



KERRY PROPERTIES LIMITED

2018 INTERIM REPORT

For the six months ended 30 June 2018

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, *Chief Executive Officer*
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 Ho Shut Kan
Mr Ku Moon Lun
Mr Chang Tso Tung, *Stephen*

NOMINATION COMMITTEE

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

FINANCE COMMITTEE

Mr Wong Siu Kong
Mr Ho Shut Kan

EXECUTIVE COMMITTEE

Mr Wong Siu Kong
Mr Ho Shut Kan
Mr Bryan Pallop Gaw

COMPANY SECRETARY

Ms Li Siu Ching, *Liz*

AUDITOR

PricewaterhouseCoopers

REGISTERED OFFICE

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

**HEAD OFFICE AND PRINCIPAL PLACE OF
BUSINESS**

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

**PRINCIPAL SHARE REGISTRAR AND
TRANSFER OFFICE**

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

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

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

CORPORATE COMMUNICATION DEPARTMENT

Kerry Properties Limited
25/F, Kerry Centre, 683 King's Road
Quarry Bay, Hong Kong
Telephone: (852) 2967 2200
Facsimile: (852) 2967 2900
Email: communication@kerryprops.com

INVESTOR RELATIONS DEPARTMENT

Kerry Properties Limited
25/F, Kerry Centre, 683 King's Road
Quarry Bay, Hong Kong
Telephone: (852) 2967 2200
Facsimile: (852) 2967 2900
Email: ir@kerryprops.com

WEBSITE

www.kerryprops.com

KEY DATES

Closure of Registers of Members
6 September 2018

Proposed Payment of Interim Dividend
18 September 2018

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2018

The Board of Directors (the “**Board**”) of the Company reports the unaudited interim results of the Group for the six months ended 30 June 2018. 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 2018 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2018 was HK\$3,990 million, representing an increase of 21% compared with HK\$3,309 million reported for the same period in 2017. 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\$2,438 million for the six months ended 30 June 2018 (2017: HK\$476 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded a decrease of 45% in profit attributable to shareholders to HK\$1,552 million for the six months ended 30 June 2018 (2017: HK\$2,833 million). The decrease was mainly due to the adoption of new accounting standards starting from 1 January 2018 (Note 2) and the provision for impairment loss for property under development in Macau amounting to HK\$1,175 million (2017: Nil) (Note 6).

Earnings per share for the six months ended 30 June 2018 was HK\$2.75, representing an increase of 20% compared with HK\$2.29 per share for the same period in 2017. The basis of calculating the earnings per share is detailed in Note 8 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		
	2018	2017	
	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	1,552	2,833	-45%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>2,438</u>	<u>476</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>3,990</u>	<u>3,309</u>	+21%

The Directors have declared an interim dividend of HK\$0.40 per share for the six months ended 30 June 2018 (the “**Interim Dividend**”) (2017: HK\$0.45), which is payable on Tuesday, 18 September 2018 to the shareholders of the Company (the “**Shareholders**”) whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Thursday, 6 September 2018.

At the Company’s Annual General Meeting held on 18 May 2018, the Shareholders approved the final dividend of HK\$0.90 per share and a special dividend of HK\$0.15 per share for the year ended 31 December 2017 which amounted to a total of approximately HK\$1,524 million and was paid on 5 June 2018.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2018	2017
		HK\$'000	HK\$'000
Turnover	4	10,560,085	17,741,993
Cost of sales and direct expenses		(6,298,326)	(13,639,909)
Gross profit	4	4,261,759	4,102,084
Other income and net gains/(losses)		(726,631)	293,711
Administrative and other operating expenses		(532,260)	(486,293)
Increase in fair value of investment properties		3,386,745	474,400
Operating profit before finance costs		6,389,613	4,383,902
Finance costs		(350,858)	(215,970)
Operating profit	5	6,038,755	4,167,932
Share of results of associates and joint ventures		805,594	687,983
Profit before taxation		6,844,349	4,855,915
Taxation	7	(1,947,846)	(1,057,620)
Profit for the period		4,896,503	3,798,295
Profit attributable to:			
Company's shareholders		3,990,095	3,309,224
Non-controlling interests		906,408	489,071
		4,896,503	3,798,295
Earnings per share	8		
– Basic		HK\$2.75	HK\$2.29
– Diluted		HK\$2.75	HK\$2.29

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Profit for the period	4,896,503	3,798,295
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	9,341	(176,395)
Fair value loss on available-for-sale investments	–	(2,980)
Share of other comprehensive income of associates and joint ventures	(98,500)	160,583
Net translation differences on foreign operations	114,493	1,479,854
Items that will not be reclassified to profit or loss		
Fair value loss on equity investments at fair value through other comprehensive income	(15,805)	–
Other comprehensive income for the period, net of tax	9,529	1,461,062
Total comprehensive income for the period	<u>4,906,032</u>	<u>5,259,357</u>
Total comprehensive income attributable to:		
Company's shareholders	3,945,253	4,442,866
Non-controlling interests	960,779	816,491
	<u>4,906,032</u>	<u>5,259,357</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2018	2017
Note		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
	9	5,990,348	6,109,169
Property, plant and equipment			
	9	73,951,879	64,340,586
Investment properties			
	9	2,092,127	2,114,323
Leasehold land and land use rights			
		16,158,068	20,545,581
Properties under development			
		523,690	1,803,074
Land deposits			
		23,925,577	23,832,979
Associates and joint ventures			
		60,650	37,342
Derivative financial instruments			
		–	5,344,294
Available-for-sale investments			
		5,355,226	–
Financial assets at fair value			
		3,769,932	3,641,905
Mortgage loans receivable			
	9	122,504	122,504
Intangible assets			
		131,950,001	127,891,757
Current assets			
		5,422,013	6,849,586
Properties under development			
		13,795,866	16,871,931
Completed properties held for sale			
	10	2,116,786	7,566,211
Accounts receivable, prepayments and deposits			
		31,486	30,025
Current portion of mortgage loans receivable			
		236,257	145,952
Tax recoverable			
		189,598	189,347
Tax reserve certificates			
		7,104	7,732
Listed securities at fair value through profit or loss			
		–	3,645
Derivative financial instruments			
		590,149	595,906
Restricted bank deposits			
		13,517,240	13,151,714
Cash and bank balances			
		35,906,499	45,412,049

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited As at 30 June 2018 <i>HK\$'000</i>	Audited As at 31 December 2017 <i>HK\$'000</i>
	Note		
Current liabilities			
Accounts payable, deposits received and accrued charges	11	6,556,447	7,630,548
Contract liabilities		4,871,046	–
Deposits received on sale of properties		–	8,133,574
Taxation		2,092,019	2,093,149
Short-term bank loans and current portion of long-term bank loans	12	7,364,583	8,903,148
		<u>20,884,095</u>	<u>26,760,419</u>
Net current assets		<u>15,022,404</u>	<u>18,651,630</u>
Total assets less current liabilities		146,972,405	146,543,387
Non-current liabilities			
Long-term bank loans	12	22,736,389	26,781,716
Fixed rate bonds		2,348,037	2,336,901
Amounts due to non-controlling interests		2,127,965	2,106,291
Deferred taxation		8,503,860	7,606,669
		<u>35,716,251</u>	<u>38,831,577</u>
ASSETS LESS LIABILITIES		<u>111,256,154</u>	<u>107,711,810</u>
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,454,570	1,446,538
Share premium		12,997,246	12,515,673
Other reserves		11,485,676	12,294,722
Retained profits		71,088,224	68,092,523
		<u>97,025,716</u>	<u>94,349,456</u>
Non-controlling interests		<u>14,230,438</u>	<u>13,362,354</u>
TOTAL EQUITY		<u>111,256,154</u>	<u>107,711,810</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	8,366,204	7,491,270
Interest paid	(517,526)	(848,740)
Income tax paid	(1,161,157)	(1,331,192)
Net cash generated from operating activities	6,687,521	5,311,338
Investing activities		
Additions of property, plant and equipment	(83,501)	(17,632)
Additions of investment properties	(60,041)	–
Proceeds from disposal of assets and liabilities of disposal groups classified as held for sale	–	729,615
Increase in investment in associates and joint ventures	(22,333)	(862,000)
Dividends received from associates	364,959	906,582
Return of capital from an associate	89,042	–
Additional loans to associates and joint ventures	(139,674)	(102,095)
Repayment of loans by associates and joint ventures	83,494	449,592
Additional loans from associates and joint ventures	160,964	256,363
Repayment of loans to associates and joint ventures	(67)	(788)
Additions of available-for-sale investments	–	(13,264)
Increase in mortgage loans receivable	(129,488)	(2,065,818)
Interest received	262,474	205,236
Decrease in restricted bank deposits	8,559	73,801
Increase in bank deposits maturing after more than three months	(59,280)	(330,608)
Dividends received from listed and unlisted investments	38,318	35,976
Proceeds from sale of property, plant and equipment	337	310
Proceeds from sale of investment properties	25,309	78,811
Proceeds from sale of non-current assets reclassified as held for sale	–	392,161
Net cash generated from/(used in) investing activities	539,072	(263,758)
Financing activities		
Proceeds from issue of shares	254,817	3,034
Repayment of bank loans	(11,858,346)	(17,405,667)
Drawdown of bank loans	6,236,088	16,594,898
Dividends paid	(1,523,810)	(1,154,618)
Redemption of fixed rate bonds	–	(4,654,380)
Dividends of subsidiaries paid to non-controlling interests	(92,695)	(199,455)
Additional loans from non-controlling interests	17,032	64,826
Repayment of loans to non-controlling interests	(7,278)	–
Net cash used in financing activities	(6,974,192)	(6,751,362)
Increase/(decrease) in cash and cash equivalents	252,401	(1,703,782)
Effect of exchange rate changes	53,843	348,432
Cash and cash equivalents at 1 January	12,651,234	16,014,066
Cash and cash equivalents at 30 June	12,957,478	14,658,716
Analysis of cash and cash equivalents		
Cash and bank balances (excluding bank deposits maturing after more than three months)	12,957,478	14,658,716

