFA of approximately 1,250,000 square feet in Qiantan, Pudong New District in Shanghai. Construction is in progress. The development is expected to be completed in 2020.

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 Brickell City Centre 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, and its components opened between March 2016 and February 2017. Two and Three Brickell City Centre are fully leased. The shopping centre was 89% let (including by way of letters of intent) at 30th June 2018.

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 30th June 2018, Swire Properties owned 100% of the office, hotel and unsold residential elements, and 59.25% 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 (15.75%). Bal Harbour Shops has an option, exercisable from the second anniversary of the grand opening of the shopping centre, 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.

At 30th June 2018, the completed development at Brickell City Centre (excluding the hotel and residential trading portions) was valued at HK\$6,765 million.

| Brickell City Centre, Miami | GFA (sq. ft.) ⁽¹⁾ (100% Basis) | Attributable Interest |
|---|--|-----------------------|
| <i>Completed</i> | | |
| Shopping centre | 496,508 | 59.3% |
| Two and Three Brickell City Centre EAST, Miami – hotel ⁽²⁾ | 263,384 | 100% |
| EAST, Miami – serviced apartments | 218,000 | 100% |
| Reach and Rise ⁽³⁾ | 109,000 | 100% |
| Sub-Total | 1,389,105 | |
| <i>Future Development</i> | | |
| Residential | 523,000 | 100% |
| One Brickell City Centre | 1,444,000 | 100% |
| Total | 3,356,105 | |

(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 30th June 2018.

Miami Market Outlook

There is too much retail space available for rent and weak retail sales have made some retailers cautious about expansion. New supply of Grade-A office space is limited and demand is firm.

Valuation of Investment Properties

The portfolio of investment properties was valued at 30th June 2018 on the basis of market value (94% 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\$270,473 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 a reduction of 12.5 basis points in the capitalisation rate applicable to office properties and rental increases 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 30th June 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 small development is being planned in Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida, U.S.A.

| Property Trading Portfolio (At 30th June 2018) | | | |
|---|-------------------------------|--|--------------------------|
| | GFA (sq. ft.) (100% Basis) | Actual/Expected Construction Completion Date | Attributable Interest |
| <i>Completed⁽¹⁾</i> | | | |
| Mainland China | | | |
| – Pinnacle One, Chengdu | 593,139 ⁽²⁾ | 2014 | 50% |
| U.S.A. | | | |
| – ASIA, Miami | 5,359 ⁽³⁾ | 2008 | 100% |
| – Reach, Miami | 51,053 ⁽³⁾ | 2016 | 100% |
| – Rise, Miami | 251,160 ⁽³⁾ | 2016 | 100% |
| <i>Held for Development</i> | | | |
| Hong Kong | | | |
| – 21-31 Wing Fung Street | 29,928 | 2021 | 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) Including portion which is subject to the outcome of court proceedings.

(3) Remaining saleable area.

Hong Kong

All 28 detached houses at the WHITESANDS development in Cheung Sha, Lantau Island have been sold. The profit from the sale of 16 houses was recognised in previous years and the profit from the sale of six houses was recognised in the first half of 2018. The profit from the sale of the remaining six houses is expected to be recognised in the second half of 2018. The property is managed by Swire Properties.

In 2017, Swire Properties completed the acquisition of a 100% interest in a property at 21-31 Wing Fung Street, 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 2021.

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. 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. The buyer appealed. The result of the appeal is awaited.

U.S.A.

The residential portion of the Brickell City Centre development was developed for trading purposes. 363 of 390 units at Reach and 227 of 390 units at Rise had been sold at 7th August 2018. The profits from the sales of one unit at Reach and 14 units at Rise were recognised in the first half of 2018. Since the ASIA development was completed in 2008, 122 out of the 123 units have been sold. One penthouse unit remains unsold.

Outlook

In Miami, the majority of the demand for condominiums is from South American buyers. That demand is expected to continue to be affected by weak South American economies and the relative strength of the US dollar. In Hong Kong, profits are expected to be recognised in the second half of 2018 from the sales of six houses at the WHITESANDS development.

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

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 are business hotels in Hong Kong, Beijing and Miami. The Group also has interests in non-managed hotels in Hong Kong, Guangzhou, Shanghai and Miami, Florida.

| Hotel Portfolio (Managed by Swire Hotels) | No. of Rooms (100% Basis) | Attributable Interest |
|--|--------------------------------------|----------------------------------|
| <i>Completed</i> | | |
| 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.

Hong Kong

Swire Properties wholly-owns and manages (through Swire Hotels) two hotels in Hong Kong, The Upper House, a 117-room luxury hotel at Pacific Place, and EAST, Hong Kong, a 345-room hotel in Taikoo Shing.

Swire Properties has a 20% interest in each of the JW Marriott, Conrad Hong Kong and Island Shangri-La hotels at Pacific Place and in the Novotel Citygate in Tung Chung. A non-managed hotel which is part of the Tung Chung Town Lot No. 11 development in Hong Kong is expected to open in 2019.

The managed hotels in Hong Kong performed better in the first half of 2018. Revenue per available room and occupancy improved and food and beverages business grew.

The performance of the non-managed hotels in Hong Kong was stable.

Mainland China

Swire Hotels manages four hotels in Mainland China, The Opposite House, a 99-room luxury hotel at Taikoo Li Sanlitun, EAST, Beijing, a 369-room business hotel at INDIGO, The Temple House, a luxury property consisting of 100 hotel rooms and 42 serviced apartments at Sino-Ocean Taikoo Li Chengdu, and The Middle House, a luxury property consisting of 111 hotel rooms and 102 serviced apartments at HKRI Taikoo Hui, Shanghai. Swire Properties owns 100% of The Opposite House, 50% of EAST, Beijing, 50% of The Temple House and 50% of The Middle House. Swire Properties owns 97% of, but does not manage, the Mandarin Oriental at TaiKoo Hui in Guangzhou, which has 263 rooms and 24 serviced apartments. In May 2018, another 50% owned non-managed hotel, The Sukhothai, which has 201 rooms, was opened at HKRI Taikoo Hui in Shanghai.

Revenue per available room and occupancy improved at EAST, Beijing and The Temple House and were stable at The Opposite House. The Middle House officially opened in May 2018 and is building up its occupancy.

Occupancy increased at the Mandarin Oriental in Guangzhou.

U.S.A.

Swire Properties wholly-owns and manages (through Swire Hotels) EAST, Miami at the Brickell City Centre development. The property consists of 263 rooms and 89 serviced apartments. Room rates, occupancy and operating margins improved as the business stabilised.

Swire Properties has a 75% interest in the 326-room Mandarin Oriental hotel in Miami. The operating results of the hotel in the first half of 2018 were better than in the first half of 2017, mainly due to higher room rates.

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. Tong Bar & Café operates in Blueprint, our co-working space at Taikoo Place.

Outlook

Trading conditions for our hotels are expected to be stable in the second half of 2018. The two new hotels in Shanghai are building 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 in 2019.

Capital Commitments

Capital Expenditure and Commitments

Capital expenditure in the first half of 2018 on Hong Kong investment properties and hotels, including the Group's share of the capital expenditure of joint venture companies, amounted to HK\$3,209 million (first half of 2017: HK\$2,060 million). Outstanding capital commitments at 30th June 2018 were HK\$16,193 million (31st December 2017: HK\$12,170 million), including the Group's share of the capital commitments of joint venture companies of HK\$473 million (31st December 2017: HK\$775 million). The Group is committed to funding HK\$128 million (31st December 2017: HK\$305 million) of the capital commitments of joint venture companies in Hong Kong.

