



KERRY PROPERTIES LIMITED

2015 INTERIM REPORT

For the six months ended 30 June 2015

Stock Code : 683

(Incorporated in Bermuda with limited liability)

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

Mr WONG Siu Kong, *Chairman*
 Mr HO Shut Kan, *Co-Managing Director*
 Mr QIAN Shaohua, *Co-Managing Director*
 Mr Bryan Pallop GAW

Non-executive Director

Mr KUOK Khoon Hua

Independent Non-executive Directors

Mr KU Moon Lun
 Ms WONG Yu Pok, Marina, JP
 Mr CHANG Tso Tung, Stephen

AUDIT AND CORPORATE GOVERNANCE COMMITTEE

Ms WONG Yu Pok, Marina, JP, *Chairman*
 Mr KU Moon Lun
 Mr CHANG Tso Tung, Stephen

REMUNERATION COMMITTEE

Ms WONG Yu Pok, Marina, JP, *Chairman*
 Mr WONG Siu Kong
 Mr KU Moon Lun
 Mr CHANG Tso Tung, Stephen

NOMINATION COMMITTEE

Mr WONG Siu Kong, *Chairman*
 Mr KU Moon Lun
 Ms WONG Yu Pok, Marina, JP
 Mr CHANG Tso Tung, Stephen

FINANCE COMMITTEE

Mr WONG Siu Kong
 Mr HO Shut Kan

EXECUTIVE COMMITTEE

Mr WONG Siu Kong
 Mr HO Shut Kan
 Mr QIAN Shaohua
 Mr Bryan Pallop GAW

COMPANY SECRETARY

Ms LI Siu Ching, Liz

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH REGISTRAR AND TRANSFER OFFICE

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

CORPORATE COMMUNICATION DEPARTMENT

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INVESTOR RELATIONS DEPARTMENT

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WEBSITE

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KEY DATES**Closure of Registers of Members**

7 September 2015

Proposed Payment of Interim Dividend

16 September 2015

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2015. 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 2015 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2015 was HK\$2,789 million, representing an increase of 17% compared with HK\$2,390 million reported for the same period in 2014. The Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) of HK\$607 million for the six months ended 30 June 2015 (2014: HK\$586 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 21% in profit attributable to shareholders to HK\$2,182 million for the six months ended 30 June 2015 (2014: HK\$1,804 million).

Earnings per share for the six months ended 30 June 2015 was HK\$1.93, representing an increase of 17% compared with HK\$1.65 per share for the same period in 2014. The basis of calculating the earnings per share is detailed in Note 6 below.

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

	Six months ended 30 June		
	2015	2014	
	HK\$ million	HK\$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	2,182	1,804	+21%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>586</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,789</u>	<u>2,390</u>	+17%

The Directors have declared an interim dividend of HK\$0.3 per share for the six months ended 30 June 2015 (the “**Interim Dividend**”) (2014: HK\$0.3), which is payable on Wednesday, 16 September 2015 to shareholders whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Monday, 7 September 2015.

At the Company’s Annual General Meeting held on 7 May 2015, shareholders approved the final dividend of HK\$0.6 per share for the year ended 31 December 2014 which amounted to a total of approximately HK\$867 million and was paid on 21 May 2015.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2015	2014
		HK\$'000	HK\$'000
Turnover	3	4,203,555	6,173,689
Cost of sales		(994,733)	(1,880,882)
Direct operating expenses		(1,050,911)	(1,058,416)
Gross profit		2,157,911	3,234,391
Other income and net gains		285,545	170,868
Administrative and other operating expenses		(504,014)	(600,965)
Increase in fair value of investment properties		796,110	825,980
Operating profit before finance costs		2,735,552	3,630,274
Finance costs		(261,389)	(310,434)
Operating profit	4	2,474,163	3,319,840
Share of results of associates		1,197,114	566,295
Profit before taxation		3,671,277	3,886,135
Taxation	5	(568,579)	(885,139)
Profit for the period		<u>3,102,698</u>	<u>3,000,996</u>
Profit attributable to:			
Company's shareholders		2,788,788	2,389,946
Non-controlling interests		313,910	611,050
		<u>3,102,698</u>	<u>3,000,996</u>
Interim dividend		<u>433,749</u>	<u>433,309</u>
Interim dividend per share		<u>HK\$0.30</u>	<u>HK\$0.30</u>
Earnings per share	6		
– Basic		<u>HK\$1.93</u>	<u>HK\$1.65</u>
– Diluted		<u>HK\$1.93</u>	<u>HK\$1.65</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Profit for the period	3,102,698	3,000,996
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	(84,559)	(32,036)
Fair value gain/(loss) on available-for-sale investments	68,126	(1,432)
Share of other comprehensive income of associates	(80,243)	(113,364)
Net translation differences on foreign operations	102,978	(1,655,693)
Other comprehensive income for the period, net of tax	<u>6,302</u>	<u>(1,802,525)</u>
Total comprehensive income for the period	<u>3,109,000</u>	<u>1,198,471</u>
Total comprehensive income attributable to:		
Company's shareholders	<u>2,774,787</u>	998,518
Non-controlling interests	<u>334,213</u>	199,953
	<u>3,109,000</u>	<u>1,198,471</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2015	2014
	Note	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	5,728,051	5,039,271
Investment properties	7	56,815,926	55,519,240
Leasehold land and land use rights	7	1,376,542	1,198,161
Properties under development		36,413,155	33,409,489
Land deposits		1,154,919	1,262,258
Associates		20,359,124	19,212,346
Derivative financial instruments		99,366	197,560
Available-for-sale investments		2,012,878	1,944,752
Long-term receivables		297,083	346,966
Intangible assets	7	122,504	122,504
		124,379,548	118,252,547
Current assets			
Properties under development		10,100,123	8,023,927
Completed properties held for sale		2,645,030	3,589,081
Accounts receivable, prepayments and deposits	8	1,841,262	3,680,659
Tax recoverable		163,331	177,630
Tax reserve certificates		171,552	127,746
Listed securities at fair value through profit or loss		209,525	177,100
Derivative financial instruments		–	12,213
Restricted bank deposits		288,794	68,962
Cash and bank balances		10,942,060	11,322,392
		26,361,677	27,179,710
Current liabilities			
Accounts payable, deposits received and accrued charges	9	8,791,550	7,527,274
Taxation		1,587,724	1,844,279
Short-term bank loans and current portion of long-term bank loans	10	11,176,362	3,091,575
		21,555,636	12,463,128
Net current assets		4,806,041	14,716,582
Total assets less current liabilities		129,185,589	132,969,129

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2015	2014
	Note	HK\$'000	HK\$'000
Non-current liabilities			
Long-term bank loans	10	14,776,666	20,954,453
Fixed rate bonds		10,197,896	10,192,580
Amounts due to non-controlling interests		2,408,996	2,345,775
Deferred taxation		6,345,245	6,062,024
		33,728,803	39,554,832
ASSETS LESS LIABILITIES		95,456,786	93,414,297
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,445,831	1,444,653
Share premium		12,422,838	12,384,496
Other reserves		14,704,164	14,723,124
Retained profits		53,008,547	50,659,453
Proposed dividend		433,749	866,792
		82,015,129	80,078,518
Non-controlling interests		13,441,657	13,335,779
TOTAL EQUITY		95,456,786	93,414,297

FINANCIAL HIGHLIGHTS

	Unaudited	Audited
	As at	As at
	30 June	31 December
	2015	2014
Equity attributable to the Company's shareholders (<i>HK\$ million</i>)	82,015	80,079
Net borrowings (including bonds) (<i>HK\$ million</i>)	24,920	22,847
Net asset value (attributable to the Company's shareholders) per share	HK\$56.73	HK\$55.43
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	30.4%	28.5%