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

	Attributable to shareholders of the Company					Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000		
Balance as at 1 January 2018	1,446,538	12,515,673	12,294,722	68,092,523	94,349,456	13,362,354	107,711,810
Adjustment on adoption of HKFRS 9 (Note 2(i)(a))	-	-	(580,277)	580,277	-	-	-
Restated balance as at 1 January 2018	1,446,538	12,515,673	11,714,445	68,672,800	94,349,456	13,362,354	107,711,810
Profit for the period	-	-	-	3,990,095	3,990,095	906,408	4,896,503
Cash flow hedges	-	-	9,341	-	9,341	-	9,341
Share of reserves of associates and joint ventures	-	-	(98,500)	-	(98,500)	-	(98,500)
Net translation differences on foreign operations	-	-	60,122	-	60,122	54,371	114,493
Fair value loss on equity investments at fair value through other comprehensive income	-	-	(15,805)	-	(15,805)	-	(15,805)
Total comprehensive income for the six months ended 30 June 2018	-	-	(44,842)	3,990,095	3,945,253	960,779	4,906,032
Issue of share capital – exercise of share options	8,032	312,398	(65,613)	-	254,817	-	254,817
Lapse of share options	-	169,175	(169,175)	-	-	-	-
Dividends paid	-	-	-	(1,523,810)	(1,523,810)	(92,695)	(1,616,505)
Transfer	-	-	50,861	(50,861)	-	-	-
	8,032	481,573	(183,927)	(1,574,671)	(1,268,993)	(92,695)	(1,361,688)
Balance as at 30 June 2018	<u>1,454,570</u>	<u>12,997,246</u>	<u>11,485,676</u>	<u>71,088,224</u>	<u>97,025,716</u>	<u>14,230,438</u>	<u>111,256,154</u>

	Attributable to shareholders of the Company					Non-controlling interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2017	1,443,148	12,408,816	8,179,121	60,713,322	82,744,407	12,473,965	95,218,372
Profit for the period	-	-	-	3,309,224	3,309,224	489,071	3,798,295
Cash flow hedges	-	-	(176,395)	-	(176,395)	-	(176,395)
Fair value loss on available-for-sale investments	-	-	(2,980)	-	(2,980)	-	(2,980)
Share of reserves of associates	-	-	160,583	-	160,583	-	160,583
Net translation differences on foreign operations	-	-	1,152,434	-	1,152,434	327,420	1,479,854
Total comprehensive income for the six months ended 30 June 2017	-	-	1,133,642	3,309,224	4,442,866	816,491	5,259,357
Issue of share capital – exercise of share options	125	3,629	(720)	-	3,034	-	3,034
Lapse of share options	-	273	(273)	-	-	-	-
Dividends paid	-	-	-	(1,154,618)	(1,154,618)	(199,455)	(1,354,073)
Transfer	-	-	29,465	(29,465)	-	-	-
Disposal of assets and liabilities of disposal groups classified as held for sale	-	-	95,432	-	95,432	(104,465)	(9,033)
	<u>125</u>	<u>3,902</u>	<u>123,904</u>	<u>(1,184,083)</u>	<u>(1,056,152)</u>	<u>(303,920)</u>	<u>(1,360,072)</u>
Balance as at 30 June 2017	<u>1,443,273</u>	<u>12,412,718</u>	<u>9,436,667</u>	<u>62,838,463</u>	<u>86,131,121</u>	<u>12,986,536</u>	<u>99,117,657</u>

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 2017. 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 2017 except for the followings:

The Group has adopted Hong Kong Financial Reporting Standard (“**HKFRS**”) 9 “Financial instruments” and HKFRS 15 “Revenue from contracts with customers” on 1 January 2018.

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied.

From 1 January 2018 onwards, the Group has adopted the following accounting policies on revenue.

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time.

Control of the good or service is transferred over time if the Group’s performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the asset is transferred over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.

The progress towards complete satisfaction of the performance obligation is measured based on one of the following methods that best depict the Group’s performance in satisfying the performance obligation:

- direct measurements of the value transferred by the Group to the customer; or
- the Group’s efforts or inputs to the satisfaction of the performance obligation relative to the total expected efforts or inputs.

The other standards and amendments which are effective for the accounting period beginning on 1 January 2018 are not material to the Group.

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

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2017. In addition, the adoption of HKFRS 15 requires significant judgement in the recognition of sales of properties, while the adoption of HKFRS 9 requires significant judgement when applying the business model test for classification and measurement or assumption made in incorporating forward-looking information into expected credit loss calculations.

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

The impacts of the above changes are disclosed in Note 2.

2. Changes in accounting policies

As explained in Note 1, the Group has adopted HKFRS 9 and HKFRS 15 from 1 January 2018, which results in changes in accounting policies and adjustments to the amounts recognised in the unaudited condensed consolidated interim financial statements. In accordance with the transitional provisions in HKFRS 9 and HKFRS 15, comparative figures have not been restated.

HKFRS 9 replaces the provisions of HKAS 39 "Financial instruments" that relate to the recognition, classification and measurement of financial assets and financial liabilities; derecognition of financial instruments; impairment of financial assets and hedge accounting. HKFRS 9 also significantly amends other standards dealing with financial instruments such as HKFRS 7 "Financial instruments – disclosures".

HKFRS 15 replaces both the provisions of HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and the related interpretations that relate to the recognition, classification and measurement of revenue and costs.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2. Changes in accounting policies (continued)

The effects of the adoption of HKFRS 9 and HKFRS 15 are as follows:

(i) Impact on the financial statements

- (a) The impact on the Group's financial position as at 1 January 2018 by the application of HKFRS 9 and HKFRS 15 is as follows:

	As at 1 January 2018			
	As previously stated <i>HK\$'000</i>	Effect of adoption of HKFRS 9 (Note 2(ii)) <i>HK\$'000</i>	Effect of adoption of HKFRS 15 (Note 2(iii)) <i>HK\$'000</i>	As restated <i>HK\$'000</i>
Condensed consolidated interim statement of financial position (extract)				
Available-for-sale investments ("AFS")	5,344,294	(5,344,294)	–	–
Financial assets at fair value	–	5,344,294	–	5,344,294
Deposits received on sale of properties	8,133,574	–	(8,133,574)	–
Contract liabilities	–	–	8,133,574	8,133,574
Other reserves	12,294,722	(580,277)	–	11,714,445
Retained profits	68,092,523	580,277	–	68,672,800

- (b) The amount by each financial statement line items affected in the current period and period to date by the application of HKFRS 9 and HKFRS 15 is as follows:

	As at 30 June 2018			
	Without the adoption of HKFRS 9 and HKFRS 15 <i>HK\$'000</i>	Effect of adoption of HKFRS 9 <i>HK\$'000</i>	Effect of adoption of HKFRS 15 <i>HK\$'000</i>	As reported <i>HK\$'000</i>
Condensed consolidated interim statement of financial position (extract)				
Associates and joint ventures	23,876,539	–	49,038	23,925,577
Available-for-sale investments	5,311,657	(5,355,226)	43,569	–
Financial assets at fair value	–	5,355,226	–	5,355,226
Completed properties held for sale	11,440,071	–	2,355,795	13,795,866
Accounts receivable, prepayment and other receivables	5,821,387	–	(3,704,601)	2,116,786
Accounts payable, deposits received and accrued charges	6,789,022	–	(232,575)	6,556,447
Contract liabilities	–	–	4,871,046	4,871,046
Deposits received on sale of properties	4,575,454	–	(4,575,454)	–
Taxation	2,324,970	–	(232,951)	2,092,019
Other reserves	12,035,982	(590,915)	40,609	11,485,676
Retained profits	71,624,183	590,915	(1,126,874)	71,088,224
For the six months ended 30 June 2018				
	Without the adoption of HKFRS 9 and HKFRS 15 <i>HK\$'000</i>	Effect of adoption of HKFRS 9 <i>HK\$'000</i>	Effect of adoption of HKFRS 15 <i>HK\$'000</i>	As reported <i>HK\$'000</i>
Condensed consolidated interim income statement (extract)				
Revenue	14,529,294	–	(3,969,209)	10,560,085
Cost of sales and direct expenses	(8,855,712)	–	2,557,386	(6,298,326)
Other income and net gains/(losses)	(737,269)	10,638	–	(726,631)
Share of results of associates and joint ventures	753,596	–	51,998	805,594
Taxation	(2,180,797)	–	232,951	(1,947,846)
Profit attributable to:				
Company's shareholders	5,106,331	10,638	(1,126,874)	3,990,095
Earnings per share	HK\$	HK\$	HK\$	HK\$
– Basic	3.52	0.01	(0.78)	2.75
– Diluted	3.52	0.01	(0.78)	2.75

The adoption of HKFRS 9 and HKFRS 15 has no impact to the condensed consolidated statement of cash flows.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2. Changes in accounting policies (continued)

(ii) HKFRS 9 – impact of adoption

(a) Classification and measurement of financial instruments

Management has assessed the business models and the contractual terms of the cash flows apply to the financial assets held by the Group at the date of initial application of HKFRS 9 (1 January 2018) and has classified its financial instruments into the appropriate HKFRS 9 categories, which are those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and those to be measured at amortised cost.

