



KERRY PROPERTIES LIMITED

2019 INTERIM REPORT

For the six months ended 30 June 2019

Stock Code : 683

(Incorporated in Bermuda with limited liability)

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

Mr Wong Siu Kong, *Chairman*

Mr Kuok Khoon Hua, *Vice Chairman and
Chief Executive Officer*

Mr Bryan Pallop Gaw

Mr Wong Chi Kong, Louis

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 Kuok Khoon Hua

Mr Ku Moon Lun

Mr Chang Tso Tung, Stephen

NOMINATION COMMITTEE

Mr Wong Siu Kong, *Chairman*

Mr Kuok Khoon Hua

Mr Ku Moon Lun

Ms Wong Yu Pok, Marina, JP

Mr Chang Tso Tung, Stephen

FINANCE COMMITTEE

Mr Wong Siu Kong

Mr Wong Chi Kong, Louis

EXECUTIVE COMMITTEE

Mr Wong Siu Kong

Mr Kuok Khoon Hua

Mr Bryan Pallop Gaw

Mr Wong Chi Kong, Louis

COMPANY SECRETARY

Ms Li Siu Ching, Liz

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

Victoria Place, 5th Floor

31 Victoria Street

Hamilton HM 10, 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

4th floor North, Cedar House, 41 Cedar Avenue

Hamilton HM 12, Bermuda

**HONG KONG BRANCH SHARE REGISTRAR AND
TRANSFER OFFICE**

Tricor Abacus Limited

Level 54, 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 2019

Proposed Payment of Interim Dividend

17 September 2019

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2019. 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 2019 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2019 was HK\$3,595 million, representing a decrease of 10% compared with HK\$3,990 million reported for the same period in 2018. 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\$452 million for the six months ended 30 June 2019 (2018: HK\$2,438 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 103% in profit attributable to shareholders to HK\$3,143 million for the six months ended 30 June 2019 (2018: HK\$1,552 million). The increase was mainly due to the provision for impairment loss for property under development in Macau amounting to HK\$1,175 million made in 2018 (Note 4).

Earnings per share for the six months ended 30 June 2019 was HK\$2.47, representing a decrease of 10% compared with HK\$2.75 per share for the same period in 2018. The basis of calculating the earnings per share is detailed in Note 7 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		
	2019	2018	
	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	3,143	1,552	+103%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>452</u>	<u>2,438</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>3,595</u>	<u>3,990</u>	-10%

The Directors have declared an interim dividend of HK\$0.4 per share for the six months ended 30 June 2019 (the “**Interim Dividend**”) (2018: HK\$0.4), which is payable on Tuesday, 17 September 2019 to the shareholders of the Company (the “**Shareholders**”) whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Thursday, 5 September 2019.

At the Company’s Annual General Meeting held on 21 May 2019, the Shareholders approved the final dividend of HK\$0.95 per share for the year ended 31 December 2018 which amounted to a total of approximately HK\$1,383 million and was paid on 6 June 2019.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Turnover	3	11,224,606	10,560,085
Cost of sales and direct expenses		(6,229,969)	(6,298,326)
Gross profit	3	4,994,637	4,261,759
Other income and net gains		406,981	448,650
Provision for impairment loss for property under development	4	–	(1,175,281)
Administrative and other operating expenses		(607,744)	(532,260)
Increase in fair value of investment properties		499,724	3,386,745
Operating profit before finance costs		5,293,598	6,389,613
Finance costs		(375,198)	(350,858)
Operating profit	5	4,918,400	6,038,755
Share of results of associates and joint ventures		616,210	805,594
Profit before taxation		5,534,610	6,844,349
Taxation	6	(1,467,730)	(1,947,846)
Profit for the period		4,066,880	4,896,503
Profit attributable to:			
Company's shareholders		3,594,589	3,990,095
Non-controlling interests		472,291	906,408
		4,066,880	4,896,503
Earnings per share	7		
– Basic		HK\$2.47	HK\$2.75
– Diluted		HK\$2.47	HK\$2.75

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Profit for the period	4,066,880	4,896,503
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	(38,914)	9,341
Share of other comprehensive income of associates and joint ventures	47,580	(98,500)
Net translation differences on foreign operations	(112,295)	114,493
Items that will not be reclassified to profit or loss		
Fair value gain/(loss) on financial assets at fair value through other comprehensive income	60,854	(15,805)
Other comprehensive income for the period, net of tax	(42,775)	9,529
Total comprehensive income for the period	4,024,105	4,906,032
Total comprehensive income attributable to:		
Company's shareholders	3,595,945	3,945,253
Non-controlling interests	428,160	960,779
	4,024,105	4,906,032

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2019	2018
Note		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
	8	5,506,091	5,693,610
Property, plant and equipment			
	8	78,579,786	74,228,117
Investment properties			
	8	1,908,259	1,940,187
Leasehold land and land use rights			
		13,314,244	12,621,212
Properties under development			
		9,561,320	10,105,186
Land deposits			
		23,855,251	23,032,323
Associates and joint ventures			
		29,848	24,877
Derivative financial instruments			
		1,387,125	1,326,271
Financial assets at fair value through other comprehensive income			
		2,446,131	2,448,729
Financial assets at fair value through profit or loss			
		3,786,833	3,969,991
Mortgage loans receivable			
	8	122,504	122,504
Intangible assets			
		140,497,392	135,513,007
Current assets			
		5,657,171	8,408,933
Properties under development			
		12,170,641	10,151,508
Completed properties held for sale			
	9	1,637,299	1,277,878
Accounts receivable, prepayments and deposits			
		34,871	35,905
Current portion of mortgage loans receivable			
		268,117	217,190
Tax recoverable			
		189,598	189,598
Tax reserve certificates			
		8,626	7,145
Financial assets at fair value through profit or loss			
		502,090	522,698
Restricted bank deposits			
		13,690,473	13,860,952
Cash and bank balances			
		34,158,886	34,671,807

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited As at 30 June 2019 <i>HK\$'000</i>	Audited As at 31 December 2018 <i>HK\$'000</i>
	Note		
Current liabilities			
Accounts payable, deposits received and accrued charges	10	6,507,443	6,908,110
Contract liabilities		2,835,832	6,499,300
Taxation		2,595,616	2,254,966
Short-term bank loans and current portion of long-term bank loans	11	12,827,522	8,141,552
		<u>24,766,413</u>	<u>23,803,928</u>
Net current assets		<u>9,392,473</u>	<u>10,867,879</u>
Total assets less current liabilities		149,889,865	146,380,886
Non-current liabilities			
Long-term bank loans	11	23,140,532	22,625,008
Fixed rate bonds		2,340,459	2,344,683
Amounts due to non-controlling interests		1,829,490	2,131,319
Derivative financial instruments		131,276	62,581
Deferred taxation		8,580,224	8,275,622
		<u>36,021,981</u>	<u>35,439,213</u>
ASSETS LESS LIABILITIES		<u>113,867,884</u>	<u>110,941,673</u>
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,456,241	1,455,208
Share premium		13,052,861	13,019,604
Other reserves		9,274,951	9,192,306
Retained profits		75,996,028	73,873,846
		<u>99,780,081</u>	<u>97,540,964</u>
Non-controlling interests		<u>14,087,803</u>	<u>13,400,709</u>
TOTAL EQUITY		<u>113,867,884</u>	<u>110,941,673</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Note	Unaudited	
		Six months ended 30 June	
		2019	2018
		HK\$'000	HK\$'000
Operating activities			
Net cash generated from operations		3,463,219	8,366,204
Interest paid		(512,810)	(517,526)
Income tax paid		(904,641)	(1,161,157)
Net cash generated from operating activities		2,045,768	6,687,521
Investing activities			
Additions of property, plant and equipment		(15,441)	(83,501)
Additions of investment properties		(355,205)	(60,041)
Increase in land deposits		(2,552,278)	–
Acquisition of subsidiaries	15	(3,547,614)	–
Increase in investment in associates and joint ventures		(50,212)	(22,333)
Dividends received from associates		305,508	364,959
Return of capital from an associate		–	89,042
Additional loans to associates and joint ventures		(543,915)	(139,674)
Repayment of loans by associates and joint ventures		77,081	83,494
Additional loans from associates and joint ventures		160,415	160,964
Repayment of loans to associates and joint ventures		(244)	(67)
Decrease/(increase) in mortgage loans receivable		184,192	(129,488)
Interest received		219,512	262,474
Decrease in restricted bank deposits		20,072	8,559
Increase in bank deposits maturing after more than three months		(367,601)	(59,280)
Dividends received from listed and unlisted investments		34,481	38,318
Proceeds from sale of property, plant and equipment		668	337
Proceeds from sale of investment properties		102,935	25,309
Net cash (used in)/generated from investing activities		(6,327,646)	539,072
Financing activities			
Proceeds from issue of shares		25,860	254,817
Repayment of bank loans		(10,254,889)	(11,858,346)
Drawdown of bank loans		15,472,304	6,236,088
Dividends paid		(1,382,688)	(1,523,810)
Capital injection from non-controlling interests		20,501	–
Dividends of subsidiaries paid to non-controlling interests		(126,901)	(92,695)
Additional loans from non-controlling interests		–	17,032
Repayment of loans to non-controlling interests		(415)	(7,278)
Net cash generated from/(used in) financing activities		3,753,772	(6,974,192)
(Decrease)/increase in cash and cash equivalents		(528,106)	252,401
Effect of exchange rate changes		(11,869)	53,843
Cash and cash equivalents at 1 January		13,400,864	12,651,234
Cash and cash equivalents at 30 June		12,860,889	12,957,478
Analysis of cash and cash equivalents			
Cash and bank balances (excluding bank deposits maturing after more than three months)		12,860,889	12,957,478

