



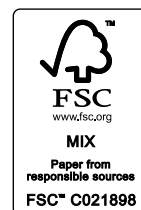
KERRY PROPERTIES LIMITED

2020 INTERIM REPORT

For the six months ended 30 June 2020

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

Ms Wong Yu Pok, Marina, JP
 Mr Chang Tso Tung, Stephen
 Mr Hui Chun Yue, David

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Ms Wong Yu Pok, Marina, JP, *Chairman*
 Mr Chang Tso Tung, Stephen
 Mr Hui Chun Yue, David

REMUNERATION COMMITTEE

Ms Wong Yu Pok, Marina, JP, *Chairman*
 Mr Wong Siu Kong
 Mr Kuok Khoon Hua
 Mr Chang Tso Tung, Stephen
 Mr Hui Chun Yue, David

NOMINATION COMMITTEE

Mr Wong Siu Kong, *Chairman*
 Mr Kuok Khoon Hua
 Ms Wong Yu Pok, Marina, JP
 Mr Chang Tso Tung, Stephen
 Mr Hui Chun Yue, David

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
*Certified Public Accountants and
 Registered Public Interest Entity Auditor*

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
 25/F, Kerry Centre, 683 King's Road
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 Telephone: (852) 2967 2200
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INVESTOR RELATIONS DEPARTMENT

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WEBSITE

www.kerryprops.com

KEY DATES

Closure of Registers of Members
 8 September 2020

Proposed Payment of Interim Dividend

18 September 2020

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2020. 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 2020 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2020 was HK\$1,074 million, representing a decrease of 70% compared with HK\$3,595 million reported for the same period in 2019. The Group measured its investment property portfolio on a fair value basis and recorded a decrease in fair value of investment properties (net of deferred taxation) of HK\$32 million for the six months ended 30 June 2020 (2019: an increase of HK\$452 million). Before taking into account the effects of the aforementioned change in fair value, the Group recorded a decrease of 65% in profit attributable to shareholders to HK\$1,106 million for the six months ended 30 June 2020 (2019: HK\$3,143 million). The decrease was mainly due to the lower contribution from sales from the Group’s development properties and the significantly reduced income from the hotel assets held by the Group in the first six months of 2020 as compared to that of the first six months of 2019, reflecting the effect of the adverse market conditions created by the unprecedented COVID-19 pandemic and associated quarantine and social protective measures put in place in Hong Kong and the Mainland.

Earnings per share for the six months ended 30 June 2020 was HK\$0.74, representing a decrease of 70% compared with HK\$2.47 per share for the same period in 2019. The basis of calculating the earnings per share is detailed in Note 6 below.

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

	Six months ended 30 June		
	2020	2019	
	<i>HK\$ million</i>	<i>HK\$ million</i>	Change
Profit attributable to shareholders before taking into account the net change in fair value of investment properties and related tax effects	1,106	3,143	-65%
Add:			
Net (decrease)/increase in fair value of investment properties and related tax effects	<u>(32)</u>	<u>452</u>	
Profit attributable to shareholders after taking into account the net change in fair value of investment properties and related tax effects	<u>1,074</u>	<u>3,595</u>	-70%

The Directors have declared an interim dividend of HK\$0.4 per share for the six months ended 30 June 2020 (the “**Interim Dividend**”) (2019: HK\$0.4), which is payable on Friday, 18 September 2020 to the shareholders of the Company (the “**Shareholders**”) whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Tuesday, 8 September 2020.

At the Company’s Annual General Meeting held on 20 May 2020, the Shareholders approved the final dividend of HK\$0.95 per share for the year ended 31 December 2019 which amounted to a total of approximately HK\$1,384 million and was paid on 5 June 2020.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2020	2019
		HK\$'000	HK\$'000
Revenue	3	3,917,548	11,224,606
Cost of sales and direct expenses		(1,522,164)	(6,021,390)
Gross profit	3	2,395,384	5,203,216
Other income and net gains		257,403	406,981
Administrative and other operating expenses		(771,776)	(816,323)
(Decrease)/increase in fair value of investment properties		(168,859)	499,724
Operating profit before finance costs		1,712,152	5,293,598
Finance costs		(428,432)	(375,198)
Operating profit	4	1,283,720	4,918,400
Share of results of associates and joint ventures		558,715	616,210
Profit before taxation		1,842,435	5,534,610
Taxation	5	(679,183)	(1,467,730)
Profit for the period		1,163,252	4,066,880
Profit attributable to:			
Company's shareholders		1,073,933	3,594,589
Non-controlling interests		89,319	472,291
		1,163,252	4,066,880
Earnings per share	6		
– Basic		HK\$0.74	HK\$2.47
– Diluted		HK\$0.74	HK\$2.47

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Profit for the period	1,163,252	4,066,880
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	(224,589)	(38,914)
Share of other comprehensive income of associates and joint ventures	(189,156)	47,580
Net translation differences on foreign operations	(1,479,036)	(112,295)
Items that will not be reclassified to profit or loss		
Fair value gain on financial assets at fair value through other comprehensive income	34,007	60,854
Other comprehensive income for the period, net of tax	(1,858,774)	(42,775)
Total comprehensive income for the period	(695,522)	4,024,105
Total comprehensive income attributable to:		
Company's shareholders	(484,350)	3,595,945
Non-controlling interests	(211,172)	428,160
	(695,522)	4,024,105

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2020	2019
	Note	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	4,980,520	5,250,030
Investment properties	7	79,534,881	80,209,689
Right-of-use assets	7	1,913,956	2,004,077
Properties under development		17,971,148	17,693,616
Land deposits		11,623,041	7,981,265
Associates and joint ventures		27,578,158	28,426,306
Derivative financial instruments		–	42,550
Financial assets at fair value through other comprehensive income		1,487,760	1,453,753
Financial assets at fair value through profit or loss		970,883	1,095,300
Mortgage loans receivable		2,282,564	3,062,327
Intangible assets	7	122,504	122,504
		148,465,415	147,341,417
Current assets			
Properties under development		5,935,261	5,346,346
Completed properties held for sale		10,204,873	10,881,168
Accounts receivable, prepayments and deposits	8	1,676,883	1,503,907
Current portion of mortgage loans receivable		49,051	33,838
Tax recoverable		279,718	325,346
Tax reserve certificates		189,598	189,598
Financial assets at fair value through profit or loss		–	6,863
Derivative financial instruments		12,189	–
Restricted bank deposits		614,509	511,687
Cash and bank balances		10,492,638	11,743,843
		29,454,720	30,542,596

