



KERRY PROPERTIES LIMITED

2017 INTERIM REPORT

For the six months ended 30 June 2017

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 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 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 SHARE REGISTRAR AND
TRANSFER OFFICE**

Tricor Abacus Limited

Level 22, Hopewell Centre

183 Queen's Road East, Hong Kong

CORPORATE COMMUNICATION DEPARTMENT

Kerry Properties Limited

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INVESTOR RELATIONS DEPARTMENT

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WEBSITE

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KEY DATES**Closure of Registers of Members**

5 September 2017

Proposed Payment of Interim Dividend

15 September 2017

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2017. 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 2017 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2017 was HK\$3,309 million, representing an increase of 62% compared with HK\$2,041 million reported for the same period in 2016. 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\$476 million for the six months ended 30 June 2017 (2016: HK\$607 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 98% in profit attributable to shareholders to HK\$2,833 million for the six months ended 30 June 2017 (2016: HK\$1,434 million).

Earnings per share for the six months ended 30 June 2017 was HK\$2.29, representing an increase of 62% compared with HK\$1.41 per share for the same period in 2016. 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:

	Six months ended 30 June		
	2017	2016	
	HK\$ million	HK\$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	2,833	1,434	98%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>476</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>3,309</u>	<u>2,041</u>	62%

The Directors have declared an interim dividend of HK\$0.45 per share for the six months ended 30 June 2017 (the “**Interim Dividend**”) (2016: HK\$0.3), which is payable on Friday, 15 September 2017 to shareholders whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Tuesday, 5 September 2017.

At the Company’s Annual General Meeting held on 12 May 2017, shareholders of the Company (the “**Shareholders**”) approved the final dividend of HK\$0.8 per share for the year ended 31 December 2016 which amounted to a total of approximately HK\$1,155 million and was paid on 26 May 2017.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2017	2016
		HK\$'000	HK\$'000
Turnover	3	17,741,993	5,536,956
Cost of sales		(11,723,696)	(1,583,994)
Direct operating expenses		(1,916,213)	(1,340,813)
Gross profit	3	4,102,084	2,612,149
Other income and net gains		293,711	131,136
Administrative and other operating expenses		(486,293)	(584,197)
Increase in fair value of investment properties		474,400	919,275
Operating profit before finance costs		4,383,902	3,078,363
Finance costs		(215,970)	(213,840)
Operating profit	4	4,167,932	2,864,523
Share of results of associates		687,983	547,725
Profit before taxation		4,855,915	3,412,248
Taxation	5	(1,057,620)	(894,802)
Profit for the period		<u>3,798,295</u>	<u>2,517,446</u>
Profit attributable to:			
Company's shareholders		3,309,224	2,040,920
Non-controlling interests		489,071	476,526
		<u>3,798,295</u>	<u>2,517,446</u>
Earnings per share	6		
– Basic		<u>HK\$2.29</u>	<u>HK\$1.41</u>
– Diluted		<u>HK\$2.29</u>	<u>HK\$1.41</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Profit for the period	3,798,295	2,517,446
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	(176,395)	3,593
Fair value (loss)/gain on available-for-sale investments	(2,980)	71,528
Share of other comprehensive income of associates	160,583	26,200
Net translation differences on foreign operations	1,479,854	(799,480)
Other comprehensive income for the period, net of tax	1,461,062	(698,159)
Total comprehensive income for the period	5,259,357	1,819,287
Total comprehensive income attributable to:		
Company's shareholders	4,442,866	1,547,840
Non-controlling interests	816,491	271,447
	5,259,357	1,819,287

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2017	2016
	Note	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	5,659,476	5,758,321
Investment properties	7	59,614,767	56,949,967
Leasehold land and land use rights	7	1,914,461	1,893,221
Properties under development		23,091,067	22,307,035
Land deposits		1,100,120	1,085,695
Associates		18,915,655	18,650,834
Derivative financial instruments		34,195	100,139
Available-for-sale investments		4,947,663	4,856,190
Long-term receivables		3,056,360	1,001,386
Intangible assets	7	122,504	122,504
		118,456,268	112,725,292
Current assets			
Properties under development		15,718,514	34,984,502
Completed properties held for sale		13,318,171	3,787,415
Accounts receivable, prepayments and deposits	8	7,181,679	2,492,279
Tax recoverable		177,057	137,434
Tax reserve certificates		189,346	189,255
Listed securities at fair value through profit or loss		6,653	5,709
Derivative financial instruments		240	59,388
Restricted bank deposits		138,224	206,719
Cash and bank balances		15,358,812	16,274,538
		52,088,696	58,137,239
Non-current assets reclassified as held for sale		–	385,574
Assets of disposal groups classified as held for sale		–	1,397,583
		52,088,696	59,920,396

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited As at 30 June 2017 <i>HK\$'000</i>	Audited As at 31 December 2016 <i>HK\$'000</i>
	Note		
Current liabilities			
Accounts payable, deposits received and accrued charges	9	6,704,891	6,659,401
Deposits received on sale of properties		13,575,706	13,874,666
Taxation		1,294,499	1,490,836
Short-term bank loans and current portion of long-term bank loans	10	4,585,596	3,856,100
Fixed rate bonds		–	4,652,074
Derivative financial instruments		41,798	62,125
		26,202,490	30,595,202
Liabilities of disposal groups classified as held for sale		–	339,245
		26,202,490	30,934,447
Net current assets		25,886,206	28,985,949
Total assets less current liabilities		144,342,474	141,711,241
Non-current liabilities			
Long-term bank loans	10	33,166,618	34,507,291
Fixed rate bonds		2,332,005	2,317,612
Amounts due to non-controlling interests		2,655,509	2,590,684
Derivative financial instruments		–	150,164
Deferred taxation		7,070,685	6,927,118
		45,224,817	46,492,869
ASSETS LESS LIABILITIES		99,117,657	95,218,372
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,443,273	1,443,148
Share premium		12,412,718	12,408,816
Other reserves		9,436,667	8,179,121
Retained profits		62,838,463	60,713,322
		86,131,121	82,744,407
Non-controlling interests		12,986,536	12,473,965
TOTAL EQUITY		99,117,657	95,218,372

