



**KERRY PROPERTIES LIMITED**

# **2016 INTERIM REPORT**

For the six months ended 30 June 2016

Stock Code : 683

(Incorporated in Bermuda with limited liability)

**CORPORATE INFORMATION & KEY DATES****BOARD OF DIRECTORS****Executive Directors**

Mr Wong Siu Kong, *Chairman and Chief Executive Officer*  
 Mr Ho Shut Kan, *President*  
 Mr Chin Siu Wa, Alfred  
 Mr Bryan Pallop Gaw

**Non-executive Director**

Mr Kuok Khoon Hua

**Independent Non-executive Directors**

Mr Ku Moon Lun  
 Ms Wong Yu Pok, Marina, JP  
 Mr Chang Tso Tung, Stephen

**AUDIT AND CORPORATE GOVERNANCE COMMITTEE**

Ms Wong Yu Pok, Marina, JP, *Chairman*  
 Mr Ku Moon Lun  
 Mr Chang Tso Tung, Stephen

**REMUNERATION COMMITTEE**

Ms Wong Yu Pok, Marina, JP, *Chairman*  
 Mr Wong Siu Kong  
 Mr Ku Moon Lun  
 Mr Chang Tso Tung, Stephen

**NOMINATION COMMITTEE**

Mr Wong Siu Kong, *Chairman*  
 Mr Ku Moon Lun  
 Ms Wong Yu Pok, Marina, JP  
 Mr Chang Tso Tung, Stephen

**FINANCE COMMITTEE**

Mr Wong Siu Kong  
 Mr Ho Shut Kan

**EXECUTIVE COMMITTEE**

Mr Wong Siu Kong  
 Mr Ho Shut Kan  
 Mr Chin Siu Wa, Alfred  
 Mr Bryan Pallop Gaw

**COMPANY SECRETARY**

Ms Li Siu Ching, Liz

**AUDITOR**

PricewaterhouseCoopers

**REGISTERED OFFICE**

Canon's Court, 22 Victoria Street  
 Hamilton HM12, Bermuda

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS**

25/F, Kerry Centre, 683 King's Road  
 Quarry Bay, Hong Kong

**PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE**

MUFG Fund Services (Bermuda) Limited  
 The Belvedere Building, 69 Pitts Bay Road  
 Pembroke HM08, Bermuda

**HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE**

Tricor Abacus Limited  
 Level 22, Hopewell Centre  
 183 Queen's Road East, Hong Kong

**CORPORATE COMMUNICATION DEPARTMENT**

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 25/F, Kerry Centre, 683 King's Road  
 Quarry Bay, Hong Kong  
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**INVESTOR RELATIONS DEPARTMENT**

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**WEBSITE**

www.kerryprops.com

**KEY DATES****Closure of Registers of Members**

6 September 2016

**Proposed Payment of Interim Dividend**

15 September 2016

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2016. The Audit and Corporate Governance Committee of the Company has met to review the results and the unaudited condensed consolidated interim financial statements of the Group for the six months ended 30 June 2016 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2016 was HK\$2,041 million, representing a decrease of 27% compared with HK\$2,789 million reported for the same period in 2015. The Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) of HK\$607 million for the six months ended 30 June 2016 (2015: HK\$607 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded a decrease of 34% in profit attributable to shareholders to HK\$1,434 million for the six months ended 30 June 2016 (2015: HK\$2,182 million).

Earnings per share for the six months ended 30 June 2016 was HK\$1.41, representing a decrease of 27% compared with HK\$1.93 per share for the same period in 2015. The basis of calculating the earnings per share is detailed in Note 6 below.

The effect on the Group’s profit attributable to shareholders due to the net increase in fair value of the Group’s investment properties and related tax effects is as follows:

	<b>Six months ended 30 June</b>		
	<b>2016</b>	2015	
	<b>HK\$ million</b>	HK\$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	<b>1,434</b>	2,182	-34%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>607</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u><b>2,041</b></u>	<u>2,789</u>	-27%

The Directors have declared an interim dividend of HK\$0.3 per share for the six months ended 30 June 2016 (the “**Interim Dividend**”) (2015: HK\$0.3), which is payable on Thursday, 15 September 2016 to shareholders whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Tuesday, 6 September 2016.

At the Company’s Annual General Meeting held on 9 May 2016, shareholders of the Company (the “**Shareholders**”) approved the final dividend of HK\$0.6 per share for the year ended 31 December 2015 which amounted to a total of approximately HK\$866 million and was paid on 24 May 2016.

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		HK\$'000	HK\$'000
Turnover	3	<b>5,536,956</b>	4,203,555
Cost of sales		<b>(1,583,994)</b>	(994,733)
Direct operating expenses		<b>(1,340,813)</b>	(1,050,911)
Gross profit	3	<b>2,612,149</b>	2,157,911
Other income and net gains		<b>131,136</b>	285,545
Administrative and other operating expenses		<b>(584,197)</b>	(504,014)
Increase in fair value of investment properties		<b>919,275</b>	796,110
Operating profit before finance costs		<b>3,078,363</b>	2,735,552
Finance costs		<b>(213,840)</b>	(261,389)
Operating profit	4	<b>2,864,523</b>	2,474,163
Share of results of associates		<b>547,725</b>	1,197,114
Profit before taxation		<b>3,412,248</b>	3,671,277
Taxation	5	<b>(894,802)</b>	(568,579)
Profit for the period		<b><u>2,517,446</u></b>	<u>3,102,698</u>
Profit attributable to:			
Company's shareholders		<b>2,040,920</b>	2,788,788
Non-controlling interests		<b>476,526</b>	313,910
		<b><u>2,517,446</u></b>	<u>3,102,698</u>
Earnings per share	6		
– Basic		<b><u>HK\$1.41</u></b>	<u>HK\$1.93</u>
– Diluted		<b><u>HK\$1.41</u></b>	<u>HK\$1.93</u>

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit for the period	<b>2,517,446</b>	3,102,698
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	<b>3,593</b>	(84,559)
Fair value gain on available-for-sale investments	<b>71,528</b>	68,126
Share of other comprehensive income of associates	<b>26,200</b>	(80,243)
Net translation differences on foreign operations	<b>(799,480)</b>	102,978
Other comprehensive income for the period, net of tax	<b>(698,159)</b>	6,302
Total comprehensive income for the period	<b>1,819,287</b>	3,109,000
Total comprehensive income attributable to:		
Company's shareholders	<b>1,547,840</b>	2,774,787
Non-controlling interests	<b>271,447</b>	334,213
	<b>1,819,287</b>	3,109,000

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		<b>Unaudited</b>	Audited
		<b>As at</b>	As at
		<b>30 June</b>	31 December
		<b>2016</b>	2015
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	<b>6,068,920</b>	5,404,614
Investment properties	7	<b>56,476,002</b>	57,064,707
Leasehold land and land use rights	7	<b>2,046,772</b>	1,269,770
Properties under development		<b>12,285,752</b>	13,749,425
Land deposits		<b>3,566,295</b>	3,467,542
Associates		<b>18,899,571</b>	20,007,616
Derivative financial instruments		<b>73,156</b>	46,837
Available-for-sale investments		<b>2,206,233</b>	2,134,726
Long-term receivables		<b>257,470</b>	252,128
Intangible assets	7	<b>122,504</b>	122,504
		<b>102,002,675</b>	103,519,869
<b>Current assets</b>			
Properties under development		<b>32,350,281</b>	30,496,298
Completed properties held for sale		<b>6,101,162</b>	4,698,188
Accounts receivable, prepayments and deposits	8	<b>1,604,979</b>	1,135,784
Tax recoverable		<b>120,281</b>	112,756
Tax reserve certificates		<b>215,560</b>	170,471
Listed securities at fair value through profit or loss		<b>215,669</b>	190,857
Derivative financial instruments		<b>29,037</b>	27,918
Restricted bank deposits		<b>403,031</b>	348,404
Cash and bank balances		<b>15,274,360</b>	10,516,413
		<b>56,314,360</b>	47,697,089
<b>Current liabilities</b>			
Accounts payable, deposits received and accrued charges	9	<b>14,275,436</b>	10,015,448
Taxation		<b>1,154,545</b>	1,167,667
Short-term bank loans and current portion of long-term bank loans	10	<b>2,677,413</b>	9,641,826
Fixed rate bonds		<b>7,907,062</b>	3,253,716
Derivative financial instruments		<b>30,614</b>	1,317
		<b>26,045,070</b>	24,079,974
Net current assets		<b>30,269,290</b>	23,617,115
Total assets less current liabilities		<b>132,271,965</b>	127,136,984

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Non-current liabilities			
Long-term bank loans	10	25,894,384	17,198,633
Fixed rate bonds		2,317,966	6,951,344
Amounts due to non-controlling interests		2,582,091	2,430,386
Derivative financial instruments		74,672	90,372
Deferred taxation		6,596,650	6,303,995
		<b>37,465,763</b>	<b>32,974,730</b>
ASSETS LESS LIABILITIES		<b>94,806,202</b>	<b>94,162,254</b>
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,443,148	1,445,856
Share premium		12,392,495	12,426,503
Other reserves		11,299,192	11,947,898
Retained profits		56,848,098	55,533,102
		<b>81,982,933</b>	<b>81,353,359</b>
Non-controlling interests		<b>12,823,269</b>	<b>12,808,895</b>
TOTAL EQUITY		<b>94,806,202</b>	<b>94,162,254</b>