Capital expenditure in the first half of 2018 on Mainland China investment properties and hotels, including the

Group's share of the capital expenditure of joint venture companies, amounted to HK\$2,034 million (first half of 2017: HK\$331 million). Outstanding capital commitments at 30th June 2018 were HK\$2,323 million (31st December 2017: HK\$1,553 million), including the Group's share of the capital commitments of joint venture companies of HK\$1,439 million (31st December 2017: HK\$652 million). The Group is committed to funding HK\$7 million (31st December 2017: HK\$36 million) of the capital commitments of joint venture companies in Mainland China.

Capital expenditure in the first half of 2018 on investment properties and hotels in the U.S.A. and elsewhere amounted to HK\$84 million (first half of 2017: HK\$725 million). Outstanding capital commitments at 30th June 2018 were HK\$432 million (31st December 2017: HK\$477 million).

Profile of Capital Commitments for Investment Properties and Hotels

| | Expenditure Six months ended 30th June 2018 HK\$M | Forecast Period of Expenditure | | | | Commitments ⁽¹⁾ At 30th June 2018 HK\$M |
|-------------------------|--|---|---------------|---------------|----------------------------|---|
| | | Six months ended 31st December 2018 HK\$M | 2019 HK\$M | 2020 HK\$M | 2021 and later HK\$M | |
| Hong Kong | 3,209 | 1,778 | 1,542 | 4,421 | 8,452 | 16,193 |
| Mainland China | 2,034 | 774 | 1,066 | 415 | 68 | 2,323 |
| U.S.A. and elsewhere | 84 | 114 | 273 | 25 | 20 | 432 |
| Total | 5,327 | 2,666 | 2,881 | 4,861 | 8,540 | 18,948 |

⁽¹⁾ The capital commitments represent the Group's capital commitments of HK\$17,036 million plus the Group's share of the capital commitments of joint venture companies of HK\$1,912 million. The Group is committed to funding HK\$135 million of the capital commitments of joint venture companies.

FINANCING

Summary of Cash Flows

| | Six months ended 30th June | | Year ended 31st December |
|--|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Net cash from/(used by) businesses and investments | | | |
| Cash generated from operations | 5,308 | 8,870 | 13,680 |
| Dividends received | 45 | 179 | 249 |
| Tax paid | (358) | (352) | (1,044) |
| Net interest paid | (533) | (568) | (1,129) |
| Cash from/(used in) investing activities | 3,166 | (3,551) | (6,887) |
| | 7,628 | 4,578 | 4,869 |
| Cash (paid to) shareholders and net funding by debt | | | |
| Net increase in borrowings | 573 | 449 | 1,889 |
| Decrease in loans due to Swire Finance | (4,232) | (2,329) | (2,329) |
| Dividends paid | (3,054) | (2,818) | (4,464) |
| | (6,713) | (4,698) | (4,904) |
| Increase/(Decrease) in cash and cash equivalents | 915 | (120) | (35) |

Cash from investing activities during the first half of 2018 principally comprised the proceeds of sale of investment properties. Cash used in investing activities during the first half of 2018 included capital expenditure and investments in joint venture companies.

Financing Arrangement with the Swire Pacific Group

Financial Information Reviewed by Auditors

A loan agreement entered into in 2010 between Swire Properties (Finance) Limited, the Company and Swire Finance Limited ("Swire Finance", a wholly-owned subsidiary of Swire Pacific Limited) recorded the terms on which the Group borrowed from Swire Finance amounts equivalent to amounts borrowed by Swire Finance under the Swire Pacific group's medium term note programme. Those terms substantially mirrored the terms of the bonds issued under that medium term note programme. Those bonds mature on various dates in the second half of 2018. No security has been given by the Group in respect of its obligations under that loan agreement. Upon maturity of the bonds to which that loan agreement relates, the Group will obtain new funding (as necessary) on a stand-alone basis without recourse to the Swire Pacific group.

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 30th June 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

Financial Information Reviewed by Auditors Analysis of Changes in Financing

| | Six months ended 30th June 2018 HK\$M | Year ended 31st December 2017 HK\$M |
|---|--|--|
| Bank loans, bonds and loans from Swire Finance | | |
| At 1st January | 37,055 | 37,058 |
| Loans drawn and refinancing | 17 | 6,475 |
| Bonds issued | 3,924 | 2,090 |
| Bonds matured | – | (500) |
| Repayment of loans | (3,368) | (6,176) |
| Decrease in loans due to Swire Finance | (4,232) | (2,329) |
| Currency adjustment and other non-cash movements | 78 | 437 |
| At 30th June/31st December | 33,474 | 37,055 |

During the first half of 2018, the Group issued medium term notes of US\$500 million and made various repayments of debt. These comprised:

- repayment of amounts due under a loan agreement with Swire Finance corresponding to HK\$4,232 million of notes issued by Swire Finance and maturing during the period
- prepayment of term loan facilities and repayment of revolving loan facilities totalling HK\$2,600 million and RMB648 million

Net Debt

Financial Information Reviewed by Auditors

The Group's borrowings are principally denominated in Hong Kong dollars, Renminbi and US dollars. Outstanding borrowings at 30th June 2018 and 31st December 2017 were as follows:

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|---|-------------------------------------|--------------------------------|
| Borrowings included in non-current liabilities | | |
| Bank borrowings – unsecured | 8,082 | 11,136 |
| Bonds – unsecured | 21,542 | 17,582 |
| Borrowings included in current liabilities | | |
| Bank borrowings – unsecured | 2,905 | 3,161 |
| Borrowings from Swire Finance – unsecured | 945 | 5,176 |
| Total borrowings | 33,474 | 37,055 |
| Less: short-term deposits and bank balances | 2,612 | 1,708 |
| Net debt | 30,862 | 35,347 |

Sources of Finance

Financial Information Reviewed by Auditors

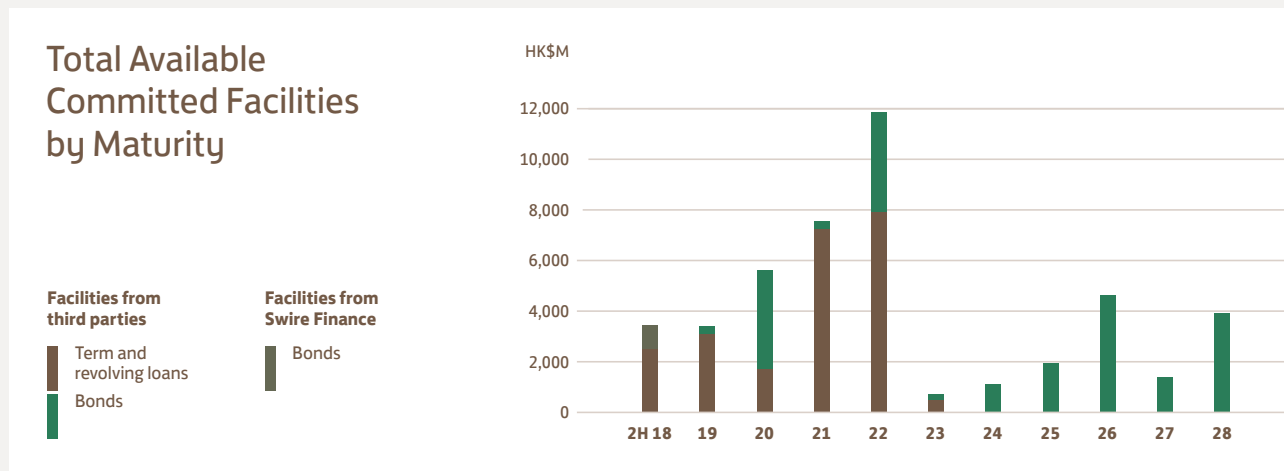
At 30th June 2018, committed loan facilities and debt securities amounted to HK\$45,547 million, of which HK\$12,116 million (27%) remained undrawn. In addition, the Group had undrawn uncommitted facilities totalling HK\$875 million. Sources of funds at 30th June 2018 comprised:

| | 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 | 8,172 | 8,172 | – | – |
| Revolving loans | 14,804 | 2,688 | 1,625 | 10,491 |
| Bonds | 21,626 | 21,626 | – | – |
| Facilities from Swire Finance | | | | |
| Bonds | 945 | 945 | – | – |
| Total committed facilities | 45,547 | 33,431 | 1,625 | 10,491 |
| Uncommitted facilities | | | | |
| Bank loans and overdrafts | 1,113 | 238 | 875 | – |
| Total | 46,660 | 33,669 | 2,500 | 10,491 |

Note: The figures above are stated before unamortised loan fees of HK\$195 million.