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2017	2016
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	7,835,188	4,304,060
Interest paid	(848,740)	(663,294)
Income tax paid	(1,331,192)	(587,408)
Net cash generated from operating activities	5,655,256	3,053,358
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	(361,550)	(713,819)
Increase in land deposits	–	(135,254)
Disposal of assets and liabilities of disposal groups classified as held for sale	729,615	–
Increase in investments in associates	(862,000)	–
Dividends received from associates	906,582	321,435
Return of capital from an associate	–	178,084
Repayment of loans from associates, net	603,072	1,170,433
Proceeds from sale of available-for-sale investments	–	6
Additions of available-for-sale investments	(13,264)	–
Increase in long-term receivables	(2,065,818)	(5,413)
Interest received	205,236	133,068
Decrease/(increase) in restricted bank deposits	73,801	(58,853)
Increase in bank deposits maturing after more than three months	(330,608)	(17,028)
Dividends received from listed and unlisted investments	35,976	53,947
Proceeds from sale of property, plant and equipment and investment properties	79,121	51,811
Proceeds from sale of non-current assets reclassified as held for sale	392,161	–
Net cash (used in)/generated from investing activities	(607,676)	978,417
Financing activities		
Proceeds from issue of shares	3,034	–
Consideration and expenses for shares repurchased for cancellation	–	(52,377)
Repayment of bank loans	(17,405,667)	(28,861,762)
Drawdown of bank loans	16,594,898	30,694,878
Dividends paid	(1,154,618)	(865,889)
Redemption of fixed rate bonds	(4,654,380)	–
Dividends of subsidiaries paid to non-controlling interests	(199,455)	(257,073)
Increase in loans from non-controlling interests	64,826	151,705
Net cash (used in)/generated from financing activities	(6,751,362)	809,482
(Decrease)/increase in cash and cash equivalents	(1,703,782)	4,841,257
Effect of exchange rate changes	348,432	(100,118)
Cash and cash equivalents at 1 January	16,014,066	10,498,231
Cash and cash equivalents at 30 June	14,658,716	15,239,370
Analysis of cash and cash equivalents		
Cash and bank balances (excluding bank deposits maturing after more than three months)	14,658,716	15,239,370

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

	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 2017	1,443,148	12,408,816	8,179,121	60,713,322	82,744,407	12,473,965	95,218,372
Profit for the period	-	-	-	3,309,224	3,309,224	489,071	3,798,295
Cash flow hedges	-	-	(176,395)	-	(176,395)	-	(176,395)
Fair value loss on available- for-sale investments	-	-	(2,980)	-	(2,980)	-	(2,980)
Share of reserves of associates	-	-	160,583	-	160,583	-	160,583
Net translation differences on foreign operations	-	-	1,152,434	-	1,152,434	327,420	1,479,854
Total comprehensive income for the six months ended 30 June 2017	-	-	1,133,642	3,309,224	4,442,866	816,491	5,259,357
Issue of share capital – exercise of share options	125	3,629	(720)	-	3,034	-	3,034
Lapse of share options	-	273	(273)	-	-	-	-
Dividends paid	-	-	-	(1,154,618)	(1,154,618)	(199,455)	(1,354,073)
Transfer	-	-	29,465	(29,465)	-	-	-
Disposal of assets and liabilities of disposal groups classified as held for sale	-	-	95,432	-	95,432	(104,465)	(9,033)
	125	3,902	123,904	(1,184,083)	(1,056,152)	(303,920)	(1,360,072)
Balance as at 30 June 2017	<u>1,443,273</u>	<u>12,412,718</u>	<u>9,436,667</u>	<u>62,838,463</u>	<u>86,131,121</u>	<u>12,986,536</u>	<u>99,117,657</u>

	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>

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 2016. 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 2016.

The amendments to standards which are effective for the accounting period beginning on 1 January 2017 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 2016.

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 2016. 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 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	34,435	–	34,435
Available-for-sale investments	51,812	–	4,895,851	4,947,663
Listed securities at fair value through profit or loss	6,653	–	–	6,653
Total assets	<u>58,465</u>	<u>34,435</u>	<u>4,895,851</u>	<u>4,988,751</u>
Liabilities				
Derivative financial instruments	–	41,798	–	41,798
Total liabilities	<u>–</u>	<u>41,798</u>	<u>–</u>	<u>41,798</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	159,527	–	159,527
Available-for-sale investments	51,408	–	4,804,782	4,856,190
Listed securities at fair value through profit or loss	5,709	–	–	5,709
Total assets	<u>57,117</u>	<u>159,527</u>	<u>4,804,782</u>	<u>5,021,426</u>
Liabilities				
Derivative financial instruments	–	212,289	–	212,289
Total liabilities	<u>–</u>	<u>212,289</u>	<u>–</u>	<u>212,289</u>

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	
	2017	2016
	HK\$'000	HK\$'000
Opening balance as at 1 January	4,804,782	1,638,717
(Losses)/gains recognised in comprehensive income	(3,384)	14,668
Additions	13,264	–
Disposals	–	(21)
Exchange adjustment	81,189	–
	<u>4,895,851</u>	<u>1,653,364</u>
Closing balance as at 30 June	<u>4,895,851</u>	<u>1,653,364</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 2017 was HK\$2,540,122,000 (31 December 2016: HK\$7,175,419,000).

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	Completed commercial properties		Commercial properties under development	Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	PRC HK\$'000	
At 1 January 2017	12,141,800	9,884,650	34,923,517	–	56,949,967
Net gains from fair value adjustment	200,615	–	273,785	–	474,400
Disposals	–	–	(59,384)	–	(59,384)
Transfer	1,353,385	–	–	–	1,353,385
Exchange adjustments	–	–	896,399	–	896,399
At 30 June 2017	<u>13,695,800</u>	<u>9,884,650</u>	<u>36,034,317</u>	<u>–</u>	<u>59,614,767</u>
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>

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 mainly derived using 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.