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
	Note		
Current liabilities			
Accounts payable, deposits received and accrued charges	9	5,277,912	6,290,259
Contract liabilities		3,875,323	2,549,048
Current portion of lease liabilities		51,627	50,461
Taxation		1,232,518	2,451,597
Short-term bank loans and current portion of long-term bank loans	10	4,216,938	8,494,117
Fixed rate bonds		2,323,401	–
		16,977,719	19,835,482
Net current assets		12,477,001	10,707,114
Total assets less current liabilities		160,942,416	158,048,531
Non-current liabilities			
Long-term bank loans	10	36,004,121	28,712,976
Fixed rate bonds		–	2,334,345
Amounts due to non-controlling interests		2,721,636	2,772,606
Lease liabilities		74,947	99,958
Derivative financial instruments		342,879	114,228
Deferred taxation		8,598,694	8,631,391
		47,742,277	42,665,504
ASSETS LESS LIABILITIES		113,200,139	115,383,027
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,456,501	1,456,501
Share premium		13,061,007	13,061,007
Other reserves		6,968,414	8,526,697
Retained profits		78,350,562	78,660,305
		99,836,484	101,704,510
Non-controlling interests		13,363,655	13,678,517
TOTAL EQUITY		113,200,139	115,383,027

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	1,654,203	3,463,219
Interest paid	(553,863)	(512,810)
Income tax paid	(1,719,303)	(904,641)
Net cash (used in)/generated from operating activities	(618,963)	2,045,768
Investing activities		
Additions of property, plant and equipment	(19,377)	(15,441)
Additions of investment properties	(409,448)	(355,205)
Increase in land deposits	(3,787,436)	(2,552,278)
Acquisition of subsidiaries	–	(3,547,614)
Increase in investment in associates and joint ventures	–	(50,212)
Dividends received from associates	295,954	305,508
Additional loans to associates and joint ventures	(96,731)	(543,915)
Repayment of loans by associates and joint ventures	1,016,726	77,081
Additional loans from associates and joint ventures	27,947	160,415
Repayment of loans to associates and joint ventures	(126)	(244)
Decrease in mortgage loans receivable	764,551	184,192
Interest received	170,514	219,512
Return of investment from financial assets at fair value through profit or loss	69,748	–
(Increase)/decrease in restricted bank deposits	(112,819)	20,072
Increase in bank deposits maturing after more than three months	(30,802)	(367,601)
Dividends received from listed and unlisted investments	25,128	34,481
Proceeds from sale of property, plant and equipment	359	668
Proceeds from sale of investment properties	105	102,935
Proceeds from sale of financial assets at fair value through profit or loss	7,394	–
Net cash used in investing activities	(2,078,313)	(6,327,646)
Financing activities		
Proceeds from issue of shares	–	25,860
Repayment of bank loans	(22,720,623)	(10,254,889)
Drawdown of bank loans	25,891,239	15,472,304
Principal elements of lease payments	(27,540)	–
Dividends paid	(1,383,676)	(1,382,688)
Capital injection from non-controlling interests	–	20,501
Return of capital to non-controlling interests	(88,904)	–
Dividends of subsidiaries paid to non-controlling interests	(14,786)	(126,901)
Additional loans from non-controlling interests	5,399	–
Repayment of loans to non-controlling interests	(62,169)	(415)
Net cash generated from financing activities	1,598,940	3,753,772
Decrease in cash and cash equivalents	(1,098,336)	(528,106)
Effect of exchange rate changes	(182,308)	(11,869)
Cash and cash equivalents at 1 January	11,701,131	13,400,864
Cash and cash equivalents at 30 June	10,420,487	12,860,889
Analysis of cash and cash equivalents		
Cash and bank balances (excluding bank deposits maturing after more than three months)	10,420,487	12,860,889

**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 2020	1,456,501	13,061,007	8,526,697	78,660,305	101,704,510	13,678,517	115,383,027
Profit for the period	-	-	-	1,073,933	1,073,933	89,319	1,163,252
Cash flow hedges	-	-	(224,589)	-	(224,589)	-	(224,589)
Share of reserves of associates and joint ventures	-	-	(189,156)	-	(189,156)	-	(189,156)
Net translation differences on foreign operations	-	-	(1,178,545)	-	(1,178,545)	(300,491)	(1,479,036)
Fair value gain on financial assets at fair value through other comprehensive income	-	-	34,007	-	34,007	-	34,007
Total comprehensive income for the six months ended 30 June 2020	-	-	(1,558,283)	1,073,933	(484,350)	(211,172)	(695,522)
Dividends paid	-	-	-	(1,383,676)	(1,383,676)	(14,786)	(1,398,462)
Capital reduction of subsidiaries	-	-	-	-	-	(88,904)	(88,904)
Total transactions with owners	-	-	-	(1,383,676)	(1,383,676)	(103,690)	(1,487,366)
Balance as at 30 June 2020	<u>1,456,501</u>	<u>13,061,007</u>	<u>6,968,414</u>	<u>78,350,562</u>	<u>99,836,484</u>	<u>13,363,655</u>	<u>113,200,139</u>

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance as at 1 January 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	
Total transactions with owners	1,033	33,257	81,289	(1,472,407)	(1,356,828)	258,934	(1,097,894)	
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>	

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 2019. 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 2019. The adoption of amendments to existing standards and conceptual framework which are effective for the accounting period beginning on 1 January 2020 had no material impact on these condensed consolidated interim financial statements.

Hotel depreciation and amortisation previously reported under cost of sales and direct expenses have been reclassified to administrative and other operating expenses. The comparative figures have been reclassified to conform with the current period's presentation.

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 2019. 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 2020:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	12,189	–	12,189
Financial assets at fair value through other comprehensive income	–	–	1,487,760	1,487,760
Financial assets at fair value through profit or loss	36,604	–	934,279	970,883
First mortgage loans receivable	–	–	1,053,520	1,053,520
	<u>–</u>	<u>–</u>	<u>1,053,520</u>	<u>1,053,520</u>
Total assets	<u>36,604</u>	<u>12,189</u>	<u>3,475,559</u>	<u>3,524,352</u>
Liabilities				
Derivative financial instruments	–	342,879	–	342,879
	<u>–</u>	<u>342,879</u>	<u>–</u>	<u>342,879</u>
Total liabilities	<u>–</u>	<u>342,879</u>	<u>–</u>	<u>342,879</u>

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2019:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	42,550	–	42,550
Financial assets at fair value through other comprehensive income	–	–	1,453,753	1,453,753
Financial assets at fair value through profit or loss	46,428	–	1,055,735	1,102,163
First mortgage loans receivable	–	–	1,717,988	1,717,988
	<u>–</u>	<u>–</u>	<u>1,717,988</u>	<u>1,717,988</u>
Total assets	<u>46,428</u>	<u>42,550</u>	<u>4,227,476</u>	<u>4,316,454</u>
Liabilities				
Derivative financial instruments	–	114,228	–	114,228
	<u>–</u>	<u>114,228</u>	<u>–</u>	<u>114,228</u>
Total liabilities	<u>–</u>	<u>114,228</u>	<u>–</u>	<u>114,228</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		Financial assets at fair value		Financial assets at fair value	
	loans receivable		through other		through profit or loss	
	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January	1,717,988	2,466,390	1,453,753	1,326,271	1,055,735	2,411,182
Return of investment	-	-	-	-	(69,748)	-
Gains/(losses) recognised in other comprehensive income or profit or loss	-	-	34,007	60,854	(11,317)	1,142
Additions	-	-	-	-	-	-
Repayments	(664,468)	(112,712)	-	-	-	-
Exchange adjustment	-	-	-	-	(40,391)	(3,336)
At 30 June	<u>1,053,520</u>	<u>2,353,678</u>	<u>1,487,760</u>	<u>1,387,125</u>	<u>934,279</u>	<u>2,408,988</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 2020 was HK\$2,404,073,000 (31 December 2019: HK\$2,418,561,000).