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2015	2014
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	1,585,834	3,459,795
Interest paid	(646,309)	(629,652)
Income tax paid	(594,709)	(1,152,017)
Net cash generated from operating activities	344,816	1,678,126
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	(1,714,168)	(1,790,431)
Increase in land deposits	(76)	(78)
Increase in investments in associates	–	(19,901)
Dividends received from associates	181,301	197,101
Additional loans to associates, net	(176,645)	(118,524)
Decrease/(increase) in long-term receivables	50,232	(10,304)
Interest received	140,726	145,186
Increase in restricted bank deposits	(219,738)	(18,596)
Decrease/(increase) in short-term bank deposits maturing after more than three months	234,491	(371,706)
Dividends received from listed and unlisted investments	47,325	44,740
Proceeds from sale of property, plant and equipment and investment properties	51,479	19,996
Net cash used in investing activities	(1,405,073)	(1,922,517)
Financing activities		
Proceeds from issue of shares	29,183	1,235
Repayment of bank loans	(12,027,833)	(6,338,489)
Drawdown of bank loans	13,935,697	6,482,874
Dividends paid	(867,359)	(794,391)
Capital injection from non-controlling interests	67,194	278,549
Dividends of subsidiaries paid to non-controlling interests	(295,529)	(14,430)
Increase/(decrease) in loans from non-controlling interests	63,221	(266,860)
Net cash generated from/(used in) financing activities	904,574	(651,512)
Decrease in cash and cash equivalents	(155,683)	(895,903)
Effect of exchange rate changes	10,010	(188,554)
Cash and cash equivalents at 1 January	10,344,132	11,072,488
Cash and cash equivalents at 30 June	10,198,459	9,988,031
Analysis of balances of cash and cash equivalents		
Cash and bank balances (excluding bank deposits maturing after more than three months)	10,198,459	9,988,031

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2015	1,444,653	12,384,496	14,723,124	50,659,453	866,792	80,078,518	13,335,779	93,414,297
Profit for the period	-	-	-	2,788,788	-	2,788,788	313,910	3,102,698
Fair value gain on available-for-sale investments	-	-	68,126	-	-	68,126	-	68,126
Share of reserves of associates	-	-	(80,243)	-	-	(80,243)	-	(80,243)
Cash flow hedges	-	-	(84,559)	-	-	(84,559)	-	(84,559)
Net translation differences on foreign operations	-	-	82,675	-	-	82,675	20,303	102,978
Total comprehensive income for the six months ended 30 June 2015	-	-	(14,001)	2,788,788	-	2,774,787	334,213	3,109,000
Issue of share capital – exercise of share options	1,178	38,342	(10,337)	-	-	29,183	-	29,183
Dividends paid	-	-	-	(567)	(866,792)	(867,359)	(295,529)	(1,162,888)
2015 proposed interim dividend	-	-	-	(433,749)	433,749	-	-	-
Transfer	-	-	5,378	(5,378)	-	-	-	-
Capital injection from non-controlling interests	-	-	-	-	-	-	67,194	67,194
	1,178	38,342	(4,959)	(439,694)	(433,043)	(838,176)	(228,335)	(1,066,511)
Balance as at 30 June 2015	<u>1,445,831</u>	<u>12,422,838</u>	<u>14,704,164</u>	<u>53,008,547</u>	<u>433,749</u>	<u>82,015,129</u>	<u>13,441,657</u>	<u>95,456,786</u>

	Attributable to shareholders of the Company						Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2014	1,444,293	12,350,197	15,979,337	45,187,038	794,361	75,755,226	13,120,187	88,875,413
Profit for the period	-	-	-	2,389,946	-	2,389,946	611,050	3,000,996
Fair value loss on available-for-sale investments	-	-	(1,432)	-	-	(1,432)	-	(1,432)
Share of reserves of associates	-	-	(113,364)	-	-	(113,364)	-	(113,364)
Cash flow hedges	-	-	(32,036)	-	-	(32,036)	-	(32,036)
Net translation differences on foreign operations	-	-	(1,244,596)	-	-	(1,244,596)	(411,097)	(1,655,693)
Total comprehensive income for the six months ended 30 June 2014	-	-	(1,391,428)	2,389,946	-	998,518	199,953	1,198,471
Issue of share capital								
– exercise of share options	69	21,776	(20,610)	-	-	1,235	-	1,235
Employee share option scheme – value of employee services	-	-	55,701	-	-	55,701	-	55,701
Dividends paid	-	-	-	(30)	(794,361)	(794,391)	(14,430)	(808,821)
2014 proposed interim dividend	-	-	-	(433,309)	433,309	-	-	-
Transfer	-	-	783	(783)	-	-	-	-
Capital injection from non-controlling interests	-	-	-	-	-	-	278,549	278,549
	69	21,776	35,874	(434,122)	(361,052)	(737,455)	264,119	(473,336)
Balance as at 30 June 2014	<u>1,444,362</u>	<u>12,371,973</u>	<u>14,623,783</u>	<u>47,142,862</u>	<u>433,309</u>	<u>76,016,289</u>	<u>13,584,259</u>	<u>89,600,548</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014. 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 2014.

The standards and amendments which are effective for the accounting period beginning on 1 January 2015 are not material to the Group.

The following standards and amendments to existing standards, which are relevant to the operations of the Group, have been published and are mandatory for the Group’s accounting periods beginning on or after 1 January 2016, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
HKAS 1 (amendment), ‘Disclosure initiative’	1 January 2016
HKAS 27 (amendment), ‘Equity method in separate financial statements’	1 January 2016
HKFRS 9, ‘Financial instruments’	1 January 2018
HKFRS 14, ‘Regulatory deferral accounts’	1 January 2016
HKFRS 15, ‘Revenue from contracts with customers’	1 January 2017
Annual improvements to 2012-2014 cycle	1 January 2016
Amendments to HKAS 16 and HKAS 38, ‘Clarification of acceptable methods of depreciation and amortisation’	1 January 2016
Amendments to HKFRS 11, ‘Accounting for acquisitions of interests in joint operations’	1 January 2016
Amendments to HKAS 28 (2011) and HKFRS 10, ‘Sale or contribution of assets between an investor and its associate or joint venture’	1 January 2016
Amendments to HKAS 28 (2011), HKFRS 10 and HKFRS 12, ‘Investment entities: applying the consolidation exception’	1 January 2016

The Group will adopt the above standards and amendments to existing standards as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations and financial position.

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group’s accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2014.

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

2. Financial risk management and fair value measurement

(i) Financial risk factors

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

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; and should be read in conjunction with the Group's annual financial statements as at 31 December 2014. 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 that are measured at fair value at 30 June 2015:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	99,366	–	99,366
Available-for-sale investments	556,992	–	1,455,886	2,012,878
Listed securities at fair value through profit or loss	<u>209,525</u>	<u>–</u>	<u>–</u>	<u>209,525</u>
Total assets	<u><u>766,517</u></u>	<u><u>99,366</u></u>	<u><u>1,455,886</u></u>	<u><u>2,321,769</u></u>

The following table presents the Group's financial assets that are measured at fair value at 31 December 2014:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	209,773	–	209,773
Available-for-sale investments	487,013	–	1,457,739	1,944,752
Listed securities at fair value through profit or loss	<u>177,100</u>	<u>–</u>	<u>–</u>	<u>177,100</u>
Total assets	<u><u>664,113</u></u>	<u><u>209,773</u></u>	<u><u>1,457,739</u></u>	<u><u>2,331,625</u></u>

There were no transfers between Levels during the period.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

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

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

The following table presents the changes in Level 3 instruments:

	Available-for-sale investments	
	2015 HK\$'000	2014 HK\$'000
Opening balance as at 1 January	1,457,739	1,380,575
Losses recognised in comprehensive income	(1,853)	(13,277)
Closing balance as at 30 June	<u>1,455,886</u>	<u>1,367,298</u>

The Group established fair value of unlisted available-for-sale investments by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, 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 2015 was HK\$10,853,944,000 (31 December 2014: HK\$10,921,846,000).

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

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

(vii) Valuation of investment properties

	Completed residential properties Hong Kong HK\$'000	Completed commercial properties Hong Kong HK\$'000		Commercial properties under development PRC HK\$'000	Total HK\$'000
At 1 January 2015	10,571,600	8,606,260	31,437,438	4,903,942	55,519,240
Additions	190,320	-	86	298,926	489,332
Net gains from fair value adjustment	59,680	-	312,305	424,125	796,110
Disposals	-	-	(40,696)	-	(40,696)
Exchange adjustments	-	-	43,705	8,235	51,940
At 30 June 2015	<u>10,821,600</u>	<u>8,606,260</u>	<u>31,752,838</u>	<u>5,635,228</u>	<u>56,815,926</u>
At 1 January 2014	10,036,300	8,367,930	31,028,000	4,238,504	53,670,734
Additions	-	-	156,418	217,861	374,279
Net gains from fair value adjustment	-	-	632,286	193,694	825,980
Disposals	-	-	(11,279)	-	(11,279)
Exchange adjustments	-	-	(895,226)	(125,864)	(1,021,090)
At 30 June 2014	<u>10,036,300</u>	<u>8,367,930</u>	<u>30,910,199</u>	<u>4,524,195</u>	<u>53,838,624</u>

Valuation processes of the Group

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

Valuation techniques

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

(vii) Valuation of investment properties (continued)

Significant unobservable inputs used to determine fair value

Capitalisation rates are estimated based on the risk profile of the investment properties being valued. The higher the rates, the lower the fair value. At 30 June 2015, capitalisation rates of 3.3% to 5.5% (31 December 2014: 3.3% to 5.5%) and 7% to 9% (31 December 2014: 7% to 9%) are used in the income capitalisation method for Hong Kong and the PRC properties respectively.