The valuation techniques 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 2016.

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 2017, capitalisation rates of 3.1% to 5.5% (31 December 2016: 3.1% to 5.5%) and 5% to 9% (31 December 2016: 5% 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 2017	2016	Six months ended 30 June 2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– PRC Property	1,672,947	1,451,699	1,337,649	1,164,372
– Hong Kong Property	540,019	512,426	437,639	404,269
	2,212,966	1,964,125	1,775,288	1,568,641
Property sales				
– PRC Property (Note)	4,520,649	2,566,219	980,518	880,416
– Hong Kong Property	10,084,927	202,471	1,175,965	68,345
	14,605,576	2,768,690	2,156,483	948,761
Hotel operations – PRC Property	923,451	804,141	170,313	94,747
	17,741,993	5,536,956	4,102,084	2,612,149
Principal markets:				
– PRC	7,117,047	4,822,059	2,488,480	2,139,535
– Hong Kong	10,624,946	714,897	1,613,604	472,614
	17,741,993	5,536,956	4,102,084	2,612,149

Note: Sales of investment properties for the six months ended 30 June 2017 amounting to HK\$78,811,000 (2016: HK\$51,238,000) are excluded from turnover.

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

	Six months ended 30 June 2017				
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>7,117,047</u>	<u>10,624,946</u>	<u>17,741,993</u>	<u>-</u>	<u>17,741,993</u>
Results					
Segment results – gross profit	2,488,480	1,613,604	4,102,084	-	4,102,084
Other income and net gains					293,711
Administrative and other operating expenses					(486,293)
Increase in fair value of investment properties					<u>474,400</u>
Operating profit before finance costs					4,383,902
Finance costs					<u>(215,970)</u>
Operating profit					4,167,932
Share of results of associates					<u>687,983</u>
Profit before taxation					4,855,915
Taxation					<u>(1,057,620)</u>
Profit for the period					<u>3,798,295</u>
Profit attributable to:					
Company's shareholders					3,309,224
Non-controlling interests					<u>489,071</u>
					<u>3,798,295</u>
Depreciation and amortisation	<u>264,332</u>	<u>15,743</u>	<u>280,075</u>	<u>2,664</u>	<u>282,739</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 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>–</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>

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

	As at 30 June 2017						
	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>90,732,449</u>	<u>74,404,637</u>	<u>2,727,717</u>	<u>167,864,803</u>	<u>63,102,270</u>	<u>(60,422,109)</u>	<u>170,544,964</u>
Total liabilities	<u>52,780,167</u>	<u>41,951,086</u>	<u>344,699</u>	<u>95,075,952</u>	<u>36,773,464</u>	<u>(60,422,109)</u>	<u>71,427,307</u>

	As at 31 December 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>92,406,704</u>	<u>74,512,090</u>	<u>2,554,018</u>	<u>169,472,812</u>	<u>70,928,619</u>	<u>(67,755,743)</u>	<u>172,645,688</u>
Total liabilities	<u>57,611,439</u>	<u>42,589,558</u>	<u>135,803</u>	<u>100,336,800</u>	<u>44,846,259</u>	<u>(67,755,743)</u>	<u>77,427,316</u>

4. Operating profit

Six months ended 30 June

	2017 HK\$'000	2016 HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	35,976	53,947
Interest income	205,227	127,116
Gain on sale of investment properties, net	14,862	9,944
<i>Charging</i>		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	282,739	229,566
Provision for impairment loss for hotel property	–	80,682
Total finance costs incurred	762,120	672,123
Less: amount capitalised in properties under development and investment properties under construction	(324,355)	(448,035)
Fair value gain on derivative financial instruments	437,765	224,088
	(221,795)	(10,248)
Total finance costs expensed during the period	215,970	213,840

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

5. Taxation

	Six months ended 30 June	
	2017	2016
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(713,226)	(432,169)
Under-provision in prior years	(283)	(911)
Deferred	(111,417)	(381,980)
	(824,926)	(815,060)
Hong Kong profits tax		
Current	(222,717)	(65,770)
Over-provision in prior years	46	13
Deferred	(1,172)	(4,506)
	(223,843)	(70,263)
Overseas taxation		
Current	(4,603)	(4,920)
Over-provision in prior years	–	25
Deferred	(4,248)	(4,584)
	(8,851)	(9,479)
	(1,057,620)	(894,802)

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profit for the six months ended 30 June 2017. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2017 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.

	Six months ended 30 June	
	2017	2016
Weighted average number of ordinary shares in issue	1,443,202,968	1,443,564,420
	HK\$'000	HK\$'000
Profit attributable to shareholders	3,309,224	2,040,920
Basic earnings per share	HK\$2.29	HK\$1.41

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.

	Six months ended 30 June	
	2017	2016
Weighted average number of ordinary shares in issue	1,443,202,968	1,443,564,420
Adjustment for share options	209,642	69,752
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,443,412,610	1,443,634,172
	HK\$'000	HK\$'000
Profit attributable to shareholders	3,309,224	2,040,920
Diluted earnings per share	HK\$2.29	HK\$1.41

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 2017	5,758,321	56,949,967	1,893,221	122,504
Additions	17,632	–	–	–
Fair value gains	–	474,400	–	–
Disposals	(318)	(59,384)	–	–
Transfer	(573)	1,353,385	–	–
Depreciation and amortisation	(255,936)	–	(27,203)	–
Exchange adjustment	140,350	896,399	48,443	–
	<u>5,659,476</u>	<u>59,614,767</u>	<u>1,914,461</u>	<u>122,504</u>
Net book value at 30 June 2017	<u>5,659,476</u>	<u>59,614,767</u>	<u>1,914,461</u>	<u>122,504</u>
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>

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 2017 is as follows:

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	1,055,017	104,343
Between 1 month and 3 months	624,799	48,912
Over 3 months	1,277,632	194,533
	2,957,448	347,788

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 2017 is as follows:

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	332,781	535,487
Between 1 month and 3 months	36,932	34,763
Over 3 months	12,784	32,489
	382,497	602,739

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10. Bank loans

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Bank loans – unsecured	32,495,100	33,195,720
Bank loans – secured	5,257,114	5,167,671
Total bank loans (note (i))	37,752,214	38,363,391
Less: Short-term bank loans and current portion of long-term bank loans	(4,585,596)	(3,856,100)
	<u>33,166,618</u>	<u>34,507,291</u>

(i) As at 30 June 2017, the Group's bank loans were repayable as follows:

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Within one year	4,585,596	3,856,100
In the second to fifth year		
– In the second year	6,326,121	8,888,834
– In the third year	13,848,525	8,891,789
– In the fourth year	7,201,931	8,095,992
– In the fifth year	5,281,257	7,743,122
	<u>32,657,834</u>	<u>33,619,737</u>
Repayable within five years	37,243,430	37,475,837
Over five years	508,784	887,554
	<u>37,752,214</u>	<u>38,363,391</u>

11. Commitments

At 30 June 2017, the Group had capital and other commitments in respect of property, plant and equipment, investment properties, leasehold land and land use rights, properties under development and others contracted for at the end of the period but not provided for in these financial statements as follows:

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Property, plant and equipment	691	3,237
Investment properties	4,532	4,314
Leasehold land and land use rights	914,981	1,014,419
Properties under development	4,923,165	7,253,699
Others	297,805	303,319
	<u>6,141,174</u>	<u>8,578,988</u>

12. Contingent liabilities

Guarantees for banking and other facilities

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Guarantees for banking and other facilities of certain associates (note (i))	1,287,951	862,338
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	4,515,245	4,195,988
	<u>5,803,196</u>	<u>5,058,326</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 2017 amounted to approximately HK\$1,287,951,000 (31 December 2016: HK\$862,338,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2017 amounted to approximately HK\$1,303,951,000 (31 December 2016: HK\$890,338,000).

(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 2017 amounted to approximately HK\$4,515,245,000 (31 December 2016: HK\$4,195,988,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2016.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

13. Pledge of assets

As at 30 June 2017, the Group's total bank loans of HK\$37,752,214,000 (31 December 2016: HK\$38,363,391,000) included an aggregate amount of HK\$32,495,100,000 (31 December 2016: HK\$33,195,720,000) which is unsecured and an aggregate amount of HK\$5,257,114,000 (31 December 2016: HK\$5,167,671,000) 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\$21,561,242,000 (31 December 2016: HK\$20,670,324,000); 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 2017 was HK\$17,742 million, which registered an increase of 220% when compared with the turnover of HK\$5,537 million for the corresponding six months ended 30 June 2016. 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 2017 was HK\$2,833 million (2016: HK\$1,434 million), representing an increase of 98% over the period.

During the six months ended 30 June 2017, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$476 million (2016: 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
	2017 HK\$ million	2016 HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	2,833	1,434	98%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>476</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>3,309</u>	<u>2,041</u>	62%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division

The Division delivered a turnover of HK\$7,117 million (2016: HK\$4,822 million) during the six months ended 30 June 2017, an increase of 48%, benefitting from a 76% growth in sales revenue from completed properties and a 15% increase in rental revenue. Gross profit also grew by 16% to HK\$2,488 million (2016: HK\$2,139 million).

In view of the regulatory and monetary tightening policies from the central government on property purchases, the Division has adjusted the pace of its property sales. Meanwhile, the investment property portfolio reported generally robust rental performance.

(i) Investment Properties

During the six months ended 30 June 2017, the Group recorded a turnover of HK\$1,673 million (2016: HK\$1,452 million) and a gross profit of HK\$1,338 million (2016: HK\$1,164 million) from its portfolio of completed investment properties in the PRC, representing an increase of 15% in both turnover and gross profit.

As at 30 June 2017, the Group held an investment property portfolio in the PRC with an aggregate gross floor area (“GFA”) of 7.39 million square feet (as at 31 December 2016: 7.53 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2017:

	Group's attributable GFA					Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen (‘000 square feet)	Tianjin	Hangzhou		
Office	711	1,440	1,552	-	100	3,803	97%
Commercial	98	1,096	104	428	812	2,538	95%
Apartment	277	774	-	-	-	1,051	87%
	<u>1,086</u>	<u>3,310</u>	<u>1,656</u>	<u>428</u>	<u>912</u>	<u>7,392</u>	

As at 31 December 2016:

	Group's attributable GFA						Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen (‘000 square feet)	Tianjin	Hangzhou	Fuzhou		
Office	711	1,453	1,552	-	100	-	3,816	97%
Commercial	98	1,096	212	428	812	12	2,658	93%
Apartment	277	774	-	-	-	-	1,051	89%
	<u>1,086</u>	<u>3,323</u>	<u>1,764</u>	<u>428</u>	<u>912</u>	<u>12</u>	<u>7,525</u>	

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

Property	Occupancy rate as at 30 June 2017	Occupancy rate as at 31 December 2016
Jing An Kerry Centre Phase I	95%	97%
Jing An Kerry Centre Phase II ⁽¹⁾	98%	98%
Kerry Parkside ⁽¹⁾	97%	94%
Beijing Kerry Centre ⁽¹⁾	96%	98%
Shenzhen Kerry Plaza Phase I	93%	91%
Shenzhen Kerry Plaza Phase II	97%	100%
Hangzhou Kerry Centre ⁽¹⁾	94%	87%

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 Group holds 74.25% and 51% interests in its Phases I and II respectively. With a GFA of 3.74 million square feet, Jing An Kerry Centre integrates hotel, retail, office and residential space overlooking a beautifully landscaped piazza. While the luxurious Shangri-La Hotel is a key feature, the development is also the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 30 June 2017, 99% of the office (as at 31 December 2016: 99%) and 98% of the retail space (as at 31 December 2016: 96%) were leased. The serviced apartments were 86% leased (as at 31 December 2016: 90%). Jing An Shangri-La Hotel achieved an average occupancy rate of 80% (2016: 75%) 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 2017, the retail space and offices were 98% and 100% leased respectively (as at 31 December 2016: 95% and 100%, respectively). The occupancy rate of the serviced apartments was 87% (as at 31 December 2016: 78%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 76% (2016: 73%) during the period under review.

