The Taikoo Place redevelopment includes landscaped gardens and elevated walkways that connect the office towers in Taikoo Place.

PROPERTY DIVISION

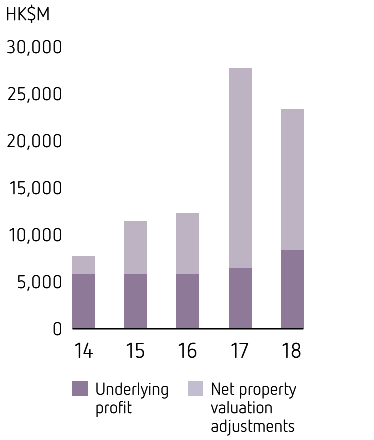
Transforming Urban Areas

Swire Properties' growing portfolio of offices, retail space and hotels is continuing to transform urban areas.

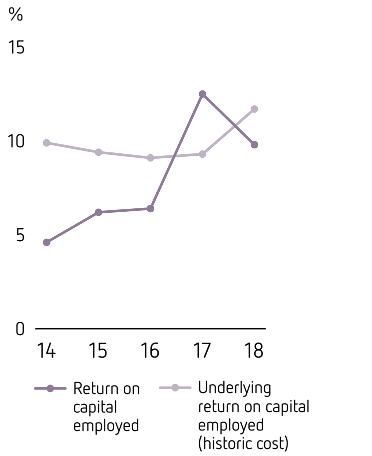
PROPERTY DIVISION

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

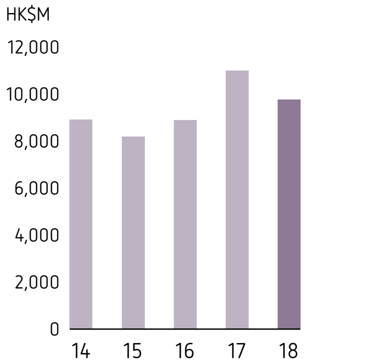
Statutory and Underlying Profit Attributable to the Company's Shareholders



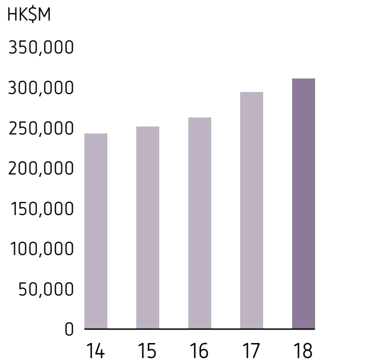
Return on Capital Employed



Net Cash Generated from Operating Activities



Capital Employed



Swire Properties' business comprises three main areas:

Property Investment

Swire Properties' property investment portfolio in Hong Kong comprises office and retail premises, serviced apartments and other luxury residential accommodation in prime locations. Including hotels, the completed portfolio in Hong Kong totals 12.7 million square feet of gross floor area, with an additional 1.3 million square feet under development. In Mainland China, Swire Properties owns and operates major mixed-use commercial developments in Beijing, Shanghai, Guangzhou and Chengdu, in joint venture in certain cases, which will total 9.5 million square feet on completion. Of this, 8.9 million square feet has already been completed. In the USA, Swire Properties is the primary developer of a 1.1 million square feet mixed-use commercial development at Brickell City Centre in Miami, with an adjoining 1.4 million square feet development under planning.

Hotel Investment

Swire Properties wholly-owns and manages, through Swire Hotels, two hotels in Hong Kong, The Upper House at Pacific Place and EAST, Hong Kong at 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. In Mainland China, Swire Hotels manages four hotels. The Opposite House at Taikoo Li Sanlitun in Beijing is wholly-owned by Swire Properties. 50% interests are owned in EAST at INDIGO in Beijing, in The Temple House at Sino-Ocean Taikoo Li Chengdu, and in The Middle House at HKRI Taikoo Hui in Shanghai. At Taikoo Hui in Guangzhou, Swire Properties owns a 97% interest in the Mandarin Oriental. In the USA, Swire Properties wholly-owns and manages, through Swire Hotels, EAST, Miami and owns a 75% interest in the Mandarin Oriental in Miami. The Sukhothai Shanghai at HKRI Taikoo Hui in Shanghai, in which Swire Properties owns a 50% interest, opened in May 2018. A non-managed hotel which is part of the 20% owned Tung Chung Town Lot No. 11 development is under development.

Property Trading

Swire Properties' trading portfolio comprises completed developments available for sale in Mainland China and Miami, USA. 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, USA. A residential development is being planned in Hong Kong. There are also land banks in Miami and Fort Lauderdale in Florida in the USA.

Swire Properties is listed on The Stock Exchange of Hong Kong Limited.