The main effects resulting from this reclassification are as follows:

	Available-for-sale investments HK\$'000	Financial assets at fair value HK\$'000
Opening balance – HKAS 39	5,344,294	–
Reclassifications	<u>(5,344,294)</u>	<u>5,344,294</u>
Opening balance – HKFRS 9	<u>–</u>	<u>5,344,294</u>

The main effects resulting from this reclassification on the Group's equity are as follows:

	AFS revaluation reserve HK\$'000	Fair value through other comprehensive income ("FVOCI") reserve HK\$'000	Retained profits HK\$'000
Opening balance – HKAS 39	1,521,613	–	68,092,523
Reclassify investments from AFS to financial assets at fair value	<u>(1,521,613)</u>	<u>941,336</u>	<u>580,277</u>
Opening balance – HKFRS 9	<u>–</u>	<u>941,336</u>	<u>68,672,800</u>

Accumulated fair value gains of certain investments amounting to HK\$580,277,000 were reclassified from AFS revaluation reserve to retained profits on 1 January 2018.

The Group elected to present in other comprehensive income the changes in fair value of certain investments previously classified as available-for-sale because these investments are held as long-term strategic investments. As a result, accumulated fair value gains of these investments amounting to HK\$941,336,000 were reclassified from AFS revaluation reserve to FVOCI reserve on 1 January 2018.

(b) *Impairment of financial assets*

The new impairment model requires the recognition of impairment provisions based on expected credit losses (“**ECL**”) rather than only incurred credit losses as is the case under HKAS 39. The Group has two types of financial assets at amortised cost subject to HKFRS 9’s new expected credit loss model:

- second mortgage loans receivable
- trade and other receivables (excluding prepayments and second mortgage loans receivable)

The Group revised its impairment methodology under HKFRS 9 for each of these classes of assets.

(I) Second mortgage loans receivable

For second mortgage loans receivable already in place at 1 January 2018, the Group has determined that reliably assessing the probability of default at the initial recognition of each second mortgage loans receivable would result in undue cost and effort. As permitted by HKFRS 9, the credit provision will be determined based on whether credit risk is low only at each reporting date, until the loan is derecognised. The impairment provision based on the ECL for the second mortgage loans receivable whose credit risk has been assessed as other than low and for which the impairment methodology has been applied is immaterial to the financial position of the Group as at 1 January 2018 and 30 June 2018.

(II) Trade and other receivables (excluding prepayments and second mortgage loans receivable)

For trade and other receivables (excluding prepayments and second mortgage loans receivable), the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected loss provision for all trade and other receivables (excluding prepayments and second mortgage loans receivable). The impairment provision based on the ECL for the trade and other receivables (excluding prepayments and second mortgage loans receivable) whose credit risk has been assessed as other than low and for which the impairment methodology has been applied is immaterial to the financial position of the Group as at 1 January 2018 and 30 June 2018.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

2. Changes in accounting policies (continued)

(iii) HKFRS 15 – impact of adoption

Accounting for property development activities

In prior reporting periods, the Group accounted for property development activities when significant risks and rewards of ownership of properties have been transferred to the customers.

Under HKFRS 15, revenue from pre-sales of properties is recognised when or as the control of the asset is transferred to the customer. Depending on the terms of the contract and laws that apply to the contract, control of the properties under development may transfer over time or at a point in time. If properties have no alternative use to the Group contractually and the Group has an enforceable right to payment from the customers for performance completed to date, the Group satisfies the performance obligation over time and therefore, recognises revenue over time in accordance with the input method for measuring progress. Otherwise, revenue is recognised at a point in time when the customer obtains control of the completed property.

The progress towards complete satisfaction of the performance obligation is measured based on the property development costs incurred as a percentage of total estimated costs for complete satisfaction as allocated to the contract.

The timing of revenue recognition for sale of certain completed properties, which was previously based on whether significant risks and rewards of ownership of properties transfer, will be recognised at a later point in time when the underlying property is legally or physically transferred to the customer under the control transfer model.

The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue for the sale of property will be adjusted when significant financing component exists in that contract.

The Group provides different incentives to customers when they sign a property sale contract. Certain incentives represents separate performance obligation in a contract. Part of the consideration of the contract will be allocated to those performance obligations and recognised as revenue only when performance obligation is satisfied. The amount of revenue for the sale of property will also be reduced for any cash payment to customer which does not represent fair value of good or service provided by the customer.

Certain costs incurred for obtaining a pre-sale property contract, which were previously expensed off in profit and loss directly, will be eligible for capitalisation under HKFRS 15 and match with revenue recognition pattern of related contract in the future.

The excess of cumulative revenue recognised in profit or loss over the cumulative payments made by customers is recognised as contract assets. The excess of cumulative payments made by customers over the cumulative revenue recognised in profit or loss is recognised as contract liabilities. Contract liabilities recognised in relation to property development activities were previously presented as deposits received on sale of properties (HK\$8,133,574,000 as at 1 January 2018).

Other than the presentation of contract liabilities, the adoption of HKFRS 15 has no material impact on the condensed consolidated interim financial statements of the Group as at 1 January 2018.

3. 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 2017. There have been no changes in the Group's financial risk management structure and policies since the year end.

(ii) Fair value estimation of financial instruments

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

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 30 June 2018:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	60,650	–	60,650
Financial assets at fair value	50,197	–	5,305,029	5,355,226
Listed securities at fair value through profit or loss	7,104	–	–	7,104
First mortgage loans receivable	–	–	2,499,589	2,499,589
	<u>–</u>	<u>–</u>	<u>2,499,589</u>	<u>2,499,589</u>
Total assets	<u>57,301</u>	<u>60,650</u>	<u>7,804,618</u>	<u>7,922,569</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

(ii) Fair value estimation of financial instruments (continued)

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2017:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	–	40,987	–	40,987
Available-for-sale investments	61,501	–	5,282,793	5,344,294
Listed securities at fair value through profit or loss	7,732	–	–	7,732
First mortgage loans receivable	–	–	2,442,536	2,442,536
	<u>69,233</u>	<u>40,987</u>	<u>7,725,329</u>	<u>7,835,549</u>
Total assets				

There were no transfers between Levels during the period.

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

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

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

The following table presents the changes in Level 3 instruments:

	First mortgage loans receivable		Financial assets at fair value (2017: Available-for-sale investments)	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Opening balance as at 1 January	2,442,536	611,329	5,282,793	4,804,782
Gains recognised in profit or loss	–	–	21,942	–
Losses recognised in comprehensive income	–	–	(15,805)	(3,384)
Additions	57,853	1,529,566	–	13,264
Repayments	(800)	–	–	–
Exchange adjustment	–	–	16,099	81,189
	<u>2,499,589</u>	<u>2,140,895</u>	<u>5,305,029</u>	<u>4,895,851</u>
Closing balance as at 30 June				

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

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

There were no changes in valuation techniques during the period.

(v) Group's valuation processes for financial instruments

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

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

The fair value of the listed fixed rate bonds as at 30 June 2018 was HK\$2,460,466,000 (31 December 2017: HK\$2,507,681,000).

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

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

(vii) Valuation of investment properties

	Residential properties under development Hong Kong HK\$'000	Completed residential properties Hong Kong HK\$'000	Completed commercial properties Hong Kong PRC HK\$'000 HK\$'000		Commercial properties under development PRC HK\$'000	Total HK\$'000
At 1 January 2018	865,000	14,383,100	10,649,720	38,442,766	–	64,340,586
Net gains from fair value adjustment	9,389	405,520	97,000	1,368,249	1,506,587	3,386,745
Additions	33,611	–	–	26,430	–	60,041
Disposals	–	–	–	(14,392)	–	(14,392)
Transfer	–	–	–	583,042	5,414,821	5,997,863
Exchange adjustments	–	–	–	181,036	–	181,036
At 30 June 2018	<u>908,000</u>	<u>14,788,620</u>	<u>10,746,720</u>	<u>40,587,131</u>	<u>6,921,408</u>	<u>73,951,879</u>
At 1 January 2017	–	12,141,800	9,884,650	34,923,517	–	56,949,967
Net gains from fair value adjustment	–	200,615	–	273,785	–	474,400
Disposals	–	–	–	(59,384)	–	(59,384)
Transfer	–	1,353,385	–	–	–	1,353,385
Exchange adjustments	–	–	–	896,399	–	896,399
At 30 June 2017	<u>–</u>	<u>13,695,800</u>	<u>9,884,650</u>	<u>36,034,317</u>	<u>–</u>	<u>59,614,767</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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

(vii) Valuation of investment properties (continued)

Valuation techniques

Fair value of completed residential and commercial properties in Hong Kong and the People's Republic of China ("PRC") is mainly derived using the income capitalisation method and whenever appropriate, by direct comparison method.

Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuers' interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties.

Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

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

The valuation techniques used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2017.

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 2018, capitalisation rates of 2.8% to 5.3% (31 December 2017: 2.8% to 5.3%) and 4.8% to 8.8% (31 December 2017: 4.8% to 8.8%) 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 the reporting date for investment properties under development. The estimates are largely consistent with the budgets developed internally by the Group based on management's experience and knowledge of market conditions. The higher the costs and the margins, the lower the fair value.

4. Principal activities and segmental analysis of operations

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

	Turnover		Gross profit	
	Six months ended 30 June		Six months ended 30 June	
	2018	2017	2018	2017
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
– PRC Property	1,862,142	1,672,947	1,495,371	1,337,649
– Hong Kong Property	565,599	540,019	453,151	437,639
	2,427,741	2,212,966	1,948,522	1,775,288
Property sales				
– PRC Property (Note)	5,385,205	4,520,649	1,599,244	980,518
– Hong Kong Property	1,668,317	10,084,927	504,567	1,175,965
	7,053,522	14,605,576	2,103,811	2,156,483
Hotel operations – PRC Property	1,078,822	923,451	209,426	170,313
	10,560,085	17,741,993	4,261,759	4,102,084
Principal markets:				
– PRC	8,326,169	7,117,047	3,304,041	2,488,480
– Hong Kong	2,233,916	10,624,946	957,718	1,613,604
	10,560,085	17,741,993	4,261,759	4,102,084

Note: Sales of investment properties for the six months ended 30 June 2018 amounting to HK\$25,309,000 (2017: HK\$78,811,000) are excluded from turnover.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

	Six months ended 30 June 2018				
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Total HK\$'000
Revenue					
Turnover	<u>8,326,169</u>	<u>2,233,916</u>	<u>10,560,085</u>	–	<u>10,560,085</u>
Results					
Segment results – gross profit	<u>3,304,041</u>	<u>957,718</u>	<u>4,261,759</u>	–	<u>4,261,759</u>
Other income and net gains/ (losses)					<u>(726,631)</u>
Administrative and other operating expenses					<u>(532,260)</u>
Increase in fair value of investment properties					<u>3,386,745</u>
Operating profit before finance costs					<u>6,389,613</u>
Finance costs					<u>(350,858)</u>
Operating profit					<u>6,038,755</u>
Share of results of associates and joint ventures					<u>805,594</u>
Profit before taxation					<u>6,844,349</u>
Taxation					<u>(1,947,846)</u>
Profit for the period					<u>4,896,503</u>
Profit attributable to:					
Company's shareholders					<u>3,990,095</u>
Non-controlling interests					<u>906,408</u>
					<u>4,896,503</u>
Depreciation and amortisation	<u>265,917</u>	<u>8,081</u>	<u>273,998</u>	<u>3,033</u>	<u>277,031</u>

Six months ended 30 June 2017

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

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

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

	As at 30 June 2018						
	PRC	Hong Kong	Overseas	Total	Others	Eliminations	Consolidated
	Property	Property	Property	Operating Segments			
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Total assets	<u>93,393,965</u>	<u>63,161,632</u>	<u>3,636,472</u>	<u>160,192,069</u>	<u>53,753,554</u>	<u>(46,089,123)</u>	<u>167,856,500</u>
Total liabilities	<u>47,465,679</u>	<u>28,182,955</u>	<u>1,052,033</u>	<u>76,700,667</u>	<u>25,988,802</u>	<u>(46,089,123)</u>	<u>56,600,346</u>
	As at 31 December 2017						
	PRC	Hong Kong	Overseas	Total	Others	Eliminations	Consolidated
	Property	Property	Property	Operating Segments			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Total assets	<u>92,082,474</u>	<u>71,035,281</u>	<u>3,580,442</u>	<u>166,698,197</u>	<u>57,453,985</u>	<u>(50,848,376)</u>	<u>173,303,806</u>
Total liabilities	<u>49,838,432</u>	<u>34,715,646</u>	<u>952,892</u>	<u>85,506,970</u>	<u>30,933,402</u>	<u>(50,848,376)</u>	<u>65,591,996</u>

5. Operating profit

	Six months ended 30 June	
	2018	2017
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income	38,318	35,976
Interest income	312,262	205,227
Gain on sale of investment properties, net	10,371	14,862
<i>Charging</i>		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	277,031	282,739
Provision for impairment loss for property under development (Note 6)	1,175,281	–
Total finance costs incurred	525,989	762,120
Less: amount capitalised in properties under development and investment properties under development	(164,809)	(324,355)
Fair value gain on derivative financial instruments	361,180	437,765
	(10,322)	(221,795)
Total finance costs expensed during the period	350,858	215,970

6. Provision for impairment loss for property under development

The Group had acquired 100% interest of a project located at Lot C12 at Nam Van Lake, Macau (“**Nam Van Lake Project**”) in 2007 through acquisition of the land owning company which is now a wholly owned subsidiary of the Group. The land lease of the Nam Van Lake Project was valid until 30 July 2016. Despite continuous submission of various applications and development proposals to proceed with the project, the development works were forced to come to a halt after the completion of foundation and site formation works due to Macau SAR Government’s suspension of review of building plan submissions. It was not until 2012 that the Group was officially informed by the Macau SAR Government that it was reconsidering the master planning of Areas C&D of Nam Van Lake district in light of the inclusion of the Historic Centre of Macau SAR into the World Heritage List. Over the years, the Group has continuously chased Macau SAR Government to finalise the master planning of Areas C&D of Nam Van Lake district and to process the building plan submissions but to no avail.

In June 2016, the Group submitted to Macau SAR Government a request for the renewal of the land lease and was subsequently informed by the Macau SAR Government in July of the same year that the Land Law does not allow for the renewal of leases which had not been developed. The land lease period ended on 30 July 2016. Prior to the expiry of the land the Macau SAR Government had published a list of land stating that non-development of the land was not attributable to the fault of the lessees and Lot C12 at Nam Van Lake, Macau was included in this list. In May 2018, Macau SAR Government nonetheless gazetted the expiry of the land lease of the Nam Van Lake Project for the reason of non-development and the Group was formally notified of the aforesaid expiry by letter from Macau SAR Government.

In June 2018, the Group filed an appeal (“**Appeal**”) to the Court of Second Instance of Macau SAR (“**Court**”) against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease. Macau SAR Government will have to submit its defense to the Appeal within a definite time period after it has been summoned for the relevant proceedings by the Court.

As Macau SAR Government has officially declared expiry of the land lease, full impairment provision for the Nam Van Lake project amounting to approximately HK\$1,175 million was made.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

7. Taxation

	Six months ended 30 June	
	2018	2017
	<i>HK\$'000</i>	<i>HK\$'000</i>
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(880,805)	(713,226)
Over/(under)-provision in prior years	1,665	(283)
Deferred	(922,450)	(111,417)
	(1,801,590)	(824,926)
Hong Kong profits tax		
Current	(140,750)	(222,717)
Over-provision in prior years	228	46
Deferred	16	(1,172)
	(140,506)	(223,843)
Overseas taxation		
Current	(5,889)	(4,603)
Under-provision in prior years	(2,015)	–
Deferred	2,154	(4,248)
	(5,750)	(8,851)
	(1,947,846)	(1,057,620)

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profit for the six months ended 30 June 2018. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2018 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.

8. 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	
	2018	2017
Weighted average number of ordinary shares in issue	1,449,666,510	1,443,202,968
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	3,990,095	3,309,224
Basic earnings per share	HK\$2.75	HK\$2.29

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	
	2018	2017
Weighted average number of ordinary shares in issue	1,449,666,510	1,443,202,968
Adjustment for share options	3,303,968	209,642
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	1,452,970,478	1,443,412,610
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	3,990,095	3,309,224
Diluted earnings per share	HK\$2.75	HK\$2.29

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

9. 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 2018	6,109,169	64,340,586	2,114,323	122,504
Additions	83,501	60,041	–	–
Fair value gains	–	3,386,745	–	–
Disposals	(219)	(14,392)	–	–
Transfer	11,395	5,997,863	–	–
Depreciation and amortisation	(244,417)	–	(32,901)	–
Exchange adjustment	30,919	181,036	10,705	–
	<u>5,990,348</u>	<u>73,951,879</u>	<u>2,092,127</u>	<u>122,504</u>
Net book value at 30 June 2018	<u>5,990,348</u>	<u>73,951,879</u>	<u>2,092,127</u>	<u>122,504</u>
Net book value at 1 January 2017	5,758,321	56,949,967	1,893,221	122,504
Additions	17,632	–	–	–
Fair value gains	–	474,400	–	–
Disposals	(318)	(59,384)	–	–
Transfer	(573)	1,353,385	–	–
Depreciation and amortisation	(255,936)	–	(27,203)	–
Exchange adjustment	140,350	896,399	48,443	–
	<u>5,659,476</u>	<u>59,614,767</u>	<u>1,914,461</u>	<u>122,504</u>
Net book value at 30 June 2017	<u>5,659,476</u>	<u>59,614,767</u>	<u>1,914,461</u>	<u>122,504</u>