Maturity Profile and Refinancing

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



Financial Information Reviewed by Auditors

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

| | 30th June 2018 | | 31st December 2017 | |
|---|----------------|-------------|--------------------|-------------|
| | HK\$M | | HK\$M | |
| Bank borrowings from and bonds issued to third parties due | | | | |
| Within 1 year | 2,905 | 9% | 3,161 | 9% |
| 1-2 years | 5,753 | 17% | 2,232 | 6% |
| 2-5 years | 10,958 | 33% | 17,297 | 46% |
| After 5 years | 12,913 | 38% | 9,189 | 25% |
| Borrowings from Swire Finance due | | | | |
| Within 1 year | 945 | 3% | 5,176 | 14% |
| Total | 33,474 | 100% | 37,055 | 100% |
| Less: Amount due within one year included under current liabilities | 3,850 | | 8,337 | |
| Amount due after one year included under non-current liabilities | 29,624 | | 28,718 | |

Currency Profile

Financial Information Reviewed by Auditors

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

| Currency | 30th June 2018 | | 31st December 2017 | |
|-----------------------|----------------|-------------|--------------------|-------------|
| | HK\$M | | HK\$M | |
| Hong Kong dollars | 25,785 | 77% | 28,639 | 77% |
| United States dollars | 6,246 | 19% | 6,215 | 17% |
| Renminbi | 1,033 | 3% | 1,826 | 5% |
| Singapore dollars | 410 | 1% | 375 | 1% |
| Total | 33,474 | 100% | 37,055 | 100% |

Finance Charges

Financial Information Reviewed by Auditors

At 30th June 2018, 72% of the Group's gross borrowings (after interest rate swaps) were on a fixed rate basis and 28% were on a floating rate basis (31st December 2017: 65% and 35% respectively). Interest charged and earned was as follows:

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Interest charged on: | | | |
| Bank loans and overdrafts | 161 | 143 | 291 |
| Bonds | 359 | 279 | 572 |
| Loans from fellow subsidiary companies | 84 | 196 | 328 |
| Loans from joint venture and related companies | 3 | 3 | 6 |
| Net fair value (gains)/losses on derivative instruments | | | |
| Cash flow hedges – transferred from other comprehensive income | (11) | (1) | 2 |
| Other financing costs | 81 | 75 | 150 |
| | 677 | 695 | 1,349 |
| 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 | 4 | 1 | 6 |
| Capitalised on: | | | |
| Investment properties | (127) | (102) | (212) |
| Other current assets/other non-current assets | – | (79) | (160) |
| | 554 | 515 | 983 |
| Interest income on: | | | |
| Short-term deposits and bank balances | (14) | (5) | (14) |
| Loans to joint venture companies | (37) | (34) | (69) |
| | (51) | (39) | (83) |
| Net finance charges | 503 | 476 | 900 |

Gearing Ratio and Interest Cover

| | 30th June | | 31st December |
|---|-------------------------------|-------|-----------------------------|
| | 2018 | 2017 | 2017 |
| Gearing ratio ⁽¹⁾ | 11.1% | 14.1% | 13.6% |
| | Six months ended 30th June | | Year ended 31st December |
| | 2018 | 2017 | 2017 |
| Interest cover – times ⁽¹⁾ | | | |
| Per financial statements | 42.4 | 32.6 | 38.8 |
| Underlying | 14.1 | 11.9 | 10.7 |
| Cash interest cover – times ⁽¹⁾ | | | |
| Per financial statements | 33.8 | 23.6 | 27.5 |
| Underlying | 11.2 | 8.6 | 7.5 |

⁽¹⁾ Refer to Glossary on page 55 for definitions.

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 30th June 2018 and 31st December 2017:

| | Net Debt of Joint Venture and Associated Companies | | Portion of Net Debt Attributable to the Group | | Debt Guaranteed by the Group | |
|------------------------------|--|-----------------------|--|-----------------------|---------------------------------|-----------------------|
| | 30th June 2018 | 31st December 2017 | 30th June 2018 | 31st December 2017 | 30th June 2018 | 31st December 2017 |
| | HK\$M | HK\$M | HK\$M | HK\$M | HK\$M | HK\$M |
| Hong Kong Entities | 4,467 | 4,189 | 1,988 | 1,903 | 1,145 | 1,005 |
| Mainland China Entities | 12,735 | 12,686 | 6,368 | 6,343 | – | – |
| U.S.A. and other Entities | 443 | 459 | 348 | 364 | 477 | 478 |
| Total | 17,645 | 17,334 | 8,704 | 8,610 | 1,622 | 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 14.3%.

REPORT ON REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

Introduction

We have reviewed the condensed interim financial statements set out on pages 30 to 51, which comprise the consolidated statement of financial position of Swire Properties Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the six-month period then ended and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The Directors of the Company are responsible for the preparation and presentation of these condensed interim financial statements in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed interim financial statements of the Group are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

PricewaterhouseCoopers

Certified Public Accountants
Hong Kong, 9 August 2018

CONDENSED INTERIM FINANCIAL STATEMENTS

Consolidated Statement of Profit or Loss

For the six months ended 30th June 2018 – unaudited

| | Note | Unaudited Six months ended 30th June | | Audited Year ended 31st December |
|---|------|--|---------------|--|
| | | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Revenue | 4 | 7,309 | 11,525 | 18,558 |
| Cost of sales | 5 | (2,144) | (5,125) | (7,569) |
| Gross profit | | 5,165 | 6,400 | 10,989 |
| Administrative and selling expenses | | (717) | (694) | (1,369) |
| Other operating expenses | | (105) | (137) | (227) |
| Other net gains | 6 | 237 | 22 | 72 |
| Profit on sale of subsidiary companies | | 1,194 | – | 2 |
| Change in fair value of investment properties | 13 | 15,535 | 9,946 | 25,463 |
| Operating profit | | 21,309 | 15,537 | 34,930 |
| Finance charges | | (554) | (515) | (983) |
| Finance income | | 51 | 39 | 83 |
| Net finance charges | 8 | (503) | (476) | (900) |
| Share of profits less losses of joint venture companies | | 990 | 649 | 1,646 |
| Share of profits less losses of associated companies | | 74 | 70 | 146 |
| Profit before taxation | | 21,870 | 15,780 | 35,822 |
| Taxation | 9 | (627) | (1,036) | (1,807) |
| Profit for the period | | 21,243 | 14,744 | 34,015 |
| Profit attributable to: | | | | |
| The Company's shareholders | | 21,205 | 14,763 | 33,957 |
| Non-controlling interests | | 38 | (19) | 58 |
| | | 21,243 | 14,744 | 34,015 |
| | | HK\$ | HK\$ | HK\$ |
| Earnings per share from profit attributable to the Company's shareholders (basic and diluted) | 11 | 3.62 | 2.52 | 5.80 |

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Statement of Other Comprehensive Income