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 2020	1,394,000	5,640,882	16,605,050	11,580,750	40,889,007	4,100,000	80,209,689
Additions	75,909	233,921	79,941	3,942	15,569	166	409,448
Increase/(decrease) in fair value	57,091	332,883	(127,291)	(158,512)	(272,864)	(166)	(168,859)
Disposals	-	-	-	(7,130)	-	-	(7,130)
Exchange adjustment	-	(109,563)	-	-	(798,704)	-	(908,267)
At 30 June 2020	<u>1,527,000</u>	<u>6,098,123</u>	<u>16,557,700</u>	<u>11,419,050</u>	<u>39,833,008</u>	<u>4,100,000</u>	<u>79,534,881</u>
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>

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 investment properties were revalued by Cushman & Wakefield Limited at 30 June 2020.

Valuation techniques

Fair value of completed properties 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 2019.

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 2020, capitalisation rates of 2.5% to 5.2% (31 December 2019: 2.7% to 5.2%) and 4.8% to 8.8% (31 December 2019: 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.

The valuations of investment properties were based on the economic, market and other conditions as they exist on, and information available to management as of 30 June 2020. Given the outbreak of COVID-19 has caused high volatility to Hong Kong and Mainland economy and uncertainties to the property market, this disruption has increased the uncertainty of the assumptions adopted in the valuation process. Consequently, the ongoing development of COVID-19 may cause unexpected volatility in the future fair value of the investment properties subsequent to 30 June 2020.

3. Principal activities and segmental analysis of operations

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

	Revenue		Gross profit	
	Six months ended 30 June		Six months ended 30 June	
	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– Mainland Property	1,666,123	1,834,100	1,321,057	1,439,624
– Hong Kong Property	653,935	593,319	524,859	467,433
	2,320,058	2,427,419	1,845,916	1,907,057
Property sales (Note)				
– Mainland Property	375,621	5,115,052	186,663	1,645,128
– Hong Kong Property	882,917	2,717,180	326,892	1,280,372
	1,258,538	7,832,232	513,555	2,925,500
Hotel operations – Mainland Property	338,952	964,955	35,913	370,659
	3,917,548	11,224,606	2,395,384	5,203,216
Principal markets:				
– Mainland	2,380,696	7,914,107	1,543,633	3,455,411
– Hong Kong	1,536,852	3,310,499	851,751	1,747,805
	3,917,548	11,224,606	2,395,384	5,203,216

Note: Sales of investment properties for the six months ended 30 June 2020 amounting to HK\$7,360,000 (2019: HK\$102,935,000) are excluded from revenue.

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 2020				
	Mainland Property	Hong Kong Property	Total Operating Segments	Others	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue	<u>2,380,696</u>	<u>1,536,852</u>	<u>3,917,548</u>	–	<u>3,917,548</u>
Results					
Segment results – gross profit	1,543,633	851,751	2,395,384	–	2,395,384
Other income and net gains					257,403
Administrative and other operating expenses					(771,776)
Decrease in fair value of investment properties					(168,859)
Operating profit before finance costs					1,712,152
Finance costs					(428,432)
Operating profit					1,283,720
Share of results of associates and joint ventures					558,715
Profit before taxation					1,842,435
Taxation					(679,183)
Profit for the period					<u>1,163,252</u>
Profit attributable to:					
Company's shareholders					1,073,933
Non-controlling interests					89,319
					<u>1,163,252</u>
Depreciation	<u>211,710</u>	<u>33,718</u>	<u>245,428</u>	<u>1,912</u>	<u>247,340</u>

	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	<u>7,914,107</u>	<u>3,310,499</u>	<u>11,224,606</u>	<u>–</u>	<u>11,224,606</u>
Results					
Segment results – gross profit	3,455,411	1,747,805	5,203,216	–	5,203,216
Other income and net gains					406,981
Administrative and other operating expenses					(816,323)
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>4,066,880</u>
Profit attributable to:					
Company's shareholders					3,594,589
Non-controlling interests					<u>472,291</u>
					<u>4,066,880</u>
Depreciation	<u>218,763</u>	<u>7,879</u>	<u>226,642</u>	<u>2,544</u>	<u>229,186</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 2020						
	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>97,259,516</u>	<u>70,972,528</u>	<u>4,560,431</u>	<u>172,792,475</u>	<u>79,616,428</u>	<u>(74,488,768)</u>	<u>177,920,135</u>
Total liabilities	<u>53,971,693</u>	<u>31,137,591</u>	<u>1,510,121</u>	<u>86,619,405</u>	<u>52,589,359</u>	<u>(74,488,768)</u>	<u>64,719,996</u>
	As at 31 December 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>94,948,784</u>	<u>72,778,658</u>	<u>4,491,012</u>	<u>172,218,454</u>	<u>70,917,464</u>	<u>(65,251,905)</u>	<u>177,884,013</u>
Total liabilities	<u>50,626,454</u>	<u>33,168,073</u>	<u>1,517,621</u>	<u>85,312,148</u>	<u>42,440,743</u>	<u>(65,251,905)</u>	<u>62,500,986</u>

4. Operating profit

	Six months ended 30 June	
	2020	2019
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income	25,128	34,481
Interest income	261,785	269,408
(Loss)/gain on sale of investment properties, net	(896)	44,638
<i>Charging</i>		
Depreciation of property, plant and equipment and right-of-use assets	247,340	229,186
Total finance costs incurred	601,965	550,146
Less: amount capitalised in properties under development and investment properties under development	(173,533)	(174,948)
Total finance costs expensed during the period	428,432	375,198

5. Taxation

	Six months ended 30 June	
	2020	2019
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit comprises:		
Mainland taxation		
Current	(348,062)	(914,311)
Under-provision in prior years	(65,445)	(607)
Deferred	(120,462)	(266,461)
	(533,969)	(1,181,379)
Hong Kong profits tax		
Current	(137,510)	(279,215)
Over-provision in prior years	278	100
Deferred	214	18
	(137,018)	(279,097)
Overseas taxation		
Current	(5,341)	(4,872)
Over-provision in prior years	–	1,149
Deferred	(2,855)	(3,531)
	(8,196)	(7,254)
	(679,183)	(1,467,730)