Beijing Kerry Centre

Beijing Kerry Centre, located in the heart of the capital city, combines high-quality office space, a world-class shopping mall, and Kerry Hotel Beijing together with serviced apartments. The Group holds a 71.25% interest in this mixed-use development. As at 30 June 2017, the occupancy rate of the retail portion was 97% (as at 31 December 2016: 98%), while the offices were 98% leased (as at 31 December 2016: 98%). The serviced apartments were 92% leased (as at 31 December 2016: 97%). Kerry Hotel Beijing delivered an average occupancy rate of 84% (2016: 81%) 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 2017, Phases I and II of the development were 93% and 97% leased respectively (as at 31 December 2016: 91% and 100%, respectively).

Hangzhou Kerry Centre

Hangzhou Kerry Centre is 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 comprises a luxury hotel, Grade-A offices, premium apartments and a retail mall complex. Construction has been completed and as at 30 June 2017, the offices were 100% leased (as at 31 December 2016: 100%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 73% (2016: 51%) during the period under review. The mall was soft opened in November 2016, with 93% (as at 31 December 2016: 85%) of the total space leased. The Group holds a 75% stake in the project.

Tianjin Kerry Centre

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys convenient access to a major 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 2017, the Riverview Place mall was 82% leased (as at 31 December 2016: 87%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 68% (2016: 59%) during the period under review.

(ii) Sales of Properties

During the six months ended 30 June 2017, sales of completed properties in the PRC generated a turnover of HK\$4,521 million (2016: HK\$2,566 million), mainly from recognised sales of The Metropolis-Arcadia Court in Chengdu, Castalia Court in Hangzhou, Shenyang Arcadia Court, Habitat in Qinhuangdao and Nanchang Arcadia Court. A gross profit of HK\$980 million (2016: HK\$880 million) was derived therefrom.

The Metropolis-Arcadia Court, 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 had all been sold and delivered. Phase II, with a total GFA of approximately 2.15 million square feet, is due for completion by stages during 2017. As at 30 June 2017, 92% of the total of 1,905 Phase II residential units had been sold. The Group holds a 55% interest in this project.

Castalia Court, Hangzhou

The Group's wholly-owned residential and commercial development 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 of residential development, the Castalia Court, as well as approximately 210,000 square feet of commercial space. As at 30 June 2017, 97% of the total of 408 Phase I units had been sold.

Shenyang Arcadia Court and Enterprise Square

Six towers of Shenyang Arcadia Court and a tower of Enterprise Square have been completed and delivered for occupation. As at 30 June 2017, 89% of all 972 Phase I residential units, and 65% of the total of 229 office units had been sold. The Group holds a 60% interest in this project.

Habitat, Qinhuangdao

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, has been completed. As at 30 June 2017, 64% of the total of 778 Phase I residential units had been sold. The Phase I development has a GFA of approximately 1.6 million square feet.

Nanchang Arcadia Court

Three completed towers of Nanchang Arcadia Court have been delivered consecutively from late 2015. Two additional towers have been completed with handover commencing in December 2016. As at 30 June 2017, 95% of the total of 436 units had been sold. The Group holds an 80% interest in this project.

(iii) Properties under Development

The Group focuses on developing its portfolio of iconic mixed-use projects in the CBDs of major cities, in parallel with residential developments in prime locations. The Group has made selective divestments in line with this strategy.

Qianhai, Shenzhen

The Group holds a 350,000 square-foot commercial site for development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. This site has a total buildable GFA of approximately 2.2 million square feet, with seafront view, and is designated for office, apartment and commercial property development. The project is wholly owned by the Group and represents the first substantial investment in Qianhai by a major Hong Kong corporation. It is expected to be completed in 2019.

On 7 December 2016, the Company, Kerry Holdings Limited and The Bank of East Asia, Limited jointly acquired an adjacent site with an area of approximately 207,000 square feet. Development of the site is planned to yield a GFA of approximately 1.3 million square feet for commercial use. The Group holds a 25% interest in this new project.

Qianhai is a special economic zone situated in a key location in the Pearl River Delta. Both sites lie conveniently close to the Guangshen-Yanjiang Expressway. The Group believes that the development of the two adjacent sites will create a highly synergistic effect.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(iii) Properties under Development (continued)

Hangzhou

Construction works for the Group's wholly-owned residential development, Castalia Court Phases II and III, are currently underway. As at 30 June 2017, 75% of the total of 1,275 Phases II and III 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 has been completed. Phase II is under construction, while Phase III of the development is now at the planning stage. As at 30 June 2017, 10% of the total 495 Phase II residential units had been pre-sold. Shangri-La Hotel, Shenyang, which was completed as part of the Phase I development, recorded an average occupancy rate of 68% (2016: 64%) during the period under review.

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a 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 in the heart of Honggutan Central District. Its development includes a hotel, offices, and commercial and high-end residential properties. The hotel and residential portion delivers a GFA of approximately 1.7 million square feet. Shangri-La Hotel, Nanchang recorded an average occupancy rate of 72% (2016: 57%) during the period under review. The planning of the remaining office site is in progress.

Zhengzhou

The Group and Shangri-La are also collaborating on a development 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 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2021 onwards. The Group holds a 55% interest in this project.

Jinan

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

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 the second half of 2017. As at 30 June 2017, 76% of the total of 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 2017, 97% of the total of 97 Phase I units had been sold, and 94% of the total of 437 Phase II units had also been pre-sold. Construction works for Phase II are in progress and are expected to be completed in 2019.