For the six months ended 30th June 2018 – unaudited

| | Unaudited Six months ended 30th June | | Audited Year ended 31st December |
|--|--|---------------|--|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Profit for the period | 21,243 | 14,744 | 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 period | – | 120 | 128 |
| – deferred tax charge | – | (2) | (2) |
| Defined benefit plans | | | |
| – remeasurement losses recognised during the period | – | – | (6) |
| – deferred tax credit | – | – | 1 |
| | – | 118 | 121 |
| Items that may be reclassified subsequently to profit or loss | | | |
| Cash flow hedges | | | |
| – gains/(losses) recognised during the period | 59 | (368) | (294) |
| – (gains)/losses transferred to net finance charges | (11) | (1) | 2 |
| – deferred tax (charge)/credit | (8) | 61 | 48 |
| Share of other comprehensive (losses)/income of joint venture and associated companies | (173) | 285 | 645 |
| Net translation differences on foreign operations | (381) | 773 | 1,839 |
| | (514) | 750 | 2,240 |
| Other comprehensive (losses)/income for the period, net of tax | (514) | 868 | 2,361 |
| Total comprehensive income for the period | 20,729 | 15,612 | 36,376 |
| Total comprehensive income attributable to: | | | |
| The Company's shareholders | 20,693 | 15,614 | 36,283 |
| Non-controlling interests | 36 | (2) | 93 |
| | 20,729 | 15,612 | 36,376 |

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Statement of Financial Position

At 30th June 2018 – unaudited

| | Unaudited 30th June 2018 HK\$M | Audited 31st December 2017 HK\$M |
|---|---|---|
| ASSETS AND LIABILITIES | | |
| Non-current assets | | |
| Property, plant and equipment | 12 8,149 | 8,371 |
| Investment properties | 13 270,697 | 267,531 |
| Intangible assets | 14 217 | 178 |
| Properties held for development | 1,350 | 1,342 |
| Joint venture companies | 15 25,898 | 23,026 |
| Associated companies | 16 437 | 374 |
| Derivative financial instruments | 18 136 | 51 |
| Deferred tax assets | 22 77 | 85 |
| Other financial assets at amortised cost | 32 | – |
| | 306,993 | 300,958 |
| Current assets | | |
| Properties under development and for sale | 1,980 | 2,300 |
| Stocks and work in progress | 81 | 80 |
| Trade and other receivables | 19 2,783 | 2,996 |
| Other current assets | 23 – | 6,262 |
| Amount due from immediate holding company – Swire Pacific Limited | 20 5 | 5 |
| Cash and cash equivalents | 2,612 | 1,708 |
| | 7,461 | 13,351 |
| Assets classified as held for sale | 24 14,704 | – |
| Total current assets | 22,165 | 13,351 |
| Current liabilities | | |
| Trade and other payables | 21 8,219 | 7,820 |
| Tax payable | 915 | 638 |
| Bank overdrafts and short-term loans | 238 | 499 |
| Long-term loans and bonds due within one year | 2,667 | 2,662 |
| Loans due to a fellow subsidiary company – Swire Finance Limited | 945 | 5,176 |
| | 12,984 | 16,795 |
| Liabilities directly associated with assets classified as held for sale | 24 233 | – |
| Total current liabilities | 13,217 | 16,795 |
| Net current assets/(liabilities) | 8,948 | (3,444) |
| Total assets less current liabilities | 315,941 | 297,514 |
| Non-current liabilities | | |
| Long-term loans and bonds | 29,624 | 28,718 |
| Other payables | 21 772 | 716 |
| Derivative financial instruments | 18 8 | 34 |
| Deferred tax liabilities | 22 8,324 | 8,523 |
| Retirement benefit liabilities | 152 | 145 |
| | 38,880 | 38,136 |
| NET ASSETS | 277,061 | 259,378 |
| EQUITY | | |
| Share capital | 25 10,449 | 10,449 |
| Reserves | 26 264,583 | 246,932 |
| Equity attributable to the Company's shareholders | 275,032 | 257,381 |
| Non-controlling interests | 27 2,029 | 1,997 |
| TOTAL EQUITY | 277,061 | 259,378 |

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Statement of Cash Flows

For the six months ended 30th June 2018 – unaudited

| | Unaudited Six months ended 30th June | | Audited Year ended 31st December |
|--|--|----------------|--|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Operating activities | | | |
| Cash generated from operations | 5,308 | 8,870 | 13,680 |
| Interest paid | (583) | (609) | (1,213) |
| Interest received | 50 | 41 | 84 |
| Tax paid | (358) | (352) | (1,044) |
| | 4,417 | 7,950 | 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) | 45 | 179 | 249 |
| Net cash from operating activities | 4,462 | 8,129 | 11,756 |
| Investing activities | | | |
| Purchase of property, plant and equipment | (59) | (102) | (217) |
| Additions to investment properties | (2,598) | (2,693) | (5,179) |
| Additions to other current assets/non-current assets | (71) | (494) | (623) |
| Purchase of intangible assets | (3) | (3) | (21) |
| Proceeds from sale of investment properties | 236 | 11 | 40 |
| Proceeds from sale of subsidiary companies | 7,757 | – | 2 |
| Equity and loans to joint venture companies | (2,225) | (356) | (989) |
| Repayment of loans by joint venture companies | 135 | 95 | 124 |
| Initial leasing costs incurred | (6) | (9) | (24) |
| Net cash from/(used in) investing activities | 3,166 | (3,551) | (6,887) |
| Net cash inflow before financing | 7,628 | 4,578 | 4,869 |
| Financing activities | | | |
| Loans drawn and refinancing | 17 | 4,546 | 6,475 |
| Bonds issued | 3,924 | 1,390 | 2,090 |
| Repayment of loans and bonds | (3,368) | (5,487) | (6,676) |
| | 573 | 449 | 1,889 |
| Repayment of loans to a fellow subsidiary company | (4,232) | (2,329) | (2,329) |
| Dividends paid to the Company's shareholders | (3,042) | (2,808) | (4,271) |
| Dividends paid to non-controlling interests | (12) | (10) | (193) |
| Net cash used in financing activities | (6,713) | (4,698) | (4,904) |
| Increase/(Decrease) in cash and cash equivalents | 915 | (120) | (35) |
| Cash and cash equivalents at 1st January | 1,708 | 1,681 | 1,681 |
| Currency adjustment | (11) | 28 | 62 |
| Cash and cash equivalents at end of the period | 2,612 | 1,589 | 1,708 |
| Represented by: | | | |
| Bank balances and short-term deposits maturing within three months | 2,612 | 1,589 | 1,708 |

The notes on pages 35 to 51 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the six months ended 30th June 2018 – unaudited

| | Attributable to the Company's shareholders | | | | Non-controlling interests HK\$M | Total equity HK\$M |
|---|--|--------------------------|-------------------------|----------------|------------------------------------|-----------------------|
| | Share capital HK\$M | Revenue reserve HK\$M | Other reserves HK\$M | Total HK\$M | | |
| At 1st January 2018 | 10,449 | 245,002 | 1,930 | 257,381 | 1,997 | 259,378 |
| Profit for the period | – | 21,205 | – | 21,205 | 38 | 21,243 |
| Other comprehensive loss | – | – | (512) | (512) | (2) | (514) |
| Total comprehensive income/ (loss) for the period | – | 21,205 | (512) | 20,693 | 36 | 20,729 |
| Dividends paid | – | (3,042) | – | (3,042) | (12) | (3,054) |
| Capital contribution from a non-controlling interest accrued | – | – | – | – | 8 | 8 |
| At 30th June 2018 (unaudited) | 10,449 | 263,165 | 1,418 | 275,032 | 2,029 | 277,061 |

| | Attributable to the Company's shareholders | | | | Non-controlling interests HK\$M | Total equity HK\$M |
|--|--|--------------------------|-------------------------|----------------|------------------------------------|-----------------------|
| | Share capital HK\$M | Revenue reserve HK\$M | Other reserves HK\$M | Total HK\$M | | |
| At 1st January 2017 | 10,449 | 215,318 | (398) | 225,369 | 1,856 | 227,225 |
| Profit/(Loss) for the period | – | 14,763 | – | 14,763 | (19) | 14,744 |
| Other comprehensive income | – | – | 851 | 851 | 17 | 868 |
| Total comprehensive income/ (loss) for the period | – | 14,763 | 851 | 15,614 | (2) | 15,612 |
| Dividends paid | – | (2,808) | – | (2,808) | (10) | (2,818) |
| Capital contribution from a non-controlling interest accrued | – | – | – | – | 241 | 241 |
| At 30th June 2017 (unaudited) | 10,449 | 227,273 | 453 | 238,175 | 2,085 | 240,260 |

The notes on pages 35 to 51 form part of these financial statements.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. 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.