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profit for the six months ended 30 June 2020. Income tax on Mainland and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2020 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

6. Earnings per share

Basic

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

	Six months ended 30 June	
	2020	2019
Weighted average number of ordinary shares in issue	1,456,501,228	1,455,446,510
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	1,073,933	3,594,589
Basic earnings per share	HK\$0.74	HK\$2.47

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	
	2020	2019
Weighted average number of ordinary shares in issue	1,456,501,228	1,455,446,510
Adjustment for share options	–	1,054,822
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,456,501,228	1,456,501,332
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	1,073,933	3,594,589
Diluted earnings per share	HK\$0.74	HK\$2.47

7. Capital expenditure

	Property, plant and equipment <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Right-of-use assets <i>HK\$'000</i>	Intangible assets <i>HK\$'000</i>
Net book value at 1 January 2020	5,250,030	80,209,689	2,004,077	122,504
Additions	19,377	409,448	1,282	–
Fair value losses	–	(168,859)	–	–
Disposals	(495)	(7,130)	–	–
Depreciation	(192,611)	–	(55,190)	–
Exchange adjustment	(95,781)	(908,267)	(36,213)	–
	<u>4,980,520</u>	<u>79,534,881</u>	<u>1,913,956</u>	<u>122,504</u>
Net book value at 30 June 2020	<u>4,980,520</u>	<u>79,534,881</u>	<u>1,913,956</u>	<u>122,504</u>
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	(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>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

8. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2020 is as follows:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Below 1 month	95,429	77,960
Between 1 month and 3 months	43,398	41,044
Over 3 months	41,857	16,496
	<u>180,684</u>	<u>135,500</u>

9. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 30 June 2020 is as follows:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Below 1 month	240,337	444,515
Between 1 month and 3 months	16,466	22,706
Over 3 months	17,007	10,437
	<u>273,810</u>	<u>477,658</u>

10. Bank loans

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Bank loans – unsecured	39,195,568	35,288,001
Bank loans – secured	1,025,491	1,919,092
Total bank loans (note (i))	40,221,059	37,207,093
Less: Short-term bank loans and current portion of long-term bank loans	(4,216,938)	(8,494,117)
	<u>36,004,121</u>	<u>28,712,976</u>

(i) As at 30 June 2020, the Group's bank loans were repayable as follows:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Within one year	4,216,938	8,494,117
In the second to fifth year		
– In the second year	8,486,114	5,586,658
– In the third year	4,039,874	11,577,601
– In the fourth year	9,104,057	5,298,717
– In the fifth year	12,385,606	5,850,000
	<u>34,015,651</u>	<u>28,312,976</u>
Repayable within five years	38,232,589	36,807,093
Over five years	1,988,470	400,000
	<u>40,221,059</u>	<u>37,207,093</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

11. Commitments

At 30 June 2020, the Group had capital and other commitments in respect of investment properties, land costs and properties under development contracted for at the end of the period but not provided for in these financial statements as follows:

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Investment properties	393,569	779,226
Land costs	4,061,678	7,906,141
Properties under development	6,268,800	8,711,199
	<u>10,724,047</u>	<u>17,396,566</u>

12. Contingent liabilities

Guarantees for banking facilities

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Guarantees for banking facilities of certain associates and joint ventures (note (i))	3,594,823	2,702,503
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the Mainland (note (ii))	1,624,273	1,826,090
	<u>5,219,096</u>	<u>4,528,593</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 2020 amounted to approximately HK\$3,594,823,000 (31 December 2019: HK\$2,702,503,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2020 amounted to approximately HK\$5,014,880,000 (31 December 2019: HK\$3,303,412,000).

(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 2020 amounted to approximately HK\$1,624,273,000 (31 December 2019: HK\$1,826,090,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2019.

13. Pledge of assets

As at 30 June 2020, the Group's total bank loans of HK\$40,221,059,000 (31 December 2019: HK\$37,207,093,000) included an aggregate amount of HK\$39,195,568,000 (31 December 2019: HK\$35,288,001,000) which is unsecured and an aggregate amount of HK\$1,025,491,000 (31 December 2019: HK\$1,919,092,000) 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\$13,828,530,000 (31 December 2019: HK\$16,035,262,000); and
- (ii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

For the six months ended 30 June 2020, the Group recorded a revenue of HK\$3,918 million, representing a decrease of 65% when compared with the HK\$11,225 million posted for the corresponding six months ended 30 June 2019. The Group's revenue mainly comprises the proceeds from sales of properties and rental income, as well as revenue from hotel operations.

Profit attributable to shareholders before taking into account the net decrease in fair value of investment properties and related tax effects for the six months ended 30 June 2020 was HK\$1,106 million (2019: HK\$3,143 million), representing a decrease of 65% year on year. The substantial decrease was mainly attributable to a lower contribution from sales of development properties and significantly reduced income from the hotel assets. This decrease principally reflects the effect of the adverse market conditions created by the unprecedented COVID-19 pandemic and associated quarantine and social protective measures put in place in Hong Kong and the Mainland.

During the six months ended 30 June 2020, the Group recognised a net decrease in fair value of the investment properties and related tax effects of HK\$32 million (2019: an increase of HK\$452 million) in the Group's consolidated income statement.

The effect of the net change 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		
	2020	2019	
	HK\$ million	HK\$ million	Change
Profit attributable to shareholders before taking into account the net change in fair value of investment properties and related tax effects	1,106	3,143	-65%
Add:			
Net (decrease)/increase in fair value of investment properties and related tax effects	<u>(32)</u>	<u>452</u>	
Profit attributable to shareholders after taking into account the net change in fair value of investment properties and related tax effects	<u>1,074</u>	<u>3,595</u>	-70%

(B) Mainland Property Division

The Division reported a revenue of HK\$2,381 million during the first six months of 2020 (2019: HK\$7,914 million), a decrease of 70% year on year. The decline was accounted for by a 93% drop in sales revenue from completed properties and a 28% decrease in recurring revenue from rental and hotel operations. Gross profit declined by 55% to HK\$1,543 million (2019: HK\$3,455 million).

Despite a slow start to the year amid lockdowns and other measures to contain the spread of COVID-19, the Mainland property market saw a rebound from April as the health crisis began to abate. Meanwhile, the Group has resumed work on all of its development projects, which will provide continued momentum for ongoing sales. As regards the investment portfolio, the Group has confidence that its premium asset base will underpin a stable prospect for long-term rental income growth.

(i) Investment Properties

During the six months ended 30 June 2020, the Group recorded a revenue of HK\$1,666 million (2019: HK\$1,834 million) and a gross profit of HK\$1,321 million (2019: HK\$1,440 million) from its portfolio of completed investment properties in the Mainland, representing declines of 9% and 8% respectively.