## FINANCIAL HIGHLIGHTS

	Unaudited As at 30 June 2016	Audited As at 31 December 2015
Equity attributable to the Company's shareholders (HK\$ million)	81,983	81,353
Net borrowings (including bonds) (HK\$ million)	23,119	26,181
Net asset value (attributable to the Company's shareholders) per share	HK\$56.81	HK\$56.27
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	28.2%	32.2%

## CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Operating activities		
Net cash generated from operations	<b>4,304,060</b>	1,585,834
Interest paid	<b>(663,294)</b>	(646,309)
Income tax paid	<b>(587,408)</b>	(594,709)
Net cash generated from operating activities	<b>3,053,358</b>	344,816
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	<b>(713,819)</b>	(1,714,168)
Increase in land deposits	<b>(135,254)</b>	(76)
Dividends received from associates	<b>321,435</b>	181,301
Return of capital from an associate	<b>178,084</b>	–
Repayment of loans from/(additional loans to) associates, net	<b>1,170,433</b>	(176,645)
Proceeds from sale of available-for-sale investments	<b>6</b>	–
(Increase)/decrease in long-term receivables	<b>(5,413)</b>	50,232
Interest received	<b>133,068</b>	140,726
Increase in restricted bank deposits	<b>(58,853)</b>	(219,738)
(Increase)/decrease in short-term bank deposits maturing after more than three months	<b>(17,028)</b>	234,491
Dividends received from listed and unlisted investments	<b>53,947</b>	47,325
Proceeds from sale of property, plant and equipment and investment properties	<b>51,811</b>	51,479
Net cash generated from/(used in) investing activities	<b>978,417</b>	(1,405,073)
Financing activities		
Proceeds from issue of shares	<b>–</b>	29,183
Consideration and expenses for shares repurchased for cancellation	<b>(52,377)</b>	–
Repayment of bank loans	<b>(28,861,762)</b>	(12,027,833)
Drawdown of bank loans	<b>30,694,878</b>	13,935,697
Dividends paid	<b>(865,889)</b>	(867,359)
Capital injection from non-controlling interests	<b>–</b>	67,194
Dividends of subsidiaries paid to non-controlling interests	<b>(257,073)</b>	(295,529)
Increase in loans from non-controlling interests	<b>151,705</b>	63,221
Net cash generated from financing activities	<b>809,482</b>	904,574
Increase/(decrease) in cash and cash equivalents	<b>4,841,257</b>	(155,683)
Effect of exchange rate changes	<b>(100,118)</b>	10,010
Cash and cash equivalents at 1 January	<b>10,498,231</b>	10,344,132
Cash and cash equivalents at 30 June	<b>15,239,370</b>	10,198,459
Analysis of balances of cash and cash equivalents		
Cash and bank balances (excluding bank deposits maturing after more than three months)	<b>15,239,370</b>	10,198,459



**CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY  
– UNAUDITED**

	Attributable to shareholders of the Company					Non- controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2016	1,445,856	12,426,503	11,947,898	55,533,102	81,353,359	12,808,895	94,162,254
Profit for the period	-	-	-	2,040,920	2,040,920	476,526	2,517,446
Cash flow hedges	-	-	3,593	-	3,593	-	3,593
Fair value gain on available- for-sale investments	-	-	71,528	-	71,528	-	71,528
Share of reserves of associates	-	-	26,200	-	26,200	-	26,200
Net translation differences on foreign operations	-	-	(594,401)	-	(594,401)	(205,079)	(799,480)
Total comprehensive income for the six months ended 30 June 2016	-	-	(493,080)	2,040,920	1,547,840	271,447	1,819,287
Lapse of share options	-	15,661	(15,661)	-	-	-	-
Repurchase of shares for cancellation	(2,708)	(49,669)	2,708	(2,708)	(52,377)	-	(52,377)
Dividends paid	-	-	-	(865,889)	(865,889)	(257,073)	(1,122,962)
Transfer	-	-	(142,673)	142,673	-	-	-
	<u>(2,708)</u>	<u>(34,008)</u>	<u>(155,626)</u>	<u>(725,924)</u>	<u>(918,266)</u>	<u>(257,073)</u>	<u>(1,175,339)</u>
Balance as at 30 June 2016	<u>1,443,148</u>	<u>12,392,495</u>	<u>11,299,192</u>	<u>56,848,098</u>	<u>81,982,933</u>	<u>12,823,269</u>	<u>94,806,202</u>

	Attributable to shareholders of the Company					Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000		
Balance as at 1 January 2015	1,444,653	12,384,496	14,723,124	51,526,245	80,078,518	13,335,779	93,414,297
Profit for the period	-	-	-	2,788,788	2,788,788	313,910	3,102,698
Cash flow hedges	-	-	(84,559)	-	(84,559)	-	(84,559)
Fair value gain on available-for-sale investments	-	-	68,126	-	68,126	-	68,126
Share of reserves of associates	-	-	(80,243)	-	(80,243)	-	(80,243)
Net translation differences on foreign operations	-	-	82,675	-	82,675	20,303	102,978
Total comprehensive income for the six months ended 30 June 2015	-	-	(14,001)	2,788,788	2,774,787	334,213	3,109,000
Issue of share capital – exercise of share options	1,178	38,342	(10,337)	-	29,183	-	29,183
Dividends paid	-	-	-	(867,359)	(867,359)	(295,529)	(1,162,888)
Transfer	-	-	5,378	(5,378)	-	-	-
Capital injection from non-controlling interests	-	-	-	-	-	67,194	67,194
	<u>1,178</u>	<u>38,342</u>	<u>(4,959)</u>	<u>(872,737)</u>	<u>(838,176)</u>	<u>(228,335)</u>	<u>(1,066,511)</u>
Balance as at 30 June 2015	<u>1,445,831</u>	<u>12,422,838</u>	<u>14,704,164</u>	<u>53,442,296</u>	<u>82,015,129</u>	<u>13,441,657</u>	<u>95,456,786</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements are 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 applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2015. The accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2015.

The standards and amendments which are effective for the accounting period beginning on 1 January 2016 are not material to the Group.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

### 2. Financial risk management and fair value measurement

#### (i) *Financial risk factors*

The Group’s activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk.

These condensed consolidated 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 annual financial statements as at 31 December 2015. There have been no changes in the Group’s financial risk management structure and policies since the year end.

#### (ii) *Fair value estimation of financial instruments*

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2016:

	<b>Level 1</b> <i>HK\$'000</i>	<b>Level 2</b> <i>HK\$'000</i>	<b>Level 3</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>Assets</b>				
Derivative financial instruments	–	<b>102,193</b>	–	<b>102,193</b>
Available-for-sale investments	<b>552,869</b>	–	<b>1,653,364</b>	<b>2,206,233</b>
Listed securities at fair value through profit or loss	<b>215,669</b>	–	–	<b>215,669</b>
<b>Total assets</b>	<b><u>768,538</u></b>	<b><u>102,193</u></b>	<b><u>1,653,364</u></b>	<b><u>2,524,095</u></b>
<b>Liabilities</b>				
Derivative financial instruments	–	<b>105,286</b>	–	<b>105,286</b>
<b>Total liabilities</b>	<b><u>–</u></b>	<b><u>105,286</u></b>	<b><u>–</u></b>	<b><u>105,286</u></b>

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015:

	Level 1 <i>HK\$'000</i>	Level 2 <i>HK\$'000</i>	Level 3 <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Assets</b>				
Derivative financial instruments	–	74,755	–	74,755
Available-for-sale investments	496,009	–	1,638,717	2,134,726
Listed securities at fair value through profit or loss	190,857	–	–	190,857
<b>Total assets</b>	<b><u>686,866</u></b>	<b><u>74,755</u></b>	<b><u>1,638,717</u></b>	<b><u>2,400,338</u></b>
<b>Liabilities</b>				
Derivative financial instruments	–	91,689	–	91,689
<b>Total liabilities</b>	<b><u>–</u></b>	<b><u>91,689</u></b>	<b><u>–</u></b>	<b><u>91,689</u></b>

There were no transfers between Levels during the period.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 2. Financial risk management and fair value measurement (continued)

#### (iii) Valuation techniques used to derive fair values of Level 2 financial instruments

Level 2 financial instruments comprise forward exchange, cross currency swap and interest rate swap contracts. The fair value is calculated as the present value of the estimated future cash flows based on forward exchanges rates that are quoted in an active market and/or forward interest rates extracted from observable yield curves.

#### (iv) Fair value measurements of financial instruments using significant unobservable inputs (Level 3)

The following table presents the changes in Level 3 instruments:

	Available-for-sale investments	
	2016 HK\$'000	2015 HK\$'000
Opening balance as at 1 January	1,638,717	1,457,739
Gains/(losses) recognised in comprehensive income	14,668	(1,853)
Disposals	(21)	–
Closing balance as at 30 June	<u>1,653,364</u>	<u>1,455,886</u>

The Group established fair value of unlisted available-for-sale investments by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same and discounted cash flow analysis, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no changes in valuation techniques during the period.

#### (v) Group's valuation processes for financial instruments

The Group's finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including Level 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at each reporting date. Reasons for the fair value movements will be explained during the discussions.

#### (vi) Fair value of financial assets and liabilities measured at amortised cost

The fair value of the listed fixed rate bonds as at 30 June 2016 was HK\$10,630,438,000 (31 December 2015: HK\$10,659,907,000).