**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 2019	1,455,208	13,019,604	9,192,306	73,873,846	97,540,964	13,400,709	110,941,673
Profit for the period	-	-	-	3,594,589	3,594,589	472,291	4,066,880
Cash flow hedges	-	-	(38,914)	-	(38,914)	-	(38,914)
Share of reserves of associates and joint ventures	-	-	47,580	-	47,580	-	47,580
Net translation differences on foreign operations	-	-	(68,164)	-	(68,164)	(44,131)	(112,295)
Fair value gain on financial assets at fair value through other comprehensive income	-	-	60,854	-	60,854	-	60,854
Total comprehensive income for the six months ended 30 June 2019	-	-	1,356	3,594,589	3,595,945	428,160	4,024,105
Issue of share capital – exercise of share options	1,033	30,667	(5,840)	-	25,860	-	25,860
Lapse of share options	-	2,590	(2,590)	-	-	-	-
Dividends paid	-	-	-	(1,382,688)	(1,382,688)	(126,901)	(1,509,589)
Transfer	-	-	89,719	(89,719)	-	365,334	365,334
Capital injection from non-controlling interests	-	-	-	-	-	20,501	20,501
	<u>1,033</u>	<u>33,257</u>	<u>81,289</u>	<u>(1,472,407)</u>	<u>(1,356,828)</u>	<u>258,934</u>	<u>(1,097,894)</u>
Balance as at 30 June 2019	<u>1,456,241</u>	<u>13,052,861</u>	<u>9,274,951</u>	<u>75,996,028</u>	<u>99,780,081</u>	<u>14,087,803</u>	<u>113,867,884</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 2018	1,446,538	12,515,673	12,294,722	68,092,523	94,349,456	13,362,354	107,711,810
Adjustment on adoption of HKFRS 9	-	-	(580,277)	580,277	-	-	-
Restated balance as at 1 January 2018	1,446,538	12,515,673	11,714,445	68,672,800	94,349,456	13,362,354	107,711,810
Profit for the period	-	-	-	3,990,095	3,990,095	906,408	4,896,503
Cash flow hedges	-	-	9,341	-	9,341	-	9,341
Share of reserves of associates and joint ventures	-	-	(98,500)	-	(98,500)	-	(98,500)
Net translation differences on foreign operations	-	-	60,122	-	60,122	54,371	114,493
Fair value loss on financial assets at fair value through other comprehensive income	-	-	(15,805)	-	(15,805)	-	(15,805)
Total comprehensive income for the six months ended 30 June 2018	-	-	(44,842)	3,990,095	3,945,253	960,779	4,906,032
Issue of share capital – exercise of share options	8,032	312,398	(65,613)	-	254,817	-	254,817
Lapse of share options	-	169,175	(169,175)	-	-	-	-
Dividends paid	-	-	-	(1,523,810)	(1,523,810)	(92,695)	(1,616,505)
Transfer	-	-	50,861	(50,861)	-	-	-
	8,032	481,573	(183,927)	(1,574,671)	(1,268,993)	(92,695)	(1,361,688)
Balance as at 30 June 2018	<u>1,454,570</u>	<u>12,997,246</u>	<u>11,485,676</u>	<u>71,088,224</u>	<u>97,025,716</u>	<u>14,230,438</u>	<u>111,256,154</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 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.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2018. 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 2018. The adoption of new standard, amendments and interpretation to existing standards which are effective for the accounting period beginning on 1 January 2019 had no material impact on these condensed consolidated interim financial statements.

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 2018. 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 2019:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	29,848	–	29,848
Financial assets at fair value through other comprehensive income	–	–	1,387,125	1,387,125
Financial assets at fair value through profit or loss	45,769	–	2,408,988	2,454,757
First mortgage loans receivable	–	–	2,353,678	2,353,678
	<u>–</u>	<u>–</u>	<u>2,353,678</u>	<u>2,353,678</u>
Total assets	<u>45,769</u>	<u>29,848</u>	<u>6,149,791</u>	<u>6,225,408</u>
Liabilities				
Derivative financial instruments	–	131,276	–	131,276
	<u>–</u>	<u>131,276</u>	<u>–</u>	<u>131,276</u>
Total liabilities	<u>–</u>	<u>131,276</u>	<u>–</u>	<u>131,276</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2018:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	24,877	–	24,877
Financial assets at fair value through other comprehensive income	–	–	1,326,271	1,326,271
Financial assets at fair value through profit or loss	44,692	–	2,411,182	2,455,874
First mortgage loans receivable	–	–	2,466,390	2,466,390
	<u>–</u>	<u>–</u>	<u>2,466,390</u>	<u>2,466,390</u>
Total assets	<u>44,692</u>	<u>24,877</u>	<u>6,203,843</u>	<u>6,273,412</u>
Liabilities				
Derivative financial instruments	–	62,581	–	62,581
	<u>–</u>	<u>62,581</u>	<u>–</u>	<u>62,581</u>
Total liabilities	<u>–</u>	<u>62,581</u>	<u>–</u>	<u>62,581</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 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:

	First mortgage loans receivable		Financial assets at fair value through other comprehensive income		Financial assets at fair value through profit or loss	
	2019	2018	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	2,466,390	2,442,536	1,326,271	–	2,411,182	–
Reclassification from available-for-sale investments	–	–	–	1,264,760	–	4,018,033
Gains/(losses) recognised in other comprehensive income or profit or loss	–	–	60,854	(15,805)	1,142	21,942
Additions	–	57,853	–	–	–	–
Repayments	(112,712)	(800)	–	–	–	–
Exchange adjustment	–	–	–	–	(3,336)	16,099
At 30 June	<u>2,353,678</u>	<u>2,499,589</u>	<u>1,387,125</u>	<u>1,248,955</u>	<u>2,408,988</u>	<u>4,056,074</u>

The Group established fair value of unlisted financial assets by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, 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 2019 was HK\$2,449,189,000 (31 December 2018: HK\$2,442,347,000).