With many retail businesses in the Mainland facing operational and financial challenges brought by the COVID-19 pandemic, the Group has worked together with its mall tenants to ride out this difficult time. Short-term rental concessions have been offered and more promotional events staged to attract visitors. Apart from the leasing operations, the hotel operations have been more seriously affected by the travel restrictions and other governmental preventive measures.

As at 30 June 2020, the Group held an investment property portfolio in the Mainland with an aggregate gross floor area ("GFA") attributable to the Group of 8.40 million square feet (as at 31 December 2019: 8.40 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2020:

	Group's attributable GFA							Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Hangzhou	Shenyang	Tianjin	Jinan		
	('000 square feet)								
Office	711	1,388	1,552	102	354	-	195	4,302	87%
Commercial	98	1,096	104	798	486	435	34	3,051	89%
Apartment	277	774	-	-	-	-	-	1,051	79%
	<u>1,086</u>	<u>3,258</u>	<u>1,656</u>	<u>900</u>	<u>840</u>	<u>435</u>	<u>229</u>	<u>8,404</u>	

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(i) Investment Properties (continued)

As at 31 December 2019:

	Group's attributable GFA							Occupancy Rate	
	Beijing	Shanghai	Shenzhen	Hangzhou (<i>'000 square feet</i>)	Shenyang	Tianjin	Jinan		Total
Office	711	1,388	1,552	102	354	-	195	4,302	90%
Commercial	98	1,096	104	798	486	435	34	3,051	93%
Apartment	277	774	-	-	-	-	-	1,051	89% [#]
	<u>1,086</u>	<u>3,258</u>	<u>1,656</u>	<u>900</u>	<u>840</u>	<u>435</u>	<u>229</u>	<u>8,404</u>	

Note:

[#] 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 2020	Occupancy rate as at 31 December 2019
Jing An Kerry Centre Phase I	90%	97%
Jing An Kerry Centre Phase II ⁽¹⁾	91%	96%
Kerry Parkside ⁽¹⁾	91%	94%
Beijing Kerry Centre ⁽¹⁾	91%	96%
Shenzhen Kerry Plaza	91%	92%
Hangzhou Kerry Centre ⁽¹⁾	91%	94%
Shenyang Kerry Centre ⁽¹⁾	67%	66%

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 Phases I and II respectively. With a GFA of 3.74 million square feet, Jing An Kerry Centre integrates office, hotel, serviced apartment, and retail components 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 2020, 90% of the offices and 91% of the retail space (as at 31 December 2019: 97% and 95%, respectively) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 30% during the period under review (2019: 75%).

Kerry Parkside, Shanghai

Kerry Parkside, located in Shanghai's Pudong District, is a 40.8%-held mixed-use property comprising offices, serviced apartments, a retail mall and a hotel. As at 30 June 2020, the retail space and offices were 88% and 96% leased respectively (as at 31 December 2019: 94% and 98% respectively), while the serviced apartments were 78% occupied (as at 31 December 2019: 82%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 20% during the period under review (2019: 74%).

Beijing Kerry Centre

Beijing Kerry Centre, located in the heart of the capital city, comprises high-quality office space, serviced apartments, a shopping mall and Kerry Hotel Beijing. The Group holds a 71.25% interest in this mixed-use development. As at 30 June 2020, the occupancy rate of the retail portion was 74% (as at 31 December 2019: 94%), while the offices were 93% leased (as at 31 December 2019: 98%). The serviced apartments were 92% leased as at 30 June 2020 (as at 31 December 2019: 92%). Kerry Hotel Beijing recorded an average occupancy rate of 19% during the period under review (2019: 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 Grade-A offices, premium apartments, a retail-mall complex and a luxury hotel. As at 30 June 2020, the offices were 94% leased (as at 31 December 2019: 94%), while 90% of the retail space was leased (as at 31 December 2019: 94%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 36% during the period under review (2019: 74%). The Group holds a 75% stake in this 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 connects conveniently with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link. As at 30 June 2020, the occupancy rate of the development was 91% (as at 31 December 2019: 92%).

Shenyang Kerry Centre

This office and commercial development is located on the east side of Qingnian Street in Shenyang, Liaoning Province. As at 30 June 2020, the office occupancy rate increased to 55% (as at 31 December 2019: 51%), while 85% of the retail space was leased (as at 31 December 2019: 88%). Shangri-La Hotel, Shenyang reported an average occupancy rate of 20% during the period under review (2019: 64%). The Group holds a 60% stake in the project.

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 upscale residences, a shopping mall and a hotel, delivering a GFA of approximately 3.6 million square feet. Construction of the Phase II development commenced in July 2020. As at 30 June 2020, the Riverview Place mall was 80% leased (as at 31 December 2019: 82%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 24% during the period under review (2019: 70%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(i) Investment Properties (continued)

Jinan Enterprise Square

Jinan Enterprise Square is located at Lixia District, Jinan, Shandong Province. As at 30 June 2020, the offices were 78% leased (as at 31 December 2019: 84%), while 91% of the retail space was leased (as at 31 December 2019: 97%). Shangri-La Hotel, Jinan reported an average occupancy rate of 37% during the period under review (2019: 67%). The Group holds a 55% stake in the project.

(ii) Sales of Properties

During the six months ended 30 June 2020, sales of completed properties in the Mainland delivered a revenue of HK\$376 million (2019: HK\$5,115 million), mainly from recognised sales of Lake Grandeur in Hangzhou and Habitat in Qinhuangdao. A gross profit of HK\$186 million (2019: HK\$1,645 million) was derived therefrom.

Contracted sales from pre-sales and sales of properties in the Mainland during the period were approximately HK\$1,607 million. With new/additional launches in the pipeline, the 2020 annual target of contracted sales in the Mainland has been set at HK\$4,800 million, representing 60% of the Group's total annual contracted sales target of HK\$8,000 million.

The Group's property sales were interrupted during the first quarter of 2020 at the height of COVID-19. As the Mainland economy started to get back on track, the Group's sales activity resumed in the second quarter in line with the housing market recovery.

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 2020, 50% of the total of 121 units had been sold. The Group holds a 75% interest in this project.

Habitat, Qinhuangdao

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, has been completed. As at 30 June 2020, 88% 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.

Arcadia Height, Shenyang

Two towers of Arcadia Height at the Shenyang Kerry Centre Phase II development have been completed and delivered for occupation. Sales of this project have met with a strong response and as at 30 June 2020, 89% of the total of 495 Phase II residential units had been sold/pre-sold. The Group holds a 60% interest in this project.

(iii) Properties under Development

Supported by a healthy land bank, the Group has continued with its development of iconic mixed-use properties and residences 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 11 million square feet according to the current plan. This mixed-use project will include offices, residences, a shopping mall and a hotel. Phase I of the development has been completed and Phase II is partially completed, while Phase III is now under construction.