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and cash equivalents
- Trade and other payables
- Bank loans

**(vii) Valuation of investment properties**

	Completed residential properties Hong Kong HK\$'000	Completed commercial properties Hong Kong HK\$'000	PRC HK\$'000	Commercial properties under development PRC HK\$'000	Total HK\$'000
At 1 January 2016	11,606,600	9,324,990	30,479,044	5,654,073	57,064,707
Additions	–	–	37,847	206,353	244,200
Net gains from fair value adjustment	–	–	277,226	642,049	919,275
Disposals	–	–	(37,823)	–	(37,823)
Transfer	–	–	674,305	(1,963,015)	(1,288,710)
Exchange adjustments	–	–	(378,839)	(46,808)	(425,647)
At 30 June 2016	<u>11,606,600</u>	<u>9,324,990</u>	<u>31,051,760</u>	<u>4,492,652</u>	<u>56,476,002</u>
At 1 January 2015	10,571,600	8,606,260	31,437,438	4,903,942	55,519,240
Additions	190,320	–	86	298,926	489,332
Net gains from fair value adjustment	59,680	–	312,305	424,125	796,110
Disposals	–	–	(40,696)	–	(40,696)
Exchange adjustments	–	–	43,705	8,235	51,940
At 30 June 2015	<u>10,821,600</u>	<u>8,606,260</u>	<u>31,752,838</u>	<u>5,635,228</u>	<u>56,815,926</u>

Valuation processes of the Group

The Group measures its investment properties at fair value. The Group's finance department includes a team that reviews significant unobservable inputs and performs valuation adjustments. This team reports directly to the senior management and the Audit and Corporate Governance Committee.

Valuation techniques

Fair value of completed residential and commercial properties in Hong Kong and the People's Republic of China ("PRC") is generally derived from the income capitalisation method and whenever appropriate, by direct comparison method. Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

Fair value of commercial properties under development in the PRC is generally derived using the residual method. This valuation method is essentially a means of valuing the completed properties by reference to its development potential by deducting development costs together with developer's profit and risk from the estimated capital value of the proposed development assuming completed as at the date of valuation.

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 2. Financial risk management and fair value measurement (continued)

#### (vii) Valuation of investment properties (continued)

##### *Significant unobservable inputs used to determine fair value*

Capitalisation rates are estimated based on the risk profile of the investment properties being valued. The higher the rates, the lower the fair value. At 30 June 2016, capitalisation rates of 3.3% to 5.5% (31 December 2015: 3.3% to 5.5%) and 7% to 9% (31 December 2015: 7% to 9%) are used in the income capitalisation method for Hong Kong and the PRC properties respectively.

Prevailing market rents are estimated based on recent lettings for Hong Kong and the PRC investment properties, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

Estimated costs to completion, developer's profit and risk margins required are estimated based on market conditions at valuation date for the PRC investment properties under development. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The higher the costs and the margins, the lower the fair value.

### 3. Principal activities and segmental analysis of operations

- (i) An analysis of the Group's turnover and gross profit for the period by principal activity and market is as follows:

	Turnover		Gross profit	
	Six months ended 30 June 2016	2015	Six months ended 30 June 2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– PRC Property	1,451,699	1,319,332	1,164,372	1,130,230
– Hong Kong Property	512,426	436,879	404,269	336,193
	<b>1,964,125</b>	1,756,211	<b>1,568,641</b>	1,466,423
Property sales				
– PRC Property (Note)	2,566,219	434,852	880,416	63,308
– Hong Kong Property	202,471	1,303,598	68,345	551,429
	<b>2,768,690</b>	1,738,450	<b>948,761</b>	614,737
Hotel operations – PRC Property	804,141	708,894	94,747	76,751
	<b>5,536,956</b>	4,203,555	<b>2,612,149</b>	2,157,911
Principal markets:				
– PRC	4,822,059	2,463,078	2,139,535	1,270,289
– Hong Kong	714,897	1,740,477	472,614	887,622
	<b>5,536,956</b>	4,203,555	<b>2,612,149</b>	2,157,911

Note: Sales of investment properties for the six months ended 30 June 2016 amounting to HK\$51,238,000 (2015: HK\$50,493,000) are excluded from turnover.

(ii) An analysis of the Group's financial results by operating segment is as follows:

	Six months ended 30 June 2016				
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>4,822,059</u>	<u>714,897</u>	<u>5,536,956</u>	–	<u>5,536,956</u>
Results					
Segment results – gross profit	2,139,535	472,614	2,612,149	–	2,612,149
Other income and net gains					131,136
Administrative and other operating expenses					(584,197)
Increase in fair value of investment properties					<u>919,275</u>
Operating profit before finance costs					3,078,363
Finance costs					<u>(213,840)</u>
Operating profit					2,864,523
Share of results of associates					<u>547,725</u>
Profit before taxation					3,412,248
Taxation					<u>(894,802)</u>
Profit for the period					<u>2,517,446</u>
Profit attributable to:					
Company's shareholders					2,040,920
Non-controlling interests					<u>476,526</u>
					<u>2,517,446</u>
Depreciation and amortisation	<u>217,391</u>	<u>10,026</u>	<u>227,417</u>	<u>2,149</u>	<u>229,566</u>



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 3. Principal activities and segmental analysis of operations (continued)

(ii) An analysis of the Group's financial results by operating segment is as follows: (continued)

	Six months ended 30 June 2015				
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>2,463,078</u>	<u>1,740,477</u>	<u>4,203,555</u>	<u>–</u>	<u>4,203,555</u>
Results					
Segment results – gross profit	1,270,289	887,622	2,157,911	–	2,157,911
Other income and net gains					285,545
Administrative and other operating expenses					(504,014)
Increase in fair value of investment properties					<u>796,110</u>
Operating profit before finance costs					2,735,552
Finance costs					<u>(261,389)</u>
Operating profit					2,474,163
Share of results of associates					<u>1,197,114</u>
Profit before taxation					3,671,277
Taxation					<u>(568,579)</u>
Profit for the period					<u><u>3,102,698</u></u>
Profit attributable to:					
Company's shareholders					2,788,788
Non-controlling interests					<u>313,910</u>
					<u><u>3,102,698</u></u>
Depreciation and amortisation	<u>182,456</u>	<u>12,288</u>	<u>194,744</u>	<u>3,508</u>	<u>198,252</u>

(iii) An analysis of the Group's total assets and total liabilities by operating segment is as follows:

	As at 30 June 2016						
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Total assets	<u>90,219,372</u>	<u>61,064,406</u>	<u>2,646,211</u>	<u>153,929,989</u>	<u>63,547,031</u>	<u>(59,159,985)</u>	<u>158,317,035</u>
Total liabilities	<u>54,652,149</u>	<u>30,952,614</u>	<u>134,742</u>	<u>85,739,505</u>	<u>36,931,313</u>	<u>(59,159,985)</u>	<u>63,510,833</u>
	As at 31 December 2015						
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Total assets	<u>84,950,238</u>	<u>59,994,791</u>	<u>2,617,017</u>	<u>147,562,046</u>	<u>57,971,645</u>	<u>(54,316,733)</u>	<u>151,216,958</u>
Total liabilities	<u>50,155,232</u>	<u>28,969,015</u>	<u>129,468</u>	<u>79,253,715</u>	<u>32,117,722</u>	<u>(54,316,733)</u>	<u>57,054,704</u>

#### 4. Operating profit

##### Six months ended 30 June

	2016 HK\$'000	2015 HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	53,947	47,325
Interest income	127,116	138,217
Gain on sale of investment properties, net	9,944	6,835
<i>Charging</i>		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	229,566	198,252
Provision for impairment loss for hotel property	80,682	–
Total finance costs incurred	672,123	654,863
Less: amount capitalised in properties under development and investment properties under construction	(448,035)	(419,322)
Fair value (gain)/loss on derivative financial instruments	224,088	235,541
	(10,248)	25,848
Total finance costs expensed during the period	213,840	261,389

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 5. Taxation

	Six months ended 30 June	
	2016	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit comprises:		
PRC taxation		
Current	<b>(432,169)</b>	(137,703)
(Under)/over-provision in prior years	<b>(911)</b>	36
Deferred	<b>(381,980)</b>	(287,963)
	<b>(815,060)</b>	(425,630)
Hong Kong profits tax		
Current	<b>(65,770)</b>	(123,126)
Over/(under)-provision in prior years	<b>13</b>	(126)
Deferred	<b>(4,506)</b>	(9,908)
	<b>(70,263)</b>	(133,160)
Overseas taxation		
Current	<b>(4,920)</b>	(4,629)
Over-provision in prior years	<b>25</b>	–
Deferred	<b>(4,584)</b>	(5,160)
	<b>(9,479)</b>	(9,789)
	<b>(894,802)</b>	(568,579)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the six months ended 30 June 2016. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2016 at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

Land appreciation tax in the PRC is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditures.

## 6. Earnings per share

### *Basic*

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of ordinary shares in issue during the period.