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

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

3. Principal activities and segmental analysis of operations

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

	Turnover		Gross profit	
	Six months ended 30 June 2015	2014	Six months ended 30 June 2015	2014
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– PRC Property	1,319,332	1,036,739	1,130,230	814,981
– Hong Kong Property	436,879	437,170	336,193	336,835
	1,756,211	1,473,909	1,466,423	1,151,816
Property sales				
– PRC Property (Note)	434,852	703,157	63,308	252,201
– Hong Kong Property	1,303,598	3,437,001	551,429	1,781,623
	1,738,450	4,140,158	614,737	2,033,824
Hotel operations – PRC Property	708,894	559,622	76,751	48,751
	4,203,555	6,173,689	2,157,911	3,234,391
Principal markets:				
– PRC	2,463,078	2,299,518	1,270,289	1,115,933
– Hong Kong	1,740,477	3,874,171	887,622	2,118,458
	4,203,555	6,173,689	2,157,911	3,234,391

Note: Sales of investment properties for the six months ended 30 June 2015 amounting to HK\$50,493,000 (2014: HK\$17,494,000) are excluded from turnover.

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

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

	Six months ended 30 June 2014				
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>2,299,518</u>	<u>3,874,171</u>	<u>6,173,689</u>	<u>–</u>	<u>6,173,689</u>
Results					
Segment results – gross profit	1,115,933	2,118,458	3,234,391	–	3,234,391
Other income and net gains					170,868
Administrative and other operating expenses					(600,965)
Increase in fair value of investment properties					<u>825,980</u>
Operating profit before finance costs					3,630,274
Finance costs					<u>(310,434)</u>
Operating profit					3,319,840
Share of results of associates					<u>566,295</u>
Profit before taxation					3,886,135
Taxation					<u>(885,139)</u>
Profit for the period					<u><u>3,000,996</u></u>
Profit attributable to:					
Company's shareholders					2,389,946
Non-controlling interests					<u>611,050</u>
					<u><u>3,000,996</u></u>
Depreciation and amortisation	<u>147,461</u>	<u>7,302</u>	<u>154,763</u>	<u>3,533</u>	<u>158,296</u>

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

	As at 30 June 2015						
	PRC	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>85,495,730</u>	<u>56,719,527</u>	<u>2,374,063</u>	<u>144,589,320</u>	<u>57,381,969</u>	<u>(51,230,064)</u>	<u>150,741,225</u>
Total liabilities	<u>47,461,087</u>	<u>27,636,328</u>	<u>126,871</u>	<u>75,224,286</u>	<u>31,290,217</u>	<u>(51,230,064)</u>	<u>55,284,439</u>
	As at 31 December 2014						
	PRC	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>82,274,280</u>	<u>55,040,777</u>	<u>2,341,964</u>	<u>139,657,021</u>	<u>55,240,007</u>	<u>(49,464,771)</u>	<u>145,432,257</u>
Total liabilities	<u>45,556,089</u>	<u>25,990,132</u>	<u>122,598</u>	<u>71,668,819</u>	<u>29,813,912</u>	<u>(49,464,771)</u>	<u>52,017,960</u>

4. Operating profit

Six months ended 30 June

2015 2014
HK\$'000 HK\$'000

Operating profit is stated after crediting/charging the following:

Crediting

Dividend income from listed and unlisted investments	47,325	44,740
Interest income	138,217	136,817
Gain on sale of investment properties, net	6,835	5,341

Charging

Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	198,252	158,296
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Total finance costs incurred	654,863	638,210
Less: amount capitalised in properties under development and investment properties under construction	(419,322)	(320,733)
	235,541	317,477
Fair value loss/(gain) on derivative financial instruments	25,848	(7,043)
Total finance costs expensed during the period	261,389	310,434

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

5. Taxation

	Six months ended 30 June	
	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(137,703)	(208,588)
Over/(under)-provision in prior years	36	(70)
Deferred	(287,963)	(317,541)
	(425,630)	(526,199)
Hong Kong profits tax		
Current	(123,126)	(323,384)
Under-provision in prior years	(126)	(12,361)
Deferred	(9,908)	(11,099)
	(133,160)	(346,844)
Overseas taxation		
Current	(4,629)	(3,742)
Under-provision in prior years	-	(3,945)
Deferred	(5,160)	(4,409)
	(9,789)	(12,096)
	(568,579)	(885,139)

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) on the estimated assessable profit for the six months ended 30 June 2015. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2015 at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

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

6. Earnings per share

Basic

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

	Six months ended 30 June	
	2015	2014
Weighted average number of ordinary shares in issue	<u>1,445,179,366</u>	<u>1,444,344,504</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>2,788,788</u>	<u>2,389,946</u>
Basic earnings per share	<u>HK\$1.93</u>	<u>HK\$1.65</u>

Diluted

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

	Six months ended 30 June	
	2015	2014
Weighted average number of ordinary shares in issue	<u>1,445,179,366</u>	<u>1,444,344,504</u>
Adjustment for share options	<u>1,325,179</u>	<u>364,084</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,446,504,545</u>	<u>1,444,708,588</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>2,788,788</u>	<u>2,389,946</u>
Diluted earnings per share	<u>HK\$1.93</u>	<u>HK\$1.65</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

7. Capital expenditure

	Property, plant and equipment <i>HK\$'000</i>	Investment properties <i>HK\$'000</i>	Leasehold land and land use rights <i>HK\$'000</i>	Intangible assets <i>HK\$'000</i>
Net book value at 1 January 2015	5,039,271	55,519,240	1,198,161	122,504
Additions	63,405	489,332	–	–
Transfer	796,080	–	192,430	–
Fair value gains	–	796,110	–	–
Disposals	(990)	(40,696)	–	–
Depreciation and amortisation	(181,948)	–	(16,983)	–
Exchange adjustment	12,233	51,940	2,934	–
	<u>5,728,051</u>	<u>56,815,926</u>	<u>1,376,542</u>	<u>122,504</u>
Net book value at 30 June 2015	<u>5,728,051</u>	<u>56,815,926</u>	<u>1,376,542</u>	<u>122,504</u>
Net book value at 1 January 2014	4,960,327	53,670,734	1,261,637	122,528
Additions	59,324	374,279	–	–
Fair value gains	–	825,980	–	–
Disposals	(2,283)	(11,279)	–	–
Impairment	–	–	–	(24)
Depreciation and amortisation	(143,539)	–	(15,371)	–
Exchange adjustment	(128,699)	(1,021,090)	(36,289)	–
	<u>4,745,130</u>	<u>53,838,624</u>	<u>1,209,977</u>	<u>122,504</u>
Net book value at 30 June 2014	<u>4,745,130</u>	<u>53,838,624</u>	<u>1,209,977</u>	<u>122,504</u>

8. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2015 is as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Below 1 month	125,046	1,240,793
Between 1 month and 3 months	502,788	802,904
Over 3 months	318,514	730,462
	946,348	2,774,159

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 2015 is as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Below 1 month	180,149	181,013
Between 1 month and 3 months	21,952	16,211
Over 3 months	18,367	6,548
	220,468	203,772

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

10. Bank loans

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Bank loans – unsecured	19,702,796	18,008,632
Bank loans – secured	6,250,232	6,037,396
Total bank loans (note (i))	25,953,028	24,046,028
Less: Short-term bank loans and current portion of long-term bank loans	<u>(11,176,362)</u>	<u>(3,091,575)</u>
	<u>14,776,666</u>	<u>20,954,453</u>

(i) As at 30 June 2015, the Group's bank loans were repayable as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Within one year	11,176,362	3,091,575
In the second to fifth year		
– In the second year	2,019,500	9,493,112
– In the third year	7,203,698	1,263,714
– In the fourth year	3,139,348	6,668,666
– In the fifth year	1,084,638	2,557,404
	<u>13,447,184</u>	<u>19,982,896</u>
Repayable within five years	24,623,546	23,074,471
Over five years	<u>1,329,482</u>	<u>971,557</u>
	<u>25,953,028</u>	<u>24,046,028</u>