Wuhan

The Group has acquired 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, this development 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 4.4 million square feet. The Group plans to develop a large-scale complex with office, commercial, residential and educational components. Development of the project has been affected by the COVID-19 outbreak, and the Group will seek governmental support in exploring the possibility of moving ahead with the development in stages.

Qianhai, Shenzhen

The Group is developing Qianhai Kerry Centre in three phases in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. The three sites offer unobstructed seafront views, and are designated for mixed-use developments comprising office, apartment and commercial spaces and a hotel. This development represents the first substantial investment in Qianhai by a major Hong Kong corporation.

The Phase I development is wholly owned by the Group and has a total buildable GFA of approximately 2.2 million square feet, on a commercial site of 350,000 square feet. This phase will include a portfolio of office, apartment and retail properties, and is expected to be completed in 2020. In 2018, one apartment tower was launched for pre-sale to a strong response, and September 2019 saw the commencement of the leasing of office and retail spaces. The pre-sale of another apartment tower was launched in July 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland Property Division (continued)

(iii) Properties under Development (continued)

The Group, Kerry Holdings Limited and The Bank of East Asia, Limited are jointly developing Phase II on an adjacent site with an area of approximately 207,000 square feet. This phase is designed to yield a GFA of approximately 1.3 million square feet for the development of office and hotel properties. The Group holds a 25% interest in the Phase II development.

Phase III of the project is situated on a parcel of land in the Qianwan area, adjacent to the other two phases. This new phase has an area of approximately 184,000 square feet, which is planned to yield a GFA of approximately 886,000 square feet, accommodating office and retail spaces, as well as complementary community facilities. This phase, in which the Group holds a 70% interest, is developed through a joint venture with Sino Land Company Limited ("**Sino Land**").

Qianhai is a special economic zone situated in a key location in the Pearl River Delta. All three sites offer convenient access to the Guangshen-Yanjiang Expressway. Their development will help realise the Group's plan to build a modern, integrated hub for work, business activity and urban living in the centre of Qianhai.

Fuzhou

The Group has 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 3.6 million square feet. This project is located in the Sanjiangkou area, where it enjoys a captivating waterfront view. It also lies conveniently adjacent to the intersection of the Fuzhou-Xiamen Expressway, and will be linked to Fuzhou Metro Line 6. The Group plans to develop an integrated complex with office, commercial and residential space. The pre-sale of the residential portion was launched in April 2020. As at 30 June 2020, 14% of the 639 units available for sale had been pre-sold.

Qinhuangdao

The development, Habitat, comprises two phases and is scheduled to be developed into apartments, villas and commercial properties. Towers Two and Three of the Phase I development have been completed with the sold units delivered. Phase II is currently at the planning stage. The Group holds a 60% interest in the project.

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 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 office, commercial and residential properties and a hotel. The project is scheduled to be completed in phases from 2023 onwards with pre-sales scheduled for the second half of this year. The Group holds a 55% interest in this project.

Tianjin

The Group has a 49% interest in this project. The site, with a GFA of approximately 5.1 million square feet, is planned to be developed in two phases. Phase I of the development has been completed and the construction of Phase II commenced in July 2020.

Kunming

The Group, together with Shangri-La, is developing two adjoining sites in Kunming, Yunnan Province. The sites are earmarked for apartment and hotel 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 2022.

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 offices, high-end residences, commercial properties and a hotel. The hotel and residential portions have been completed, delivering a GFA of approximately 1.7 million square feet. The construction permit for the office site was issued in December 2019.

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 389,000 square feet, are now in progress and are expected to be partially completed in 2020.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division

During the six months ended 30 June 2020, the Hong Kong Property Division reported a revenue of HK\$1,537 million (2019: HK\$3,311 million) and a gross profit of HK\$852 million (2019: HK\$1,748 million). The Division's revenue for the period was mainly derived from recognised sales of completed residential properties at Mantin Heights and The Bloomsway.

The Group's property sales in Hong Kong regained momentum during the second quarter after a slowdown in the first few months of this year. The portfolio of investment properties, which comprises premium residential and office spaces, as well as the MegaBox family mall, has continued to underpin the segment's resilience amid market volatility.

(i) Investment Properties

The Group's completed investment properties in Hong Kong generated a revenue of HK\$654 million (2019: HK\$594 million), producing a gross profit of HK\$525 million for the period under review (2019: HK\$467 million).

As part of its efforts to sustain a long-term relationship with tenants, the Group has proactively negotiated lease-restructuring arrangements to help tenants mitigate the impact of the pandemic. During the period under review, the Group's investment portfolio contributed a steady stream of recurrent income on the back of stable occupancy levels and rental rates.

To strengthen its investment asset base and to complement its prime Mid-Levels portfolio in Hong Kong, the Group has curated a new, urban-chic residential rental brand, Resiglow. Two projects, Resiglow – Happy Valley and Resiglow – Bonham, have been launched under this brand.

As at 30 June 2020, the portfolio of completed investment properties in Hong Kong had an aggregate GFA of 4.19 million square feet (as at 31 December 2019: 4.20 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 2020		As at 31 December 2019	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Apartment	871	82% [#]	871	81% [#]
Commercial	1,220	99%	1,224	100%
Office	834	96%	835	97%
Warehouse	1,266	72%	1,266	69%
	4,191		4,196	

Note:

[#] Including Resiglow – Bonham, the leasing of which commenced in August 2019.

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. Overall, MegaBox was able to maintain a stable performance amid the pandemic. As at 30 June 2020, the mall had an occupancy rate of 99% (as at 31 December 2019: nearly 100%).

The mall's entertainment, food and beverage tenants were most affected by the government's social distancing requirements, which came into operation in March. In view of this, the MegaBox management team has worked with affected tenants to optimise their space usage for business generation. Collaborative activities with tenants have also been designed to generate footfall and consumption. For the longer term, the Group will explore options for aligning the mall's offerings in order to stay relevant to the future second central business district development of Kowloon East.

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, recorded stable rental rates and were 96% leased as at 30 June 2020 (as at 31 December 2019: 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. Benefitting from the office decentralisation trend, Kerry Centre continued to record high occupancy rates and stable rentals. As at 30 June 2020, 100% of the office space was leased (as at 31 December 2019: 100%).

Resiglow – Happy Valley

Resiglow – Happy Valley is located at No. 7A Shan Kwong Road, Happy Valley. It provides 106 units, including two penthouses, over a GFA of approximately 81,000 square feet. As at 30 June 2020, 86% of the units (as at 31 December 2019: 87%) were leased.