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
- Second mortgage loans receivable

(vii) Valuation of investment properties

	Residential	Commercial	Completed residential properties	Completed		Completed warehouses	Total
	properties	properties		commercial properties			
	under development	under development		Hong Kong	Mainland		
	Hong Kong	Mainland	Hong Kong	Hong Kong	Mainland	Hong Kong	HK\$'000
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2019	1,780,000	5,271,919	14,755,800	11,309,750	41,110,648	–	74,228,117
Additions	144,723	112,895	–	–	97,587	–	355,205
Acquisition of subsidiaries	–	–	–	–	–	3,600,000	3,600,000
Increase in fair value	85,277	172,627	–	–	241,820	–	499,724
Disposals	–	–	–	–	(57,172)	–	(57,172)
Exchange adjustment	–	(5,049)	–	–	(41,039)	–	(46,088)
At 30 June 2019	<u>2,010,000</u>	<u>5,552,392</u>	<u>14,755,800</u>	<u>11,309,750</u>	<u>41,351,844</u>	<u>3,600,000</u>	<u>78,579,786</u>
At 1 January 2018	865,000	–	14,383,100	10,649,720	38,442,766	–	64,340,586
Additions	33,611	–	–	–	26,430	–	60,041
Increase in fair value	9,389	1,506,587	405,520	97,000	1,368,249	–	3,386,745
Disposals	–	–	–	–	(14,392)	–	(14,392)
Transfer	–	5,414,821	–	–	583,042	–	5,997,863
Exchange adjustment	–	–	–	–	181,036	–	181,036
At 30 June 2018	<u>908,000</u>	<u>6,921,408</u>	<u>14,788,620</u>	<u>10,746,720</u>	<u>40,587,131</u>	<u>–</u>	<u>73,951,879</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

(vii) Valuation of investment properties (continued)

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 and warehouses 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 properties under development in Hong Kong and the Mainland 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 margins 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 2018.

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 2019, capitalisation rates of 2.8% to 5.2% (31 December 2018: 2.8% to 5.2%) and 4.8% to 8.8% (31 December 2018: 4.8% to 8.8%) are used in the income capitalisation method for Hong Kong and Mainland properties respectively.

Prevailing market rents are estimated based on recent lettings for Hong Kong and Mainland 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 the reporting date for 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 risk 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		Six months ended 30 June	
	2019	2018	2019	2018
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– Mainland Property	1,834,100	1,862,142	1,439,624	1,495,371
– Hong Kong Property	593,319	565,599	467,433	453,151
	2,427,419	2,427,741	1,907,057	1,948,522
Property sales				
– Mainland Property (Note)	5,115,052	5,385,205	1,645,128	1,599,244
– Hong Kong Property	2,717,180	1,668,317	1,280,372	504,567
	7,832,232	7,053,522	2,925,500	2,103,811
Hotel operations – Mainland Property	964,955	1,078,822	162,080	209,426
	11,224,606	10,560,085	4,994,637	4,261,759
Principal markets:				
– Mainland	7,914,107	8,326,169	3,246,832	3,304,041
– Hong Kong	3,310,499	2,233,916	1,747,805	957,718
	11,224,606	10,560,085	4,994,637	4,261,759

Note: Sales of investment properties for the six months ended 30 June 2019 amounting to HK\$102,935,000 (2018: HK\$25,309,000) are excluded from turnover.

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:

	Six months ended 30 June 2019				
	Mainland Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>7,914,107</u>	<u>3,310,499</u>	<u>11,224,606</u>	–	<u>11,224,606</u>
Results					
Segment results – gross profit	3,246,832	1,747,805	4,994,637	–	4,994,637
Other income and net gains					406,981
Administrative and other operating expenses					(607,744)
Increase in fair value of investment properties					<u>499,724</u>
Operating profit before finance costs					5,293,598
Finance costs					<u>(375,198)</u>
Operating profit					4,918,400
Share of results of associates and joint ventures					<u>616,210</u>
Profit before taxation					5,534,610
Taxation					<u>(1,467,730)</u>
Profit for the period					<u><u>4,066,880</u></u>
Profit attributable to:					
Company's shareholders					3,594,589
Non-controlling interests					<u>472,291</u>
					<u><u>4,066,880</u></u>
Depreciation and amortisation	<u>218,763</u>	<u>7,879</u>	<u>226,642</u>	<u>2,544</u>	<u>229,186</u>

	Six months ended 30 June 2018				
	Mainland Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>8,326,169</u>	<u>2,233,916</u>	<u>10,560,085</u>	<u>–</u>	<u>10,560,085</u>
Results					
Segment results – gross profit	3,304,041	957,718	4,261,759	–	4,261,759
Other income and net gains					448,650
Provision for impairment loss for property under development					(1,175,281)
Administrative and other operating expenses					(532,260)
Increase in fair value of investment properties					<u>3,386,745</u>
Operating profit before finance costs					6,389,613
Finance costs					<u>(350,858)</u>
Operating profit					6,038,755
Share of results of associates and joint ventures					<u>805,594</u>
Profit before taxation					6,844,349
Taxation					<u>(1,947,846)</u>
Profit for the period					<u>4,896,503</u>
Profit attributable to:					
Company's shareholders					3,990,095
Non-controlling interests					<u>906,408</u>
					<u>4,896,503</u>
Depreciation and amortisation	<u>265,917</u>	<u>8,081</u>	<u>273,998</u>	<u>3,033</u>	<u>277,031</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

	As at 30 June 2019						
	Mainland	Hong Kong	Overseas	Total	Others	Eliminations	Consolidated
	Property	Property	Property	Operating			
HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	HK\$'000	
Total assets	<u>98,406,747</u>	<u>64,975,680</u>	<u>3,965,758</u>	<u>167,348,185</u>	<u>70,952,601</u>	<u>(63,644,508)</u>	<u>174,656,278</u>
Total liabilities	<u>53,646,322</u>	<u>27,432,797</u>	<u>1,096,296</u>	<u>82,175,415</u>	<u>42,257,487</u>	<u>(63,644,508)</u>	<u>60,788,394</u>
	As at 31 December 2018						
	Mainland	Hong Kong	Overseas	Total	Others	Eliminations	Consolidated
	Property	Property	Property	Operating			
	HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	HK\$'000
Total assets	<u>97,412,147</u>	<u>62,395,913</u>	<u>3,806,689</u>	<u>163,614,749</u>	<u>62,567,767</u>	<u>(55,997,702)</u>	<u>170,184,814</u>
Total liabilities	<u>55,183,964</u>	<u>24,512,546</u>	<u>1,080,408</u>	<u>80,776,918</u>	<u>34,463,925</u>	<u>(55,997,702)</u>	<u>59,243,141</u>

4. Provision for impairment loss for property under development

In May 2018, Macau SAR Government has officially declared expiry of the land lease of a project located at Lot C12 at Nam Van Lake, Macau ("**Nam Van Lake Project**"), full impairment provision for the Nam Van Lake project amounting to approximately HK\$1,175 million was made in 2018.

5. Operating profit

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income	34,481	38,318
Interest income	269,408	312,262
Gain on sale of investment properties, net	44,638	10,371
<i>Charging</i>		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	229,186	277,031
Total finance costs incurred	525,336	525,989
Less: amount capitalised in properties under development and investment properties under development	(174,948)	(164,809)
	350,388	361,180
Fair value loss/(gain) on derivative financial instruments	24,810	(10,322)
Total finance costs expensed during the period	375,198	350,858

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. Taxation

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
Mainland taxation		
Current	(914,311)	(880,805)
(Under)/over-provision in prior years	(607)	1,665
Deferred	(266,461)	(922,450)
	(1,181,379)	(1,801,590)
Hong Kong profits tax		
Current	(279,215)	(140,750)
Over-provision in prior years	100	228
Deferred	18	16
	(279,097)	(140,506)
Overseas taxation		
Current	(4,872)	(5,889)
Over/(under)-provision in prior years	1,149	(2,015)
Deferred	(3,531)	2,154
	(7,254)	(5,750)
	(1,467,730)	(1,947,846)

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profit for the six months ended 30 June 2019. Income tax on Mainland and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2019 at the respective rates of taxation prevailing in the Mainland and the overseas countries in which the Group operates.

Land appreciation tax in the Mainland 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.

7. 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	
	2019	2018
Weighted average number of ordinary shares in issue	<u>1,455,446,510</u>	<u>1,449,666,510</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>3,594,589</u>	<u>3,990,095</u>
Basic earnings per share	<u>HK\$2.47</u>	<u>HK\$2.75</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.