11. Commitments

At 30 June 2015, the Group had capital and other commitments in respect of interests in leasehold land, properties under development, property, plant and equipment and equity interests in certain companies not provided for in these financial statements as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Contracted but not provided for	20,420,534	13,352,733
Authorised but not contracted for	420,767	1,051,779
	<u>20,841,301</u>	<u>14,404,512</u>

12. Contingent liabilities

Guarantees for banking and other facilities

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Guarantees for banking and other facilities of certain associates (note (i))	1,775,456	3,208,477
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	973,993	728,455
	<u>2,749,449</u>	<u>3,936,932</u>

- (i) The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2015 amounted to approximately HK\$1,775,456,000 (31 December 2014: HK\$3,208,477,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2015 amounted to approximately HK\$2,725,668,000 (31 December 2014: HK\$5,298,533,000).
- (ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2015 amounted to approximately HK\$973,993,000 (31 December 2014: HK\$728,455,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2014.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

13. Pledge of assets

As at 30 June 2015, the Group's total bank loans of HK\$25,953,028,000 (31 December 2014: HK\$24,046,028,000) included an aggregate amount of HK\$19,702,796,000 (31 December 2014: HK\$18,008,632,000) which is unsecured and an aggregate amount of HK\$6,250,232,000 (31 December 2014: HK\$6,037,396,000) 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\$24,201,839,000 (31 December 2014: HK\$24,255,523,000); and
- (ii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

Turnover of the Group for the six months ended 30 June 2015 was HK\$4,204 million, which registered a decrease of 32% when compared with the turnover of HK\$6,174 million for the corresponding six months ended 30 June 2014. The Group's turnover mainly comprises proceeds from the sales of properties, rental income as well as revenue from hotel operations.

Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects for the six months ended 30 June 2015 was HK\$2,182 million (2014: HK\$1,804 million), representing an increase of 21% over the period.

During the six months ended 30 June 2015, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$607 million (2014: HK\$586 million) was recognised in the Group's consolidated income statement.

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

	Six months ended 30 June		Change
	2015	2014	
	HK\$ million	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	2,182	1,804	+21%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>586</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,789</u>	<u>2,390</u>	+17%

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division

During the six months ended 30 June 2015, the Division recorded a 7% increase in turnover to HK\$2,463 million (2014: HK\$2,300 million). In particular, rental income from investment properties increased 27% to HK\$1,319 million (2014: HK\$1,037 million), offsetting the drop in sales revenue from completed properties by 38% to HK\$435 million (2014: HK\$703 million). Gross profit also grew by 14% to HK\$1,270 million (2014: HK\$1,115 million).

The PRC's real estate market has remained weak, with the oversupply problem particularly pronounced in the second- and third-tier cities. Despite the decrease in recognized property sales during the six months ended 30 June 2015, the Division was able to achieve contracted sales growth as a result of a mild relaxation of government control policies. The growth in contracted sales was also helped by satisfactory market responses to the Division's pre-sale of Castalia Court in Zhijiang in Hangzhou and Phase II of The Metropolis-Arcadia Court in Chengdu, Sichuan Province. The Division's investment properties have recorded significant rental income growth during the period, mainly attributable to Jing An Kerry Centre.

(i) Investment Properties

During the six months ended 30 June 2015, the Group generated turnover of HK\$1,319 million (2014: HK\$1,037 million) and derived a gross profit of HK\$1,130 million (2014: HK\$815 million) from its portfolio of completed investment properties in the PRC, representing increases of 27% and 39%, respectively.

As at 30 June 2015, the Group maintained a completed investment property portfolio comprising apartment, commercial and office properties in the PRC with an aggregate gross floor area ("GFA") of 6.74 million square feet (as at 31 December 2014: 6.32 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2015:

	Group's attributable GFA					Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Tianjin	Fuzhou		
	('000 square feet)						
Office	711	1,520	1,552	–	–	3,783	97%
Commercial	98	1,098	212	432	64	1,904	97%
Apartment	277	774	–	–	–	1,051	88%
	<u>1,086</u>	<u>3,392</u>	<u>1,764</u>	<u>432</u>	<u>64</u>	<u>6,738</u>	

As at 31 December 2014:

	Group's attributable GFA				Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Fuzhou		
	('000 square feet)					
Office	711	1,530	1,552	–	3,793	95%
Commercial	98	1,100	212	64	1,474	97%
Apartment	277	774	–	–	1,051	81%
	<u>1,086</u>	<u>3,404</u>	<u>1,764</u>	<u>64</u>	<u>6,318</u>	

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

Property	Occupancy rate as at 30 June 2015	Occupancy rate as at 31 December 2014
Beijing Kerry Centre ⁽¹⁾	97%	95%
Jing An Kerry Centre Phase I	93%	90%
Jing An Kerry Centre Phase II ⁽¹⁾	95%	90%
Kerry Parkside Shanghai Pudong ⁽¹⁾	98%	96%
Kerry Everbright City Phase I	99%	95%
Central Residences Phase II Towers 1 & 3	86%	79%
Shenzhen Kerry Plaza Phase I	98%	98%
Shenzhen Kerry Plaza Phase II	97%	98%

Note:

(1) Excluding hotel.

Jing An Kerry Centre and Jing An Shangri-La Hotel, Shanghai

This landmark mixed-use development, Jing An Kerry Centre, is located in the heart of Shanghai's Nanjing Road business district. The 3.69 million square-foot prime project integrates hotel, retail, office and residential space overlooking a landscaped piazza. The Group holds 74.25% and 51% interests in Phases I and II of the project, respectively. The luxury of the Shangri-La Hotel is a key feature of Jing An Kerry Centre, which is a pre-eminent shopping venue and exclusive office address in Shanghai. As at 30 June 2015, 95% of the office (as at 31 December 2014: 88%) and 96% of the retail space (as at 31 December 2014: 94%) were occupied. Jing An Shangri-La Hotel, West Shanghai, achieved an average occupancy rate of 70% (2014: 59%) during the period under review.

Kerry Parkside, Shanghai

Kerry Parkside, located in the Pudong District of Shanghai, is a 40.8%-held mixed-use property comprising a hotel, offices, serviced apartments, a retail mall and related ancillary facilities. As at 30 June 2015, both the retail space and offices were 100% occupied (as at 31 December 2014: both 100%), while the occupancy rate of the serviced apartments was 89% (as at 31 December 2014: 79%). Kerry Hotel Pudong achieved an average occupancy rate of 71% (2014: 63%) during the period under review.

Shenzhen Kerry Plaza, Shenzhen

The wholly-owned Shenzhen Kerry Plaza comprises three Grade-A office towers with a GFA of approximately 1.65 million square feet. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link which is now under construction. As at 30 June 2015, Phases I and II of the development were 98% and 97% leased, respectively (as at 31 December 2014: both 98%).

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(i) *Investment Properties (continued)*

Beijing Kerry Centre, Beijing

Beijing Kerry Centre is located in the heart of Beijing, combining high-quality office space, a shopping mall for famous brands, and Kerry Hotel Beijing with serviced apartments. As at 30 June 2015, the occupancy rate of the retail portion was 100% (as at 31 December 2014: 96%), while the offices were 98% occupied (as at 31 December 2014: 99%). The serviced apartments were 92% occupied (as at 31 December 2014: 86%). The 71.25%-held Kerry Hotel Beijing delivered an average occupancy rate of 75% (2014: 71%) during the period under review.

(ii) *Sales of Properties*

During the six months ended 30 June 2015, sales of completed properties in the PRC delivered a turnover of HK\$435 million (2014: HK\$703 million), mainly attributable to the recognized property sales in Chengdu, Shenyang, Changsha and Hangzhou. A gross profit of HK\$63 million (2014: HK\$252 million) was generated during the period. Besides, sales of completed investment properties generated additional proceeds of HK\$50 million (2014: HK\$17 million).

The Metropolis-Arcadia Court, Chengdu

The Metropolis-Arcadia Court Phase I in Chengdu was completed and handed over to purchasers. As at 30 June 2015, 1,818 units had been sold. The Group holds a 55% interest in this residential project.

Arcadia Court and Enterprise Square, Shenyang

Two towers of Arcadia Court and Enterprise Square in Shenyang were completed and delivered for occupation during 2014. Up to 30 June 2015, 273 residential units and 140 office units had been sold. The Group holds a 60% interest in this project.