10. 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 2018 is as follows:

	As at 30 June 2018 <i>HK\$'000</i>	As at 31 December 2017 <i>HK\$'000</i>
Below 1 month	188,134	1,905,122
Between 1 month and 3 months	24,022	427,595
Over 3 months	16,142	1,999,300
	<u>228,298</u>	<u>4,332,017</u>

11. 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 2018 is as follows:

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Below 1 month	271,769	669,119
Between 1 month and 3 months	21,837	29,869
Over 3 months	6,287	15,079
	<u>299,893</u>	<u>714,067</u>

12. Bank loans

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Bank loans – unsecured	27,082,259	32,439,379
Bank loans – secured	3,018,713	3,245,485
Total bank loans (note (i))	30,100,972	35,684,864
Less: Short-term bank loans and current portion of long-term bank loans	(7,364,583)	(8,903,148)
	<u>22,736,389</u>	<u>26,781,716</u>

(i) As at 30 June 2018, the Group's bank loans were repayable as follows:

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Within one year	7,364,583	8,903,148
In the second to fifth year		
– In the second year	12,412,399	8,263,691
– In the third year	4,473,990	8,665,414
– In the fourth year	4,850,000	5,702,611
– In the fifth year	1,000,000	4,150,000
	<u>22,736,389</u>	<u>26,781,716</u>
Repayable within five years	<u>30,100,972</u>	<u>35,684,864</u>

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (continued)

13. Commitments

At 30 June 2018, the Group had capital and other commitments in respect of property, plant and equipment, investment properties, leasehold land and land use rights, properties under development, interest in joint ventures and others contracted for at the end of the period but not provided for in these financial statements as follows:

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Property, plant and equipment	4,036	5,189
Investment properties	1,246,985	48,191
Leasehold land and land use rights	342,636	342,636
Properties under development	3,060,192	3,789,833
Interest in joint ventures	1,056,517	1,092,326
Others	314,677	313,205
	<u>6,025,043</u>	<u>5,591,380</u>

14. Contingent liabilities

Guarantees for banking facilities

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Guarantees for banking facilities of certain associates (note (i))	1,307,155	1,313,629
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	4,035,044	4,242,516
	<u>5,342,199</u>	<u>5,556,145</u>

(i) The Group has executed guarantees for banking 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 2018 amounted to approximately HK\$1,307,155,000 (31 December 2017: HK\$1,313,629,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2018 amounted to approximately HK\$1,307,155,000 (31 December 2017: HK\$1,313,629,000).

(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 2018 amounted to approximately HK\$4,035,044,000 (31 December 2017: HK\$4,242,516,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2017.

15. Pledge of assets

As at 30 June 2018, the Group's total bank loans of HK\$30,100,972,000 (31 December 2017: HK\$35,684,864,000) included an aggregate amount of HK\$27,082,259,000 (31 December 2017: HK\$32,439,379,000) which is unsecured and an aggregate amount of HK\$3,018,713,000 (31 December 2017: HK\$3,245,485,000) 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\$17,226,055,000 (31 December 2017: HK\$16,585,886,000); and
- (ii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

The Group recorded a turnover of HK\$10,560 million for the six months ended 30 June 2018, representing a decrease of 40% when compared with the HK\$17,742 million posted for the corresponding six months ended 30 June 2017. 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 2018 was HK\$1,552 million (2017: HK\$2,833 million), representing a decrease of 45% period over period.

Due to the adoption of HKFRS 15 in 2018, recognition of property sales has been deferred from the transfer of significant risks and rewards of ownership to that of control of property to customers. This has resulted in a significant change in the sales recognised during the first six months of 2017 and 2018.

During the six months ended 30 June 2018, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$2,438 million (2017: HK\$476 million) was recognised in the Group's consolidated income statement.

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

	Six months ended 30 June		Change
	2018	2017	
	HK\$ million	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	1,552	2,833	-45%
Add:			
Net increase in fair value of investment properties and related tax effects	2,438	476	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	3,990	3,309	+21%

(B) PRC Property Division

The Division recorded a turnover of HK\$8,326 million (2017: HK\$7,117 million) during the six months ended 30 June 2018, an increase of 17%, as a result of a 19% growth in sales revenue from completed properties and a 13% increase in recurring revenue from rental and hotel operations. Gross profit rose by 33% to HK\$3,304 million (2017: HK\$2,488 million).

The Division continued to adjust its pace of sales activity as the central government maintained its policies to stabilise the housing market. The investment property portfolio recorded a steady rental performance.

(i) Investment Properties

During the six months ended 30 June 2018, the Group generated a turnover of HK\$1,862 million (2017: HK\$1,673 million) and a gross profit of HK\$1,496 million (2017: HK\$1,338 million) from its portfolio of completed investment properties in the PRC, representing increases of 11% and 12% respectively.

As at 30 June 2018, the Group held an investment property portfolio in the PRC with an aggregate gross floor area ("GFA") of 7.61 million square feet (as at 31 December 2017: 7.39 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2018:

	Group's attributable GFA						Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Others		
	('000 square feet)							
Office	711	1,430	1,552	-	100	195	3,988	93%
Commercial	98	1,096	104	428	812	34	2,572	92%
Apartment	277	774	-	-	-	-	1,051	91%#
	<u>1,086</u>	<u>3,300</u>	<u>1,656</u>	<u>428</u>	<u>912</u>	<u>229</u>	<u>7,611</u>	

As at 31 December 2017:

	Group's attributable GFA						Total	Occupancy Rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Others		
	('000 square feet)							
Office	711	1,436	1,552	-	100	-	3,799	97%
Commercial	98	1,096	104	428	812	-	2,538	95%
Apartment	277	774	-	-	-	-	1,051	91%#
	<u>1,086</u>	<u>3,306</u>	<u>1,656</u>	<u>428</u>	<u>912</u>	<u>-</u>	<u>7,388</u>	

Note:

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(i) Investment Properties (continued)

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

Property	Occupancy rate as at 30 June 2018	Occupancy rate as at 31 December 2017
Jing An Kerry Centre Phase I	95%	95%
Jing An Kerry Centre Phase II ⁽¹⁾	99%	98%
Kerry Parkside ⁽¹⁾	97%	97%
Beijing Kerry Centre ⁽¹⁾	97%	97%
Shenzhen Kerry Plaza Phase I	92%	94%
Shenzhen Kerry Plaza Phase II	95%	94%
Hangzhou Kerry Centre ⁽¹⁾	95%	95%

Note:

(1) Excluding hotel.

Jing An Kerry Centre, Shanghai

This landmark mixed-use development stands in the heart of Shanghai's Nanjing Road business district. The Group holds 74.25% and 51% interests in its Phases I and II respectively. With a GFA of 3.74 million square feet, Jing An Kerry Centre integrates hotel, retail, office and residential space overlooking a beautifully landscaped piazza. While the luxurious Shangri-La Hotel is a key feature, the development is also the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 30 June 2018, 99% of the office (as at 31 December 2017: 98%) and 97% of the retail space (as at 31 December 2017: 99%) were leased. Jing An Shangri-La Hotel achieved an average occupancy rate of 77% (2017: 80%) during the period under review.

Kerry Parkside, Shanghai

Kerry Parkside, located in Shanghai's Pudong District, is a 40.8%-held mixed-use property comprising a hotel, offices, serviced apartments, a retail mall and related ancillary facilities. As at 30 June 2018, the retail space and offices were both 100% leased (as at 31 December 2017: both 100%). The occupancy rate of the serviced apartments was 87% (as at 31 December 2017: 85%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 72% (2017: 76%) during the period under review.

Beijing Kerry Centre

Beijing Kerry Centre, located in the heart of the capital city, integrates high-quality office space, a shopping mall, the Kerry Hotel Beijing and serviced apartments. The Group holds a 71.25% interest in this mixed-use development. As at 30 June 2018, the occupancy rate of the retail portion was 97% (as at 31 December 2017: 94%), while the offices were 98% leased (as at 31 December 2017: 98%). The serviced apartments were 94% leased as at 30 June 2018 (as at 31 December 2017: 96%). Kerry Hotel Beijing recorded an average occupancy rate of 84% (2017: 84%) during the period under review.

Shenzhen Kerry Plaza

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link which is now completed and is expected to enter service in the third quarter of 2018. As at 30 June 2018, Phases I and II of the development were 92% and 95% leased respectively (as at 31 December 2017: both 94%).

Hangzhou Kerry Centre

Hangzhou Kerry Centre is located at the intersection of Yan'an Road and Qingchun Road, adjacent to the Xihu (West Lake). This 2.2 million square-foot mixed-use property comprises a luxury hotel, Grade-A offices, premium apartments and a retail-mall complex. As at 30 June 2018, the offices were 98% leased (as at 31 December 2017: 97%), while 94% of the retail space was leased (as at 31 December 2017: 94%). Midtown Shangri-La, Hangzhou reported an average occupancy rate of 77% (2017: 73%) during the period under review. The Group holds a 75% stake in the project.