(a) 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 | Net finance charges 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 | Profit/(Loss) for the period HK\$M | Profit/(Loss) attributable to the Company's shareholders HK\$M |
|---|---------------------------|--------------------------------|--|------------------------------|--|---|--|---------------------------------------|---|
| Six months ended 30th June 2018 | | | | | | | | | |
| Property investment | 6,059 | 18 | 5,702 | (463) | 388 | – | 5,627 | 4,996 | 4,974 |
| Property trading | 530 | – | 73 | (20) | (4) | – | 49 | 32 | 22 |
| Hotels | 720 | 3 | (1) | (20) | (72) | 74 | (19) | (24) | (24) |
| Change in fair value of investment properties | – | – | 15,535 | – | 678 | – | 16,213 | 16,239 | 16,233 |
| Inter-segment elimination | – | (21) | – | – | – | – | – | – | – |
| Total | 7,309 | – | 21,309 | (503) | 990 | 74 | 21,870 | 21,243 | 21,205 |
| Six months ended 30th June 2017 | | | | | | | | | |
| Property investment | 5,616 | 17 | 4,194 | (439) | 228 | – | 3,983 | 3,411 | 3,401 |
| Property trading | 5,258 | – | 1,447 | (18) | (3) | – | 1,426 | 1,180 | 1,180 |
| Hotels | 651 | 2 | (50) | (19) | (11) | 70 | (10) | (12) | (11) |
| Change in fair value of investment properties | – | – | 9,946 | – | 435 | – | 10,381 | 10,165 | 10,193 |
| Inter-segment elimination | – | (19) | – | – | – | – | – | – | – |
| Total | 11,525 | – | 15,537 | (476) | 649 | 70 | 15,780 | 14,744 | 14,763 |
| Year ended 31st December 2017 | | | | | | | | | |
| Property investment | 11,380 | 34 | 8,172 | (826) | 500 | – | 7,846 | 6,676 | 6,671 |
| Property trading | 5,833 | – | 1,397 | (35) | (11) | – | 1,351 | 1,111 | 1,111 |
| Hotels | 1,345 | 5 | (102) | (39) | (44) | 146 | (39) | (44) | (43) |
| Change in fair value of investment properties | – | – | 25,463 | – | 1,201 | – | 26,664 | 26,272 | 26,218 |
| Inter-segment elimination | – | (39) | – | – | – | – | – | – | – |
| Total | 18,558 | – | 34,930 | (900) | 1,646 | 146 | 35,822 | 34,015 | 33,957 |

Note:

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

1. Segment Information (continued)

(b) 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 |
|------------------------------|-------------------------|----------------------------------|-------------------------------|---------------------------------|-----------------------|
| At 30th June 2018 | | | | | |
| Property investment | 290,494 | 24,028 | – | 2,359 | 316,881 |
| Property trading | 3,532 | 666 | – | 115 | 4,313 |
| Hotels | 6,185 | 1,204 | 437 | 138 | 7,964 |
| Total | 300,211 | 25,898 | 437 | 2,612 | 329,158 |
| At 31st December 2017 | | | | | |
| Property investment | 278,862 | 21,119 | – | 1,440 | 301,421 |
| Property trading | 3,976 | 670 | – | 103 | 4,749 |
| Hotels | 6,363 | 1,237 | 374 | 165 | 8,139 |
| Total | 289,201 | 23,026 | 374 | 1,708 | 314,309 |

(c) 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 30th June 2018 | | | | | |
| Property investment | 8,851 | 8,889 | 30,805 | 48,545 | 1,910 |
| Property trading | 347 | 350 | 1,602 | 2,299 | 92 |
| Hotels | 186 | – | 1,067 | 1,253 | 27 |
| Total | 9,384 | 9,239 | 33,474 | 52,097 | 2,029 |
| 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 |
| Total | 8,715 | 9,161 | 37,055 | 54,931 | 1,997 |

(d) Analysis of external revenue of the Group

Six months ended 30th June 2018

| | Timing of revenue recognition | | |
|---------------------|-------------------------------|--------------------|----------------|
| | At a point in time HK\$M | Over time HK\$M | Total HK\$M |
| Property investment | 1 | 6,058 | 6,059 |
| Property trading | 530 | – | 530 |
| Hotels | 335 | 385 | 720 |
| Total | 866 | 6,443 | 7,309 |

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 under HKAS 34 for the timing of revenue recognition following the adoption of HKFRS 15 with effect from 1st January 2018.

2. Basis of Preparation

- (a) The unaudited condensed interim financial statements have been prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of The Listing Rules of The Stock Exchange of Hong Kong Limited.

The unaudited condensed interim financial statements are set out on pages 30 to 51 and also include the “Financial Information Reviewed by Auditors” in the Financing section on pages 23 to 28.

The financial information relating to the year ended 31st December 2017 that is included in this document as comparative information does not constitute the Company’s statutory annual consolidated financial statements for that year but is derived from those financial statements.

The non-statutory accounts (within the meaning of section 436 of the Companies Ordinance (Cap. 622) (the “Ordinance”)) in this document are not specified financial statements (within such meaning). The specified financial statements for the year ended 31st December 2017 have been delivered to the Registrar of Companies in Hong Kong in accordance with section 664 of the Ordinance. An auditor’s report has been prepared on those specified financial statements. That report was not qualified or otherwise modified, did not refer to any matter to which the auditor drew attention by way of emphasis without qualifying the report and did not contain a statement under section 406(2) or 407(2) or (3) of the Ordinance.

The accounting policies and methods of computation and presentation used in the preparation of the condensed interim financial statements are consistent with those described in the 2017 annual financial statements except for those noted in 2(b) below.

- (b) The following new and revised standards and new interpretation were required to be adopted by the Group with effect from 1st January 2018:

| | |
|---------------------|---|
| HKFRSs (Amendment) | Annual Improvements to HKFRSs 2014-2016 Cycle |
| HKFRS 9 | Financial Instruments |
| HKFRS 15 | Revenue from Contracts with Customers |
| HKAS 40 (Amendment) | Transfers of Investment Property |
| HK(IFRIC) 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 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 the new standard. The nature of the Groups’ 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 changes to the Group’s accounting policies disclosed in 2017 consolidated financial statements are required.

2. Basis of Preparation (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 receivables, 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.

(iii) Derivatives and hedging activities

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

HKAS 40 (Amendment) Transfers of Investment Property

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

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

| | |
|-----------------------|---|
| Amendments to HKFRS 9 | Prepayment Features with Negative Compensation ¹ |
| HKFRS 16 | Leases ¹ |
| HK(IFRIC) 23 | Uncertainty over Income Tax Treatments ¹ |

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

2. Basis of Preparation (continued)

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 40 to the 2017 annual financial statements. In the Group's statement of profit or loss, operating lease rentals will be replaced with depreciation and interest expenses. The Group has yet to finalise the assessment of the full impact of the new standard.