Changsha Xiangjiang Arcadia Court, Changsha

Changsha Xiangjiang Arcadia Court Phase I has been completed and handed over consecutively. As at 30 June 2015, 517 units had been sold. This residential project is wholly-owned by the Group.

Parkview Residence, Hangzhou

Parkview Residence in Xiacheng District, Hangzhou, has a GFA of approximately 2.63 million square feet. As at 30 June 2015, 1,631 Phase II units had been sold. This project is wholly-owned by the Group.

Tangshan Arcadia Court, Tangshan

Tangshan Arcadia Court Phases I to III with 14 towers offer for sale. Up to 30 June 2015, 1,085 units had been sold. The Group holds a 40% interest in this residential project.

Tianjin Arcadia Court, Tianjin

The three residential towers of Tianjin Arcadia Court have been completed and handed over consecutively. Up to 30 June 2015, 673 units had been sold. The Group holds a 49% interest in this residential project.

(iii) Properties under Development

In order to sustain balanced growth, the Group focuses on developing large-scale mixed-use projects in the CBDs of major cities, while actively driving residential development activities.

Shanghai

Enterprise Centre at Kerry Everbright City Phase III in Zhabei District is expected to be completed in the second half of 2015. This new phase, comprising office premises and ancillary retail spaces, will add a GFA of approximately 1.1 million square feet to the overall development. The Group holds a 74.25% interest in the project.

Tianjin

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys access to a convenient transportation network. This 49%-owned mixed-use project delivers a total GFA of approximately 5.37 million square feet. Phase I of the development includes a hotel, upscale residences and a shopping mall. As at 30 June 2015, properties under the Phase I development, apart from the basement car parks, had been completed and delivered consecutively. The basement car-parking lots are scheduled for completion by the third quarter of 2015. The period also saw the soft opening of the mall, Riverview Place. As at 30 June 2015, the mall was 85% signed up for lease.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(iii) Properties under Development (continued)

Hangzhou

In Hangzhou, the Group is developing Kerry Central, a project located at the intersection of Yan'an Road and Qingchun Road and adjacent to the Xihu (West Lake). This 2.1 million square-foot mixed-use property will comprise a luxury hotel, Grade-A offices, premium apartments and a retail mall complex. Project construction is now underway and the development is targeted for completion in phases from 2016 onwards. The Group holds a 75% stake in the project.

The Group is also working on a residential and commercial development spread out over five wholly-owned lots of land in the city. The project is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, the project will yield a GFA of approximately 2.27 million square feet for Castalia Court, a residential property development, as well as approximately 250,000 square feet of commercial space. With construction works currently underway, the project is targeted for completion in phases from 2017 onwards. As at 30 June 2015, 211 residential units had been pre-sold.

Nanjing

The Group and Shangri-La Asia Limited ("**Shangri-La**") are co-developing a prime site at Zhong Yang Road in the centre of Gu Lou District, Nanjing. Located in the heart of Nanjing and offering a total GFA of approximately 917,000 square feet, the hotel was soft opened in October 2014. The Group holds a 45% interest in this project.

Another site for residential development is located at Da Guang Road in Nanjing's Bai Xia District. This wholly-owned project has a site area of approximately 384,000 square feet and a GFA of approximately 1 million square feet. Project construction is in progress, and is scheduled for completion in 2017. The pre-sale of the project is planned to commence in the second half of 2015.

Chengdu

The Metropolis-Arcadia Court in Chengdu is located in the southern part of the High-Tech Industrial Development Zone. Phase I residential units have been substantially sold and delivered, while Phase II of the project was launched during the first half of the year. As at 30 June 2015, 165 Phase II residential units had been pre-sold. Phase II, with a total GFA of approximately 2.15 million square feet, is due for completion in several stages from 2017 onwards. The Group holds a 55% interest in this project.

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a mixed-use property through a joint venture with Shangri-La. This 80%-held project is situated on the west bank of the Ganjiang River at the heart of Honggutan Central District. Its development includes a hotel, office, commercial and high-end apartment properties, aggregating to a GFA of approximately 2.6 million square feet. Construction of the residential portion is ongoing, and the project is targeted for completion in phases from 2015 onwards. As at 30 June 2015, 110 residential units had been pre-sold. Shangri-La Hotel, Nanchang has been completed and was soft-opened in February 2015, recording an average occupancy rate of 58% during the period under review.

Changsha

The Group's wholly-owned residential project in the Tianxin District of Changsha, the provincial capital of Hunan Province, is expected to deliver a GFA of approximately 3.2 million square feet. Construction works are currently underway, and the project is scheduled to be completed in phases before the end of 2019. As at 30 June 2015, 139 units of the Phase II development had been pre-sold.

Shenyang

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 12.9 million square feet. This mixed-use project will include a hotel, offices, a shopping mall and residences. Phase I of the development is in the construction stage and has been partially completed. Phase II has also commenced construction, while Phase III development is now at the planning stage. Shangri-La Hotel, Shenyang has been completed and opened for business, recording an average occupancy rate of 62% (2014: 35%) during the period under review. Sales of the Phase I residential portion, Arcadia Court, have met with favourable market response. As at 30 June 2015, 141 units of the residential portion, still under construction, had been pre-sold.

Qinhuangdao

Construction works are ongoing on Habitat, the Group's 60%-owned deluxe seaside residential project adjacent to Beidaihe in Qinhuangdao, Hebei Province. This development is expected to generate a GFA of approximately 4.7 million square feet. Phase I of the development is targeted for completion in phases from the second half of 2015 onwards. As at 30 June 2015, 217 residential units of the Phase I development had been pre-sold.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(iii) Properties under Development (continued)

Tangshan

The Group's 40%-owned mixed-use project in Tangshan comprises hotel, residential and ancillary commercial properties, with a GFA of approximately 3.3 million square feet. The residential units had been completed and handed over consecutively. Shangri-La Hotel, Tangshan is scheduled for soft opening in the second half of 2015.

Ningbo

The site under development in Ningbo is located in the Eastern New Town Core Region and is earmarked for The Berylville, a high-end residential project with a GFA of approximately 1 million square feet. The Group holds a 50% interest in the project. Construction works for Phase I, a total of 97 units with a GFA of approximately 400,000 square feet, are in progress. The project is scheduled to be handed over in phases from the fourth quarter of 2015 onwards. As at 30 June 2015, 55 units of the Phase I development had been pre-sold. Phase II of the project will yield a GFA of approximately 627,000 square feet. Construction works are planned to commence in the third quarter of 2015.

Yingkou

The Group's seaside sites in Bayuquan District in Yingkou City, Liaoning Province, are primarily designated for residential and commercial use. The project will generate a GFA of approximately 4.3 million square feet. Phase I of the development is expected to be completed from the second half of 2015 onwards. The Group holds a 65% interest in this project. As at 30 June 2015, 92 residential units of the Phase I development had been pre-sold.

Jinan

The Group is co-developing with Shangri-La a mixed-use project located in Lixia District, Jinan City. The Group holds a 55% stake in this project, which has a GFA of approximately 1 million square feet. The project will comprise a hotel, offices and commercial space, and is scheduled to be completed in phases from 2017 onwards.

Putian

The Group and Shangri-La are co-developing a site in Putian City, Fujian Province. The site, located at Jiu Hua Road, will generate a GFA of approximately 4 million square feet. It is earmarked for the development of residential, hotel and ancillary commercial properties. The development is scheduled to be completed in stages from 2016 onwards. Pre-sale of the residential portion has been rolled out and, as at 30 June 2015, 618 units had been pre-sold. The Group holds a 60% interest in this project.

Zhengzhou

The Group and Shangri-La are also collaborating in developing a site located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou City, Henan Province. The site will yield a GFA of approximately 2.4 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2019 onwards. The Group holds a 55% interest in this project.

Kunming

The Group, together with Shangri-La, is developing two adjoining sites in Kunming City, Yunnan Province. The sites are earmarked for hotel and apartment use, with a GFA of approximately 800,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2018.

Qianhai, Shenzhen

The Group has acquired a 350,000 square-foot commercial site in Qianhai District, Shenzhen in January 2015. Located within the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, the site is close to the Guangshen Yanjiang Expressway and is only a few minutes' drive from Shenzhen Bay Port. It also lies in close proximity to the planned Shenzhen Metro extension line. Commanding exclusive seafront views, the site is an ideal location for office, apartment and commercial property development. Total buildable GFA will aggregate to approximately 2.2 million square feet. The project is wholly-owned by the Group. The project is expected to be completed in 2019.