Particulars of the Group's key properties are set out on pages 222 to 231.

STRATEGY

The strategic objective of Swire Properties (as a listed company in its own right) is sustainable growth in shareholder value over the long-term as a leading developer, owner and operator of principally mixed-use commercial properties in Hong Kong and Mainland China. The strategies employed in order to achieve this objective are these:

- **The creation of long-term value through conceiving, designing, developing, owning and managing transformational mixed-use and other projects in urban areas.**
- **Maximisation of the earnings and value of its completed properties through active asset management, and by reinforcing its assets through enhancement, redevelopment and new additions.**
- **Continuing its luxury residential property activities.**
- **Remaining focused principally on Hong Kong and Mainland China.**
- **Conservative management of its capital base.**

Principal Property Investment Portfolio – Gross Floor Area

('000 Square Feet)

	At 31st December 2018						At 31st December 2017
Location	Office	Retail	Hotels	Residential	Under Planning	Total	Total
Completed							
Pacific Place	2,186	711	496	443	–	3,836	3,836
Taikoo Place	5,571	12	–	63	–	5,646	4,633
Cityplaza*	629	1,105	200	–	–	1,934	2,703
Others	601	596	47	78	–	1,322	1,140
– Hong Kong	8,987	2,424	743	584	–	12,738	12,312
Taikoo Li Sanlitun	–	1,296	169	–	–	1,465	1,465
Taikoo Hui	1,732	1,473	584	52	–	3,841	3,841
INDIGO	294	470	179	–	–	943	947
Sino-Ocean Taikoo Li Chengdu	–	657	98	55	–	810	795
HKRI Taikoo Hui	914	553	194	73	–	1,734	1,465
Others	–	91	–	–	–	91	91
– Mainland China	2,940	4,540	1,224	180	–	8,884	8,604
– USA	263	497	477	109	–	1,346	1,346
Total completed	12,190	7,461	2,444	873	–	22,968	22,262
Under and pending development							
– Hong Kong^	1,218	72	26	–	–	1,316	2,310
– Mainland China	–	623	–	–	–	623	269
– USA	–	–	–	–	1,444	1,444	1,444
Total	13,408	8,156	2,470	873	1,444	26,351	26,285

Gross floor area represents 100% of space owned by Group companies and the division's attributable share of space owned by joint venture and associated companies.

* The office portfolio includes only Cityplaza One. 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.

^ The office portfolio principally comprises Two Taikoo Place.

2018 PERFORMANCE

Financial Highlights

	2018 HK$M	2017 HK$M
Revenue		
Gross rental income derived from		
Office	6,375	6,124
Retail	5,205	4,616
Residential	537	512
Other revenue*	137	128
Property investment	12,254	11,380
Property trading	1,061	5,833
Hotels	1,404	1,345
Total revenue	14,719	18,558
Operating profit/(loss) derived from		
Property investment		
From operations	8,585	8,154
Sale of interests in investment properties	1,276	9
Valuation gains on investment properties	19,378	25,331
Property trading	65	1,397
Hotels	(25)	(102)
Total operating profit	29,279	34,789
Share of post-tax profits from joint venture and associated companies	1,978	1,792
Attributable profit	28,583	33,818
Swire Pacific share of attributable profit	23,437	27,731

* Other revenue is mainly estate management fees.

Underlying Profit/(Loss) by Segment

	2018 HK$M	2017 HK$M
Property Investment	10,102	6,698
Property Trading	99	1,154
Hotels	(41)	(43)
Total underlying attributable profit	10,160	7,809

2018 PERFORMANCE (continued)

Reconciliation of Attributable to Underlying Profit

Additional information is provided below to reconcile reported and underlying profit attributable to shareholders. These reconciling items principally adjust for net revaluation movements on investment properties and the associated deferred tax in Mainland China and the USA, and for other deferred tax provisions in relation to investment properties.

	Note	2018 HK$M	2017 HK$M
Reported attributable profit		28,583	33,818
Adjustments in respect of investment properties:			
Revaluation of investment properties	(a)	(20,722)	(26,714)
Deferred tax on investment properties	(b)	935	573
Valuation gains realised on sale of interests in investment properties	(c)	1,351	50
Depreciation of investment properties occupied by the Group	(d)	28	28
Non-controlling interests' share of revaluation movements less deferred tax		(15)	54
Underlying attributable profit		10,160	7,809
Profit on sale of interests in investment properties		(2,627)	(21)
Recurring underlying attributable profit		7,533	7,788
Swire Pacific share of underlying attributable profit		8,331	6,403
Swire Pacific share of recurring underlying attributable profit		6,177	6,386

Notes:
(a) This represents the Group's net revaluation movements 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 and 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 USA, 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 statement of profit or loss. On sale, the revaluation gains were transferred from the revaluation reserve to the statement of profit or loss.
(d) Prior to the implementation of HKAS 40, no depreciation was charged on investment properties occupied by the Group.