	Six months ended 30 June	
	2019	2018
Weighted average number of ordinary shares in issue	<u>1,455,446,510</u>	<u>1,449,666,510</u>
Adjustment for share options	<u>1,054,822</u>	<u>3,303,968</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,456,501,332</u>	<u>1,452,970,478</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>3,594,589</u>	<u>3,990,095</u>
Diluted earnings per share	<u>HK\$2.47</u>	<u>HK\$2.75</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. 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 2019	5,693,610	74,228,117	1,940,187	122,504
Additions	15,441	355,205	–	–
Acquisition of subsidiaries	–	3,600,000	–	–
Fair value gains	–	499,724	–	–
Disposals	(1,002)	(57,172)	–	–
Transfer	117	–	–	–
Depreciation and amortisation	(199,052)	–	(30,414)	–
Exchange adjustment	(3,023)	(46,088)	(1,514)	–
	<u>5,506,091</u>	<u>78,579,786</u>	<u>1,908,259</u>	<u>122,504</u>
Net book value at 30 June 2019	<u>5,506,091</u>	<u>78,579,786</u>	<u>1,908,259</u>	<u>122,504</u>
Net book value at 1 January 2018	6,109,169	64,340,586	2,114,323	122,504
Additions	83,501	60,041	–	–
Fair value gains	–	3,386,745	–	–
Disposals	(219)	(14,392)	–	–
Transfer	11,395	5,997,863	–	–
Depreciation and amortisation	(244,417)	–	(32,901)	–
Exchange adjustment	30,919	181,036	10,705	–
	<u>5,990,348</u>	<u>73,951,879</u>	<u>2,092,127</u>	<u>122,504</u>
Net book value at 30 June 2018	<u>5,990,348</u>	<u>73,951,879</u>	<u>2,092,127</u>	<u>122,504</u>

9. 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 2019 is as follows:

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Below 1 month	73,631	120,826
Between 1 month and 3 months	22,067	16,544
Over 3 months	24,411	26,094
	120,109	163,464

10. 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 2019 is as follows:

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Below 1 month	158,079	334,407
Between 1 month and 3 months	27,325	22,732
Over 3 months	110,094	9,631
	295,498	366,770

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

11. Bank loans

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Bank loans – unsecured	33,685,224	28,378,777
Bank loans – secured	2,282,830	2,387,783
Total bank loans (note (i))	35,968,054	30,766,560
Less: Short-term bank loans and current portion of long-term bank loans	(12,827,522)	(8,141,552)
	<u>23,140,532</u>	<u>22,625,008</u>

(i) As at 30 June 2019, the Group's bank loans were repayable as follows:

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Within one year	12,827,522	8,141,552
In the second to fifth year		
– In the second year	5,075,486	8,731,082
– In the third year	12,334,325	6,908,349
– In the fourth year	3,004,214	5,684,072
– In the fifth year	2,726,507	1,301,505
	<u>23,140,532</u>	<u>22,625,008</u>
Repayable within five years	<u>35,968,054</u>	<u>30,766,560</u>

12. Commitments

At 30 June 2019, the Group had capital and other commitments in respect of investment properties, leasehold land and land use rights, properties under development, interest in joint ventures and others contracted for at the end of the period but not provided for in these financial statements as follows:

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Investment properties	1,029,024	920,725
Leasehold land and land use rights	9,546,426	4,005,274
Properties under development	5,785,165	4,237,180
Interest in joint ventures	–	126,251
Others	297,330	297,635
	<u>16,657,945</u>	<u>9,587,065</u>

13. Contingent liabilities

Guarantees for banking facilities

	As at 30 June 2019 HK\$'000	As at 31 December 2018 HK\$'000
Guarantees for banking facilities of certain associates and joint ventures (note (i))	2,672,717	2,680,659
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the Mainland (note (ii))	2,469,205	2,296,125
	<u>5,141,922</u>	<u>4,976,784</u>

(i) The Group has executed guarantees for banking facilities granted to certain associates and joint ventures. 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 2019 amounted to approximately HK\$2,672,717,000 (31 December 2018: HK\$2,680,659,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2019 amounted to approximately HK\$3,327,539,000 (31 December 2018: HK\$2,680,659,000).

(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 Mainland. 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 2019 amounted to approximately HK\$2,469,205,000 (31 December 2018: HK\$2,296,125,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

14. Pledge of assets

As at 30 June 2019, the Group's total bank loans of HK\$35,968,054,000 (31 December 2018: HK\$30,766,560,000) included an aggregate amount of HK\$33,685,224,000 (31 December 2018: HK\$28,378,777,000) which is unsecured and an aggregate amount of HK\$2,282,830,000 (31 December 2018: HK\$2,387,783,000) 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\$16,393,970,000 (31 December 2018: HK\$16,408,731,000); and
- (ii) assignments of insurance proceeds of certain properties.

15. Acquisition of subsidiaries

In June 2019, the Group acquired from a subsidiary of Kerry Logistics Network Limited, an associate of the Group, 100% of the share capital of DEC Limited and Belminton Inc. which beneficially own Kerry Warehouse (Chai Wan) and Kerry Warehouse (Shatin) respectively.

Aggregate net cash outflow of the above transaction is as follows:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Cash consideration paid	(3,600,000)	–
Cash and bank balances acquired	52,386	–
	<hr/>	<hr/>
Net cash outflow in respect of the acquisition of subsidiaries	(3,547,614)	–
	<hr/> <hr/>	<hr/> <hr/>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	Six months ended 30 June	
	2019	2018
	HK\$'000	HK\$'000
Investment properties	3,600,000	–
Accounts receivable, prepayments and deposits	657	–
Cash and bank balances	52,386	–
Accounts payable, deposits received and accrued charges	(25,670)	–
Taxation	(8,141)	–
Deferred taxation	(19,232)	–
	<hr/>	<hr/>
Total identifiable net assets	3,600,000	–
	<hr/> <hr/>	<hr/> <hr/>

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

The Group recorded a turnover of HK\$11,225 million for the six months ended 30 June 2019, representing an increase of 6% when compared with the HK\$10,560 million posted for the corresponding six months ended 30 June 2018. 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 2019 was HK\$3,143 million (2018: HK\$1,552 million), representing an increase of 103% year on year.

During the six months ended 30 June 2019, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$452 million (2018: HK\$2,438 million) was recognised in the Group's consolidated income statement.

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

	Six months ended 30 June		Change
	2019 HK\$ million	2018 HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	3,143	1,552	+103%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>452</u>	<u>2,438</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>3,595</u>	<u>3,990</u>	-10%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division

The Division reported a turnover of HK\$7,914 million during the first six months of 2019 (2018: HK\$8,326 million), a decrease of 5% year on year. The decline was accounted for by a 5% decrease in both sales revenue from completed properties and recurring revenue from rental and hotel operations. Gross profit decreased by 2% to HK\$3,247 million (2018: HK\$3,304 million). The decrease in revenue and gross profit was mainly due to the fluctuation in exchange rates for the first six months of 2018 and 2019.

Against a background of adjustment in the Mainland market, the Division maintained a steady pace of property development and sales, while the portfolio of investment assets delivered a healthy rental performance.

(i) Investment Properties

During the six months ended 30 June 2019, the Group recorded a turnover of HK\$1,834 million (2018: HK\$1,862 million) and a gross profit of HK\$1,440 million (2018: HK\$1,496 million) from its portfolio of completed investment properties in the Mainland, representing declines of 2% and 4% respectively.

As at 30 June 2019, the Group held an investment property portfolio in the Mainland with an aggregate gross floor area (“GFA”) attributable to the Group of 8.41 million square feet (as at 31 December 2018: 8.45 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2019:

	Group's attributable GFA							Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Hangzhou (‘000 square feet)	Shenyang	Tianjin	Jinan		
Office	711	1,391	1,552	102	354	-	195	4,305	87%
Commercial	98	1,096	104	798	486	435	34	3,051	92%
Apartment	277	774	-	-	-	-	-	1,051	93%#
	<u>1,086</u>	<u>3,261</u>	<u>1,656</u>	<u>900</u>	<u>840</u>	<u>435</u>	<u>229</u>	<u>8,407</u>	

As at 31 December 2018:

	Group's attributable GFA							Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Hangzhou (‘000 square feet)	Shenyang	Tianjin	Jinan		
Office	711	1,429	1,552	102	354	-	195	4,343	88%
Commercial	98	1,096	104	798	486	435	34	3,051	88%
Apartment	277	774	-	-	-	-	-	1,051	89%#
	<u>1,086</u>	<u>3,299</u>	<u>1,656</u>	<u>900</u>	<u>840</u>	<u>435</u>	<u>229</u>	<u>8,445</u>	

Excluding an apartment building at Central Residences II, Shanghai, where refurbishment commenced in the fourth quarter of 2017.