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
Weighted average number of ordinary shares in issue	<b><u>1,443,564,420</u></b>	<u>1,445,179,366</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<b><u>2,040,920</u></b>	<u>2,788,788</u>
Basic earnings per share	<b><u>HK\$1.41</u></b>	<u>HK\$1.93</u>

### *Diluted*

Diluted earnings per share is calculated by adjusting the profit attributable to shareholders of the Company and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
Weighted average number of ordinary shares in issue	<b>1,443,564,420</b>	1,445,179,366
Adjustment for share options	<b><u>69,752</u></b>	<u>1,325,179</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<b><u>1,443,634,172</u></b>	<u>1,446,504,545</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<b><u>2,040,920</u></b>	<u>2,788,788</u>
Diluted earnings per share	<b><u>HK\$1.41</u></b>	<u>HK\$1.93</u>

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 7. Capital expenditure

	Property, plant and equipment <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>	Intangible assets <i>HK\$'000</i>
Net book value at 1 January 2016	5,404,614	57,064,707	1,269,770	122,504
Additions	90,934	244,200	–	–
Fair value gains	–	919,275	–	–
Disposals	(490)	(37,823)	–	–
Impairment	(80,682)	–	–	–
Transfer	942,594	(1,288,710)	837,676	–
Depreciation and amortisation	(206,702)	–	(23,414)	–
Exchange adjustment	(81,348)	(425,647)	(37,260)	–
	<u>6,068,920</u>	<u>56,476,002</u>	<u>2,046,772</u>	<u>122,504</u>
Net book value at 30 June 2016	<u>6,068,920</u>	<u>56,476,002</u>	<u>2,046,772</u>	<u>122,504</u>
Net book value at 1 January 2015	5,039,271	55,519,240	1,198,161	122,504
Additions	63,405	489,332	–	–
Fair value gains	–	796,110	–	–
Disposals	(990)	(40,696)	–	–
Transfer	796,080	–	192,430	–
Depreciation and amortisation	(181,948)	–	(16,983)	–
Exchange adjustment	12,233	51,940	2,934	–
	<u>5,728,051</u>	<u>56,815,926</u>	<u>1,376,542</u>	<u>122,504</u>
Net book value at 30 June 2015	<u>5,728,051</u>	<u>56,815,926</u>	<u>1,376,542</u>	<u>122,504</u>

**8. Accounts receivable, prepayments and deposits**

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2016 is as follows:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
Below 1 month	<b>104,618</b>	242,232
Between 1 month and 3 months	<b>132,561</b>	12,883
Over 3 months	<b>65,799</b>	8,901
	<b>302,978</b>	264,016

**9. Accounts payable, deposits received and accrued charges**

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 30 June 2016 is as follows:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
Below 1 month	<b>232,065</b>	718,880
Between 1 month and 3 months	<b>24,257</b>	64,925
Over 3 months	<b>56,989</b>	14,594
	<b>313,311</b>	798,399

## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 10. Bank loans

	As at 30 June 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Bank loans – unsecured	<b>22,823,953</b>	21,114,807
Bank loans – secured	<b>5,747,844</b>	5,725,652
Total bank loans (note (i))	<b>28,571,797</b>	26,840,459
Less: Short-term bank loans and current portion of long-term bank loans	<b>(2,677,413)</b>	(9,641,826)
	<b><u>25,894,384</u></b>	<u>17,198,633</u>

(i) As at 30 June 2016, the Group's bank loans were repayable as follows:

	As at 30 June 2016 <i>HK\$'000</i>	As at 31 December 2015 <i>HK\$'000</i>
Within one year	<b>2,677,413</b>	9,641,826
In the second to fifth year		
– In the second year	<b>7,518,326</b>	2,056,527
– In the third year	<b>4,187,897</b>	9,072,777
– In the fourth year	<b>8,244,293</b>	3,402,331
– In the fifth year	<b>4,119,340</b>	1,175,853
	<b><u>24,069,856</u></b>	<u>15,707,488</u>
Repayable within five years	<b>26,747,269</b>	25,349,314
Over five years	<b>1,824,528</b>	1,491,145
	<b><u>28,571,797</u></b>	<u>26,840,459</u>

## 11. Commitments

At 30 June 2016, the Group had capital and other commitments in respect of investment properties, leasehold land and land use rights and properties under development contracted for at the end of the period but not provided for in these financial statements as follows:

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
Investment properties	<b>272,354</b>	536,354
Leasehold land and land use rights	<b>2,593,627</b>	2,889,925
Properties under development	<b>10,394,015</b>	11,971,037
	<b><u>13,259,996</u></b>	<u>15,397,316</u>

## 12. Contingent liabilities

### *Guarantees for banking and other facilities*

	<b>As at 30 June 2016 HK\$'000</b>	As at 31 December 2015 HK\$'000
Guarantees for banking and other facilities of certain associates (note (i))	<b>1,165,243</b>	1,582,256
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	<b>2,828,320</b>	1,711,670
	<b><u>3,993,563</u></b>	<u>3,293,926</u>

- (i) The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2016 amounted to approximately HK\$1,165,243,000 (31 December 2015: HK\$1,582,256,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2016 amounted to approximately HK\$1,894,646,000 (31 December 2015: HK\$2,470,547,000).
- (ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2016 amounted to approximately HK\$2,828,320,000 (31 December 2015: HK\$1,711,670,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2015.



## NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

### 13. Pledge of assets

As at 30 June 2016, the Group's total bank loans of HK\$28,571,797,000 (31 December 2015: HK\$26,840,459,000) included an aggregate amount of HK\$22,823,953,000 (31 December 2015: HK\$21,114,807,000) which is unsecured and an aggregate amount of HK\$5,747,844,000 (31 December 2015: HK\$5,725,652,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties with an aggregate net book value of HK\$20,788,862,000 (31 December 2015: HK\$21,689,027,000); and
- (ii) assignments of insurance proceeds of certain properties.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (A) Overall Results

Turnover of the Group for the six months ended 30 June 2016 was HK\$5,537 million, which registered an increase of 32% when compared with the turnover of HK\$4,204 million for the corresponding six months ended 30 June 2015. The Group's turnover mainly comprises proceeds from the sales of properties, rental income as well as revenue from hotel operations.

Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects for the six months ended 30 June 2016 was HK\$1,434 million (2015: HK\$2,182 million), representing a decrease of 34% over the period.

During the six months ended 30 June 2016, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$607 million (2015: HK\$607 million) was recognised in the Group's consolidated income statement.

The effect on the Group's profit attributable to shareholders due to the net increase in fair value of the Group's investment properties and related tax effects is as follows:

	Six months ended 30 June		Change
	2016	2015	
	HK\$ million	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	1,434	2,182	-34%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>607</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u><u>2,041</u></u>	<u><u>2,789</u></u>	-27%

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (B) PRC Property Division

During the six months ended 30 June 2016, the Division recorded a turnover of HK\$4,822 million (2015: HK\$2,463 million), representing an increase of 96%. This growth mainly reflected a 490% increase in sales revenue from completed properties and a 10% increase in rental revenue. Gross profit also grew by 68% to HK\$2,139 million (2015: HK\$1,270 million).

Contracted sales of residential properties in the PRC showed strong growth during the reporting period. Performance of the Group's office properties held for investment remained resilient, while the retail portfolio continued to brace for market challenges.

#### (i) Investment Properties

During the six months ended 30 June 2016, the Group generated turnover of HK\$1,452 million (2015: HK\$1,319 million) and derived a gross profit of HK\$1,164 million (2015: HK\$1,130 million) from its portfolio of completed investment properties in the PRC, representing increases of 10% and 3%, respectively.

As at 30 June 2016, the Group has an investment property portfolio in the PRC with an aggregate gross floor area ("**GFA**") of 6.86 million square feet (as at 31 December 2015: 6.72 million square feet). Their respective composition and occupancy rates were as follows:

#### As at 30 June 2016:

	Group's attributable GFA						Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou		
	('000 square feet)							
Office	711	1,492	1,552	–	102	–	3,857	97%
Commercial	98	1,099	212	428	47	64	1,948	95%
Apartment	277	774	–	–	–	–	1,051	87%
	<u>1,086</u>	<u>3,365</u>	<u>1,764</u>	<u>428</u>	<u>149</u>	<u>64</u>	<u>6,856</u>	

#### As at 31 December 2015:

	Group's attributable GFA						Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou		
	('000 square feet)							
Office	711	1,503	1,552	–	–	–	3,766	98%
Commercial	98	1,099	212	428	–	64	1,901	98%
Apartment	277	774	–	–	–	–	1,051	87%
	<u>1,086</u>	<u>3,376</u>	<u>1,764</u>	<u>428</u>	<u>–</u>	<u>64</u>	<u>6,718</u>	

Comparative occupancy rates of key completed investment properties in the PRC are set out below:

<b>Property</b>	<b>Occupancy rate as at 30 June 2016</b>	Occupancy rate as at 31 December 2015
Jing An Kerry Centre Phase I	<b>92%</b>	96%
Jing An Kerry Centre Phase II <sup>(1)</sup>	<b>95%</b>	96%
Kerry Parkside <sup>(1)</sup>	<b>95%</b>	97%
Beijing Kerry Centre <sup>(1)</sup>	<b>97%</b>	96%
Shenzhen Kerry Plaza Phase I	<b>99%</b>	97%
Shenzhen Kerry Plaza Phase II	<b>99%</b>	100%

Note:

(1) Excluding hotel.

#### *Jing An Kerry Centre, Shanghai*

This landmark mixed-use development is located in the heart of Shanghai's Nanjing Road business district. The 3.74 million square-foot prime development, Jing An Kerry Centre, integrates hotel, retail, office and residential space overlooking a beautifully landscaped piazza. The Group holds 74.25% and 51% interests in Phases I and II respectively. The luxurious Shangri-La Hotel is a key feature of Jing An Kerry Centre, which is now the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 30 June 2016, 96% of the office (as at 31 December 2015: 97%) and 95% of the retail space (as at 31 December 2015: 95%) were leased. Jing An Shangri-La Hotel, West Shanghai, achieved an average occupancy rate of 75% (2015: 70%) during the period under review.