(C) Hong Kong Property Division

During the six months ended 30 June 2015, the Hong Kong Property Division reported a turnover of HK\$1,741 million (2014: HK\$3,874 million) and a gross profit of HK\$888 million (2014: HK\$2,119 million).

The Division's turnover for the period was mainly derived from recognized sales of completed properties at 1 & 3 Ede Road, 8 LaSalle, The Altitude and Lions Rise.

Sale activities for Dragons Range also recorded strong performance.

Tenant demand across the Division's office and retail properties remained stable during the first half, delivering solid rental results.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(i) Investment Properties

During the six months ended 30 June 2015, turnover generated by the Group's completed investment properties in Hong Kong aggregated HK\$437 million (2014: HK\$437 million), producing a gross profit of HK\$336 million (2014: HK\$337 million).

As at 30 June 2015, the Group's completed investment property portfolio in Hong Kong had an aggregate GFA of 2.78 million square feet (as at 31 December 2014: 2.78 million square feet). The following table shows the breakdown of GFA and the respective occupancy rates, together with comparative figures:

	As at 30 June 2015		As at 31 December 2014	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Apartment	722	99%*	722	97%*
Commercial	1,223	100%	1,223	99%
Office	838	99%	838	95%
	<u>2,783</u>		<u>2,783</u>	

Note:

* Excluding Branksome Grande where comprehensive renovation commenced in the second quarter of 2014.

Enterprise Square Five/MegaBox

MegaBox is a pioneering shopping, dining and entertainment venue in Kowloon East, offering a unique mix of lifestyle and shopping attractions across a GFA of 1.1 million square feet. As at 30 June 2015, the mall had an occupancy rate of approximately 100% (as at 31 December 2014: 99%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, were 98% leased (as at 31 December 2014: 94%). This office property continues to benefit from the transformation of Kowloon East into a new CBD and to demonstrate its capability in securing long-term leasing to high-calibre tenants.

Kerry Centre, Quarry Bay

Kerry Centre at 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office tower in Hong Kong. This Grade-A office tower has a GFA of 511,000 square feet. Kerry Centre has sustained a high occupancy rate with approximately 100% (as at 31 December 2014: 99%) of its office space occupied as at 30 June 2015.

Branksome Grande, Mid-Levels

Located at 3 Tregunter Path, Branksome Grande is a twin-tower development of 24 floors, offering a total of 94 residential units, including two penthouses. The entire building has been under comprehensive renovation since April 2014 and works are scheduled for completion by September 2015. Pre-leasing activities commenced in late April 2015 and, as at 30 June 2015, 31% of the units had been leased.

(ii) Sales of Properties

During the first six months of 2015, sales of completed properties held for sale in Hong Kong contributed a turnover of HK\$1,304 million (2014: HK\$3,437 million) to the Group. A gross profit of HK\$552 million (2014: HK\$1,782 million) was derived from the recognized sales of completed properties of 1 & 3 Ede Road, 8 LaSalle, The Altitude and Lions Rise.

The Division also derived satisfactory profit from the sale of Dragons Range up to 30 June 2015.

Dragons Range, Kau To, Sha Tin

Together with Sino Group and Manhattan Group, the Group is co-developing Dragons Range, a residential project of 973 units at No. 33 Lai Ping Road, Kau To, Sha Tin, with a saleable area of 877,933 square feet. The Group holds a 40% stake in this project, which obtained its occupation permit in June 2015. Launched in November 2014, Dragons Range has received a positive market response and posted strong sales performance. As at 30 June 2015, 749 units had been sold, accounting for 77% of the total.

1 & 3 Ede Road, Kowloon Tong

The development consists of a house, One Ede Road, and 40 apartments at Three Ede Road, with a total saleable area of 70,048 square feet. Sales of Three Ede Road were launched to a positive market response in the third quarter of 2014. As at 30 June 2015, 35 apartments and the house, representing 88% of the total, had been sold.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(ii) Sales of Properties (continued)

8 LaSalle, Ho Man Tin

This redevelopment project is situated at No. 8 La Salle Road, Kowloon, a neighbourhood offering a network of primary and secondary schools. The project delivers a saleable area of 53,078 square feet. Sales activities commenced in the fourth quarter of 2014 and have received a strong market response. 41 units of the project, representing 73% of the total, had been sold as at 30 June 2015.

The Altitude, Wong Nai Chung

The Altitude at No. 20 Shan Kwong Road, Hong Kong, offers 126 residential units. The Group holds a 71% interest in this project. As at 30 June 2015, all the units had been sold.

Lions Rise, Tsz Wan Shan, Diamond Hill and San Po Kong

Lions Rise is located at No. 8 Muk Lun Street, Kowloon, where five residential blocks offer a total of 968 units. The project is enhanced by club facilities, landscaped gardens and a shopping mall. As at 30 June 2015, 967 units had been sold.

(iii) Properties under Development

New Redevelopment Project at Hing Hon Road, Sai Ying Pun and Sheung Wan

The Group intends to develop a new residential project at Nos. 5-6 Hing Hon Road including amalgamation with an adjacent development. The said adjacent development at Nos. 7-8 Hing Hon Road, of which the Group has already acquired a majority interest, is undergoing ownership unification. If successful, the joint redevelopment project, in which the Group holds a 71% interest, will deliver a buildable GFA of approximately 68,000 square feet. After taking into account the estimated time for the ownership unification process, the project is intended to be completed in the fourth quarter of 2019.

The Bloomsway, Tuen Mun

The Group is also developing The Bloomsway, a residential project at Area 48, Castle Peak Road, So Kwun Wat, with a buildable GFA of approximately 940,000 square feet. The site is to be developed into a large-scale residential property of not less than 1,100 units. The project is scheduled for completion in the fourth quarter of 2016.

Sheung Lok Street, Ho Man Tin

The Group is developing a residential site at Sheung Lok Street, Ho Man Tin, with superstructure works currently in progress. The site occupies an area of approximately 259,000 square feet with a buildable GFA of approximately 1.142 million square feet. The project is scheduled for completion in the first quarter of 2017.

Shan Kwong Building Redevelopment, Wong Nai Chung

Now under development by the Group is a new residential project at No. 7A Shan Kwong Road, Wong Nai Chung, Hong Kong. The project will yield a buildable GFA of approximately 81,000 square feet, and is to be completed in the fourth quarter of 2016.

Lung Cheung Road, Beacon Hill, Shek Kip Mei

In February 2015, the Group won a public tender for a site in Beacon Hill. Occupying an area of approximately 115,000 square feet and with a buildable GFA of approximately 116,000 square feet, the site is planned to be developed into a low-density premium residential project. The project is scheduled for completion in the second quarter of 2018.

Macau

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

(D) Overseas Property Division

The Group holds a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. (“SPI”), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and indirect interests in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 30 June 2015, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 85% and 97%, respectively (as at 31 December 2014: 92% and 98%, respectively).

The development of The St. Francis Shangri-La Place, a residential project located in Mandaluyong City, Manila, has been completed. As at 30 June 2015, 1,151 (as at 31 December 2014: 1,150) of the 1,152 residential units in Towers 1 and 2 of the project had been sold.

SPI currently has four major projects under development:

The development of One Shangri-La Place covers approximately 1.63 million square feet of residential properties. As at 30 June 2015, a total of 1,200 units (as at 31 December 2014: 1,177) had been sold, accounting for 92% of the total.

SPI is also redeveloping a residential site in Makati City into a high-rise residential building, Shang Salcedo Place, with a GFA of approximately 655,000 square feet. As at 30 June 2015, 392 units (as at 31 December 2014: 346) out of the total of 749 residential units had been sold.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(D) Overseas Property Division (continued)

SPI has acquired the rights to develop more than 116,000 square feet of land located in Malugay Street, Makati City. This development project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and 96,284 square feet of commercial space. The sales of The Rise have met with a strong market response, with 1,686 residential units (as at 31 December 2014: 1,488) sold as at 30 June 2015.

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 an area of more than 850,000 square feet, residential and serviced apartment units covering 593,000 square feet, and commercial spaces with a total area of 47,400 square feet. As at 30 June 2015, 19 residential units had been sold (as at 31 December 2014: 12), accounting for 19% of the total 98 units available for sale.

(E) Outlook

(i) PRC Property Division

During the first half of the year, the PRC Property Division achieved steady growth in contracted sales and rental income compared with the same period last year. The Division's performance benefited from the slight relaxation of the government tightening policies. More importantly, the Group has successfully leveraged its high-quality properties in prime locations to enhance sales and leasing results.