2018 PROPERTY INDUSTRY REVIEW

Office and Retail

Hong Kong

OFFICE | Demand for office space was generally strong in 2018 and occupancy levels were high. Some weakness in demand for properties in the central district emerged towards the end of the year.

RETAIL | Retail sales grew strongly for much of 2018. Growth has since slowed, reflecting global trade uncertainties and the adverse effect of the weakening Renminbi on spending by Mainland Chinese visitors.

Mainland China

RETAIL | Retail sales grew satisfactorily in Beijing, Chengdu and Guangzhou and modestly in Shanghai in 2018. Demand for retail space from retailers of luxury goods was solid in Beijing and robust in Guangzhou and Chengdu. Demand for retail space from retailers of international and lifestyle brands and food and beverage operators was solid.

OFFICE | In Guangzhou and Beijing, office rents rose in the absence of significant new supply and stable demand in 2018. In Shanghai in 2018, the main sources of demand were from those engaged in financial and professional services and retailing.

USA

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

RETAIL | In Miami, retail sales increased steadily. Demand for retail space in the metropolitan area was correspondingly steady.

Property Sales Markets

In Hong Kong, demand for residential accommodation weakened somewhat in the latter part of 2018, but is likely to remain resilient in the long term.

In Miami, most demand for condominiums is from South American buyers. Demand was subdued in 2018. Few new projects were started or became available for sale.

2018 RESULTS SUMMARY

Attributable profit from the Property Division for the year was HK$23,437 million compared to HK$27,731 million in 2017. These figures include net property valuation gains, before deferred tax and non-controlling interests, of HK$20,722 million and HK$26,714 million in 2018 and 2017 respectively. Attributable underlying profit increased to HK$8,331 million in 2018 from HK$6,403 million in 2017. The increase principally reflected the profit arising from the sale of a subsidiary which owned an office building in Kowloon Bay and of our interests in other investment properties in Hong Kong. This was partly offset by a decrease in profit from property trading. Recurring underlying profit (which excludes the profit on sale of interests in investment properties) was HK$6,177 million in 2018, compared with HK$6,386 million in 2017. The decrease principally reflected a decrease in profit from property trading. Recurring underlying profit from property investment increased by 12%. Hotel losses decreased.

In Hong Kong, office rental income increased due to positive rental reversions, firm occupancy and the opening of One Taikoo Place in the last quarter of 2018. Retail rental income in Hong Kong improved in 2018. In Mainland China, gross rental income increased by 12%, mainly due to positive rental reversions and improved occupancy. In the USA, gross rental income almost doubled, mainly because more shops were open at the shopping centre at Brickell City Centre.

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

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

KEY DEVELOPMENTS

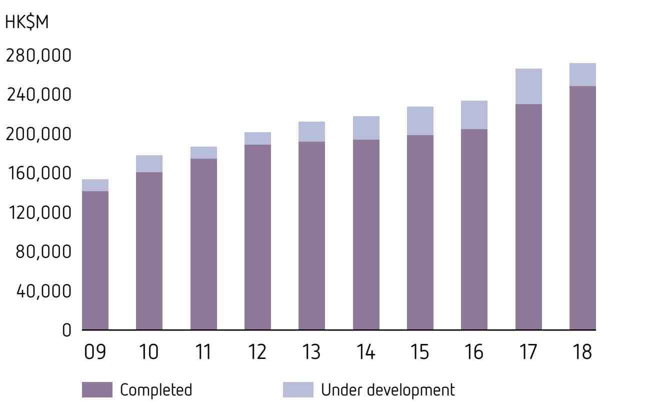
In March 2018, Swire Properties completed the acquisition of a 50% interest in Shanghai Qianxiu Company Limited (Shanghai Qianxiu) from a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. (LJZ). Swire Properties and LJZ each hold a 50% interest in Shanghai Qianxiu. Shanghai Qianxiu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

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

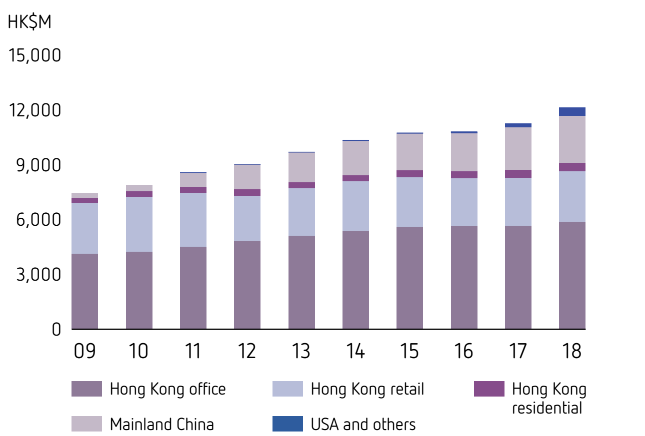
In May 2018, the extension to Citygate Outlets, with an aggregate gross floor area of approximately 474,000 square feet, was topped out. The extension is expected to open in the summer of 2019. Swire Properties has a 20% interest in the development.