#### *Kerry Parkside, Shanghai*

Kerry Parkside, located in the Pudong District of Shanghai, is a 40.8%-held mixed-use property comprising a hotel, offices, serviced apartments, a retail mall and related ancillary facilities. As at 30 June 2016, the retail space and offices were 99% and 98% occupied respectively (as at 31 December 2015: 99% and 100%, respectively). The occupancy rate of the serviced apartments was 84% (as at 31 December 2015: 86%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 73% (2015: 71%) during the period under review.

#### *Beijing Kerry Centre*

Beijing Kerry Centre is located in the heart of the capital city, combining high-quality office space, a shopping mall for famous brands, and Kerry Hotel Beijing together with serviced apartments. The Group holds a 71.25% interest in Beijing Kerry Centre. As at 30 June 2016, the occupancy rate of the retail portion was 100% (as at 31 December 2015: 100%), while the offices were 98% occupied (as at 31 December 2015: 98%). The serviced apartments were 95% leased (as at 31 December 2015: 91%). Kerry Hotel Beijing delivered an average occupancy rate of 81% (2015: 75%) during the period under review.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (B) PRC Property Division (continued)

#### (i) *Investment Properties (continued)*

##### *Shenzhen Kerry Plaza*

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers with a GFA of approximately 1.65 million square feet. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link now under construction. As at 30 June 2016, both Phases I and II of the development were 99% leased (as at 31 December 2015: 97% and 100%, respectively).

##### *Tianjin Kerry Centre*

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys access to a convenient transportation network. Phase I of this 49%-owned mixed-use project includes a hotel, upscale residences and a shopping mall. The completed Phase I development delivered a GFA of approximately 3.6 million square feet. As at 30 June 2016, the Riverview Place mall was 82% leased (as at 31 December 2015: 87%). Shangri-La Hotel, Tianjin, reported an average occupancy rate of 59% (2015: 54%) during the period under review.

#### (ii) *Sales of Properties*

During the six months ended 30 June 2016, sales of completed properties in the PRC generated a turnover of HK\$2,566 million (2015: HK\$435 million), mainly from recognized sales of Enterprise Centre in Shanghai, Nanchang Arcadia Court, Putian Arcadia Court and Shenyang Arcadia Court and Enterprise Square. A gross profit of HK\$880 million (2015: HK\$63 million) has derived therefrom.

##### *Enterprise Centre, Shanghai*

Enterprise Centre at Kerry Everbright City Phase III in Jingan District was completed in the fourth quarter of 2015 with handover commencing in early 2016. This new phase, comprising three office towers and ancillary retail spaces, adds a GFA of approximately 1.1 million square feet to the overall development. As at 30 June 2016, 123 office units, representing 77% of all 160 units of Tower 3 (Enterprise Suites), had been sold. The Group holds a 74.25% interest in this project.

##### *Nanchang Arcadia Court*

Three towers of Nanchang Arcadia Court have been completed with handover commencing in late 2015. Another two towers under construction will be completed in the second half of 2016. As at 30 June 2016, 337 residential units, representing 77% of all 436 units, had been sold/pre-sold. The Group holds an 80% interest in this project.

*Putian Arcadia Court*

Units at Putian Arcadia Court were delivered from 2015. As at 30 June 2016, 1,698 residential units, representing 93% of all 1,820 units, had been sold. The Group holds a 60% interest in this project.

*Shenyang Arcadia Court and Enterprise Square*

Four towers of Shenyang Arcadia Court and Enterprise Square have been completed and delivered for occupation. Two towers of Shenyang Arcadia Court under construction will be completed in 2017. As at 30 June 2016, 601 units, representing 62% of all 972 residential units, and 135 units, representing 59% of all 229 office units, had been sold. The Group holds a 60% interest in this project.

*Tangshan Arcadia Court*

Tangshan Arcadia Court Phases I to III with 14 towers are available for sale. As at 30 June 2016, 1,336 units, representing 89% of all 1,495 units, had been sold. The Group holds a 40% interest in this residential project.

*Tianjin Arcadia Court*

The three residential towers of Tianjin Arcadia Court have been completed and handed over consecutively. Up to 30 June 2016, 968 units, representing 86% of all 1,126 units, had been sold. The Group holds a 49% interest in this residential project.

**(iii) Properties under Development**

The Group's balanced strategy is primarily focused on the development of large-scale mixed-use projects in the CBDs of major cities, in parallel with active residential development activities to drive sales income.

*Qianhai, Shenzhen*

The Group holds a commercial site for development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Qianhai is a special economic zone situated in a key location in the Pearl River Delta with a planned efficient transportation system. Slated to be transformed into a finance hub, Qianhai has been conceived with lifestyle-enhancing features and amenities to create a sustainable urban district.

This 350,000 square-foot site lies close to the Guangshen Yanjiang Expressway and enjoys a front sea view, making it an ideal location for office, apartment and commercial property development. Total buildable GFA will aggregate to approximately 2.2 million square feet. The project is wholly owned by the Group and represents the first substantial investment in Qianhai by a major Hong Kong corporation. The project is expected to be completed in 2019.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (B) PRC Property Division (continued)

#### (iii) *Properties under Development (continued)*

##### *Hangzhou*

The Group is developing Hangzhou Kerry Centre, a project located at the intersection of Yan'an Road and Qingchun Road, adjacent to the Xihu (West Lake). This 2.2 million square-foot mixed-use property will comprise a luxury hotel, Grade-A offices, premium apartments and a retail mall complex. Project construction is now underway and the development is targeted for completion within 2016. As at 30 June 2016, the offices were in full operation with 85% leased (2015: N/A). Midtown Shangri-La, Hangzhou has been completed and was soft-opened in March 2016, with an average occupancy rate of 51% (2015: N/A) during the period. The Group holds a 75% stake in the project.

The Group is also working on a residential and commercial development spread out over five wholly-owned lots of land in the city. This project is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, it will yield a GFA of approximately 2.27 million square feet occupied by Castalia Court, a residential property development, as well as approximately 210,000 square feet of commercial space. With construction works currently underway, the project is targeted for completion in phases from 2017 onwards. As at 30 June 2016, 831 residential units, representing 49% of all 1,683 units, had been pre-sold.

##### *Shenyang*

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 13 million square feet. This mixed-use project will include a hotel, offices, a shopping mall and residences. Phase I of the development is in the construction stage and has been partially completed. Phase II has also commenced construction, while Phase III of the development is now at the planning stage. Shangri-La Hotel, Shenyang recorded an average occupancy rate of 64% (2015: 62%) during the period under review.

##### *Nanchang*

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a mixed-use property through a joint venture with Shangri-La Asia Limited ("**Shangri-La**"). This 80%-held project is situated on the west bank of the Ganjiang River at the heart of Honggutan Central District. Its development includes a hotel, office, commercial and high-end residential properties. Construction of the residential portion is in progress, with one tranche of the units already completed and handed over consecutively. The hotel and residential portion will deliver a GFA of approximately 1.7 million square feet. Shangri-La Hotel, Nanchang recorded an average occupancy rate of 57% (2015: 58%) during the period under review.

*Zhengzhou*

The Group and Shangri-La are also collaborating on developing a site located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou City, Henan Province. The site will yield a GFA of approximately 2.3 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2019 onwards. The Group holds a 55% interest in this project.

*Changsha*

The Group's wholly-owned residential project in the Tianxin District of Changsha, the provincial capital of Hunan Province, is expected to deliver a GFA of approximately 3.2 million square feet. Phase I of the Changsha Xiangjiang Arcadia Court has been completed and handed over in tranches. Construction works of Phase II is currently underway, and the project is scheduled to be completed in phases before 2019. As at 30 June 2016, 607 Phase I units, representing 93% of all 656 units therein, had been sold and 262 Phase II units, representing 43% of all 607 units therein, had been pre-sold.

*Chengdu*

The Metropolis-Arcadia Court in Chengdu is located in the southern part of the High-Tech Industrial Development Zone. The Phase I residential units have been substantially sold and delivered. Phase II, with a total GFA of approximately 2.15 million square feet, is due for completion by stages from 2017 onwards. Sales of the Phase II residential units were launched in 2015 and as at 30 June 2016, 1,185 units, representing 62% of all 1,905 units, had been pre-sold. The Group holds a 55% interest in this project.

In July 2016, the Group signed a Shares Transfer Agreement with an independent third party to sell all its investments in the Phase III development. Completion of the shares transfer is expected to be in the second half of 2016.

*Jinan*

The Group is co-developing with Shangri-La a mixed-use project located in Lixia District, Jinan City. The Group holds a 55% stake in this project, which has a GFA of approximately 1.1 million square feet. The project will comprise a hotel, offices and commercial space, and is scheduled to be completed in phases from 2017 onwards.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (B) PRC Property Division (continued)

#### (iii) Properties under Development (continued)

##### *Kunming*

The Group, together with Shangri-La, is developing two adjoining sites in Kunming City, Yunnan Province. The sites are earmarked for hotel and apartment use, with a GFA of approximately 900,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2019.

##### *Nanjing*

The Group is developing a residential site located at Da Guang Road in Nanjing's Qin Huai District. This wholly-owned project, Nanjing Jinling Arcadia Court, has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. Project construction is in progress, and is scheduled for completion in 2017. Pre-sales of the project commenced in the fourth quarter of 2015, and as at 30 June 2016, 162 residential units, representing 38% of all 429 units, had been pre-sold.