Tianjin Kerry Centre

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys convenient access to a major transportation network. Phase I of this 49%-owned mixed-use project includes a hotel, upscale residences and a shopping mall. The completed Phase I development delivered a GFA of approximately 3.6 million square feet. Phase II of the development is under planning. As at 30 June 2018, the Riverview Place mall was 74% leased (as at 31 December 2017: 76%). Shangri-La Hotel, Tianjin reported an average occupancy rate of 72% (2017: 68%) during the period under review.

(ii) Sales of Properties

During the six months ended 30 June 2018, sales of completed properties in the PRC delivered a turnover of HK\$5,385 million (2017: HK\$4,521 million), mainly from recognised sales of Castalia Court in Hangzhou, Jinling Arcadia Court in Nanjing, The Metropolis-Arcadia Court Phase II in Chengdu, Lake Grandeur in Hangzhou, Shenyang Arcadia Court and Habitat in Qinhuangdao. A gross profit of HK\$1,599 million (2017: HK\$980 million) was derived therefrom.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(ii) Sales of Properties (continued)

Castalia Court, Hangzhou

The Group's wholly-owned residential and commercial development is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, the development will yield a GFA of approximately 2.27 million square feet of residential property, Castalia Court, as well as approximately 210,000 square feet of commercial space. As at 30 June 2018, almost 100% of the total of 408 Phase I units and 548 Phase II units had been sold. Construction work for Phases III is currently underway. As at 30 June 2018, 97% of the total of 725 Phases III units had been pre-sold.

Jinling Arcadia Court, Nanjing

The Group has developed a residential project located at Da Guang Road in Nanjing's Qin Huai District. This wholly-owned project, Jinling Arcadia Court, has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. Project construction was completed in the fourth quarter of 2017. As at 30 June 2018, 79% of the total of 429 units had been sold.

The Metropolis-Arcadia Court, Chengdu

The Metropolis-Arcadia Court in Chengdu is located in the southern part of the High-Tech Industrial Development Zone. The Phase I residential units have all been sold and delivered. Phase II has a total GFA of approximately 2.1 million square feet. At 30 June 2018, all Phase II residential and commercial units had been sold and delivered. The Group holds a 55% interest in this project.

Lake Grandeur, Hangzhou

Lake Grandeur, with a GFA of approximately 330,000 square feet, is situated at Hangzhou Kerry Centre. The development, located adjacent to the renowned West Lake in Hangzhou, was completed in 2017. As at 30 June 2018, 21% of the total of 121 units had been sold. The Group holds a 75% interest in this development.

Shenyang Arcadia Court and Enterprise Square

Six towers at Shenyang Arcadia Court and one tower at Enterprise Square of the Shenyang Kerry Centre Phase I development have been completed and delivered for occupation. As at 30 June 2018, 99% of all 972 Phase I residential units, and 67% of the total of 229 office units had been sold. The Group holds a 60% interest in this project.

Habitat, Qinhuangdao

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, has been completed. As at 30 June 2018, 77% of the total of 778 Phase I residential units had been sold. The Phase I development has a GFA of approximately 1.6 million square feet.

(iii) Properties under Development

The Group continues to develop mixed-use property landmarks and residential projects in various prime locations.

Qianhai, Shenzhen

The Group holds a 350,000 square-foot commercial site for development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. This site has a total buildable GFA of approximately 2.2 million square feet, with unobstructed seafront view, and is designated for a mixed-use development comprising office, apartment and commercial space. The project is wholly owned by the Group and represents the first substantial investment in Qianhai by a major Hong Kong corporation. It is expected to be completed in 2020. The pre-sale of units of an apartment tower was launched in June 2018 with a strong market response.

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

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

Shenyang

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 13 million square feet. This mixed-use project will include a hotel, offices, a shopping mall and residences. Phase I of the development has been completed, while Phases II and III are under construction. As at 30 June 2018, 54% of the total 495 residential units at Arcadia Heights under the Phase II development had been pre-sold.

Nanchang

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) PRC Property Division (continued)

(iii) Properties under Development (continued)

Zhengzhou

The Group and Shangri-La are also collaborating on a development located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou City, Henan Province. The site will yield a GFA of approximately 2.1 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2022 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 675,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2021.

Ningbo

The site under development in Ningbo is located in the Eastern New Town Core Region and is earmarked for The Berylville, a high-end residential project, in which the Group holds a 50% interest. The entire project will deliver a total GFA of approximately 1 million square feet with construction works for Phase I already completed. As at 30 June 2018, 98% of the total of 97 Phase I units had been sold, and 100% of the total of 437 Phase II units had also been pre-sold. Construction works for Phase II are in progress and are expected to be completed in the fourth quarter of 2018.

Putian

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

Shanghai

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

The Group's investments made in the second half of 2016 were on the basis of the May approval. Amongst the investors, a state-owned company through different investment vehicles collectively is the largest investor in the project.

Up to the end of the first quarter of 2018, there was no verbal or written notice issued by the Shanghai Municipal Government to the project company regarding the change in the development plan of the area and its implications for the original development plan of the project company. In the second quarter of 2018, the Shanghai municipal authorities contacted the project company and expressed their intention to include the project site under the World Expo Cultural Park development. Discussions and negotiations have been ongoing with the Shanghai municipal authorities with a view to arriving at a mutually acceptable solution. The carrying value of the Group's investments amounted to approximately HK\$3,441 million as at 30 June 2018. Up to the date of this report, the project company remains as the legal and registered owner of the site with all the rights conferred as per the original land grant.

(C) Hong Kong Property Division

During the six months ended 30 June 2018, the Hong Kong Property Division reported a turnover of HK\$2,234 million (2017: HK\$10,625 million) and a gross profit of HK\$958 million (2017: HK\$1,614 million).

The Division's turnover for the period was mainly derived from recognised sales of completed residential properties at Mantin Heights and The Bloomsway. The significant change in turnover was mainly attributable to the adoption of HKFRS 15 with effect from 1 January 2018, which has resulted in the deferred recognition of sales to the transfer of control of property to customers.

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

(i) Investment Properties

The Group's completed investment properties in Hong Kong generated a turnover of HK\$566 million (2017: HK\$540 million) and produced a gross profit of HK\$453 million (2017: HK\$438 million) for the period under review.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(i) Investment Properties (continued)

As at 30 June 2018, the portfolio of completed investment properties in Hong Kong had an aggregate GFA of 2.86 million square feet (as at 31 December 2017: 2.86 million square feet). Set out below are the breakdown of GFA and the respective occupancy rates, together with the comparative figures:

	As at 30 June 2018		As at 31 December 2017	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Apartment	803	94%	803	86% [#]
Commercial	1,219	98%	1,219	99%
Office	841	95%	841	96%
	2,863		2,863	

Note:

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

Enterprise Square Five/MegaBox, Kowloon Bay

MegaBox blends shopping, entertainment, dining and sports into one innovatively designed complex in Kowloon East. This pioneering retail and lifestyle hub has a GFA of 1.1 million square feet. As at 30 June 2018, the mall had an occupancy rate of 98% (as at 31 December 2017: 99%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, recorded stable occupancy rates and were 93% leased (as at 31 December 2017: 94%) as at 30 June 2018.

MegaBox maintains a dynamic tenant mix designed to serve the shifting consumption and lifestyle trends of local families and shoppers. The mall therefore consistently achieves nearly full occupancy and robust rental rates.

Kerry Centre, Quarry Bay

Kerry Centre, at No. 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office property in Hong Kong. This Grade-A office tower has a GFA of approximately 511,000 square feet. Office units at Kerry Centre remained in high demand, with 100% of the space leased (as at 31 December 2017: 100%) as at 30 June 2018.

Resiglow, Happy Valley

The new residential project, Resiglow, at No. 7A Shan Kwong Road, Happy Valley, provides 106 units, including two penthouses, over a GFA of approximately 81,000 square feet. As at 30 June 2018, 85% of the units (as at 31 December 2017: 57%) were leased.

(ii) Sales of Properties

During the first six months of 2018, sales of completed properties held for sale in Hong Kong contributed a turnover of HK\$1,668 million (2017: HK\$10,085 million) to the Group. A gross profit of HK\$505 million (2017: HK\$1,176 million) was derived from recognised sales of Mantin Heights and The Bloomsway.

Mantin Heights, Ho Man Tin

The Group has developed a residential project at No. 28 Sheung Shing Street, Ho Man Tin, with a saleable area of approximately 992,000 square feet. The project obtained its Certificate of Compliance in November 2017. As at 30 June 2018, 86% of the total of 1,429 units had been sold.

The Bloomsway, So Kwun Wat

The Bloomsway is a residential project at Nos. 18, 28 and 29 Tsing Ying Road, So Kwun Wat. The project has a saleable area of approximately 838,000 square feet and obtained its Certificate of Compliance in February 2018. As at 30 June 2018, 90% of the total of 1,100 units had been sold.

(iii) Properties under Development*Hing Hon Road, Sai Ying Pun*

The Group is developing a residential project at No. 8 Hing Hon Road, following amalgamation of the original development at Nos. 5-6 with the adjacent development at Nos. 7-8. This redevelopment project will deliver a buildable GFA of approximately 68,000 square feet, and is scheduled to be completed in 2019.