The PRC real estate market now faces more challenging demand-supply dynamics, reflecting more than a decade of overbuilding across the country. Second- and third-tier cities, above all, exhibit a much higher level of oversupply. This fundamental market saturation can hardly be resolved by short-term stimulus measures. In facing this challenge, the Group continues to uphold its reputation for quality properties and professional service. It is also actively working on realigning its sales strategies, product mix and management approaches in response to the changing market trends. By carefully evaluating the market situation and taking appropriate initiatives, the Group aims to sustain stable growth amidst a challenging operating landscape.

A number of prime projects are scheduled for launch during the second half of the year. These include residential projects in Nanjing's Bai Xia District, as well as the office units at Kerry Everbright City Phase III in Shanghai. Sales of The Metropolis-Arcadia Court Phase II in Chengdu are also underway. These activities are expected to generate positive results for the Group.

Over the years, the Group has focused on developing large-scale mixed-use properties in core locations of first-tier cities and certain provincial capitals. The resulting rental property portfolio is now posting rental and occupancy rates that meet expectations. Going forward, our office properties will see steady growth in rentals and occupancies, and the serviced apartments will continue to achieve high occupancy rates. At the same time, management will stay alert to new business trends and patterns, including the emergence of e-commerce, and to their impact on traditional commercial and retail sectors. To respond to the market changes, the Group will constantly adjust its tenant mix and marketing strategies for the malls. Meanwhile, successive completion of hotel projects in the Group's large-scale mixed-use properties in Shenyang, Tianjin and Nanchang, developed in joint ventures with Shangri-La, will generate additional income for the Group.

The Group's operational strategy to steadily increase the proportion of investment properties within the overall portfolio has proven to be effective. Management remains optimistic of the plan to grow its rental properties into an important component of the overall business portfolio. This asset base has the potential to produce sustainable and considerable cash flow and recurrent income, which will be beneficial to the Group's long-term development.

(ii) Hong Kong Property Division

The Division has achieved satisfactory results for the first half of the year. Management continues to hold an optimistic outlook for the full year, backed by strong sales momentum of its project launches in Hong Kong. The launch of the new residential project in So Kwun Wat in the second half of the year will drive further sales for the Division. It is expected that the sales activities in Hong Kong will provide growth impetus for the Group's ongoing development.

The Group also holds an investment portfolio of prime residential properties, as well as a dynamic mix of Grade-A offices and retail space. The performance of these rental properties is expected to be stable throughout the year. The Group will actively manage this investment asset portfolio through continuous enhancements. Its excellent management services will continue to enrich the tenants' enjoyment.

The Division is managed and staffed by a strong team of property professionals committed to deliver the Group's quality promise and value proposition. Their expertise and concerted efforts have been vital to the Division's continuing success in developing buyer and tenant loyalty.

Hong Kong remains one of the favourite markets in Asia for real estate investments, despite some cautious sentiment. From a long term perspective, this asset class continues to look attractive on a range of valuation metrics. With a solid base of investment properties, together with a succession of projects scheduled for sale over the next few years, management is confident of delivering results compatible with its strategic goals.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(F) Financial Review

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

The Group closely reviews and monitors its foreign exchange exposure and the recent fluctuation in Renminbi (“RMB”) is not considered to have any material impact on the Group’s results of operations and financial position. As at 30 June 2015, total foreign currency borrowings (excluding RMB borrowings) amounted to the equivalence of HK\$10,376 million and RMB loans amounted to the equivalence of HK\$7,556 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 29% and 21% respectively, of the Group’s total borrowings of HK\$36,151 million as at 30 June 2015.

The non-RMB total foreign currency borrowings of HK\$10,376 million mainly include the Fixed Rate Bonds amounting to US\$1,320 million (approximately HK\$10,198 million (net of direct issue costs)). The Group has arranged cross currency swap contracts and forward exchange contracts amounting to US\$517 million and US\$425 million, respectively, to hedge the exchange rate exposure between United States dollars and Hong Kong dollars. Besides, the Group has also arranged forward exchange contracts amounting to RMB525 million to hedge the exchange rate exposure between RMB and Hong Kong dollars.

Out of the Group’s total borrowings as at 30 June 2015, HK\$11,176 million (representing approximately 31%) was repayable within one year, HK\$9,904 million (representing approximately 27%) was repayable in the second year, HK\$11,428 million (representing approximately 32%) was repayable in the third to fifth years and HK\$3,643 million (representing approximately 10%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 83% of total borrowings as at 30 June 2015. 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 2015, the gearing ratio for the Group was 30.4% (as at 31 December 2014: 28.5%), calculated based on net debt of HK\$24,920 million and shareholders’ equity of HK\$82,015 million.

As at 30 June 2015, the Group had outstanding interest rate swap contracts which amounted to HK\$4,000 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group’s available financial resources as at 30 June 2015, the Group had total undrawn bank loan facilities of HK\$16,023 million and cash on hand of HK\$11,231 million. In addition, the generation of strong recurrent cashflows from the Group’s investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 29 June 2015, Standard & Poor’s affirmed a “BBB-” credit rating for Kerry Properties Limited with a stable outlook.

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 2015 and some of them are set out below:

Event	Venue
BNP Paribas Asia Pacific Financials & Property Conference	Hong Kong
UBS Greater China Conference 2015	Shanghai
Credit Suisse Asian Investment Conference	Hong Kong
J.P. Morgan Asia Pacific Real Estate Conference	Singapore
UBS HK/China Property Conference 2015	Hong Kong
DBS Vickers Pulse of Asia Conference	Hong Kong
Macquarie Greater China Conference	Hong Kong
Barclays Asia Financial and Property Conference	Hong Kong
HSBC's 3rd Annual Asia Investor Forum	London
Citi Asia Pacific Property Conference	Hong Kong

STAFF

As at 30 June 2015, the Company and its subsidiaries had approximately 7,000 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

SHARE OPTIONS

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

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

As at 30 June 2015, a total of 46,847,000 Share Options were outstanding which comprised 11,250,000 and 35,597,000 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

SHARE OPTIONS (continued)

Movement of Share Options

Movement of the Share Options during the six months ended 30 June 2015 are listed below in accordance with Rule 17.07 of the Rules (the “Listing Rules”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”):

Category	Date of grant	Tranche	Number of Share Options				Exercise Price HK\$	Exercise Period	
			As at 01/01/2015	Transfer to other category	Transfer from other category	As at 30/06/2015			
<i>(i) 2002 Share Option Scheme</i>									
<i>(Note a):</i>									
1. Directors									
WONG Siu Kong	02/04/2008	I	750,000	-	-	-	750,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	750,000	-	-	-	750,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,500,000	-	-	-	1,500,000	47.70	02/04/2011 – 01/04/2018
HO Shut Kan	02/04/2008	I	300,000	-	-	-	300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	300,000	-	-	-	300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	600,000	-	-	-	600,000	47.70	02/04/2011 – 01/04/2018
QIAN Shaohua	02/04/2008	I	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
Bryan Pallop, GAW	02/04/2008	I	75,000	-	-	-	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	-	-	-	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	-	-	-	150,000	47.70	02/04/2011 – 01/04/2018
KUOK Khoon Hua <i>(appointed on 15 June 2015)</i>	02/04/2008	I	-	-	75,000	-	75,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	-	75,000	-	75,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	-	150,000	-	150,000	47.70	02/04/2011 – 01/04/2018
2. Continuous Contract Employees	17/03/2005	I	95,000	-	-	(95,000)	-	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	70,000	-	-	(70,000)	-	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	812,500	-	-	-	812,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	812,500	-	-	-	812,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,625,000	-	-	-	1,625,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	310,000	-	-	(50,000)	260,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	390,000	-	-	(20,000)	370,000	17.58	06/02/2011 – 05/02/2019
3. Others	17/03/2005	I	25,000	-	-	(25,000)	-	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	35,000	-	-	(35,000)	-	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	500,000	(75,000)	-	-	425,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	500,000	(75,000)	-	-	425,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,000,000	(150,000)	-	-	850,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	20,000	-	-	-	20,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	50,000	-	-	-	50,000	17.58	06/02/2011 – 05/02/2019
Total:			11,545,000	(300,000)	300,000	(295,000)	11,250,000		