Resiglow – Bonham, Sai Ying Pun

Resiglow – Bonham is situated at No. 8 Hing Hon Road, and has a buildable GFA of approximately 68,000 square feet. The project obtained its Occupation Permit in July 2019. Leasing commenced in August 2019 and, as at 30 June 2020, 67% of the units (as at 31 December 2019: 59%) were leased.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(ii) Sales of Properties

During the first six months of 2020, sales of completed properties in Hong Kong contributed a revenue of HK\$883 million (2019: HK\$2,717 million) to the Group. A gross profit of HK\$327 million (2019: HK\$1,281 million) was derived from recognised sales of Mantin Heights and The Bloomsway.

Contracted sales in Hong Kong during the period were approximately HK\$3,048 million. An annual sales target of HK\$3,200 million has been set for Hong Kong, which represents 40% of the total annual contracted sales target of HK\$8,000 million of the Group.

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 2020, 99% of the total of 1,429 units had been sold.

The Bloomsway, So Kwun Wat

The Bloomsway is 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 2020, 98% of the total of 1,100 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 2019. As at 30 June 2020, 11% of the total of 45 units had been sold.

(iii) Properties under Development*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 approximately 45,000 square feet and is scheduled for completion in the second half of 2020.

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 2021.

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

Together with Sino Land, the Group is co-developing the Wong Chuk Hang Station Package Two Property Development. The Group holds a 50% stake in the project. Located on the south-western segment of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes. This project will enjoy direct transport connections and the upside of the vibrant neighbourhood of Wong Chuk Hang. It occupies an area of approximately 92,000 square feet and will generate 600 units over a buildable GFA of approximately 493,000 square feet. The project is scheduled for completion in 2023.

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

On 28 October 2019, a consortium formed by the Group, Sino Land and Swire Properties Limited was awarded the tender for the Wong Chuk Hang Station Package Four Property Development project. Located on the south-eastern segment of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes and stands on the same lot as the project currently under co-development by the Group and Sino Land. This new project is expected to deliver two residential towers, offering a total of about 800 units over a buildable GFA of approximately 638,000 square feet. The Group holds a 50% interest in this project. The project is scheduled for completion in 2025.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(iii) *Properties under Development (continued)*

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 Second Instance Court handed down its decision in January 2020 dismissing the Appeal. The Group filed a further appeal (“**Final Appeal**”) in the Court of Final Appeal of Macau SAR in February 2020 seeking to overturn the Second Instance Court’s decision. In July 2019 the Group also filed with the Administrative Court of the Macau SAR a petition against the Macau SAR Government claiming, inter alia, due compensation for damages and loss of profits caused. The case is still under judicial proceedings.

As for the land exchange project, the Group was notified by the Macau SAR Government in July 2019 that the project would be considered together with all the land debt cases in Macau. In April 2020, the Group was further informed by the Macau SAR Government that in order for the government to handle all the land debt cases together, they have commenced a study and assessment on land identified for exchange.

(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 2020, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 90% and 97% respectively (as at 31 December 2019: 94% and 98%, 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 2020, among the total of 749 residential units, 744 units had been sold and the remaining five units have been retained 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 2020, among the total of 98 residential units, 94 units had been sold and the remaining four units, including two penthouse units, have been retained for long-term investment. The hotel recorded an average occupancy rate of 38% during the period under review (2019: 69%), while the serviced apartments were 32% leased as at 30 June 2020 (as at 31 December 2019: 82%).

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. As at 30 June 2020, excluding 25 units held for long-term investment, 97% of the total of 3,019 units had been sold.

SPI launched an additional 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 860,000 square feet, comprising 404 residential units. Sales of Shang Residences at Wack Wack were launched in September 2018, and as at 30 June 2020, excluding four units to be held for long-term investment, 48% of the total of 400 units had been reserved and sold.

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, Manila. The development, Aurelia, will deliver residential units. Pre-sales commenced in September 2019 and 51% of the total of 279 units had been reserved and sold as at 30 June 2020.

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. 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 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.

The original plan was to develop the entire project over a period of eight to nine years. However, the development is being postponed owing to the incidents that occurred in Sri Lanka in April 2019 and the COVID-19 pandemic in 2020. The schedule of the project will be reviewed again at the end of this year.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(D) Overseas Property Division (continued)

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 synergistic 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 outbreak of the COVID-19 pandemic at the start of 2020 has brought significant disruption to business activity, the Group’s operations being no exception. A lower contribution from sales of development properties and reduced rental income from the investment portfolio and hotel assets were thus recorded during the first half of this year.

As the Mainland government aggressively responded to and contained the viral outbreak, its economy gradually reopened during the second quarter. Policies to support hard-hit sectors and regions have been put in place, setting the stage for a broader economic revival in the second half.

As regards the real estate sector, after a short pause in activity, local governments resumed land sales in March to strong market responses. A gradual recovery in residential property market sentiment and activity has also been seen in major Mainland cities. The release of pent-up demand is expected to support the Group’s ongoing sales of development properties. Further to the launch of the residential portion of Fuzhou Rivercity in April, an additional tower of apartments in Qianhai and Shenyang Phase III will be offered for sale during the second half of the year.

Our commercial properties will face varying degrees of disruption and challenges, calling for different strategies in response. As our shopping mall tenants became affected by COVID-19 lockdowns, we took proactive and tenant-friendly measures, including rental concessions, to address their difficulties. With the support of local authorities and tenants, community events such as night markets have also been staged to encourage footfall. These joint efforts have not only helped tenants through difficult times, but also yielded an even stronger partnership relationship and higher retention rates. As malls were reopened in April and returned to full operation in May, both visitor traffic and turnover rents are springing back to pre-crisis levels.

The office segment is expected to see a sharper impact. As a result of increased supply and US-China tensions, office leasing had already softened, even before the pandemic crisis. Momentum will likely remain slow over the remainder of the year amid continued geopolitical uncertainties. The Group will negotiate lease restructuring options with tenants in a bid to stabilise long-term rental income from this segment.

We will continue to assess and implement measures in response to the shifting post-COVID-19 operating landscape. While a broad-based recovery for China depends to a large extent on the global course of the pandemic, and even though some sectors may face longer disruptions, we maintain a positive outlook for a resilient full-year performance for the Group.

(ii) Hong Kong Property Division

The coronavirus outbreak disrupted economic activities in Hong Kong during the first half of 2020. However, despite a soft economy, the local residential property market has proven resilient as global quantitative easing takes effect. Limited supply, high demand and low interest rates have also continued to support the market.

Sales momentum of the Group's premium-end residential properties remains robust. Our exclusive collection of homes, including Mont Rouge, has maintained its appeal to luxury home buyers. Sales of the remaining units at The Bloomsway and Mantin Heights have also registered a solid performance on pent-up demand. Looking to the second half of the year, we continue to hold a positive view on home sales in Hong Kong.

As a core component of the Group's investment properties in Hong Kong, the premier Mid-Levels residential portfolio has sustained a resilient rental performance despite the pandemic situation. Supplementing this prime portfolio is the new Resiglow series of apartments, which was specially curated for tenants seeking a chic urban lifestyle. The COVID-19 outbreak has had a temporary impact on its leasing and occupancy rates, but a steady recovery has been observed.