Putian

The Group and Shangri-La are co-developing a hotel property, as part of the Putian project development, at Jiu Hua Road, Putian City, Fujian Province. The Group holds a 60% interest in this project.

Shanghai

The Group has acquired an indirect equity interest of approximately 24.4% in a project company. This company owns a site located in Pudong New Area, Shanghai, with a gross area of approximately 4.43 million square feet, which is currently designated for industrial use.

Changsha and Yingkou

In 2016, the Group signed share transfer agreements with independent third parties to divest its investments in Changsha and Yingkou. Share transfers were completed in the first half of 2017.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division

During the six months ended 30 June 2017, the Hong Kong Property Division reported a turnover of HK\$10,625 million (2016: HK\$715 million) and a gross profit of HK\$1,614 million (2016: HK\$473 million).

The Division's turnover for the period was mainly derived from recognised sales of completed residential properties at Mantin Heights.

The Hong Kong investment property portfolio continued to contribute a steady stream of recurrent income to the Group as it benefited from high occupancy levels and stable rental rates.

(i) Investment Properties

The Group's completed investment properties in Hong Kong generated a turnover of HK\$540 million (2016: HK\$512 million) and produced a gross profit of HK\$438 million (2016: HK\$404 million) for the period under review.

As at 30 June 2017, the Group's completed investment property portfolio in Hong Kong had an aggregate GFA of 2.86 million square feet (as at 31 December 2016: 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 2017		As at 31 December 2016	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Apartment	803	99% [#]	722	98%
Commercial	1,219	99%	1,219	99%
Office	841	94%	841	85%
	<u>2,863</u>		<u>2,782</u>	

Note:

[#] Excluding Resiglow with leasing commenced in third quarter of 2017.

Enterprise Square Five/MegaBox, Kowloon Bay

MegaBox blends shopping, recreation, dining and sports into one innovatively designed complex in Kowloon East. This pioneering retail and lifestyle hub offers a GFA of 1.1 million square feet. As at 30 June 2017, the mall had an occupancy rate of 99% (as at 31 December 2016: 99%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, were 93% leased (as at 31 December 2016: 79%) as at 30 June 2017. Occupancy increased as new tenants took up the space vacated during the previous year.

MegaBox continued to record nearly full occupancy and robust rental rates with a tenant mix designed to serve local families and shoppers.

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 100% of the space leased (as at 31 December 2016: 100%) as at 30 June 2017.

Resiglow, Happy Valley

The new residential project, Resiglow, at No. 7A Shan Kwong Road, Happy Valley, is designed to yield a buildable GFA of approximately 81,000 square feet. This contemporary residential development provides 106 units including two penthouses. Occupying a superior location, Resiglow is held by the Group for rental purposes with leasing commenced in July 2017. The project was completed in June 2017, with the units scheduled to be handed over to tenants in the second half of 2017.

(ii) Sales of Properties

During the first six months of 2017, sales of completed properties held for sale in Hong Kong contributed a turnover of HK\$10,085 million (2016: HK\$203 million) to the Group. A gross profit of HK\$1,176 million (2016: HK\$69 million) was derived from recognised sales of Mantin Heights.

The Division derived a satisfactory profit from the sale of Dragons Range. Pre-sales of The Bloomsway also recorded steady performance during the period.

Mantin Heights, Ho Man Tin

The Group developed a residential project at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. The project obtained its occupation permit in March 2017. As at 30 June 2017, 53% of the total of 1,429 units had been sold.

Dragons Range, Kau To, Sha Tin

Together with Sino Group and Manhattan Group, the Group has co-developed Dragons Range, a residential project with a saleable area of approximately 878,000 square feet. This development, situated at No. 33 Lai Ping Road, Kau To, Sha Tin, has been completed and delivered. The Group holds a 40% stake in the project. As at 30 June 2017, 99% of the total of 973 units had been sold.

(iii) Properties under Development*The Bloomsway, So Kwun Wat*

The Group developed The Bloomsway, a residential project at Nos. 18, 28 & 29 Tsing Ying Road, So Kwun Wat. The project has a saleable area of approximately 838,000 square feet and obtained its occupation permit in July 2017. As at 30 June 2017, 83% of the total of 1,100 units had been pre-sold.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(iii) Properties under Development (continued)

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.

On 5 October 2016, the Group acquired an adjacent site in Beacon Hill through public tender. This new site, occupying an area of 235,000 square feet, will be developed into a low-density upscale residential property with a buildable GFA of approximately 343,000 square feet. The project is scheduled to be completed in 2019.

Hing Hon Road, Sai Ying Pun

The Group is developing a residential project at Nos. 5-8 Hing Hon Road, following amalgamation of the original development at Nos. 5-6 with the adjacent development at Nos. 7-8. 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.

La Salle 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 redevelop the site together with an adjacent site at Nos. 10-12A La Salle Road, which it acquired in 2013. Lying next to 8 LaSalle, this redevelopment project will deliver an aggregate developable GFA of 45,000 square feet and is scheduled for completion in 2020.

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 as 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 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 2017.

(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 2017, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 89% and 96% respectively (as at 31 December 2016: 90% and 96%, respectively).

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 2017, 83% of the total of 749 residential units had been sold.

SPI is also developing a site of more than 116,000 square feet located in Malugay Street, Makati City. This 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 81% of the total of 3,044 units sold as at 30 June 2017.

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 2017, 85% of the total of 98 units available for sale had been sold.

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

Following the robust performance in 2016, the Division continued to deliver satisfactory results for the first half of 2017. The Division was able to meet management’s sales targets despite a degree of uncertainty surrounding China’s housing policies and economic growth.

The Group’s ability to sustain its resilient performance through successive business cycles stems from two major advantages. An astute landbanking strategy has laid the foundation for our competitiveness, while our professional property management services help differentiate the Group in the market. Our approach is pragmatic yet innovative, and we excel by adding unique personal touches to the services provided to tenants.