Lung Kui Road, Beacon Hill

The Group is developing a site at No. 9 Lung Kui Road in Beacon Hill, with an area of approximately 115,000 square feet and a buildable GFA of approximately 116,000 square feet. The site is planned to be developed into a low-density premium residential project, and is scheduled for completion in the fourth quarter of 2018.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(iii) Properties under Development (continued)

La Salle Road, Ho Man Tin

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

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

On 5 December 2017, the Group and Sino Land Company Limited were jointly awarded a tender by MTR Corporation Limited for the Wong Chuk Hang Station Package Two Property Development. The Group holds a 50% stake in the project. Located at the southwestern part of the Wong Chuk Hang Station Property Development, the site is designated for private residential purposes. This project will enjoy direct MTR connection and the upside of the vibrant neighbourhood of Wong Chuk Hang. It occupies an area of approximately 92,000 square feet and will generate a buildable GFA of approximately 493,000 square feet. The project is scheduled for completion in 2023.

Macau

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

In May 2018, Macau SAR Government gazetted the expiry of the land lease of the Nam Van Lake project for the reason of non-development. The Group filed an appeal in June 2018 to the Court of Second Instance of Macau SAR against the decision of the Chief Executive of Macau SAR in declaring the expiry of the land lease.

Considering the above and as a matter of prudence, a full impairment provision was made on the carrying value of the Nam Van Lake project.

(D) Overseas Property Division

The Philippines

The Group maintains a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. (“SPI”), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and a 70.04% interest in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 30 June 2018, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 92% and 97% respectively (as at 31 December 2017: 90% and 97%, respectively).

Apart from the Shangri-La Plaza Mall and the Enterprise Center, SPI currently has three major developments:

The first is a project in Makati City to redevelop a site into a high-rise residential building, Shang Salcedo Place, with a GFA of approximately 655,000 square feet. As at 30 June 2018, 98% of the total of 749 residential units had been sold.

SPI is also developing a site of more than 116,000 square feet located in Malugay Street, Makati City. This project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and approximately 96,000 square feet of commercial space. Sales of The Rise have met with a strong market response, and 86% of the total of 3,044 units had been sold as at 30 June 2018.

In addition, SPI holds a 60% interest in a hotel and luxury residential development in Fort Bonifacio, Taguig, Manila. The development includes a hotel with a total area of more than 850,000 square feet, residential and serviced apartment units covering 593,000 square feet, and commercial spaces with a total area of 47,400 square feet. As at 30 June 2018, 97% of the total of 98 units available for sale had been sold. The hotel recorded an average occupancy rate of 64% (2017: 64%) during the period under review, while the serviced apartments were 94% leased as at 30 June 2018 (as at 31 December 2017: 51%).

Sri Lanka

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

The project will be developed in two phases with master planning currently underway. In Phase I, a high-rise residential tower will be developed. Construction is expected to commence by the end of 2018. The Phase II development will comprise residential and retail components. The entire project will take eight to nine years to complete.

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

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Outlook

(i) *PRC Property Division*

In China, the housing market continues to be subject to the impact of restrictive measures. The PRC Property Division has adjusted its pace of sales and marketing strategy accordingly, and its resilient interim performance attests to the Group's brand value and ability to cope with market challenges.

Sales and pre-sales of various properties remain on track, recording stable contracted sales for the Group. Among these, the successful launch of the apartment units in Qianhai highlights the strong demand for premier quality homes in prime locations. The projects in Shenyang, Qinhuangdao and Hangzhou have also continued to meet with robust demand, and are expected to register satisfactory sales performances going forward.

The Division will grow its recurrent income base further on the foundation of its portfolio of iconic mixed-use developments in the CBDs of major metropolises. The office and retail components of these developments are generating a stable stream of rental income, helping the Group to deliver steady returns over the long term.

The Group believes that China's real estate market is adjusting and maturing towards long-term stable development. Management is confident of the ongoing growth of the PRC segment, but will carefully guard against risks brought about by economic or market volatility.

(ii) *Hong Kong Property Division*

With an overall positive economic outlook, sentiment in Hong Kong's property market has remained robust. The Hong Kong Property Division has achieved its sales target during the first half of 2018. Going forward, management anticipates greater uncertainty in the macroeconomic environment, but remains confident in the Division's performance in the forthcoming quarters.

The Division has a prime portfolio of residential projects under development in Hong Kong. Among these, the first of the two residential projects in Beacon Hill is scheduled for completion this year. This development will represent an exclusive collection of exquisite homes in Hong Kong. The sales of the remaining units at Mantin Heights and The Bloomsway have also been proceeding smoothly and recording solid performances.

The resilience of the segment's performance is also supported by its strong investment asset base. Its Mid-Levels portfolio of premier residences, offices in Island East and Kowloon East, and the MegaBox mall are all recording high occupancies and steady rental rates. This investment property portfolio will contribute continuously to the Group's growing recurrent income base.

Hong Kong is an open economy which will inevitably be exposed to macroeconomic uncertainties, including those generated by the interest rate hikes in the United States and the ongoing international trade disputes. The Division will continue to take forward its business development plans in a prudent manner.

(F) Financial Review

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

The Group closely reviews and monitors its foreign exchange exposure. As at 30 June 2018, total foreign currency borrowings (excluding RMB borrowings) amounted to the equivalence of HK\$2,348 million and RMB loans amounted to the equivalence of HK\$6,840 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 7% and 21% respectively, of the Group's total borrowings of HK\$32,449 million as at 30 June 2018.

The non-RMB total foreign currency borrowings of HK\$2,348 million include the Fixed Rate Bonds amounting to US\$300 million (net of direct issue costs). The Group has arranged cross currency swap contracts amounting to US\$297 million to hedge the exchange rate exposure between United States dollars and Hong Kong dollars.

Out of the Group's total borrowings as at 30 June 2018, HK\$7,365 million (representing approximately 23%) was repayable within one year, HK\$12,412 million (representing approximately 38%) was repayable in the second year, HK\$12,672 million (representing approximately 39%) was repayable in the third to fifth years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 91% of total borrowings as at 30 June 2018. 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 2018, the gearing ratio for the Group was 18.9% (as at 31 December 2017: 25.7%), calculated based on net debt of HK\$18,342 million and shareholders' equity of HK\$97,026 million.

As at 30 June 2018, the Group had outstanding interest rate swap contracts which amounted to HK\$1,500 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group's available financial resources as at 30 June 2018, the Group had total undrawn bank loan facilities of HK\$12,109 million and cash and bank deposits of HK\$14,107 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

Details of contingent liabilities and pledge of assets are set out in notes 14 and 15 to the financial statements of the Group included in this report.

INVESTOR RELATIONS

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. The Group had participated a number of roadshows and investors' conferences during the six months ended 30 June 2018 and some of them are set out below:

Event	Venue
Credit Suisse Asian Investment Conference	Hong Kong
CGS-CIMB HK/China Property Corporate Day	Hong Kong
Citi's Asia Pacific Property Conference	Hong Kong

STAFF

As at 30 June 2018, the Company and its subsidiaries had approximately 8,100 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

SHARE OPTIONS

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

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

As at 30 June 2018, a total of 21,504,500 Share Options were outstanding which comprised 265,000 and 21,239,500 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

Movement of Share Options

Movement of the Share Options during the six months ended 30 June 2018 are listed below in accordance with Rule 17.07 of the Rules (the “**Listing Rules**”) Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”):

Category	Date of grant	Tranche	Number of Share Options					As at 30/06/2018	Exercise Price HK\$	Exercise Period
			As at 01/01/2018	Transfer to other category during the period	Transfer from other category during the period	Exercised	Lapsed			
(i) 2002 Share Option Scheme (Note a):										
1. Directors										
Wong Siu Kong	02/04/2008	I	750,000	-	-	-	(750,000)	-	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	750,000	-	-	-	(750,000)	-	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,500,000	-	-	-	(1,500,000)	-	47.70	02/04/2011 – 01/04/2018
Ho Shut Kan	02/04/2008	I	300,000	-	-	-	(300,000)	-	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	300,000	-	-	-	(300,000)	-	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	600,000	-	-	-	(600,000)	-	47.70	02/04/2011 – 01/04/2018
Bryan Pallop Gaw	02/04/2008	I	75,000	-	-	-	(75,000)	-	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	-	-	-	(75,000)	-	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	-	-	-	(150,000)	-	47.70	02/04/2011 – 01/04/2018
Kuok Khoon Hua	02/04/2008	I	75,000	-	-	-	(75,000)	-	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	75,000	-	-	-	(75,000)	-	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	150,000	-	-	-	(150,000)	-	47.70	02/04/2011 – 01/04/2018
2. Continuous	02/04/2008	I	737,500	(62,500)	-	-	(675,000)	-	47.70	02/04/2009 – 01/04/2018
Contract	02/04/2008	II	737,500	(62,500)	-	-	(675,000)	-	47.70	02/04/2010 – 01/04/2018
Employees	02/04/2008	III	1,475,000	(125,000)	-	-	(1,350,000)	-	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	235,000	(50,000)	-	(100,000)	-	85,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	270,000	-	-	(170,000)	-	100,000	17.58	06/02/2011 – 05/02/2019
3. Others										
	02/04/2008	I	587,500	-	62,500	-	(650,000)	-	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	587,500	-	62,500	-	(650,000)	-	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	1,175,000	-	125,000	-	(1,300,000)	-	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	-	-	50,000	-	-	50,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	30,000	-	-	-	-	30,000	17.58	06/02/2011 – 05/02/2019
Total:			10,635,000	(300,000)	300,000	(270,000)	(10,100,000)	265,000		