- (d) The preparation of the condensed interim financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. Those areas involving a higher degree of judgement or complexity, and areas where assumptions and estimates are significant to the Group's consolidated financial statements, are detailed in the 2017 annual financial statements.

3. Financial Risk Management

Financial risk factors

In the normal course of business the Group is exposed to financial risks attributable to interest rates, currency, credit and liquidity.

The condensed interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's 2017 annual financial statements. There have been no changes in the Group's financial risk management structure, policies and procedures since the year end.

4. Revenue

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

| | Six months ended 30th June | Year ended 31st December | |
|--|---------------------------------------|-----------------------------|---------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Gross rental income from investment properties | 5,996 | 5,555 | 11,252 |
| Property trading | 530 | 5,258 | 5,833 |
| Hotels | 720 | 651 | 1,345 |
| Rendering of other services | 63 | 61 | 128 |
| | 7,309 | 11,525 | 18,558 |

5. Cost of Sales

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Direct rental outgoings in respect of investment properties | 1,134 | 997 | 2,267 |
| Property trading | 392 | 3,534 | 4,080 |
| Hotels | 602 | 578 | 1,184 |
| Rendering of other services | 16 | 16 | 38 |
| | 2,144 | 5,125 | 7,569 |

6. Other Net Gains

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Profit/(Loss) on sale of investment properties | 60 | (2) | 9 |
| Loss on disposal of property, plant and equipment | (1) | (1) | (1) |
| Net foreign exchange gains | 1 | 20 | 32 |
| Recognition of income on forfeited deposits in respect of trading properties | 1 | – | 2 |
| Others | 176 | 5 | 30 |
| | 237 | 22 | 72 |

7. Expenses by Nature

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

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Depreciation of property, plant and equipment (note 12) | 163 | 166 | 348 |
| Amortisation of | | | |
| – intangible assets (note 14) | 14 | 14 | 27 |
| – initial leasing costs in respect of investment properties | 22 | 28 | 51 |
| Staff costs | 965 | 940 | 1,795 |
| Operating lease rental | | | |
| – properties | 47 | 27 | 52 |
| – plant and equipment | 3 | 3 | 7 |

8. Net Finance Charges

Refer to the table with the heading “Financial Information Reviewed by Auditors” on page 27 for details of the Group’s net finance charges.

9. Taxation

| | Six months ended 30th June | | Year ended 31st December |
|---|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| Current taxation | | | |
| Hong Kong profits tax | 592 | 704 | 1,104 |
| Overseas tax | 168 | 127 | 271 |
| Under-provisions in prior years | 9 | 19 | 25 |
| | 769 | 850 | 1,400 |
| Deferred taxation (note 22) | | | |
| Changes in fair value of investment properties | 128 | 76 | 460 |
| Origination and reversal of temporary differences | (270) | 110 | 215 |
| Effect of change in tax rate in the U.S.A. | – | – | (268) |
| | (142) | 186 | 407 |
| | 627 | 1,036 | 1,807 |

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

The Group's share of joint venture and associated companies' tax charges for the six months ended 30th June 2018 of HK\$166 million (30th June 2017: HK\$103 million; year ended 31st December 2017: HK\$219 million) and HK\$16 million (30th June 2017: HK\$13 million; year ended 31st December 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.

10. Dividends

| | Six months ended 30th June | | Year ended 31st December |
|--|-------------------------------|---------------|-----------------------------|
| | 2018 HK\$M | 2017 HK\$M | 2017 HK\$M |
| First interim dividend declared on 9th August 2018 of HK\$0.27 per share (2017 first interim dividend paid on 11th October 2017: HK\$0.25) | 1,580 | 1,463 | 1,463 |
| Second interim dividend paid on 3rd May 2018 of HK\$0.52 per share | – | – | 3,042 |
| | 1,580 | 1,463 | 4,505 |

The first interim dividend is not accounted for in the condensed interim financial statements because it had not been declared at the period end date.

The Directors have declared a first interim dividend of HK\$0.27 (2017: HK\$0.25) per share for the year ending 31st December 2018. The first interim dividend, which totals HK\$1,580 million (2017: HK\$1,463 million), will be paid on 4th October 2018 to shareholders registered at the close of business on the record date, being Friday, 7th September 2018. Shares of the Company will be traded ex-dividend as from Wednesday, 5th September 2018.

The register of members will be closed on Friday, 7th September 2018, during which day no transfer of shares will be effected. In order to qualify for entitlement to the first 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 Thursday, 6th September 2018.

11. Earnings Per Share (Basic and Diluted)

Earnings per share are calculated by dividing the profit attributable to the Company's shareholders for the period ended 30th June 2018 of HK\$21,205 million (30th June 2017: HK\$14,763 million; year ended 31st December 2017: HK\$33,957 million) by the weighted average number of 5,850,000,000 ordinary shares in issue during the period (30th June 2017 and 31st December 2017: 5,850,000,000 ordinary shares).

12. Property, Plant and Equipment

| | Property, plant and equipment HK\$M |
|---|---|
| Cost: | |
| At 1st January 2018 | 10,811 |
| Translation differences | (27) |
| Additions | 51 |
| Disposals | (4) |
| Net transfers from investment properties | 31 |
| Transfers to assets classified as held for sale | (125) |
| Disposal of a subsidiary company | (5) |
| At 30th June 2018 | 10,732 |
| Accumulated depreciation and impairment: | |
| At 1st January 2018 | 2,440 |
| Translation differences | (14) |
| Charge for the period | 163 |
| Disposals | (3) |
| Transfers to assets classified as held for sale | (3) |
| At 30th June 2018 | 2,583 |
| Net book value: | |
| At 30th June 2018 | 8,149 |
| At 1st January 2018 | 8,371 |

Properties occupied by the Group (together with the associated leasehold land) were transferred to investment properties following the end of occupation by the Group. There was no valuation increase from carrying amount to fair value in respect of such transfers for the period ended 30th June 2018.

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors do not consider there to be any additional impairment provision required at 30th June 2018.

13. Investment Properties

| | Completed HK\$M | Under Development HK\$M | Total HK\$M |
|---|--------------------|-------------------------------|----------------|
| At 1st January 2018 | 231,295 | 35,997 | 267,292 |
| Translation differences | (363) | (20) | (383) |
| Additions | 232 | 2,680 | 2,912 |
| Cost written back | (2) | – | (2) |
| Disposals | (165) | – | (165) |
| Net transfers to property, plant and equipment | (31) | – | (31) |
| Transfers to assets classified as held for sale | (14,546) | – | (14,546) |
| Disposal of subsidiary companies | – | (139) | (139) |
| Net fair value gains | 13,552 | 1,983 | 15,535 |
| | 229,972 | 40,501 | 270,473 |
| Add: Initial leasing costs | 224 | – | 224 |
| At 30th June 2018 | 230,196 | 40,501 | 270,697 |
| At 1st January 2018 (including initial leasing costs) | 231,534 | 35,997 | 267,531 |

14. Intangible Assets

| | Computer Software HK\$M | Others HK\$M | Total HK\$M |
|----------------------------------|-------------------------------|-----------------|----------------|
| Cost: | | | |
| At 1st January 2018 | 133 | 156 | 289 |
| Translation differences | – | 1 | 1 |
| Additions | 3 | 49 | 52 |
| At 30th June 2018 | 136 | 206 | 342 |
| Accumulated amortisation: | | | |
| At 1st January 2018 | 94 | 17 | 111 |
| Amortisation for the period | 6 | 8 | 14 |
| At 30th June 2018 | 100 | 25 | 125 |
| Net book value: | | | |
| At 30th June 2018 | 36 | 181 | 217 |
| At 1st January 2018 | 39 | 139 | 178 |