Category	Date of grant	Tranche	Number of Share Options			As at 30/06/2015	Exercise Price HK\$	Exercise Period
			As at 01/01/2015	Exercised	Lapsed			
(ii) 2011 Share Option Scheme								
<i>(Note b):</i>								
1. Directors								
WONG Siu Kong	30/04/2012	I	1,500,000	-	-	1,500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	1,500,000	-	-	1,500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	1,500,000	-	-	1,500,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	1,500,000	-	-	1,500,000	26.88	08/01/2015 – 07/01/2024
HO Shut Kan	30/04/2012	I	500,000	-	-	500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	500,000	-	-	500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	-	-	750,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	-	-	750,000	26.88	08/01/2015 – 07/01/2024
QIAN Shaohua	30/04/2012	I	500,000	-	-	500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	500,000	-	-	500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	750,000	-	-	750,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	750,000	-	-	750,000	26.88	08/01/2015 – 07/01/2024
Bryan Pallop, GAW	30/04/2012	I	150,000	-	-	150,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	150,000	-	-	150,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	250,000	-	-	250,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	250,000	-	-	250,000	26.88	08/01/2015 – 07/01/2024
2. Continuous Contract Employees	30/04/2012	I	3,840,000	-	(125,000)	3,715,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	3,900,000	-	(125,000)	3,775,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	4,275,000	(568,000)	(25,000)	3,682,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	4,295,000	(315,000)	(25,000)	3,955,000	26.88	08/01/2015 – 07/01/2024
3. Others	30/04/2012	I	4,135,000	-	-	4,135,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	4,535,000	-	-	4,535,000	35.45	31/10/2013 – 29/04/2022
	30/04/2012	V	50,000	-	(50,000)	-	35.45	01/04/2013 – 29/04/2022
	30/04/2012	VI	50,000	-	(50,000)	-	35.45	31/10/2013 – 29/04/2022
Total:		36,880,000	(883,000)	(400,000)	35,597,000			

Notes:

- During the period, no Share Option was granted, granted for adjustment, cancelled or lapsed under the 2002 Share Option Scheme.
- During the period, no Share Option was granted, granted for adjustment, transferred from/to other category or cancelled under the 2011 Share Option Scheme.
- During the period, the weighted average closing price of the shares of the Company immediately before the dates on which the Share Options were exercised was HK\$30.33. 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 2015, 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	Corporate interests ³	Other interests ⁴		
WONG Siu Kong	400,000	–	–	50,000	450,000	0.03
HO Shut Kan	360,000	–	–	50,000	410,000	0.03
QIAN Shaohua	–	–	–	50,000	50,000	0.00
Bryan Pallop GAW	10,000	7,176,897	–	1,232,048	8,418,945	0.58
KUOK Khoon Hua	59,000	–	–	7,670,310	7,729,310	0.53

(ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares/ Amount of debentures				Number of underlying ordinary shares held under equity derivatives ⁵	Total	Approximate % of shareholding
		Personal interests ¹	Family interests ²	Corporate interests ³	Other interests ⁴			
Kerry Group Limited	WONG Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06 ⁷
	HO Shut Kan	2,888,452	–	–	–	–	2,888,452	0.19 ⁷
	QIAN Shaohua	500,000	–	500,000	–	1,000,000	2,000,000	0.13 ⁷
	Bryan Pallop GAW	1,500,000	134,384,995	–	45,899,988	2,000,000	183,784,983	12.05 ⁷
	KUOK Khoon Hua	5,000	–	–	180,284,982	1,995,000	182,284,982	11.96 ⁷
Kerry Logistics Network Limited	WONG Siu Kong	306,000	–	–	675,000	–	981,000	0.06 ⁸
	HO Shut Kan	200,000	–	–	675,000	–	875,000	0.05 ⁸
	QIAN Shaohua	–	–	–	675,000	200,000	875,000	0.05 ⁸
	Bryan Pallop GAW	50,000	3,588,449	–	1,266,024	–	4,904,473	0.29 ⁸
	KUOK Khoon Hua	101,000	–	–	4,485,155	1,000,000	5,586,155	0.33 ⁸
	WONG Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01 ⁸

Associated Corporations	Directors	Number of ordinary shares/ Amount of debentures				Number of underlying ordinary shares held under equity derivatives ⁵	Total	Approximate % of shareholding
		Personal interests ¹	Family interests ²	Corporate interests ³	Other interests ⁴			
Medallion Corporate Limited	Bryan Pallop GAW	26	26	-	-	-	52	5.2 ⁹
	KUOK Khoon Hua	48	-	-	-	-	48	4.8 ⁹
SCMP Group Limited	KUOK Khoon Hua	-	-	-	620,000	-	620,000	0.04 ¹⁰
Shang Properties, Inc.	HO Shut Kan	1,570	-	-	-	-	1,570	0.00 ¹¹
	Bryan Pallop GAW	-	582,532	-	248,482	-	831,014	0.02 ¹¹
	KUOK Khoon Hua	-	-	-	193,482	-	193,482	0.00 ¹¹
Vencedor Investments Limited	Bryan Pallop GAW	5	5	-	-	-	10	10.00 ¹²
	KUOK Khoon Hua	5	-	-	-	-	5	5.00 ¹²
Wiseyear Holdings Limited	WONG Siu Kong	US\$4,000,000 5% Notes due 2017	-	-	-	N/A	US\$4,000,000 5% Notes due 2017	N/A
	QIAN Shaohua	US\$1,000,000 5% Notes due 2017	-	-	-	N/A	US\$1,000,000 5% Notes due 2017	N/A

Notes:

1. This represents interests held by the relevant Director as beneficial owner.
2. This represents interests held and/or deemed to be held by the spouse of the relevant Director.
3. This represents interests deemed to be held by the relevant Director through his controlled corporation(s).
4. This represents interests deemed to be held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
5. This represents interests in options held by the relevant Director and/or his spouse as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited ("KGL") and Kerry Logistics Network Limited ("KLN").

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

Notes: (continued)

6. The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2015 (i.e. 1,445,831,228 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2015 (i.e. 1,524,568,043 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2015 (i.e. 1,693,920,612 ordinary shares).
9. The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 30 June 2015 (i.e. 1,000 ordinary shares).
10. The percentage has been compiled based on the total number of ordinary shares of SCMP Group Limited in issue as at 30 June 2015 (i.e. 1,561,057,596 ordinary shares).
11. The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 30 June 2015 (i.e. 4,764,056,287 common shares).
12. The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 30 June 2015 (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 2015, 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 2015, 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	822,820,793 ⁽ⁱ⁾	Long position	56.91
Kerry Holdings Limited	Interest of controlled corporations	744,835,378 ⁽ⁱ⁾	Long position	51.52
Caninco Investments Limited	Beneficial owner	312,248,193 ⁽ⁱ⁾	Long position	21.60
Darmex Holdings Limited	Beneficial owner	256,899,261 ⁽ⁱ⁾	Long position	17.77
Moslane Limited	Beneficial owner	73,821,498 ⁽ⁱ⁾	Long position	5.11
BlackRock, Inc.	Interest of controlled corporations	72,945,533	Long position	5.05

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 2015 (i.e. 1,445,831,228 ordinary shares).

Apart from the aforesaid, as at 30 June 2015, 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 2015.

CORPORATE GOVERNANCE

During the six months ended 30 June 2015, 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 THE INFORMATION OF A DIRECTOR SINCE LAST ANNUAL REPORT

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

Mr. Ku Moon Lun, an Independent Non-executive Director of the Company, has been appointed as a non-executive director of Surbana Jurong Pte Ltd in Singapore in June 2015. Mr. Ku has ceased to be a member of the Hospital Governing Committee of Tuen Mun Hospital, Hong Kong Hospital Authority and has been appointed as a member of the Hospital Governing Committee of Queen Elizabeth Hospital, Hong Kong Hospital Authority in April 2015.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Monday, 7 September 2015 for the purpose of determining Shareholders' entitlement to the Interim Dividend and no transfer of shares will be effected on that date. In order to qualify for the Interim Dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, for registration not later than 4:30 p.m. on Friday, 4 September 2015. The Interim Dividend is payable on Wednesday, 16 September 2015 to Shareholders whose names appear on the Registers of Members on Monday, 7 September 2015.

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 2015.

DIRECTORS

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

Executive Directors:

Messrs Wong Siu Kong, Ho Shut Kan, Qian Shaohua and Bryan Pallop Gaw

Non-executive Director:

Mr Kuok Khoon Hua

Independent Non-executive Directors:

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

By Order of the Board

Li Siu Ching, Liz

Company Secretary

Hong Kong, 20 August 2015