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

Valuation of Investment Properties



Gross Rental Income



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

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

In November 2018, One Taikoo Place, the first of two premium Grade-A office buildings in the Taikoo Place redevelopment, became fully let. One Taikoo Place has an aggregate gross floor area of approximately 1,013,400 square feet. The building was topped out in January 2018 and received its occupation permit in September 2018.

INVESTMENT PROPERTIES

Hong Kong

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

Pacific Place

The offices at One, Two and Three Pacific Place performed well in 2018. Occupancy and rental rates were robust, as vacant space was quickly relet. Demand from Mainland China entities was strong. The occupancy rate was almost 100% at 31st December 2018.

Cityplaza

The occupancy rate at Cityplaza One was 99% at 31st December 2018.

Taikoo Place

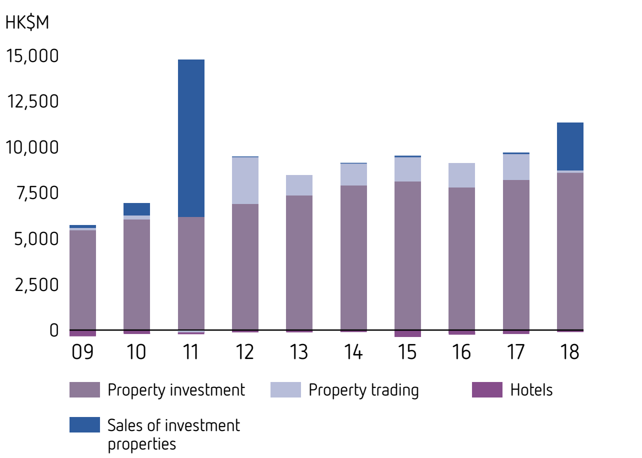
The occupancy rate at Taikoo Place was 99% at 31st December 2018. One Taikoo Place was completed in September 2018 and is 100% leased.

South Island Place

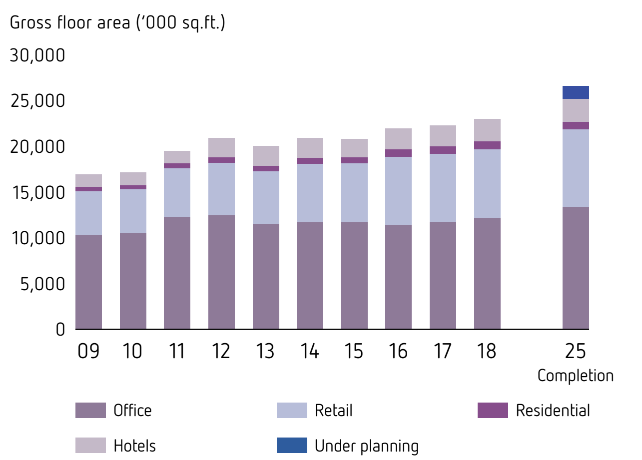
The development of an office building at 8-10 Wong Chuk Hang Road, Hong Kong was completed in August 2018. Commitments (including by way of letters of intent) to lease more than 73% of the space in the building have been obtained.

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

Underlying Operating Profit



Completed Investment Property Portfolio by Type



Completed in September 2018, One Taikoo Place is the first of the two premium Grade-A office buildings in the Taikoo Place redevelopment.

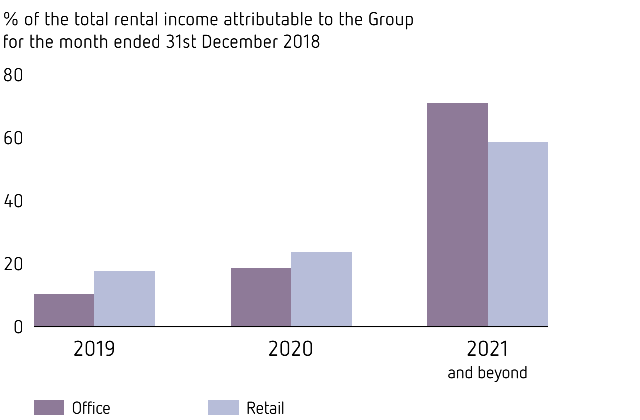
Retail sales in 2018 increased by 12% at The Mall, Pacific Place, by 6% at Cityplaza and by 4% at Citygate, the growth reflecting improved market conditions and previous changes to the trade mix.