15. Joint Venture Companies

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|--|-------------------------------------|--------------------------------|
| Share of net assets, unlisted | 11,103 | 8,651 |
| Loans due from joint venture companies less provisions | | |
| – Interest-free | 13,180 | 12,997 |
| – Interest-bearing | 1,615 | 1,378 |
| | 25,898 | 23,026 |

16. Associated Companies

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|-------------------------------|-------------------------------------|--------------------------------|
| Share of net assets, unlisted | 437 | 374 |

17. Fair Value Measurement of Financial Instruments

(a) 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 30th June 2018 | | | |
| Derivatives used for hedging (note 18) | 136 | – | 136 |
| At 31st December 2017 | | | |
| Derivatives used for hedging (note 18) | 51 | – | 51 |
| Liabilities as per consolidated statement of financial position | | | |
| At 30th June 2018 | | | |
| Derivatives used for hedging (note 18) | 8 | – | 8 |
| Put option in respect of a non-controlling interest (note 21) | – | 772 | 772 |
| Total | 8 | 772 | 780 |
| At 31st December 2017 | | | |
| Derivatives used for hedging (note 18) | 34 | – | 34 |
| Put option in respect of a non-controlling interest (note 21) | – | 716 | 716 |
| Total | 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.

There were no transfers of financial instruments between the levels in the fair value hierarchy.

17. Fair Value Measurement of Financial Instruments (continued)

The following table presents the changes in Level 3 financial instruments for the period ended 30th June 2018:

| | |
|---|---|
| | Put option over non-controlling interest HK\$M |
| At 1st January 2018 | 716 |
| Translation differences | 2 |
| Additions | 50 |
| Change in fair value recognised as net finance charges | 4 |
| At 30th June 2018 | 772 |
| Total losses for the period included in profit or loss in respect of financial instruments held at 30th June 2018 | 4 |

There has been no change in valuation techniques for Level 2 and Level 3 fair value hierarchy classifications.

The fair value of derivatives used for hedging in Level 2 has been 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.

The fair value estimate of the put option in respect of a non-controlling interest in the retail portion of Brickell City Centre classified as Level 3 is determined using a discounted cash flow valuation technique and contains a number of unobservable inputs, including the expected fair value of the investment property at the expected exercise date, the expected exercise date itself and the discount rate used. Changing these unobservable inputs to unobservable inputs based on reasonable alternative assumptions would change the valuation of the put option.

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 investment properties, including the expected fair 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 30th June 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.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial assets and liabilities carried at cost or amortised cost are not materially different from their fair values at 30th June 2018 and 31st December 2017 except for the following financial liabilities, the carrying amounts and fair values of which are disclosed below:

| | 30th June 2018 | | 31st December 2017 | |
|---------------------------|--------------------------|---------------------|--------------------------|---------------------|
| | Carrying amount HK\$M | Fair value HK\$M | Carrying amount HK\$M | Fair value HK\$M |
| Long-term loans and bonds | 32,291 | 31,967 | 31,380 | 31,731 |

18. Derivative Financial Instruments

The Group uses derivative financial instruments solely for management of an underlying risk. The Group minimises its exposure to market risk since gains and losses on derivatives offset the losses and gains on the assets, liabilities or transactions being hedged. It is the Group's policy not to enter into derivative transactions for speculative purposes.

| | 30th June 2018 | | 31st December 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 | 136 | 8 | 51 | 34 |

19. Trade and Other Receivables

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|--------------------------------|----------------------------|--------------------------------|
| Trade debtors | 228 | 370 |
| Prepayments and accrued income | 250 | 254 |
| Other receivables | 2,305 | 2,372 |
| | 2,783 | 2,996 |

The analysis of the age of trade debtors (based on the invoice date) is as follows:

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|------------------------------|----------------------------|--------------------------------|
| Under three months | 224 | 368 |
| Between three and six months | 4 | 2 |
| Over six months | – | – |
| | 228 | 370 |

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.

20. 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.

21. Trade and Other Payables

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|--|-------------------------------------|--------------------------------|
| Trade and other payables – current: | | |
| Trade creditors | 516 | 542 |
| Rental deposits from tenants | 2,662 | 2,616 |
| Deposit received on the sale of subsidiary companies | 1,480 | 1,306 |
| Other current payables | | |
| Accrued capital expenditure | 716 | 539 |
| Deposits received on the sale of properties | 58 | 25 |
| Amount due to intermediate holding company | 105 | 90 |
| Amount due to a fellow subsidiary company | 15 | 51 |
| Amount due to an associated company | 55 | 31 |
| Interest-bearing advances from fellow subsidiary companies | – | 72 |
| Interest-bearing advances from joint venture and related companies | 237 | 240 |
| Advances from a non-controlling interest | 35 | 34 |
| Others | 2,340 | 2,274 |
| | 3,561 | 3,356 |
| | 8,219 | 7,820 |
| Other payables – non-current: | | |
| Put option in respect of a non-controlling interest | 772 | 716 |

The analysis of the age of trade creditors is as follows:

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|--------------------|-------------------------------------|--------------------------------|
| Under three months | 516 | 542 |

22. Deferred Taxation

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

| | HK\$M |
|--|--------------|
| At 1st January 2018 | 8,438 |
| Translation differences | (64) |
| Credited to statement of profit or loss (note 9) | (142) |
| Charged to other comprehensive income | 8 |
| Transfers to assets classified as held for sale | 7 |
| At 30th June 2018 | 8,247 |
| Represented by: | |
| Deferred tax assets | (77) |
| Deferred tax liabilities | 8,324 |
| | 8,247 |

23. 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.

24. Assets Classified as Held for Sale

On 15th June 2018, a wholly owned subsidiary of the Company entered into a sale and purchase agreement with a third party for the sale of a 100% interest in a subsidiary company which holds a wholly-owned property holding subsidiary. The relevant subsidiaries were classified as held for sale at 30th June 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.

25. Share Capital

| | Company | |
|--|----------------------------|--------------------------------|
| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
| Issued and fully paid: | | |
| At 30th June 2018 and 31st December 2017 | | |
| 5,850,000,000 ordinary shares | 10,449 | 10,449 |

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

26. 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 period | 21,205 | – | – | – | – | 21,205 |
| Other comprehensive income | | | | | | |
| Cash flow hedges | | | | | | |
| – gains recognised during the period | – | – | – | 59 | – | 59 |
| – gains transferred to net finance charges | – | – | – | (11) | – | (11) |
| – deferred tax charge | – | – | – | (8) | – | (8) |
| Share of other comprehensive income/ (loss) of joint venture and associated companies | – | – | – | 2 | (175) | (173) |
| Net translation differences on foreign operations | – | – | – | – | (379) | (379) |
| Total comprehensive income for the period | 21,205 | – | – | 42 | (554) | 20,693 |
| 2017 second interim dividend (note 10) | (3,042) | – | – | – | – | (3,042) |
| At 30th June 2018 | 263,165 | (1,108) | 1,812 | (20) | 734 | 264,583 |

* The revenue reserve at 30th June 2018 was not subject to a deduction of HK\$1,580 million representing the first interim dividend for the year ending 31st December 2018 declared on 9th August 2018 (31st December 2017: HK\$3,042 million representing the second interim dividend for 2017 declared on 15th March 2018).