The overall office leasing market slowed during the first half, with demand weakening off the back of the pandemic. Our office portfolio, which comprises Grade-A work spaces in Island East and Kowloon East, has nevertheless registered high occupancies and stable rentals as it continues to benefit from the office decentralisation trend.

MegaBox, primarily designed as a family destination, delivered a relatively stable rental performance during the first half. However, the resurgence of COVID-19 cases and tightened social distancing regulations will have a deeper impact on the mall's entertainment, food and beverage and banquet service tenants. Offering support for tenants faced with a challenging retail environment, we have initiated temporary rental relief measures, in addition to lease restructuring arrangements and enhanced marketing initiatives to help retain long-term tenants.

In the longer term, the transformation of Kowloon East into a second central business district will present us with new growth potential. We will draw up new strategies and conduct further tenant planning in order to capture the opportunities emerging from this development.

Our investment assets in this city remain an important contributor to the Group's recurrent income base. In a bid to further enhance return on assets, the Group has taken steps to restructure its investment portfolio with the disposal of certain non-core properties and investments to tap new growth areas.

The Group's long-term outlook for its business in Hong Kong continues to be positive, but in times of business disruption and high uncertainty, our priority remains to safeguard stability and resilience through prudent financial and risk management.

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 2020, total foreign currency borrowings (excluding RMB bank loans) amounted to the equivalence of HK\$5,676 million and RMB bank loans amounted to the equivalence of HK\$6,832 million. Therefore, non-RMB total foreign currency borrowings and RMB bank loans represented approximately 13% and 16% respectively, of the Group's total borrowings of HK\$42,544 million as at 30 June 2020.

The non-RMB total foreign currency borrowings of HK\$5,676 million include US\$300 million Fixed Rate Bonds (net of direct issue costs), JPY8,000 million bank loan and approximately AUD516 million bank loans. The Group has arranged cross currency swap contracts amounting to US\$297 million, JPY8,000 million and approximately AUD516 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars, between Japanese Yen and Hong Kong dollars and between Australian dollars and Hong Kong dollars, respectively.

Out of the Group's total borrowings as at 30 June 2020, HK\$6,540 million (representing approximately 15%) was repayable within one year, HK\$8,486 million (representing approximately 20%) was repayable in the second year, HK\$25,530 million (representing approximately 60%) was repayable in the third to fifth years and HK\$1,988 million (representing approximately 5%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 98% of total borrowings as at 30 June 2020. 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 2020, the gearing ratio for the Group was 31.5% (as at 31 December 2019: 26.8%), calculated based on net debt of HK\$31,437 million and shareholders' equity of HK\$99,836 million.

As at 30 June 2020, the Group had outstanding interest rate swap contracts which amounted to HK\$2,500 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 2020, the Group had total undrawn bank loan facilities of HK\$14,672 million and cash and bank deposits of HK\$11,107 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 12 and 13 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 2020 and some of them are set out below:

Event

Citi's Asia Pacific Property Conference 2020

UBS HK/China Property Conference 2020

Venue

Hong Kong

Hong Kong

STAFF

As at 30 June 2020, the Company and its subsidiaries had approximately 7,100 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

SHARE OPTIONS

On 20 May 2020, the shareholders of the Company (the "**Shareholders**") approved the adoption of a new share option scheme (the "**2020 Share Option Scheme**") and the termination of a share option scheme adopted in 2011 (the "**2011 Share Option Scheme**") to the effect that no further share options of the Company (the "**Share Options**") shall be offered under the 2011 Share Option Scheme but the Share Options which had been granted during the life of the 2011 Share Option Scheme should continue to be valid and exercisable.

The 2020 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 2020, a total of 19,153,500 Share Options granted under the 2011 Share Option Scheme were outstanding.

SHARE OPTIONS (continued)

Movement of Share Options

Movement of the Share Options of the 2011 Share Option Scheme during the six months ended 30 June 2020 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 30/06/2020	Exercise Price HK\$	Exercise Period
			As at 01/01/2020	Transfer to other category during the period	Transfer from other category during the period			
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	II	784,000	-	-	784,000	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	(100,000)	-	1,786,500	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	2,415,000	(100,000)	-	2,315,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	817,000	-	-	817,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,394,000	-	-	1,394,000	26.88	08/01/2015 – 07/01/2024
3. Others	30/04/2012	I	2,608,000	-	100,000	2,708,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,021,000	-	100,000	3,121,000	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	840,000	-	-	840,000	26.88	08/01/2015 – 07/01/2024
Total:			19,153,500	(200,000)	200,000	19,153,500		

Notes:

- During the period, no Share Option was granted, granted for adjustment, exercised, cancelled or lapsed under the 2011 Share Option Scheme.
- 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 2020, 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	–	–	225,875,033	1,995,000	227,875,033	15.03 ⁷
	Bryan Pallop Gaw	1,500,000	179,095,046	–	46,399,988	2,000,000	228,995,034	15.11 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	0.07 ⁸
	Kuok Khoon Hua	301,000	–	–	3,018,492	800,000	4,119,492	0.23 ⁸
	Bryan Pallop Gaw	–	1,493,382	–	1,891,024	–	3,384,406	0.19 ⁸
	Wong Chi Kong, Louis	–	–	–	1,300,000	–	1,300,000	0.07 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 2020 (i.e. 1,456,501,228 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2020 (i.e. 1,515,765,655 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2020 (i.e. 1,793,987,542 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 2020 (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 2020 (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 2020 (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 2020 (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 2020 (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 2020 (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 2020, 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 2020, 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	59.01
Kerry Holdings Limited	Interest of controlled corporations	746,090,656 ⁱ	Long position	51.22
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
Schroders Plc	Investment Manager	77,675,100	Long position	5.33
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 2020 (i.e. 1,456,501,228 ordinary shares).

Apart from the aforesaid, as at 30 June 2020, 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 2020.

CORPORATE GOVERNANCE

During the six months ended 30 June 2020, 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.

CHANGES IN INFORMATION OF DIRECTORS

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

Mr Hui Chun Yue, David has been appointed as an Independent Non-executive Director and a member of each of the audit and corporate governance committee, the remuneration committee and the nomination committee of the Company with effect from the conclusion of the Company’s annual general meeting held on 20 May 2020.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Tuesday, 8 September 2020 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 Monday, 7 September 2020. The Interim Dividend is payable on Friday, 18 September 2020 to Shareholders whose names appear on the Registers of Members on Tuesday, 8 September 2020.

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 2020.

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:

Ms Wong Yu Pok, Marina, JP, Mr Chang Tso Tung, Stephen and Mr Hui Chun Yue, David

By Order of the Board

Li Siu Ching, Liz

Company Secretary

Hong Kong, 20 August 2020