RESIDENTIAL | The completed residential portfolio comprises Pacific Place Apartments at Pacific Place, Taikoo Place Apartments in Quarry Bay, STAR STUDIOS in Wanchai and a small number of luxury houses and apartments on Hong Kong Island. The occupancy rate at the residential portfolio was approximately 85% at 31st December 2018.

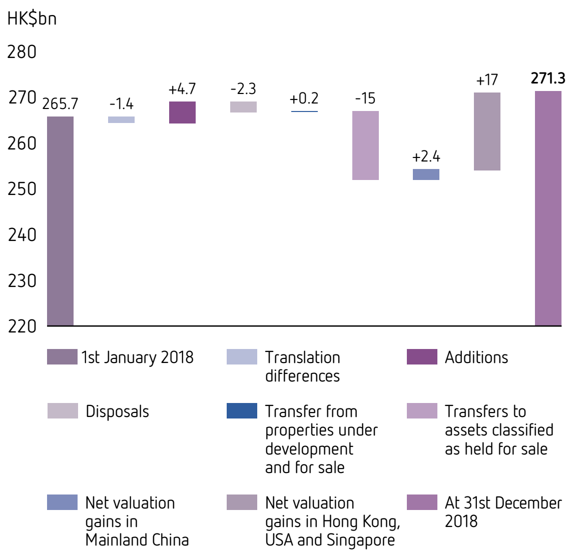
INVESTMENT PROPERTIES UNDER DEVELOPMENT | The development of the first phase of the Taikoo Place redevelopment (One Taikoo Place) was completed in September 2018.

The second phase of the Taikoo Place redevelopment (the redevelopment of Cornwall House and Warwick House) is the construction of an office building with an aggregate gross floor area 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.

Hong Kong Lease Expiry Profile – at 31st December 2018



Movement in Investment Properties



The Middle House in Shanghai is the latest addition to Swire Hotels.

The commercial site (Tung Chung Town Lot No. 11) next to Citygate Outlets is being developed into a commercial building with an aggregate retail and hotel gross floor area of approximately 474,000 square feet. Superstructure works have been completed and fitting out works are in progress. The development is expected to be completed in the summer of 2019. Swire Properties has a 20% interest in the development.

Planning permission to develop the site at Po Wah Building, 1-11 Landale Street and 2-12 Anton Street for office use was obtained in November 2018. The site area is approximately 14,400 square feet. The proposed development has an aggregate gross floor area of approximately 218,000 square feet. Completion is expected in 2023.

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

In October 2018, a joint venture company in which Swire Properties holds a 50% interest submitted a compulsory sale application in respect of a site at 983-987A King's Road and 16-94 Pan Hoi Street, Quarry Bay, Hong Kong. Subject to the joint venture company having successfully bid in the compulsory sale and in accordance with applicable town planning controls, it is expected that the site can be redeveloped for residential and retail uses with a gross floor area of approximately 400,000 square feet.

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

Mainland China

RETAIL | The Mainland China retail portfolio's gross rental income for 2018 increased by 13% compared with 2017, to HK$2,163 million.

Gross rental income at Taikoo Li Sanlitun recorded satisfactory growth in 2018, reflecting positive growth in reversionary rents. Retail sales grew by 11%. The occupancy rate was 100% at 31st December 2018. Demand for retail space at Taikoo Li Sanlitun is solid as it reinforces its position as a fashionable retail destination in Beijing. Improvement works are being carried out and are expected to have a positive impact on occupancy and rents.

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

Gross rental income at Taikoo Hui in Guangzhou grew satisfactorily in 2018. Retail sales increased by 11%, reflecting in part improvements to the tenant mix. The occupancy rate at Taikoo Hui was 100% at 31st December 2018.

Occupancy at the shopping mall at INDIGO, Beijing was 99% at 31st December 2018. Retail sales increased by 0.3% in 2018.

Retail sales at Sino-Ocean Taikoo Li Chengdu increased by 22% in 2018. The development is gaining popularity as a shopping destination in Chengdu. At 31st December 2018, the occupancy rate at the retail complex was 99%.

At 31st December 2018, tenants at HKRI Taikoo Hui had committed (including by way of letters of intent) to take 97% of the retail space. 92% of the retail space was open.

OFFICE | The Mainland China office portfolio's gross rental income for 2018 increased by 6% compared with 2017, to HK$391 million.