##### *Ningbo*

The site under development in Ningbo is located in the Eastern New Town Core Region and is earmarked for The Berylville, a high-end residential project, in which the Group holds a 50% interest. Construction works for Phase I, with a GFA of approximately 400,000 square feet, have been completed. As at 30 June 2016, 80 units, representing 82% of all 97 units, of the Phase I development had been sold. Basement structure works for Phase II are in progress. This new phase will yield a total of 437 residential units with a total GFA of approximately 629,000 square feet.

##### *Putian*

The Group and Shangri-La are co-developing a site at Jiuhua Road, Putian City, Fujian Province. Expected to yield a GFA of approximately 4 million square feet, the site is earmarked for the development of residential, hotel and ancillary commercial properties. The residential portion is completed in stages from 2015 to mid 2016 onwards. The Group holds a 60% interest in this project.

*Qinhuangdao*

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, generating a GFA of approximately 1.6 million square feet, has been completed. As at 30 June 2016, 302 Phase I residential units, representing 39% of all 780 units, had been sold.

*Tangshan*

The Group's 40%-owned mixed-use project in Tangshan comprises hotel, residential and ancillary commercial properties, with a GFA of approximately 3.3 million square feet. Shangri-La Hotel, Tangshan reported an average occupancy rate of 46% (2015: N/A) during the period under review. The ancillary commercial properties have recently been completed.

*Yingkou*

In May 2016, the Group signed Shares Transfer Agreements with an independent third party to sell all its investments in Yingkou. Completion of the shares transfer is expected to be in the second half of 2016.

**(C) Hong Kong Property Division**

During the six months ended 30 June 2016, the Hong Kong Property Division reported a turnover of HK\$715 million (2015: HK\$1,741 million) and a gross profit of HK\$473 million (2015: HK\$888 million).

The Division's turnover for the period was mainly derived from recognized sales of completed residential properties at 1 & 3 Ede Road, 8 LaSalle and carparking spaces of The Summa. Sales of Dragons Range and pre-sales of The Bloomsway and Mantin Heights, which was launched in April 2016, delivered steady sales during the period under review.

The Division's portfolio of office and retail properties continued to deliver steady recurrent rental income, reflecting high occupancy levels and resilient rentals.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (C) Hong Kong Property Division (continued)

#### (i) Investment Properties

Turnover generated from the Group's completed investment properties in Hong Kong amounted to HK\$512 million (2015: HK\$437 million), producing a gross profit of HK\$404 million (2015: HK\$336 million) for the period under review.

As at 30 June 2016, the Group's completed investment property portfolio in Hong Kong had an aggregate GFA of 2.78 million square feet (as at 31 December 2015: 2.78 million square feet). Set out below are the breakdown of GFA and the respective occupancy rates, together with the comparative figures:

	As at 30 June 2016		As at 31 December 2015	
	Group's attributable GFA ( <i>'000 square feet</i> )	Occupancy rate	Group's attributable GFA ( <i>'000 square feet</i> )	Occupancy rate
Apartment	722	97%	722	85%
Commercial	1,223	100%	1,223	100%
Office	840	85%	840	99%
	<u>2,785</u>		<u>2,785</u>	

#### *Enterprise Square Five/MegaBox, Kowloon Bay*

MegaBox blends shopping, recreation, dining and art into one innovatively designed complex in Kowloon East. This pioneering retail and lifestyle venue offers a GFA of 1.1 million square feet. As at 30 June 2016, the mall had an occupancy rate of approximately 100% (as at 31 December 2015: 100%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, were 79% leased (as at 31 December 2015: 98%).

MegaBox continues to record strong leasing performance on the back of a tenant mix designed to serve local families and shoppers. Leasing activity also remains stable for the office units with Kowloon East's transformation into a new CBD continues.

*Kerry Centre, Quarry Bay*

Kerry Centre, at No. 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office property in Hong Kong. This Grade-A office tower has a GFA of approximately 511,000 square feet. Office units at Kerry Centre remained in high demand, with approximately 100% of the space occupied (as at 31 December 2015: 100%) as at 30 June 2016.

*Branksome Grande, Mid-Levels*

Located at No. 3 Tregunter Path, Branksome Grande is a twin-tower development of 24 floors, offering a total of 94 residential units, including two penthouses. Comprehensive renovation of the entire building was completed in 2015. As at 30 June 2016, the property was 100% leased (as at 31 December 2015: 76%).

**(ii) Sales of Properties**

During the first six months of 2016, sales of completed properties held for sale in Hong Kong contributed a turnover of HK\$203 million (2015: HK\$1,304 million) to the Group. A gross profit of HK\$69 million (2015: HK\$552 million) was derived from recognized sales of completed residential properties at 1 & 3 Ede Road, 8 LaSalle and carparking spaces of The Summa.

The Division also derived satisfactory profit from the sale of Dragons Range. Pre-sales of The Bloomsway and Mantin Heights delivered steady sales during the period under review.

*1 & 3 Ede Road, Kowloon Tong*

The development consists of a house, One Ede Road, and 40 apartments at Three Ede Road, with a total saleable area of approximately 70,000 square feet. As at 30 June 2016, 38 apartments and the house, representing 95% of the total, had been sold.

*8 LaSalle, Ho Man Tin*

This redevelopment project of 56 units is situated at No. 8 La Salle Road, Ho Man Tin, a neighbourhood offering a network of quality primary and secondary schools. The project delivers a saleable area of approximately 53,000 square feet. 50 units of the project, representing 89% of the total, had been sold as at 30 June 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (C) Hong Kong Property Division (continued)

#### (ii) Sales of Properties (continued)

##### *Dragons Range, Kau To, Sha Tin*

Together with Sino Group and Manhattan Group, the Group has co-developed Dragons Range, a residential project of 973 units at No. 33 Lai Ping Road, Kau To, Sha Tin, with a saleable area of approximately 878,000 square feet. The Group holds a 40% stake in this project, which has already been delivered for occupation. As at 30 June 2016, 915 units had been sold, accounting for 94% of the total.

#### (iii) Properties under Development

##### *The Bloomsway, So Kwun Wat*

The Group is developing The Bloomsway, a residential project at Nos. 18, 28 & 29 Tsing Ying Road, So Kwun Wat, with a buildable GFA of approximately 940,000 square feet. The site is to be developed into a large-scale residential property of 1,100 units, scheduled for completion in the first quarter of 2017. Pre-sales of the project were launched in November 2015. As at 30 June 2016, 588 units had been sold, accounting for 53% of the total.

##### *Mantin Heights, Ho Man Tin*

The Group is developing a residential site at 28 Sheung Shing Street, Ho Man Tin, with superstructure works currently in progress. The site occupies an area of approximately 259,000 square feet with a buildable GFA of approximately 1.14 million square feet. The project of 1,429 units is scheduled for completion in the first quarter of 2017. Pre-sales of the project were launched in April 2016. As at 30 June 2016, 87 units had been sold, accounting for 6% of the total.

##### *Shan Kwong Road, Happy Valley*

A new residential project is currently under development at No. 7A Shan Kwong Road, Happy Valley. It will yield a buildable GFA of approximately 81,000 square feet, and is scheduled to be completed in the first quarter of 2017.

*Lung Cheung Road, Beacon Hill*

The Group is developing a site in Beacon Hill with an area of approximately 115,000 square feet and a buildable GFA of approximately 116,000 square feet. The site is planned to be developed into a low-density premium residential project, and is scheduled for completion in 2018.

*New Redevelopment Project at Hing Hon Road, Sai Ying Pun*

The Group is moving ahead with plans to develop a new residential project at Nos. 5-8 Hing Hon Road, following amalgamation of the original development at Nos. 5-6 with an adjacent development at Nos. 7-8. The ownership unification of the new site was completed in December 2015. The joint redevelopment project, in which the Group holds a 71% interest, will deliver a buildable GFA of approximately 68,000 square feet. The project is scheduled to be completed in 2019.

*LaSalle Road/Boundary Street, Ho Man Tin*

In June 2016, the Group completed the acquisition of the entire building at Nos. 168-168C Boundary Street in Ho Man Tin and will jointly redevelop the site together with a site at Nos. 10-12A LaSalle Road, which it acquired in 2013. This redevelopment project lies adjacent to 8 LaSalle, and will deliver an aggregate developable GFA of 45,000 square feet, scheduled for completion in 2019.

*Macau*

Development projects in Macau include a site at Nam Van Lake, designated for luxury apartment development, and a further residential project currently under discussion with the Macau SAR Government on the land exchange issue.

In respect of the Nam Van Lake project, the land concession period ended on 30 July 2016. Up to date, no declaration of the lease expiry has been published in the Official Gazette of Macau or notified to the registered lessee, a wholly-owned subsidiary of the Group. As such, the subsidiary remains the registered lessee of the land.

The Group has sought advice from a legal advisor in Macau. Based on the fact that the non-development was not attributable to the Group, the Group would have a right to pursue a claim for its damages and loss of profits should the Macau SAR Government repossess the land without any compensation. Considering the above, the Directors are of the opinion that no provision is required for the Nam Van Lake project as at 30 June 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (D) Overseas Property Division

The Group holds a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. (“**SPI**”), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and indirect interests in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 30 June 2016, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 94% and 87%, respectively (as at 31 December 2015: 88% and 96%, respectively).

The development of One Shangri-La Place, a residential project located in Mandaluyong City, Manila, has been completed. As at 30 June 2016, a total of 1,248 units (as at 31 December 2015: 1,225) had been sold, accounting for 96% of the total.