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

Property	Occupancy rate as at 30 June 2019	Occupancy rate as at 31 December 2018
Jing An Kerry Centre Phase I	98%	96%
Jing An Kerry Centre Phase II ⁽¹⁾	95%	98%
Kerry Parkside ⁽¹⁾	96%	97%
Beijing Kerry Centre ⁽¹⁾	95%	96%
Shenzhen Kerry Plaza	90%	97%
Hangzhou Kerry Centre ⁽¹⁾	94%	92%
Shenyang Kerry Centre ⁽¹⁾	56%	39%

Note:

(1) Excluding the hotel portion.

Jing An Kerry Centre, Shanghai

This landmark mixed-use development stands 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 2019, 96% of the office (as at 31 December 2018: 99%) and 94% of the retail space (as at 31 December 2018: 97%) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 75% during the period under review (2018: 77%).

Kerry Parkside, Shanghai

Kerry Parkside, located in Shanghai's Pudong District, 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 2019, the retail space and offices were both 100% leased (as at 31 December 2018: both 100%), while the serviced apartments were 83% occupied (as at 31 December 2018: 85%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 74% during the period under review (2018: 72%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(i) Investment Properties (continued)

Beijing Kerry Centre

Beijing Kerry Centre, located in the heart of the capital city, comprises high-quality office space, a shopping mall, the Kerry Hotel Beijing and serviced apartments. The Group holds a 71.25% interest in this mixed-use development. As at 30 June 2019, the occupancy rate of the retail portion was 93% (as at 31 December 2018: 85%), while the offices were 96% leased (as at 31 December 2018: 99%). The serviced apartments were 95% leased as at 30 June 2019 (as at 31 December 2018: 93%). Kerry Hotel Beijing recorded an average occupancy rate of 84% during the period under review (2018: 84%).

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. As at 30 June 2019, the offices were 96% leased (as at 31 December 2018: 82%), while 93% of the retail space was leased (as at 31 December 2018: 94%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 74% during the period under review (2018: 77%). The Group holds a 75% stake in the project.

Shenzhen Kerry Plaza

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers. 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. As at 30 June 2019, the occupancy rate of the development was 90% (as at 31 December 2018: 97%).

Tianjin Kerry Centre

Tianjin Kerry Centre is a riverfront property on the east bank of the Haihe River in the Hedong CBD, 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, delivering a GFA of approximately 3.6 million square feet. Phase II of the development is under planning. As at 30 June 2019, the Riverview Place mall was 82% leased (as at 31 December 2018: 74%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 70% during the period under review (2018: 72%).

Shenyang Kerry Centre

Opened in 2018, Shenyang Kerry Centre has added office and commercial space to the Group's existing rental property portfolio. The development is located on the east side of Qingnian Street in Shenyang, Liaoning Province. As at 30 June 2019, the offices were 38% leased (as at 31 December 2018: 19%), while 82% of the retail space was leased (as at 31 December 2018: 68%). Shangri-La Hotel, Shenyang reported an average occupancy rate of 64% during the period under review (2018: 66%). The Group holds a 60% stake in the project.

Jinan Enterprise Square

Jinan Enterprise Square is located at Lixia District, Jinan, Shandong Province. As at 30 June 2019, the offices were 77% leased (as at 31 December 2018: 76%), while 97% of the retail space was leased (as at 31 December 2018: 37%). Shangri-La Hotel, Jinan reported an average occupancy rate of 67% (2018: 50%). The Group holds a 55% stake in the project.

(ii) Sales of Properties

During the six months ended 30 June 2019, sales of completed properties in the Mainland delivered a turnover of HK\$5,115 million (2018: HK\$5,385 million), mainly from recognised sales of Castalia Court in Hangzhou, Shenyang Arcadia Height, Jinling Arcadia Court in Nanjing, Lake Grandeur in Hangzhou, Habitat in Qinhuangdao and commercial units of The Metropolis-Arcadia Court Phase I in Chengdu. A gross profit of HK\$1,645 million (2018: HK\$1,599 million) was derived therefrom.

Castalia Court, Hangzhou

This 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, the development will yield a GFA of approximately 2.27 million square feet of residential property, Castalia Court, as well as approximately 250,000 square feet of commercial space. Phases I and II of the development have been completed and sold. Phase III has also been completed with sales ongoing. As at 30 June 2019, 99% of the total of 725 Phase III units had been sold.

Arcadia Height, Shenyang

The first tower of Arcadia Height at the Shenyang Kerry Centre Phase II development has been completed and delivered for occupation. As at 30 June 2019, 80% of the total of 495 Phase II residential units had been sold/pre-sold. The Group holds a 60% interest in this project.

Jinling Arcadia Court, Nanjing

The Group has completed the construction of a residential project, Jinling Arcadia Court, in Nanjing's Qin Huai District along Da Guang Road. This wholly owned project has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. As at 30 June 2019, all units were sold.

Lake Grandeur, Hangzhou

Lake Grandeur, with a GFA of approximately 330,000 square feet, is situated at Hangzhou Kerry Centre. This completed development overlooks the renowned West Lake in Hangzhou. As at 30 June 2019, 32% of the total of 121 units had been sold. The Group holds a 75% interest in this project.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(ii) Sales of Properties (continued)

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 2019, 84% 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.

The Metropolis – Arcadia Court, Chengdu

The Metropolis-Arcadia Court in Chengdu is located in the southern part of the High-Tech Industrial Development Zone. Residential and commercial units of Phases I and II have all been sold. The Group holds a 55% interest in this project.

(iii) Properties under Development

Supported by a healthy land bank, the Group has continued with its development of mixed-use landmarks and residential projects in prime locations.

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 and Phase II is partially completed, while Phase III is now under construction.

Wuhan

In 2018, the Group won a bid to acquire the land-use rights of a site located in Jiangnan District, Wuhan, Hubei Province. Lying in a prime commercial district at the intersection of the Yangtze and Han rivers, and in the vicinity of the Inner Ring Road city-centre area, the site will enjoy direct access to the Wuhan Metro Line 13 currently under planning. This wholly owned project, with an aggregate site area of approximately 700,000 square feet, is designed to yield a total GFA of approximately 4.5 million square feet. The Group plans to develop a large-scale complex with office, commercial, residential and educational components.

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, offers an unobstructed seafront view, and is designated for a mixed-use development comprising office, apartment and commercial space. 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 2020. In 2018, one apartment tower was launched for pre-sale to strong market response.

The Group also maintains a 25% interest in another project under development on an adjacent site. The Group, Kerry Holdings Limited and The Bank of East Asia, Limited jointly acquired this site, with an area of approximately 207,000 square feet, in December 2016. This project is designed to yield a GFA of approximately 1.3 million square feet for commercial use.

In 2018, the Group won a bid to acquire a parcel of land in the Qianwan area, adjacent to the two existing developments. This new site is designated for commercial use and has an area of approximately 184,000 square feet, which is planned to yield a GFA of approximately 886,000 square feet, accommodating office, commercial and underground retail space, as well as complementary community facilities. The new development will further the Group's core presence in Qianhai, and will facilitate its plan to build a modern, integrated hub for work, business activity and urban living. In July 2019, the Group entered into an agreement with Sino Land Company Limited and formed a joint venture, in which the Group holds a 70% interest, to develop the site.