At 31st December 2018, the occupancy rates at the office towers at Taikoo Hui, Guangzhou and at ONE INDIGO, Beijing were 99% and 97% respectively.

The occupancy rate at the two office towers at HKRI Taikoo Hui in Shanghai was 98% at 31st December 2018.

INVESTMENT PROPERTIES UNDER DEVELOPMENT | In March 2018, a 50:50 joint venture was formed with a subsidiary of Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd. for the development of Taikoo Li Qiantan, a low-rise retail development with an aggregate gross floor area 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.

USA

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

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

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

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

VALUATION OF INVESTMENT PROPERTIES

The portfolio of investment properties was valued at 31st December 2018 on the basis of market value (95% by value having been valued by Cushman & Wakefield Limited and 2% by value having been valued by another independent valuer). The amount of this valuation was HK$271,256 million, compared to HK$265,705 million at 31st December 2017 and HK$268,802 million at 30th June 2018.

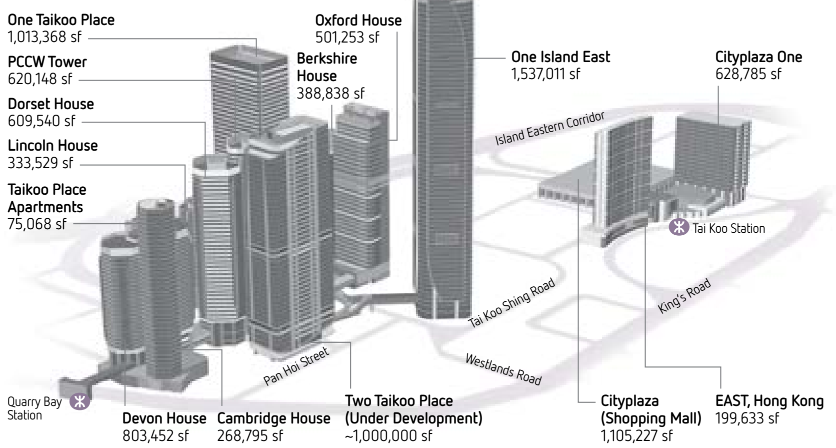
The increase in the valuation of the investment property portfolio is mainly due to an increase in the valuation of the office properties in Hong Kong following rental increases and a reduction of 12.5 basis points in the capitalisation rate applicable to office properties in Hong Kong. This was partially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