SPI currently has three major projects under development:

The first is a project in Makati City to redevelop a site into a high-rise residential building, Shang Salcedo Place, with a GFA of approximately 655,000 square feet. As at 30 June 2016, 533 units (as at 31 December 2015: 432), representing 71% of the total 749 residential units had been sold.

SPI is developing a site of more than 116,000 square feet located in Malugay Street, Makati City. This development project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and approximately 96,000 square feet of commercial space. Sales of The Rise have met with a strong market response, with 2,035 residential units (as at 31 December 2015: 1,829), or 67% of the total 3,044 units sold as at 30 June 2016.

In addition, SPI holds a 60% interest in a hotel and luxury residential development in Fort Bonifacio, Taguig, Manila. The development includes a hotel with a total area of more than 850,000 square feet, residential and serviced apartment units covering 593,000 square feet, and commercial spaces with a total area of 47,400 square feet. As at 30 June 2016, 46 residential units (as at 31 December 2015: 29) had been sold, accounting for 47% of the total 98 units available for sale.

**(E) Outlook****(i) PRC Property Division**

China's property sector has staged an encouraging rebound since the start of 2016. This upturn reflects the Central Government's supportive policies aimed at reducing the inventory of unsold properties, as well as improved consumer and investor confidence.

With a portfolio of prime-quality properties and a sound business strategy, the PRC Property Division is well positioned to address the forthcoming market challenges. The Division recorded strong sales during the first six months, and management expects this momentum to continue into the remainder of the year, primarily driven by residential projects in Putian, Chengdu, Nanchang, Nanjing and Tangshan.

The investment property portfolio will continue to deliver a stable performance despite some downward pressure on the office sector caused by an increase in supply. The shopping malls yielded improved results during the first half as the Division continued to fine-tune its retail mix according to prevailing market conditions. This process of transformation is ongoing. A steady leasing performance is also forecast for the serviced apartments. This rental asset base remains a core component of the Group's overall business portfolio.

In the longer term, the Division has in the pipeline a number of completions of mixed-use and residential projects across China. These projects, coupled with the new development in Qianhai, will drive the Division's future business growth. The coming quarters are not without challenges, but management continues to look ahead with confidence.

**(ii) Hong Kong Property Division**

The external environment and domestic segment are sending mixed signals on the outlook for Hong Kong. Notwithstanding an asset market correction during the first half of 2016, the local economy has exhibited resilience on the back of a largely stable business environment and labour market. However, as an open economy, Hong Kong is susceptible to rising downside risks from fragile global economic conditions.

The Hong Kong Property Division has been able to sustain robust sales momentum amidst a consolidation mode in the residential market. It will continue to respond to market changes with a pragmatic business strategy that is adapted to the market, while aiming for sustained growth over the long term.

The investment property portfolio contributes a growing stream of recurrent revenue and earnings to the Group. The office segment, comprising Grade-A assets in Island East and Kowloon East, is expected to continue performing well. The retail portfolio, including the family-friendly mall in Kowloon East, is also delivering a steady performance.

The Division will continue to pursue investment opportunities in Hong Kong to foster long-term growth. Management holds a continued stable outlook for the Division.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (F) Financial Review

The Group has centralised funding for all its operations. This policy achieves better control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 30 June 2016, total foreign currency borrowings (excluding RMB borrowings) amounted to the equivalence of HK\$10,225 million and RMB loans amounted to the equivalence of HK\$8,697 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 26% and 22% respectively, of the Group's total borrowings of HK\$38,797 million as at 30 June 2016.

The non-RMB total foreign currency borrowings of HK\$10,225 million include the Fixed Rate Bonds amounting to US\$1,320 million (net of direct issue costs). The Group has arranged cross currency swap and forward exchange contracts amounting to US\$517 million and US\$425 million, respectively, to hedge the exchange rate exposure between United States dollars and Hong Kong dollars. Besides, the Group has also arranged cross currency swap and forward exchange contracts amounting to RMB900 million and RMB513 million, respectively, to hedge the exchange rate exposure between Renminbi and Hong Kong dollars.

Out of the Group's total borrowings as at 30 June 2016, HK\$10,584 million (representing approximately 27%) was repayable within one year, HK\$7,518 million (representing approximately 19%) was repayable in the second year, HK\$18,870 million (representing approximately 49%) was repayable in the third to fifth years and HK\$1,825 million (representing approximately 5%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 85% of total borrowings as at 30 June 2016. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 30 June 2016, the gearing ratio for the Group was 28.2% (as at 31 December 2015: 32.2%), calculated based on net debt of HK\$23,119 million and shareholders' equity of HK\$81,983 million.

As at 30 June 2016, the Group had outstanding interest rate swap contracts which amounted to HK\$4,000 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group's available financial resources as at 30 June 2016, the Group had total undrawn bank loan facilities of HK\$17,777 million and cash on hand of HK\$15,678 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 25 January 2016, the Group signed a loan agreement for an unsecured HK\$10 billion term and revolving loan facility with 19 reputable international and local banks and financial institutions. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK\$8.45 billion syndicated loan facility obtained in January 2011.

## INVESTOR RELATIONS

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. The Group had participated a number of roadshows and investors' conferences during the six months ended 30 June 2016 and some of them are set out below:

<b>Event</b>	<b>Venue</b>
BNP Paribas Asia Pacific Financials, Property & Logistics Conference	Hong Kong
Credit Suisse 19th Annual Asian Investment Conference	Hong Kong
DBS Vickers Pulse of Asia Conference	Hong Kong
HSBC 6th Annual Greater China Property Conference	Hong Kong
Macquarie Greater China Conference	Hong Kong
Citi Asia Pacific Property Conference	Hong Kong
J.P. Morgan Global China Summit 2016	Beijing

## STAFF

As at 30 June 2016, the Company and its subsidiaries had approximately 8,000 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

## SHARE OPTIONS

On 5 May 2011, the Shareholders approved the adoption of a new share option scheme (the "**2011 Share Option Scheme**") and the termination of a share option scheme adopted in 2002 (the "**2002 Share Option Scheme**") to the effect that no further share options of the Company (the "**Share Options**") shall be offered under the 2002 Share Option Scheme but the Share Options which had been granted during the life of the 2002 Share Option Scheme should continue to be valid and exercisable.

The 2011 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 30 June 2016, a total of 44,937,000 Share Options were outstanding which comprised 10,775,000 and 34,162,000 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

## SHARE OPTIONS (continued)

### Movement of Share Options

Movement of the Share Options during the six months ended 30 June 2016 are listed below in accordance with Rule 17.07 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

Category	Date of grant	Tranche	Number of Share Options			Exercise	
			As at 01/01/2016	Lapsed	As at 30/06/2016	Price HK\$	Exercise Period
<b>(i) 2002 Share Option Scheme (Note a):</b>							
<b>1. Directors</b>							
Wong Siu Kong	02/04/2008	I	750,000	-	750,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	750,000	-	750,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,500,000	-	1,500,000	47.70	02/04/2011 – 01/04/2018
Ho Shut Kan	02/04/2008	I	300,000	-	300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	300,000	-	300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	600,000	-	600,000	47.70	02/04/2011 – 01/04/2018
Chin Siu Wa, Alfred	02/04/2008	I	200,000	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	200,000	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	400,000	-	400,000	47.70	02/04/2011 – 01/04/2018
Bryan Pallop Gaw	02/04/2008	I	75,000	-	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	-	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	-	150,000	47.70	02/04/2011 – 01/04/2018
Kuok Khoon Hua	02/04/2008	I	75,000	-	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	-	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	-	150,000	47.70	02/04/2011 – 01/04/2018
<b>2. Continuous Contract Employees</b>							
	02/04/2008	I	812,500	(75,000)	737,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	812,500	(75,000)	737,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,625,000	(150,000)	1,475,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	260,000	-	260,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	345,000	-	345,000	17.58	06/02/2011 – 05/02/2019
<b>3. Others</b>							
	02/04/2008	I	425,000	(37,500)	387,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	425,000	(37,500)	387,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	850,000	(75,000)	775,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	20,000	-	20,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	50,000	-	50,000	17.58	06/02/2011 – 05/02/2019
<b>Total:</b>			<b>11,225,000</b>	<b>(450,000)</b>	<b>10,775,000</b>		

Category	Date of grant	Tranche	Number of Share Options			Exercise	
			As at 01/01/2016	Lapsed	As at 30/06/2016	Price HK\$	Exercise Period
<b>(ii) 2011 Share Option Scheme (Note a):</b>							
<b>1. Directors</b>							
Wong Siu Kong	30/04/2012	I	1,500,000	-	1,500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	1,500,000	-	1,500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	1,500,000	-	1,500,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,500,000	-	1,500,000	26.88	08/01/2015 – 07/01/2024
Ho Shut Kan	30/04/2012	I	500,000	-	500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	500,000	-	500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	-	750,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	-	750,000	26.88	08/01/2015 – 07/01/2024
Chin Siu Wa, Alfred	30/04/2012	I	500,000	-	500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	500,000	-	500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	-	750,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	-	750,000	26.88	08/01/2015 – 07/01/2024
Bryan Pallop Gaw	30/04/2012	I	150,000	-	150,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	150,000	-	150,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	250,000	-	250,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	250,000	-	250,000	26.88	08/01/2015 – 07/01/2024
<b>2. Continuous Contract Employees</b>	30/04/2012	I	3,615,000	(275,000)	3,340,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,675,000	(275,000)	3,400,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	3,582,000	(175,000)	3,407,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	3,855,000	(310,000)	3,545,000	26.88	08/01/2015 – 07/01/2024
<b>3. Others</b>	30/04/2012	I	4,135,000	-	4,135,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	4,535,000	-	4,535,000	35.45	31/10/2013 – 29/04/2022
<b>Total:</b>			<b>35,197,000</b>	<b>(1,035,000)</b>	<b>34,162,000</b>		