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

Fuzhou

In 2018, the Group won a bid for a commercial (including retail and commercial services) and residential site in Cangshan District, Fuzhou, Fujian Province. This wholly owned project, with an aggregate site area of approximately 1.4 million square feet, is planned to yield a total GFA of approximately 3.7 million square feet. This project is located in the Sanjiangkou area where it enjoys a captivating waterfront view. It also lies conveniently at the intersection of the Fuzhou-Xiamen Expressway, and will be linked to the Fuzhou Metro Line 6. The Group plans to develop an integrated complex with office, commercial and residential space.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(iii) Properties under Development (continued)

Hangzhou

On 17 May 2019, the Group won a bid for a residential and commercial site in Hangzhou, Zhejiang Province. The site is located in the Xiacheng District, a premier location in the vicinity of a major road link and the soon-to-be-commissioned Hangzhou Metro Line 5. With a site area of approximately 1.06 million square feet, the project is planned to yield a GFA of approximately 2.4 million square feet. The Group's plan is to develop the site into a large-scale complex with office, commercial and residential components.

Zhengzhou

The Group and Shangri-La Asia Limited ("**Shangri-La**") are collaborating on a development located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou, Henan Province. The site will yield a GFA of approximately 2.1 million square feet for development into hotel, residential, commercial and office properties. The project is scheduled to be completed in phases from 2023 onwards. The Group holds a 55% interest in this project.

Kunming

The Group, together with Shangri-La, is developing two adjoining sites in Kunming, Yunnan Province. The sites are earmarked for hotel and apartment use, with a GFA of approximately 696,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2021.

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a project through a joint venture with Shangri-La. This 80%-held project is situated on the west bank of the Ganjiang River in the heart of the Honggutan Central District. The development includes a hotel, offices, and commercial and high-end residential properties. The hotel and residential portions have been completed, delivering a GFA of approximately 1.7 million square feet. Planning of the forthcoming office site is in progress.

Putian

The Group and Shangri-La are co-developing a hotel property, as part of the Putian project development, at Jiuhua Road, Putian, Fujian Province. The Group holds a 60% interest in this project. Construction works for the hotel, which has a GFA of approximately 368,000 square feet, are now in progress and are expected to be completed in 2020.

Shanghai

The Group in 2016 acquired an equity interest of approximately 24.4% in a Shanghai project company which owns a site located in Pudong New Area, Shanghai. The site, designated for industrial use, has a gross area of approximately 4.43 million square feet. In May 2016, the Shanghai Municipal Government issued an approval covering the planning change for the site to commercial development use ("**May approval**"). Subsequently, in August 2017, another approval was granted by the Shanghai Municipal Government to include the site as part of the newly planned World Expo Cultural Park. The Group's investment made in the second half of 2016 was on the basis of the May approval.

In the second quarter of 2018, the Shanghai municipal authorities communicated to the project company their intention to incorporate the project site in the World Expo Cultural Park development. Since then discussions and negotiations have been ongoing with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution to enable the Group to withdraw from the project. An agreement for the acquisition compensation is expected to be reached in the second half of 2019.

Up to the date of this report, the project company remains as the legal and registered owner of the site with all the rights conferred as per the original land grant.

(C) Hong Kong Property Division

During the six months ended 30 June 2019, the Hong Kong Property Division reported a turnover of HK\$3,311 million (2018: HK\$2,234 million) and a gross profit of HK\$1,748 million (2018: HK\$958 million).

The Division's turnover for the period was mainly derived from recognised sales of completed residential properties at Mantin Heights, Mont Rouge and The Bloomsway. The sales of Mont Rouge was launched in April 2019 to a positive market response.

The portfolio of investment properties in Hong Kong continued to contribute a steady stream of recurrent income as it achieved high occupancy levels and stable rental rates during the period under review.

(i) Investment Properties

The Group's completed investment properties in Hong Kong generated a turnover of HK\$594 million (2018: HK\$566 million), producing a gross profit of HK\$467 million for the period under review (2018: HK\$453 million).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(i) Investment Properties (continued)

The Group has been actively exploring business development opportunities in Hong Kong. Considering the redevelopment potential of warehouse buildings, the Group on 28 March 2019 entered into sale and purchase agreements with a wholly owned subsidiary of Kerry Logistics Network Limited to acquire two warehouses in Sha Tin and Chai Wan. The Group will consider redevelopment of the warehouses for long-term investment so as to add value to its portfolio.

As at 30 June 2019, the portfolio of completed investment properties in Hong Kong had an aggregate GFA of 4.13 million square feet (as at 31 December 2018: 2.86 million square feet). Set out below is the breakdown of GFA and the respective occupancy rates, together with the comparative figures:

	As at 30 June 2019		As at 31 December 2018	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Apartment	803	98%	803	99%
Commercial	1,219	100%	1,219	99%
Office	841	98%	841	97%
Warehouse	1,266	82%	–	–
	<u>4,129</u>		<u>2,863</u>	

Enterprise Square Five/MegaBox, Kowloon Bay

MegaBox blends shopping, entertainment, dining and sports into one innovatively designed complex. This pioneering retail and lifestyle landmark in Kowloon East has a GFA of 1.1 million square feet. As at 30 June 2019, the mall had an occupancy rate of nearly 100% (as at 31 December 2018: nearly 100%).

MegaBox continues to curate and enhance its tenant mix to offer unique experiential retailing and entertainment choices. Leveraging its spaciousness and innovative venue design, the mall brings additional theme-based experiences to consumers and is utilised to engage the community.

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, recorded stable occupancy rates and were 98% leased as at 30 June 2019 (as at 31 December 2018: 97%).

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 99% of the space leased as at 30 June 2019 (as at 31 December 2018: 100%).

Resiglow – Happy Valley

Resiglow – Happy Valley, at No. 7A Shan Kwong Road, provides 106 units, including two penthouses, over a GFA of approximately 81,000 square feet. The leasing of this property has met with strong response and as at 30 June 2019, 98% of the units (as at 31 December 2018: 100%) were leased.

(ii) Sales of Properties

During the first six months of 2019, sales of completed properties in Hong Kong contributed a turnover of HK\$2,717 million (2018: HK\$1,668 million) to the Group. A gross profit of HK\$1,281 million (2018: HK\$505 million) was derived from recognised sales of Mantin Heights, Mont Rouge and The Bloomsway.

Mantin Heights, Ho Man Tin

The Group's residential project, Mantin Heights, is situated at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. As at 30 June 2019, 96% of the total of 1,429 units had been sold.

Mont Rouge, Beacon Hill

The Group has developed Mont Rouge at No. 9 Lung Kui Road in Beacon Hill with a saleable area of approximately 115,000 square feet. This low-density premium residential project comprising two residential towers and 19 houses obtained its Certificate of Compliance in January 2019. As at 30 June 2019, 7% of the total of 45 units had been sold.

The Bloomsway, So Kwun Wat

The Bloomsway is another residential development of the Group, located at Nos. 18, 28 and 29 Tsing Ying Road, So Kwun Wat. The project has a saleable area of approximately 838,000 square feet. As at 30 June 2019, 95% of the total of 1,100 units had been sold.

(iii) Properties under Development*Resiglow – Pokfulam*

The Group is developing Resiglow – Pokfulam at No. 8 Hing Hon Road. This residential project has a buildable GFA of approximately 68,000 square feet, and obtained its Occupation Permit in July 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(iii) *Properties under Development (continued)*

Lung Kui Road, Beacon Hill

The Group acquired a further site in Beacon Hill in 2016. This site, at No. 3 Lung Kui Road and occupying an area of 235,000 square feet, will be developed into an upscale low-density residential property with a buildable GFA of approximately 343,000 square feet. The project lies adjacent to Mont Rouge and is scheduled to be completed in 2020.

La Salle Road, Ho Man Tin

The Group is developing a residential project at No. 10 La Salle Road in Ho Man Tin, following amalgamation of the entire building at Nos. 168-168C Boundary Street with the adjacent plot at No. 10 La Salle Road. Lying next to 8 LaSalle, this redevelopment project will deliver an aggregate buildable GFA of 45,000 square feet and is scheduled for completion in 2020.

Wong Chuk Hang Station Package Two Property Development, Wong Chuk Hang

Together with Sino Land Company Limited, the Group is co-developing the Wong Chuk Hang Station Package Two Property Development. The Group holds a 50% stake in the project. Located at the south-western part of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes. This project will enjoy direct MTR connection and the upside of the vibrant neighbourhood of Wong Chuk Hang. It occupies an area of approximately 92,000 square feet and will generate a buildable GFA of approximately 493,000 square feet. The project is scheduled for completion in 2023.