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

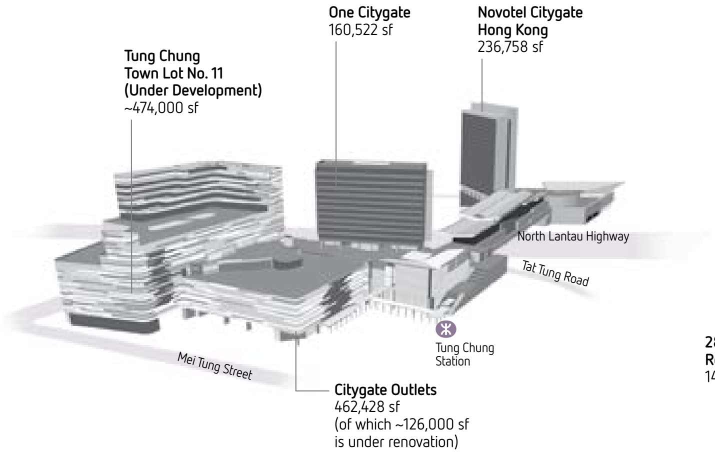
Hong Kong

Taikoo Place

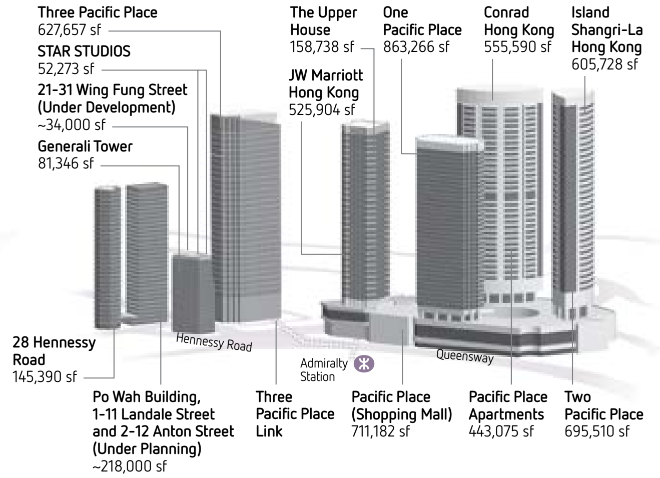
Cityplaza



Citygate



Pacific Place



USA

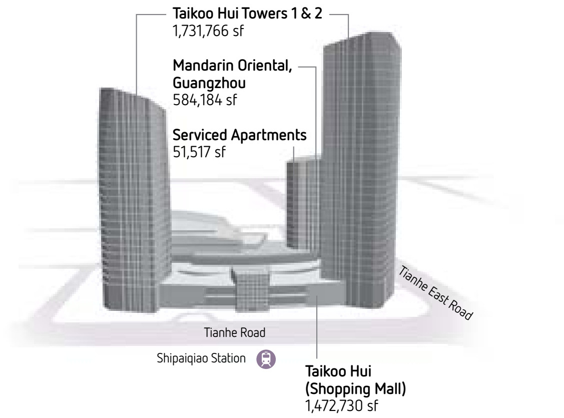
Brickell City Centre

Miami, Florida

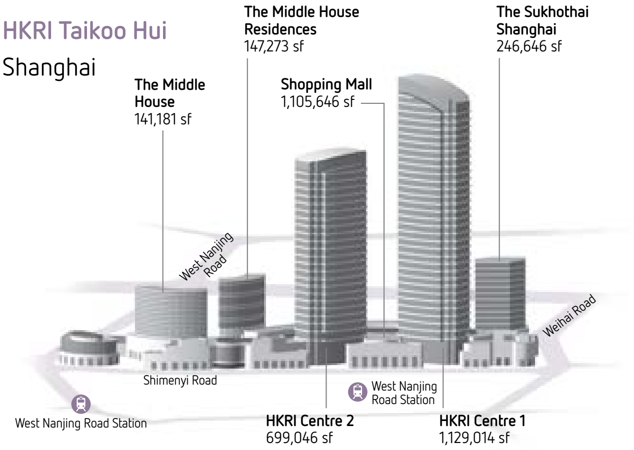
* Rise and Reach are developed for trading purpose. Floor area shown represents the unclosed portion.