27. Non-controlling Interests

| | HK\$M |
|--|--------------|
| At 1st January 2018 | 1,997 |
| Share of gains less losses for the period | 38 |
| Share of translation differences on foreign operations | (2) |
| Share of total comprehensive income for the period | 36 |
| Capital contribution from a non-controlling interest accrued | 8 |
| Dividends paid and payable | (12) |
| At 30th June 2018 | 2,029 |

28. Capital Commitments

| | 30th June 2018 HK\$M | 31st December 2017 HK\$M |
|--|-------------------------------------|--------------------------------|
| Outstanding capital commitments at the end of the period in respect of: | | |
| Property, plant and equipment | | |
| Contracted for | – | – |
| Authorised by Directors but not contracted for | 5 | 5 |
| Investment properties | | |
| Contracted for | 1,987 | 3,961 |
| Authorised by Directors but not contracted for | 15,044 | 8,807 |
| | 17,036 | 12,773 |
| The Group's share of capital commitments of joint venture companies at the end of the period * | | |
| Contracted for | 709 | 776 |
| Authorised by Directors but not contracted for | 1,203 | 651 |
| | 1,912 | 1,427 |

* of which the Group is committed to funding HK\$135 million (31st December 2017: HK\$341 million).

29. Contingencies

Guarantees outstanding at the end of the period in respect of bank loans and other liabilities of joint venture companies totalled HK\$1,622 million (31st December 2017: HK\$1,483 million). Bank guarantees given in lieu of utility deposits and other liabilities totalled HK\$176 million at the end of the period (31st December 2017: HK\$185 million).

30. Related Party Transactions

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 and will last for three years until 31st December 2019. For the six months ended 30th June 2018, service fees payable amounted to HK\$105 million (2017: HK\$137 million). Expenses of HK\$38 million (2017: HK\$33 million) were reimbursed at cost; in addition, HK\$35 million (2017: HK\$39 million) in respect of shared administrative services was reimbursed.

30. 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 Tenancy Framework Agreement was renewed on 1st October 2015 for a term of three years from 1st January 2016 to 31st December 2018. For the six months ended 30th June 2018, the aggregate rentals payable to the Group by members of the JSSHK group and members of the Swire Pacific group under tenancies to which the Tenancy Framework Agreement applies amounted to HK\$51 million (2017: HK\$50 million) and HK\$58 million (2017: HK\$59 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.

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.

| | | For the six months ended 30th June | | | | | | | | | |
|------|-----------------------|------------------------------------|---------------|-----------------------------|---------------|---------------------------|---------------|------------------------------|---------------|-----------------------|---------------|
| | | Joint venture companies | | Fellow subsidiary companies | | Immediate holding company | | Intermediate holding company | | Other related parties | |
| Note | | 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) | – | – | 7 | 9 | – | – | – | – | – |
| | Rendering of services | (a) | – | – | – | 1 | – | – | 1 | 1 | – |
| | Rental revenue | (b) | – | – | 51 | 53 | 7 | 6 | 51 | 50 | 3 |
| | Revenue from hotels | | – | – | – | 1 | – | – | 1 | 1 | – |
| | Interest income | (c) | 37 | 34 | – | – | – | – | – | – | – |
| | Interest charges | (c) | – | – | 84 | 196 | – | – | – | – | 3 |

Notes:

- (a) Purchases of services from and rendering of services 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 companies at 30th June 2018 are disclosed in note 15. Advances from fellow subsidiary, joint venture, associated and related companies are disclosed in note 21. There is a loan agreement between the Group and the Swire Pacific group, details of which are disclosed on page 23. The loans due to Swire Finance Limited, a fellow subsidiary company, are disclosed on page 25.

The amount due from the immediate holding company at 30th June 2018 was HK\$5 million (31st December 2017: HK\$5 million). The balance arises in the normal course of business, is non-interest-bearing and repayable within one year.

SUPPLEMENTARY INFORMATION

Corporate Governance

The Company complied with all the code provisions set out in the Corporate Governance Code (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 accounting period covered by the interim 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 Company has adopted codes of conduct regarding securities transactions by Directors and by relevant employees (as defined in the CG Code) on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 to the Listing Rules.

On specific enquiries made, all Directors have confirmed that, in respect of the accounting period covered by the interim report, they have complied with the required standard set out in the Model Code and the Company’s code of conduct regarding Directors’ securities transactions.

The interim results have been reviewed by the Audit Committee of the Company and by the external auditors.

Share Capital

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

Directors’ Particulars

Changes in the particulars of the Directors are set out as follows:

1. N.A.H. Fenwick was appointed as a Non-Executive Director of the Company with effect from 31st May 2018.
2. J.R. Slosar retired as Chairman and an Executive Director of the Company, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.
3. M.B. Swire was elected as Chairman and re-designated as an Executive Director of the Company, Swire Pacific Limited and Hong Kong Aircraft Engineering Company Limited with effect from 1st July 2018.

Directors' Interests

At 30th June 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 | | | Total No. of Shares | Percentage of Voting Shares (%) | Note |
|---------------------------------|---------------------|--------|----------------|---------------------|---------------------------------|------|
| | Beneficial Interest | | Trust Interest | | | |
| | Personal | Family | | | | |
| Swire Properties Limited | | | | | | |
| S.E. Bradley | 700 | – | – | 700 | 0.00001 | |
| L.K.L. Cheng | 1,000 | – | – | 1,000 | 0.00002 | |

| | Capacity | | | Total No. of Shares | Percentage of Issued Share Capital (comprised in the class) (%) | Note |
|--|---------------------|---------|----------------|---------------------|---|------|
| | Beneficial Interest | | Trust Interest | | | |
| | Personal | Family | | | | |
| 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 | 17,546,068 | 19,753,591 | 19.75 | (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 | – | 13,656,040 | 16,425,529 | 18.25 | (2) |

| | Capacity | | | Total No. of Shares | Percentage of Voting Shares (comprised in the class) (%) | Note |
|------------------------------|---------------------|--------|----------------|---------------------|--|------|
| | Beneficial Interest | | Trust Interest | | | |
| | Personal | Family | | | | |
| Swire Pacific Limited | | | | | | |
| 'A' shares | | | | | | |
| S.E. Bradley | 1,000 | – | – | 1,000 | 0.0001 | |
| L.K.L. Cheng | 10,000 | – | – | 10,000 | 0.0011 | |

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 6,222,732 ordinary shares and 3,443,638 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).

Substantial Shareholders' and Other Interests

The register of interests in shares and short positions maintained under Section 336 of the SFO shows that at 30th June 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 30th June 2018:

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

(2) John Swire & Sons Limited ("Swire") 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 Swire 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.

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 debt Gross borrowings net of bank 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.

Ratios

$$\text{Earnings per share} = \frac{\text{Profit attributable to the Company's shareholders}}{\text{Weighted average number of shares in issue during the period}}$$

$$\text{Equity attributable to the Company's shareholders per share} = \frac{\text{Equity before non-controlling interests}}{\text{Number of shares in issue at the end of the period}}$$

$$\text{Interest cover} = \frac{\text{Operating profit}}{\text{Net finance charges}}$$

$$\text{Cash interest cover} = \frac{\text{Operating profit}}{\text{Total of net finance charges and capitalised interest}}$$

$$\text{Gearing ratio} = \frac{\text{Net debt}}{\text{Total equity}}$$

FINANCIAL CALENDAR AND INFORMATION FOR INVESTORS

Financial Calendar 2018

| | |
|---|---------------|
| Interim Report available to shareholders | 4th September |
| Shares trade ex-dividend | 5th September |
| Share register closed for 2018 first interim dividend entitlement | 7th September |
| Payment of 2018 first interim dividend | 4th October |
| Annual results announcement | March 2019 |
| Annual General Meeting | May 2019 |

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Request for Feedback

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