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 as regards the land exchange issue.

In May 2018, the Macau SAR Government gazetted the expiry of the land lease of the Nam Van Lake project for the reason of non-development. The Group filed an appeal ("**Appeal**") in June 2018 in the Second Instance Court of Macau SAR ("**Second Instance Court**") against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease. The final decision of the Second Instance Court concerning the Appeal is expected to be handed down within 2019. The Group also filed with the Administrative Court of Macau SAR a petition in July 2019 against the Macau SAR Government to claim, *inter alia*, the compensation for damages and loss of profits caused. Subject to any time extensions for which the Macau SAR Government may apply, it is expected that a defence will be filed in September 2019.

(D) Overseas Property Division***The Philippines***

The Group maintains 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 a 70.04% interest in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 30 June 2019, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 92% and 98% respectively (as at 31 December 2018: 93% and 95%, respectively).

SPI holds a high-rise residential project, Shang Salcedo Place in Makati City, with a GFA of approximately 655,000 square feet. As at 30 June 2019, 99% of the total of 749 residential units had been sold, with 5 units to be held for long-term investment.

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 space with a total area of 47,400 square feet. As at 30 June 2019, 96% of the total of 98 residential units available for sale had been sold, and 4 units, including 2 units of penthouse have been retained by the developer for long-term investment. The hotel recorded an average occupancy rate of 69% during the period under review (2018: 67%), while the serviced apartments were 81% leased as at 30 June 2019 (as at 31 December 2018: 84%).

Apart from these completed projects, SPI currently has three major projects under development:

The first is being developed on 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, and 93% of the total of 3,044 units had been sold as at 30 June 2019, with 25 units to be held for long-term investment.

SPI launched another project in 2018, located at Wack Wack Road, Mandaluyong City, with a site area of more than 36,000 square feet. This project, Shang Residences at Wack Wack, will have a GFA of approximately 1.01 million square feet, comprising 404 residential units. Sales of Shang Residences at Wack Wack were launched in September 2018, and 35% of the total of 404 units had been reserved and sold as at 30 June 2019, with 4 units to be held for long-term investment.

SPI also has a 50% interest in a joint venture to develop a site of more than 98,000 square feet in Fort Bonifacio Global City. The development will deliver residential units, serviced apartments and commercial spaces. Pre-sale of residential units is expected to be commenced in second half of 2019.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(D) Overseas Property Division (continued)

Sri Lanka

The Group and SPI have formed a joint venture, Shang Properties (Pvt) Ltd, in Sri Lanka, to develop a mixed-use project strategically located in the heart of Colombo, the country's commercial capital and largest city. The site is situated on a six-acre parcel of leased land on Sir James Peiris Mawatha overlooking Beira Lake in Colombo. The Group holds an 80% stake, while SPI holds a 20% interest in the joint venture.

The project will be developed in two phases. Phase I will include a high-rise residential tower and Phase II will comprise residential and retail components. The entire project will take eight to nine years to develop.

The development will be complemented by an integrated podium featuring jogging tracks, a clubhouse fully equipped with swimming pools and other facilities, a garden, and car-parking floors.

Singapore

The Group and Allgreen Properties Limited ("**Allgreen**"), have formed a joint venture in which the Group holds a 30% interest. The joint venture won a tender for a land parcel located at Pasir Ris Central on 22 March 2019. With an area of approximately 409,000 square feet, the site is planned for residential and commercial uses.

This joint development aligns with the business strategies of the Group in building up a prime property portfolio and pursuing sound investment opportunities. In addition, the co-operation between the Group and Allgreen will provide a synergy effect for both parties and will allow them to share their management and strategic expertise in the project.

(E) Outlook

(i) Mainland Property Division

The property sector is undergoing a period of adjustment as central authorities have introduced macro control policies and strengthened supervision over the financing of real estate developments. Against this background, the Group continued to deliver satisfactory results during the first six months of 2019. In view of the degree of uncertainty surrounding the economy, the Division has adjusted the pace of its property sales. Nevertheless, as the State works to improve the long-term growth prospects and functioning of the housing market, we retain confidence in the underlying resilience of our Mainland segment.

The Group will continue to replenish its land bank in major cities in order to support ongoing growth momentum. Project development works will proceed as scheduled, while the Group actively manages its sales strategy in step with market demand and macroeconomic conditions.

At the same time we work meticulously to build up a prime investment asset portfolio, with special attention to the development of mixed-use landmarks in core metropolitan locations. These premium assets are held as a long-term investment, and will contribute to the Group's growing recurrent income base.

To add value to our commercial portfolio, we are constantly investing in venue upgrades and tenant management. Most importantly, customer focus and innovation are always at the forefront of our work, as reflected in our efforts to transform our shopping malls to enhance consumer experience and interaction. In order to cope with the disruptive change in the retail sector, we will continue to create new experiences to engage consumers. The office and serviced apartment portfolios, meanwhile, are expected to deliver a sustained performance in the coming quarters.

With a respected brand dedicated to delivering excellence, the Division is in a strong position to further roll out its business plan, while continuing to address market challenges as they arise.

(ii) Hong Kong Property Division

The Hong Kong economy has been adversely affected by a succession of headwinds, including a slower pace of growth in the Mainland. The uncertainties stemming from trade tensions and geopolitical scenarios are also reflected by a less vigorous momentum in local business activity. This situation notwithstanding, the Group remains confident of the long-term prospects for the Hong Kong market, in particular in the context of the US Federal Reserve's interest rate cut expectations.

The Division is proceeding smoothly with the sales of units at Mont Rouge, Mantin Heights and The Bloomsway, while maintaining a healthy portfolio of development projects to provide impetus for future sales activity. Riding on its reputation for excellence, the Group will continue to create superior homes that deliver an exceptional living experience. And to further replenish its land bank in Hong Kong, the Group will maintain its active participation in government land bids.

The Hong Kong investment property portfolio is an important component of the Group's long-term strategy to build a strong recurrent income base. Our premier Mid-Levels residences, offices in Island East and Kowloon East, and the MegaBox mall are all recording high occupancies and steady rental rates. We also look forward to further developing the Resiglow line of apartments, in order to add new recurrent income streams for the Group.

The Group is committed to strengthening and expanding its property portfolio so as to enhance the long-term return to shareholders. In addition to our residential properties, we have made a move to acquire two warehouses in Hong Kong in order to tap into the redevelopment potential of industrial buildings. In view of the government's revisiting the revitalisation policy targeting industrial premises, we believe these acquisitions represent an excellent long-term investment for the Group.

As the city's outlook is subject to a high level of uncertainty, the Division will prudently guard against the potential risks that may emerge. The Group has a long track record of maintaining resilience across market cycles, and we are confident of sustaining a solid performance over the long term in the face of any challenges.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(F) Financial Review

The Group has centralized 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 2019, total foreign currency borrowings (excluding RMB bank loans) amounted to the equivalence of HK\$3,314 million and RMB bank loans amounted to the equivalence of HK\$6,310 million. Therefore, non-RMB total foreign currency borrowings and RMB bank loans represented approximately 9% and 16% respectively, of the Group's total borrowings of HK\$38,309 million as at 30 June 2019.

The non-RMB total foreign currency borrowings of HK\$3,314 million include US\$300 million Fixed Rate Bonds (net of direct issue costs) and AUD180 million bank loans. The Group has arranged cross currency swap contracts amounting to US\$297 million and AUD180 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars and between Australian dollars and Hong Kong dollars, respectively.

Out of the Group's total borrowings as at 30 June 2019, HK\$12,828 million (representing approximately 34%) was repayable within one year, HK\$7,416 million (representing approximately 19%) was repayable in the second year, HK\$18,065 million (representing approximately 47%) was repayable in the third to fifth years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 94% of total borrowings as at 30 June 2019. 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 2019, the gearing ratio for the Group was 24.2% (as at 31 December 2018: 19.2%), calculated based on net debt of HK\$24,116 million and shareholders' equity of HK\$99,780 million.

As at 30 June 2019, the Group had outstanding interest rate swap contracts which amounted to HK\$1,500 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 2019, the Group had total undrawn bank loan facilities of HK\$10,941 million and cash and bank deposits of HK\$14,193 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.