The Division will continue to develop its portfolio of mixed-use landmark properties in the CBDs of major cities. New properties, including those under development in Qianhai and Shenyang, will be added to the rental portfolio as they come on stream in the next few years. Through this prime investment asset base, the Division will reaffirm its presence in China and grow its recurrent rental income.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Outlook (continued)

(i) *PRC Property Division (continued)*

The performance of the office segment is expected to remain stable at a generally high occupancy level. The retail portfolio is also recording mildly improved rental results after a series of adjustments to the tenant mix. Retail sales at major malls have registered healthy growth, validating the Division's efforts to meet ongoing operating challenges by optimising the tenant portfolio and enhancing the shopper experience.

Recent central government policies have aimed at reining in soaring property prices to ensure the stability of the economy and the long-term healthy development of the real estate sector. Acknowledging the impact of these regulatory and monetary tightening policies on home purchases, the Division has adjusted the pace of its property sales in various cities. Nevertheless, in view of China's continued economic growth, management remains confident in the long-term prospects for the PRC Property Division.

The Group holds a cautiously optimistic view of the Division's outlook for the full year, but will stay alert to the macroeconomic challenges ahead.

(ii) *Hong Kong Property Division*

The Hong Kong Property Division's half-year results were in line with management expectations. For the remainder of 2017, the local economy will continue to be supported by solid fundamentals and favourable employment conditions. The Group's Hong Kong segment is expected to maintain stable sales momentum in the coming quarters.

The Division's resilient performance reflects its strong position in the luxury residential sector, where prices have been holding firm owing to solid demand and the scarcity of new supply. With a long-term commitment to quality developments in prestigious locations, the Group has maintained a leading role in the upper end of the market. These are complemented by a full range of management services that best meet the needs of owners and tenants.

The rental portfolio in Hong Kong will also continue to contribute stable revenue and earnings. The Mid-Levels portfolio of premier residences, the Island East flagship office property and MegaBox are expected to continue to register solid results. Improvement is also foreseen in the performance of the Kowloon East office portfolio.

Although the local economy has posted reasonable growth in the first half of the year, management will nevertheless remain vigilant against macroeconomic uncertainties and other market challenges. Overall, the Group remains prudently optimistic about the full-year performance of the Hong Kong segment.

(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 2017, total foreign currency borrowings (excluding RMB borrowings) amounted to the equivalence of HK\$2,332 million and RMB loans amounted to the equivalence of HK\$6,626 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 6% and 17% respectively, of the Group's total borrowings of HK\$40,084 million as at 30 June 2017.

The non-RMB total foreign currency borrowings of HK\$2,332 million include the Fixed Rate Bonds amounting to US\$300 million (net of direct issue costs). The Group has arranged cross currency swap contracts amounting to US\$297 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars.

Out of the Group's total borrowings as at 30 June 2017, HK\$4,586 million (representing approximately 11%) was repayable within one year, HK\$6,326 million (representing approximately 16%) was repayable in the second year, HK\$28,663 million (representing approximately 72%) was repayable in the third to fifth years and HK\$509 million (representing approximately 1%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 87% of total borrowings as at 30 June 2017. 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 2017, the gearing ratio for the Group was 28.5% (as at 31 December 2016: 34.9%), calculated based on net debt of HK\$24,587 million and shareholders' equity of HK\$86,131 million.

As at 30 June 2017, 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.

The Group has also arranged forward exchange contracts to sell RMB1,100 million and buy HK\$1,219 million for hedging the anticipated RMB dividend distribution from PRC to Hong Kong.

In terms of the Group's available financial resources as at 30 June 2017, the Group had total undrawn bank loan facilities of HK\$11,067 million and cash and bank deposits of HK\$15,497 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 15 February 2017, the Group fully redeemed the 5 years US\$600 million fixed rate bonds issued in February 2012.

Details of contingent liabilities and pledge of assets are set out in notes 12 and 13 to the financial statements of the Group.

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 2017 and some of them are set out below:

Event	Venue
Morgan Stanley Seventh Annual Hong Kong Investor Summit	Hong Kong
Credit Suisse 20th Annual Asian Investment Conference	Hong Kong
UBS HK/China Property Conference 2017	Hong Kong
HSBC 7th Annual Greater China Property & Financials Conference	Hong Kong
CIMB HK/China Property Corporate Day	Hong Kong
Citi's Asia Pacific Property Conference 2017	Hong Kong
J.P. Morgan Global China Summit 2017	Beijing
UBS Greater China Conference 2017	Shanghai

STAFF

As at 30 June 2017, the Company and its subsidiaries had approximately 8,100 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 of the Company (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 2017, a total of 43,112,000 Share Options were outstanding which comprised 10,740,000 and 32,372,000 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

Movement of Share Options

Movement of the Share Options during the six months ended 30 June 2017 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				As at 30/06/2017	Exercise Price HK\$	Exercise Period
			As at 01/01/2017	Transfer to other category during the period	Transfer from other category during the period	Exercised			
(i) 2002 Share Option Scheme (Note a):									
1. Directors									
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
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
Chin Siu Wa, Alfred (resigned on 1 February 2017)	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
2. Continuous Contract Employees	02/04/2008	I	737,500	-	-	-	737,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	737,500	-	-	-	737,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,475,000	-	-	-	1,475,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	260,000	-	-	(10,000)	250,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	345,000	-	-	(25,000)	320,000	17.58	06/02/2011 – 05/02/2019
3. Others	02/04/2008	I	387,500	-	200,000	-	587,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	387,500	-	200,000	-	587,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	775,000	-	400,000	-	1,175,000	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
Total:			10,775,000	(800,000)	800,000	(35,000)	10,740,000		

SHARE OPTIONS (continued)

Movement of Share Options (continued)