Notes:

- a. During the period, no Share Option was exercised, granted, granted for adjustment, transferred from/to other category or cancelled under both the 2002 Share Option Scheme and the 2011 Share Option Scheme.
- b. The vesting period of the Share Options is from the date of grant until the commencement of the exercise period.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2016, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### (i) Company

Directors	Number of ordinary shares			Total	Approximate % of shareholding <sup>6</sup>
	Personal interests <sup>1</sup>	Family interests <sup>2</sup>	Other interests <sup>4</sup>		
Wong Siu Kong	448,000	–	50,000	498,000	0.03
Ho Shut Kan	360,000	–	50,000	410,000	0.03
Chin Siu Wa, Alfred	–	–	50,000	50,000	0.00
Bryan Pallop Gaw	10,000	7,176,897	1,232,048	8,418,945	0.58
Kuok Khoon Hua	59,000	–	7,670,310	7,729,310	0.54

### (ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares/Amount of debentures				Number of underlying ordinary shares held under equity derivatives <sup>5</sup>	Total	Approximate % of shareholding
		Personal interests <sup>1</sup>	Family interests <sup>2</sup>	Corporate interests <sup>3</sup>	Other interests <sup>4</sup>			
Armada Holdings Limited (formerly, SCMP Group Limited)	Kuok Khoon Hua	–	–	–	620,000	–	620,000	0.04 <sup>7</sup>
Kerry Group Limited	Wong Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06 <sup>8</sup>
	Ho Shut Kan	2,888,452	–	–	–	–	2,888,452	0.19 <sup>8</sup>
	Chin Siu Wa, Alfred	500,000	–	500,000	–	1,000,000	2,000,000	0.13 <sup>8</sup>
	Bryan Pallop Gaw	1,500,000	131,662,864	–	46,399,988	2,000,000	181,562,852	11.91 <sup>8</sup>
	Kuok Khoon Hua	5,000	–	–	178,062,851	1,995,000	180,062,851	11.81 <sup>8</sup>
Kerry Logistics Network Limited	Wong Siu Kong	306,000	–	–	1,233,500	–	1,539,500	0.09 <sup>9</sup>
	Ho Shut Kan	200,000	–	–	1,233,500	–	1,433,500	0.08 <sup>9</sup>
	Chin Siu Wa, Alfred	–	–	–	1,233,500	200,000	1,433,500	0.08 <sup>9</sup>
	Bryan Pallop Gaw	50,000	3,588,449	–	1,824,524	–	5,462,973	0.32 <sup>9</sup>
	Kuok Khoon Hua	101,000	–	–	5,043,655	1,000,000	6,144,655	0.36 <sup>9</sup>
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01 <sup>9</sup>

Associated Corporations	Directors	Number of ordinary shares/Amount of debentures				Number of underlying ordinary shares held under equity derivatives <sup>5</sup>	Total	Approximate % of shareholding
		Personal interests <sup>1</sup>	Family interests <sup>2</sup>	Corporate interests <sup>3</sup>	Other interests <sup>4</sup>			
Medallion Corporate Limited	Bryan Pallop Gaw	26	26	-	-	-	52	5.2 <sup>10</sup>
	Kuok Khoon Hua	48	-	-	-	-	48	4.8 <sup>10</sup>
Shang Properties, Inc.	Ho Shut Kan	1,570	-	-	-	-	1,570	0.00 <sup>11</sup>
	Bryan Pallop Gaw	-	582,532	-	248,482	-	831,014	0.02 <sup>11</sup>
	Kuok Khoon Hua	-	-	-	193,482	-	193,482	0.00 <sup>11</sup>
Vencedor Investments Limited	Bryan Pallop Gaw	5	5	-	-	-	10	10.00 <sup>12</sup>
	Kuok Khoon Hua	5	-	-	-	-	5	5.00 <sup>12</sup>
Wiseyear Holdings Limited	Wong Siu Kong	US\$4,000,000 5% Notes due 2017	-	-	-	N/A	US\$4,000,000 5% Notes due 2017	N/A
	Chin Siu Wa, Alfred	US\$1,000,000 5% Notes due 2017	-	-	-	N/A	US\$1,000,000 5% Notes due 2017	N/A

## Notes:

1. This represents interests held by the relevant Director as beneficial owner.
2. This represents interests held and/or deemed to be held by the spouse of the relevant Director.
3. This represents interests deemed to be held by the relevant Director through his controlled corporation(s).
4. This represents interests deemed to be held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
5. This represents interests in options held by the relevant Director and/or his spouse as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited ("KGL") and Kerry Logistics Network Limited ("KLN").
6. The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2016 (i.e. 1,443,147,728 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of Armada Holdings Limited in issue as at 30 June 2016 (i.e. 1,567,745,596 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2016 (i.e. 1,524,718,043 ordinary shares).
9. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2016 (i.e. 1,694,805,612 ordinary shares).
10. The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 30 June 2016 (i.e. 1,000 ordinary shares).
11. The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 30 June 2016 (i.e. 4,764,056,287 common shares).
12. The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 30 June 2016 (i.e. 100 ordinary shares).

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

Details of the Share Options, duly granted to the Directors pursuant to the share options schemes, which constitute interests in underlying ordinary shares of equity derivatives of the Company under the SFO are set out in the section headed "Share Options" of this report.

All the interests disclosed in sections (i) and (ii) above represent long positions in the shares of the Company or the Associated Corporations.

Save as aforesaid, as at 30 June 2016, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2016, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Long position/ Short position/ Lending pool	Approximate % of shareholding <sup>ii</sup>
Kerry Group Limited	Interest of controlled corporations	837,219,443 <sup>i</sup>	Long position	58.01
Kerry Holdings Limited	Interest of controlled corporations	745,147,378 <sup>i</sup>	Long position	51.63
Caninco Investments Limited	Beneficial owner	312,248,193 <sup>i</sup>	Long position	21.64
Darmex Holdings Limited	Beneficial owner	256,899,261 <sup>i</sup>	Long position	17.80
Moslane Limited	Beneficial owner	73,821,498 <sup>i</sup>	Long position	5.12

Notes:

- i. Caninco Investments Limited ("**Caninco**"), Darmex Holdings Limited ("**Darmex**") and Moslane Limited ("**Moslane**") are wholly-owned subsidiaries of Kerry Holdings Limited ("**KHL**"). KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex and Moslane are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
- ii. The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2016 (i.e. 1,443,147,728 ordinary shares).

Apart from the aforesaid, as at 30 June 2016, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

## **CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Board has adopted the Model Code and that the Directors have confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2016.

## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2016, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules except that Mr Wong Siu Kong serving as both the Chairman and the Chief Executive Officer of the Company is a deviation from A.2.1 of the code provisions which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

As Mr Wong has extensive experience in the business of the Group, it is more efficient for Mr Wong to perform the role of Chairman as well as Chief Executive Officer of the Company. It is also more favorable to the development and management of the Group's business. Moreover, Mr Ho Shut Kan, the President of the Company, is responsible for the day-to-day management of the business of the Group and all other members of the Board have the experience and expertise to ensure balance of power and authority so that the power is not concentrated in any one individual.

## **CHANGE IN THE INFORMATION OF THE DIRECTOR SINCE LAST ANNUAL REPORT**

The change in the information of the Director as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules is set out below:

Mr Kuok Khoon Hua, a Non-executive Director of the Company, has been appointed as a Non-independent Non-executive Director of Wilmar International Limited (a listed company in Singapore) with effect from 1 July 2016.

## **CLOSURE OF REGISTERS OF MEMBERS**

The Registers of Members will be closed on Tuesday, 6 September 2016 for the purpose of determining Shareholders' entitlement to the Interim Dividend and no transfer of shares will be effected on that date. In order to qualify for the Interim Dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Monday, 5 September 2016. The Interim Dividend is payable on Thursday, 15 September 2016 to Shareholders whose names appear on the Registers of Members on Tuesday, 6 September 2016.



## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the six months ended 30 June 2016, the Company repurchased 2,708,500 shares on the Stock Exchange at an aggregate consideration of HK\$52,227,910 ("**Repurchase**"). The Repurchase was made for the enhancement of shareholders' value. Details of the Repurchase are as follows:

<u>Month</u>	<u>Number of ordinary shares</u>	<u>Price paid per share</u>		<u>Aggregate consideration HK\$</u>
		<u>Highest HK\$</u>	<u>Lowest HK\$</u>	
January 2016	2,708,500	19.40	19.08	52,227,910
<b>Total</b>	<b>2,708,500</b>			<b>52,227,910</b>

All 2,708,500 shares repurchased were cancelled during the six months ended 30 June 2016. Apart from the above, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2016.

## DIRECTORS

As at the date of this report, the Directors of the Company are:

*Executive Directors:*

Messrs Wong Siu Kong, Ho Shut Kan, Chin Siu Wa, Alfred and Bryan Pallop Gaw

*Non-executive Director:*

Mr Kuok Khoon Hua

*Independent Non-executive Directors:*

Mr Ku Moon Lun, Ms Wong Yu Pok, Marina, JP and Mr Chang Tso Tung, Stephen

By Order of the Board

**Li Siu Ching, Liz**

*Company Secretary*

Hong Kong, 22 August 2016