Details of contingent liabilities and pledge of assets are set out in notes 13 and 14 to the financial statements of the Group included in this report.

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 2019 and some of them are set out below:

Event	Venue
CGS-CIMB HK/China Property Conference	Hong Kong
Citi's Asia Pacific Property Conference 2019	Hong Kong
DBS HK Property Corporate Day	Hong Kong
Goldman Sachs Greater China Corporate Day 2019	Hong Kong

STAFF

As at 30 June 2019, the Company and its subsidiaries had approximately 8,200 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 2019, a total of 19,413,500 Share Options granted under the 2011 Share Option Scheme were outstanding.

Movement of Share Options

Movement of the Share Options during the six months ended 30 June 2019 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 30/06/2019	Exercise Price HK\$	Exercise Period
			As at 01/01/2019	Exercised			
<i>(i) 2002 Share Option Scheme (Note a):</i>							
1. Continuous Contract Employees	06/02/2009	I	70,000	(70,000)	-	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	80,000	(80,000)	-	17.58	06/02/2011 – 05/02/2019
2. Others	06/02/2009	I	25,000	(25,000)	-	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	30,000	(30,000)	-	17.58	06/02/2011 – 05/02/2019
Total:			205,000	(205,000)	-		

SHARE OPTIONS (continued)

Movement of Share Options (continued)

Category	Date of grant	Tranche	Number of Share Options			As at 30/06/2019	Exercise Price HK\$	Exercise Period
			As at 01/01/2019	Exercised	Lapsed			
<i>(ii) 2011 Share Option Scheme (Note b):</i>								
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	134,000	(134,000)	-	-	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,500,000	(466,000)	-	1,034,000	26.88	08/01/2015 – 07/01/2024
Bryan Pallop Gaw	30/04/2012	I	100,000	-	-	100,000	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	II	100,000	-	-	100,000	26.88	08/01/2015 – 07/01/2024
Wong Chi Kong, Louis	30/04/2012	I	250,000	-	-	250,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	250,000	-	-	250,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	400,000	-	-	400,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	400,000	-	-	400,000	26.88	08/01/2015 – 07/01/2024
2. Continuous Contract Employees								
	30/04/2012	I	1,886,500	-	-	1,886,500	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	2,415,000	-	-	2,415,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	860,000	(33,000)	-	827,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,569,000	(175,000)	-	1,394,000	26.88	08/01/2015 – 07/01/2024
3. Others								
	30/04/2012	I	2,738,000	-	(130,000)	2,608,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,151,000	-	(130,000)	3,021,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	738,000	-	-	738,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	860,000	(20,000)	-	840,000	26.88	08/01/2015 – 07/01/2024
Total:			20,501,500	(828,000)	(260,000)	19,413,500		

Notes:

- During the period, no Share Option was granted, granted for adjustment, transferred from/to other category, cancelled or lapsed under the 2002 Share Option Scheme.
- During the period, no Share Option was granted, granted for adjustment, transferred from/to other category 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\$32.02. 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 2019, 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	–	–	50,000	50,000	0.00
Kuok Khoon Hua	1,179,413	–	3,297,763	4,477,176	0.31
Bryan Pallop Gaw	–	3,324,763	1,202,048	4,526,811	0.31
Wong Chi Kong, Louis	140	–	50,000	50,140	0.00

(ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares				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
	Kuok Khoon Hua	5,000	–	–	224,475,033	1,995,000	226,475,033	14.95 ⁷
	Bryan Pallop Gaw	1,500,000	177,695,046	–	46,399,988	2,000,000	227,595,034	15.02 ⁷
	Wong Chi Kong, Louis	1,271,725	–	–	–	500,000	1,771,725	0.12 ⁷
Kerry Logistics Network Limited	Wong Siu Kong	–	–	–	1,300,000	–	1,300,000	0.08 ⁸
	Kuok Khoon Hua	101,000	–	–	3,018,492	1,000,000	4,119,492	0.24 ⁸
	Bryan Pallop Gaw	–	1,493,382	–	1,891,024	–	3,384,406	0.20 ⁸
	Wong Chi Kong, Louis	–	–	–	1,300,000	–	1,300,000	0.08 ⁸
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01 ⁸
Hopemore Ventures Limited	Kuok Khoon Hua	50	–	–	–	–	50	3.57 ⁹
Majestic Tulip Limited	Kuok Khoon Hua	10	–	–	–	–	10	3.33 ¹⁰
Medallion Corporate Limited	Kuok Khoon Hua	48	–	–	–	–	48	4.80 ¹¹
	Bryan Pallop Gaw	26	26	–	–	–	52	5.20 ¹¹
Rubyhill Global Limited	Kuok Khoon Hua	1	–	–	–	–	1	10.00 ¹²
Shang Properties, Inc.	Bryan Pallop Gaw	–	582,532	–	248,482	–	831,014	0.02 ¹³
Vencedor Investments Limited	Kuok Khoon Hua	5	–	–	–	–	5	5.00 ¹⁴
	Bryan Pallop Gaw	5	5	–	–	–	10	10.00 ¹⁴

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (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 discretionary 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 2019 (i.e. 1,456,241,228 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2019 (i.e. 1,514,981,304 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2019 (i.e. 1,712,812,112 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 2019 (i.e. 1,400 ordinary shares).
10. The percentage has been compiled based on the total number of ordinary shares of Majestic Tulip Limited in issue as at 30 June 2019 (i.e. 300 ordinary shares).
11. The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 30 June 2019 (i.e. 1,000 ordinary shares).
12. The percentage has been compiled based on the total number of ordinary shares of Rubyhill Global Limited in issue as at 30 June 2019 (i.e. 10 ordinary shares).
13. The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 30 June 2019 (i.e. 4,764,056,287 common shares).
14. The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 30 June 2019 (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 2019, 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 2019, 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	859,531,055 ⁱ	Long position	59.02
Kerry Holdings Limited	Interest of controlled corporations	746,090,656 ⁱ	Long position	51.23
Caninco Investments Limited	Beneficial owner	312,248,193 ⁱ	Long position	21.44
Darmex Holdings Limited	Beneficial owner	256,899,261 ⁱ	Long position	17.64
Moslane Limited	Beneficial owner	73,821,498 ⁱ	Long position	5.07

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 2019 (i.e. 1,456,241,228 ordinary shares).

Apart from the aforesaid, as at 30 June 2019, 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 2019.

CORPORATE GOVERNANCE

During the six months ended 30 June 2019, 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 before 1 June 2019. 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. However, the Board believes that the balance of power and authority had not been impaired by such arrangement as the Board comprises experienced and high calibre individuals.

On 1 June 2019, Mr Wong has relinquished his position as the CEO of the Company and remains as the Chairman and an Executive Director of the Company and Mr Kuok Khoon Hua, a Non-executive Director of the Company, has been re-designated as an Executive Director of the Company and appointed as the Vice Chairman and the CEO of the Company. The Company has therefore complied with A.2.1 of the code provisions since 1 June 2019.

CHANGES IN THE INFORMATION OF THE DIRECTORS SINCE LAST ANNUAL REPORT

The changes in the information of the Directors as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

- (1) on 1 June 2019, Mr Wong Siu Kong has relinquished his position as the Chief Executive Officer of the Company and remained as the Chairman and an Executive Director of the Company;
- (2) on 1 June 2019, Mr Kuok Khoon Hua, a Non-executive Director of the Company, has been re-designated as an Executive Director of the Company and been appointed as the Vice Chairman and Chief Executive Officer of the Company; and
- (3) on 11 June 2019, Ms Wong Yu Pok, Marina, an Independent Non-executive Director of the Company, has been appointed as an independent non-executive director of SJM Holdings Limited (a listed company in Hong Kong).

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 5 September 2019 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 transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 4 September 2019. The Interim Dividend is payable on Tuesday, 17 September 2019 to Shareholders whose names appear on the Registers of Members on Thursday, 5 September 2019.

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 2019.

DIRECTORS

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

Executive Directors:

Messrs Wong Siu Kong, Kuok Khoon Hua, Bryan Pallop Gaw and Wong Chi Kong, Louis

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, 20 August 2019