Mainland China

Taikoo Hui
Guangzhou

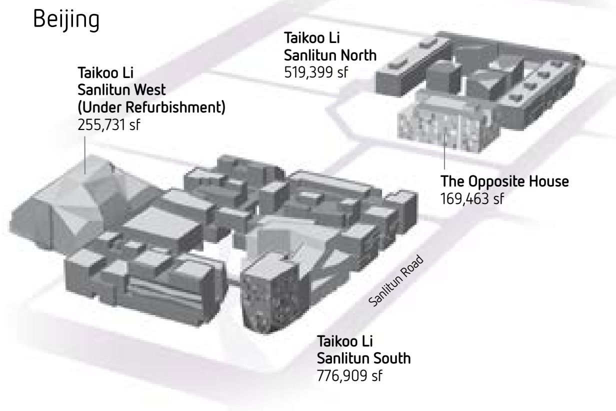


HKRI Taikoo Hui
Shanghai

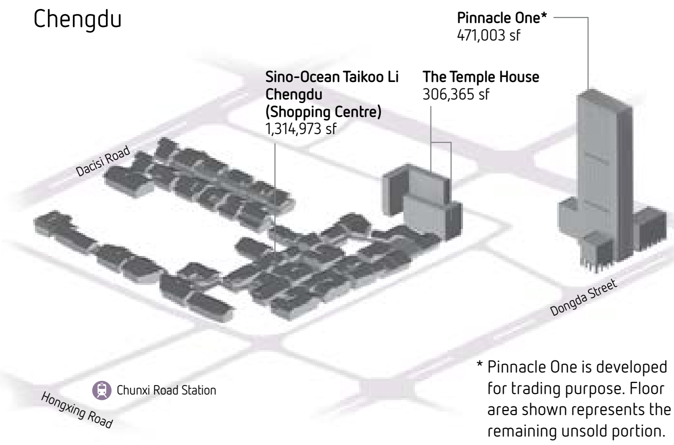


INDIGO
Beijing

Taikoo Li Sanlitun
Beijing

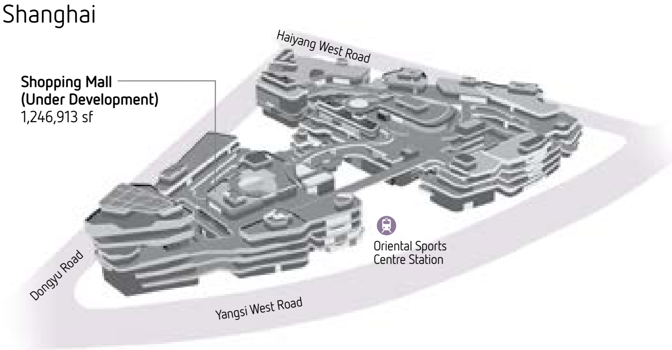


Sino-Ocean Taikoo Li Chengdu
Chengdu



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

Taikoo Li Qiantan
Shanghai



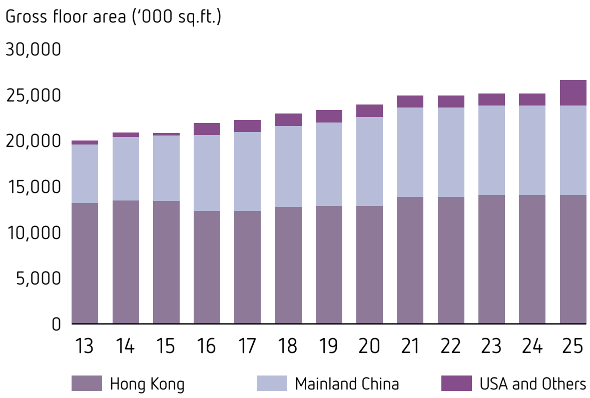
Note:
- These diagrams are not to scale and are for illustration purpose only.
- These diagrams illustrate the major developments of Swire Properties. For details of other developments, please refer to the Schedule of Principal Group Properties on pages 222 to 231.

Profile of Capital Commitments for Investment Properties and Hotels

	Expenditure	Forecast expenditure				Total Commitments	Commitments relating to joint venture companies*
	2018 HK$M	2019 HK$M	2020 HK$M	2021 HK$M	2022 and later HK$M	At 31st December 2018 HK$M	At 31st December 2018 HK$M
Hong Kong	**5,479**	1,734	3,924	2,908	6,647	**15,213**	**251**
Mainland China	**2,463**	1,440	406	90	145	**2,081**	**1,500**
USA and others	**168**	266	18	44	–	**328**	**–**
Total	**8,110**	3,440	4,348	3,042	6,792	**17,622**	**1,751**

Note: The capital commitments represent 100% of the capital commitments of subsidiaries and the Group's share of the capital commitments of joint venture companies.
* The Group is committed to funding HK$64 million and HK$400 million of the capital commitments of joint venture companies in Hong Kong and Mainland China respectively.

Completed Property Investment Portfolio by Location



HOTELS

The operating profit before depreciation for managed hotels increased by 15% to HK$200 million in 2018, mainly due to improved results in Hong Kong and in the USA. The performance of the non-managed hotels in Hong Kong was stable. Occupancy at the Mandarin Oriental, Guangzhou improved in 2018 and its performance was good. The operating results of the Mandarin Oriental, Miami in 2018 were better than last year.

A managed hotel (The Middle House) and a non-managed hotel (The Sukhothai Shanghai) at HKRI Taikoo Hui in Shanghai opened in May 2018. Occupancy at both hotels was being built up in 2018. The performance of the food and beverage outlets was satisfactory.

PROPERTY TRADING

Hong Kong

All 28 houses at the WHITESANDS development at 160 South Lantau Road had been sold at 31st December 2018. The profit from the sale of 12 houses was recognised in 2018.

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

Mainland China

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

USA

The residential portion of the first phase of the Brickell City Centre development was developed for trading purposes. There are 780 units in two towers (Reach and Rise).

The Reach and Rise developments were completed, and handover to purchasers commenced, in 2016. 363 units (out of 390 units) at Reach and 258 units (out of 390 units) at Rise had been sold at 12th March 2019. The profits from the sales of two units at Reach and 35 units at Rise were recognised in 2018.

OUTLOOK

Office and Retail

Hong Kong

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

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

Mainland China

OFFICE | With the absence of significant new supply in the central business district of Guangzhou and stable demand, office vacancy rates are expected to decrease (and rents to increase slightly) in 2019. Office rents in Beijing are expected to come under pressure in 2019, with increased supply in the central business district and higher vacancy rates. With limited new supply in the central business district of Jing'an and robust demand from domestic and international companies, office rentals are likely to be resilient in 2019 in Shanghai.

RETAIL | Retail sales are expected to grow steadily in Beijing, Guangzhou, and Shanghai and moderately in Chengdu in 2019. Retail rents are expected to grow moderately in Shanghai and Chengdu despite an increase in the availability of competing space. In Beijing, demand for luxury, fashion and lifestyle brands and for food and beverages is expected to be solid. Demand for retail space from international retailers and food and beverage operators is strong in Guangzhou. In Chengdu, demand for retail space in prime locations is expected to be strong in 2019.

USA

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

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

Hotels

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

Property Trading

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

Residential Leasing

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

Guy Bradley