Category	Date of grant	Tranche	Number of Share Options						As at 30/06/2017	Exercise Price HK\$	Exercise Period
			As at 01/01/2017	Transfer to other category during the period	Transfer from other category during the period	Exercised	Lapsed				
(ii) 2011 Share Option Scheme (Note b):											
1. Directors											
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	
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	
Chin Siu Wa, Alfred (resigned on 1 February 2017)	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	
2. Continuous Contract Employees	30/04/2012	I	3,340,000	-	-	-	-	3,340,000	35.45	31/10/2012 – 29/04/2022	
	30/04/2012	II	3,400,000	-	-	-	-	3,400,000	35.45	31/10/2013 – 29/04/2022	
	08/01/2014	I	3,382,000	-	-	(25,000)	(25,000)	3,332,000	26.88	08/07/2014 – 07/01/2024	
	08/01/2014	II	3,520,000	-	-	(45,000)	(25,000)	3,450,000	26.88	08/01/2015 – 07/01/2024	
3. Others	30/04/2012	I	3,535,000	-	500,000	-	-	4,035,000	35.45	31/10/2012 – 29/04/2022	
	30/04/2012	II	3,535,000	-	500,000	-	-	4,035,000	35.45	31/10/2013 – 29/04/2022	
	08/01/2014	I	-	-	750,000	(20,000)	-	730,000	26.88	08/07/2014 – 07/01/2024	
	08/01/2014	II	-	-	750,000	-	-	750,000	26.88	08/01/2015 – 07/01/2024	
Total:			32,512,000	(2,500,000)	2,500,000	(90,000)	(50,000)	32,372,000			

Notes:

- During the period, no Share Option was granted, granted for adjustment, cancelled or lapsed under the 2002 Share Option Scheme.
- During the period, no Share Option was granted, granted for adjustment or cancelled under the 2011 Share Option Scheme.
- During the period, the weighted average closing price of the shares of the Company immediately before the dates on which the Share Options were exercised was HK\$28.85. 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 2017, 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 ⁶
	Personal interests ¹	Family interests ²	Other interests ⁴		
Wong Siu Kong	448,000	–	50,000	498,000	0.03
Ho Shut Kan	360,000	–	50,000	410,000	0.03
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 ⁵	Total	Approximate % of shareholding
		Personal interests ¹	Family interests ²	Corporate interests ³	Other interests ⁴			
Kerry Group Limited	Wong Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06 ⁷
	Ho Shut Kan	2,888,452	–	–	–	–	2,888,452	0.19 ⁷
	Bryan Pallop Gaw	1,500,000	153,019,350	–	46,399,988	2,000,000	202,919,338	13.32 ⁷
	Kuok Khoon Hua	5,000	–	–	199,799,337	1,995,000	201,799,337	13.25 ⁷
Kerry Logistics Network Limited	Wong Siu Kong	306,000	–	–	1,300,000	–	1,606,000	0.09 ⁸
	Ho Shut Kan	200,000	–	–	1,300,000	–	1,500,000	0.09 ⁸
	Bryan Pallop Gaw	50,000	3,588,449	–	1,891,024	–	5,529,473	0.33 ⁸
	Kuok Khoon Hua	101,000	–	–	5,110,155	1,000,000	6,211,155	0.37 ⁸
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01 ⁸
Hopemore Ventures Limited	Kuok Khoon Hua	20	–	–	–	–	20	2.86 ⁹
Medallion Corporate Limited	Bryan Pallop Gaw	26	26	–	–	–	52	5.20 ¹⁰
	Kuok Khoon Hua	48	–	–	–	–	48	4.80 ¹⁰
Rubyhill Global Limited	Kuok Khoon Hua	1	–	–	–	–	1	10.00 ¹¹
Shang Properties, Inc.	Ho Shut Kan	1,570	–	–	–	–	1,570	0.00 ¹²
	Bryan Pallop Gaw	–	582,532	–	248,482	–	831,014	0.02 ¹²
	Kuok Khoon Hua	–	–	–	193,482	–	193,482	0.00 ¹²
Vencedor Investments Limited	Bryan Pallop Gaw	5	5	–	–	–	10	10.00 ¹³
	Kuok Khoon Hua	5	–	–	–	–	5	5.00 ¹³

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(ii) Associated Corporations (continued)

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 2017 (i.e. 1,443,272,728 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2017 (i.e. 1,523,507,075 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2017 (i.e. 1,695,780,612 ordinary shares).
9. The percentage has been compiled based on the total number of ordinary shares of Hopemore Ventures Limited in issue as at 30 June 2017 (i.e. 700 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 2017 (i.e. 1,000 ordinary shares).
11. The percentage has been compiled based on the total number of ordinary shares of Rubyhill Global Limited in issue as at 30 June 2017 (i.e. 10 ordinary shares).
12. The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 30 June 2017 (i.e. 4,764,056,287 common shares).
13. The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 30 June 2017 (i.e. 100 ordinary shares).

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 2017, 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 2017, 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 ⁱⁱ
Kerry Group Limited	Interest of controlled corporations	851,772,953 ⁱ	Long position	59.02
Kerry Holdings Limited	Interest of controlled corporations	745,302,656 ⁱ	Long position	51.64
Caninco Investments Limited	Beneficial owner	312,248,193 ⁱ	Long position	21.63
Darmex Holdings Limited	Beneficial owner	256,899,261 ⁱ	Long position	17.80
Moslane Limited	Beneficial owner	73,821,498 ⁱ	Long position	5.11

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 2017 (i.e. 1,443,272,728 ordinary shares).

Apart from the aforesaid, as at 30 June 2017, 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 2017.

CORPORATE GOVERNANCE

During the six months ended 30 June 2017, 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 is both the Chairman and the Chief Executive Officer (“**CEO**”) of the Company. This 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 CEO 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.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Tuesday, 5 September 2017 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, 4 September 2017. The Interim Dividend is payable on Friday, 15 September 2017 to Shareholders whose names appear on the Registers of Members on Tuesday, 5 September 2017.

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

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 2017.

DIRECTORS

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

Executive Directors: Messrs Wong Siu Kong, Ho Shut Kan 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, 21 August 2017