SHARE OPTIONS (continued)

Movement of Share Options (continued)

Category	Date of grant	Tranche	Number of Share Options				As at 30/06/2018	Exercise Price HK\$	Exercise Period
			As at 01/01/2018	Transfer to other category during the period	Transfer from other category during the period	Exercised			
(ii) 2011 Share Option Scheme (Note b):									
1. Directors									
Wong Siu Kong	30/04/2012	I	1,500,000	-	-	-	1,500,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	1,500,000	-	-	-	1,500,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	1,500,000	-	-	(913,000)	587,000	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	-	-	(12,000)	738,000	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	-	-	(50,000)	100,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	150,000	-	-	-	150,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	126,500	-	-	(126,500)	-	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	250,000	-	-	(150,000)	100,000	26.88	08/01/2015 – 07/01/2024
2. Continuous	30/04/2012	I	3,300,000	(125,000)	-	(1,038,500)	2,136,500	35.45	31/10/2012 – 29/04/2022
Contract	30/04/2012	II	3,360,000	(125,000)	-	(563,000)	2,672,000	35.45	31/10/2013 – 29/04/2022
Employees	08/01/2014	I	2,195,500	(125,000)	-	(790,500)	1,280,000	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	2,900,000	(125,000)	-	(798,000)	1,977,000	26.88	08/01/2015 – 07/01/2024
3. Others									
	30/04/2012	I	4,035,000	-	125,000	(1,802,000)	2,358,000	35.45	31/10/2012 – 29/04/2022
	30/04/2012	II	4,035,000	-	125,000	(1,379,000)	2,781,000	35.45	31/10/2013 – 29/04/2022
	08/01/2014	I	-	-	125,000	(125,000)	-	26.88	08/07/2014 – 07/01/2024
	08/01/2014	II	-	-	125,000	(15,000)	110,000	26.88	08/01/2015 – 07/01/2024
Total:			29,002,000	(500,000)	500,000	(7,762,500)	21,239,500		

Notes:

- During the period, no Share Option was granted, granted for adjustment or cancelled under the 2002 Share Option Scheme.
- During the period, no Share Option was granted, granted for adjustment, cancelled or lapsed 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\$38.87. 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 2018, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Company

Directors	Number of ordinary shares			Total	Approximate % of shareholding ⁶
	Personal interests ¹	Family interests ²	Other interests ⁴		
Wong Siu Kong	–	–	50,000	50,000	0.00
Ho Shut Kan	258,500	–	50,000	308,500	0.02
Bryan Pallop Gaw	–	2,986,763	1,232,048	4,218,811	0.29
Kuok Khoon Hua	1,179,413	–	2,959,763	4,139,176	0.28

(ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives ⁵	Total	Approximate % of shareholding
		Personal interests ¹	Family interests ²	Corporate interests ³	Other interests ⁴			
Kerry Group Limited	Wong Siu Kong	4,617,263	–	8,504,300	–	3,000,000	16,121,563	1.06 ⁷
	Ho Shut Kan	2,888,452	–	–	–	–	2,888,452	0.19 ⁷
	Bryan Pallop Gaw	1,500,000	175,072,437	–	46,399,988	2,000,000	224,972,425	14.79 ⁷
	Kuok Khoon Hua	5,000	–	–	221,852,424	1,995,000	223,852,424	14.71 ⁷
Kerry Logistics Network Limited	Wong Siu Kong	–	–	–	1,300,000	–	1,300,000	0.08 ⁸
	Ho Shut Kan	200,000	–	–	1,300,000	–	1,500,000	0.09 ⁸
	Bryan Pallop Gaw	50,000	1,493,382	–	1,891,024	–	3,434,406	0.20 ⁸
	Kuok Khoon Hua	101,000	–	–	3,018,492	1,000,000	4,119,492	0.24 ⁸
	Wong Yu Pok, Marina	–	–	–	–	200,000	200,000	0.01 ⁸
Hopemore Ventures Limited	Kuok Khoon Hua	50	–	–	–	–	50	3.57 ⁹
Majestic Tulip Limited	Kuok Khoon Hua	10	–	–	–	–	10	3.33 ¹⁰
Medallion Corporate Limited	Bryan Pallop Gaw	26	26	–	–	–	52	5.20 ¹¹
	Kuok Khoon Hua	48	–	–	–	–	48	4.80 ¹¹
Rubyhill Global Limited	Kuok Khoon Hua	1	–	–	–	–	1	10.00 ¹²
Shang Properties, Inc.	Ho Shut Kan	1,570	–	–	–	–	1,570	0.00 ¹³
	Bryan Pallop Gaw	–	582,532	–	248,482	–	831,014	0.02 ¹³
	Kuok Khoon Hua	–	–	–	193,482	–	193,482	0.00 ¹³
Vencedor Investments Limited	Bryan Pallop Gaw	5	5	–	–	–	10	10.00 ¹⁴
	Kuok Khoon Hua	5	–	–	–	–	5	5.00 ¹⁴

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

Notes:

1. This represents interests held by the relevant Director as beneficial owner.
2. This represents interests held and/or deemed to be held by the spouse of the relevant Director.
3. This represents interests deemed to be held by the relevant Director through his controlled corporation(s).
4. This represents interests deemed to be held by the relevant Director through discretionary trust(s) of which the relevant Director is a discretionary beneficiary.
5. This represents interests in options held by the relevant Director and/or his spouse as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited ("KGL") and Kerry Logistics Network Limited ("KLN").
6. The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2018 (i.e. 1,454,570,228 ordinary shares).
7. The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2018 (i.e. 1,521,393,254 ordinary shares).
8. The percentage has been compiled based on the total number of ordinary shares of KLN in issue as at 30 June 2018 (i.e. 1,697,653,112 ordinary shares).
9. The percentage has been compiled based on the total number of ordinary shares of Hopemore Ventures Limited in issue as at 30 June 2018 (i.e. 1,400 ordinary shares).
10. The percentage has been compiled based on the total number of ordinary shares of Majestic Tulip Limited as at 30 June 2018 (i.e. 300 ordinary shares).
11. The percentage has been compiled based on the total number of ordinary shares of Medallion Corporate Limited in issue as at 30 June 2018 (i.e. 1,000 ordinary shares).
12. The percentage has been compiled based on the total number of ordinary shares of Rubyhill Global Limited in issue as at 30 June 2018 (i.e. 10 ordinary shares).
13. The percentage has been compiled based on the total number of common shares of Shang Properties, Inc. in issue as at 30 June 2018 (i.e. 4,764,056,287 common shares).
14. The percentage has been compiled based on the total number of ordinary shares of Vencedor Investments Limited in issue as at 30 June 2018 (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 2018, 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 2018, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Long position/ Short position/ Lending pool	Approximate % of shareholding ⁱⁱ
Kerry Group Limited	Interest of controlled corporations	851,406,840 ⁱ	Long position	58.53
Kerry Holdings Limited	Interest of controlled corporations	745,302,656 ⁱ	Long position	51.24
Caninco Investments Limited	Beneficial owner	312,248,193 ⁱ	Long position	21.47
Darmex Holdings Limited	Beneficial owner	256,899,261 ⁱ	Long position	17.66
Moslane Limited	Beneficial owner	73,821,498 ⁱ	Long position	5.08

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 2018 (i.e. 1,454,570,228 ordinary shares).

Apart from the aforesaid, as at 30 June 2018, 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 2018.

CORPORATE GOVERNANCE

During the six months ended 30 June 2018, the Company has complied with the code provisions set out in the Corporate Governance Code and Corporate Governance Report contained in Appendix 14 of the Listing Rules except that Mr. Wong Siu Kong is both the Chairman and the Chief Executive Officer (“**CEO**”) of the Company before 1 February 2018. This is a deviation from A.2.1 of the code provisions which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual. However, the Board believes that the balance of power and authority will not be impaired by such arrangement as the Board comprises experienced and high calibre individuals.

On 1 February 2018, Mr. Wong has relinquished his position as the CEO of the Company and remains as the Chairman and an Executive Director of the Company and Mr. Ho Shut Kan, the President of the Company, has been re-designated as the CEO of the Company. The Company has therefore complied with A.2.1 of the code provisions since 1 February 2018.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 6 September 2018 for the purpose of determining Shareholders' entitlement to the Interim Dividend and no transfer of shares will be effected on that date. In order to qualify for the Interim Dividend, all transfers accompanied by the relevant share certificates must be lodged for registration with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Wednesday, 5 September 2018. The Interim Dividend is payable on Tuesday, 18 September 2018 to Shareholders whose names appear on the Registers of Members on Thursday, 6 September 2018.

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 2018.

DIRECTORS

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

Executive Directors: Messrs Wong Siu Kong, Ho Shut Kan and Bryan Pallop Gaw

Non-executive Director: Mr Kuok Khoon Hua

Independent Non-executive Directors: Mr Ku Moon Lun, Ms Wong Yu Pok, Marina, JP and Mr Chang Tso Tung, Stephen

By Order of the Board

Li Siu Ching, Liz

Company Secretary

Hong Kong, 21 August 2018