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KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 683)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of Directors (the “**Board**”) of the Company announces the unaudited interim results of the Group for the six months ended 30 June 2016. 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 2016 prior to recommending them to the Board for approval.

The Group’s profit attributable to shareholders for the six months ended 30 June 2016 was HK\$2,041 million, representing a decrease of 27% compared with HK\$2,789 million reported for the same period in 2015. The Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) of HK\$607 million for the six months ended 30 June 2016 (2015: HK\$607 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded a decrease of 34% in profit attributable to shareholders to HK\$1,434 million for the six months ended 30 June 2016 (2015: HK\$2,182 million).

Earnings per share for the six months ended 30 June 2016 was HK\$1.41, representing a decrease of 27% compared with HK\$1.93 per share for the same period in 2015. The basis of calculating the earnings per share is detailed in Note 6 below.

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

	Six months ended 30 June		Change
	2016	2015	
	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	1,434	2,182	-34%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>607</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,041</u>	<u>2,789</u>	-27%

The Directors have declared an interim dividend of HK\$0.3 per share for the six months ended 30 June 2016 (the “**Interim Dividend**”) (2015: HK\$0.3), which is payable on Thursday, 15 September 2016 to shareholders whose names appear on the registers of members of the Company (the “**Registers of Members**”) on Tuesday, 6 September 2016.

At the Company's Annual General Meeting held on 9 May 2016, shareholders of the Company (the “**Shareholders**”) approved the final dividend of HK\$0.6 per share for the year ended 31 December 2015 which amounted to a total of approximately HK\$866 million and was paid on 24 May 2016.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2016	2015
	Note	HK\$'000	HK\$'000
Turnover	3	5,536,956	4,203,555
Cost of sales		(1,583,994)	(994,733)
Direct operating expenses		(1,340,813)	(1,050,911)
Gross profit	3	2,612,149	2,157,911
Other income and net gains		131,136	285,545
Administrative and other operating expenses		(584,197)	(504,014)
Increase in fair value of investment properties		919,275	796,110
Operating profit before finance costs		3,078,363	2,735,552
Finance costs		(213,840)	(261,389)
Operating profit	4	2,864,523	2,474,163
Share of results of associates		547,725	1,197,114
Profit before taxation		3,412,248	3,671,277
Taxation	5	(894,802)	(568,579)
Profit for the period		2,517,446	3,102,698
Profit attributable to :			
Company's shareholders		2,040,920	2,788,788
Non-controlling interests		476,526	313,910
		2,517,446	3,102,698
Earnings per share			
	6		
- Basic		HK\$1.41	HK\$1.93
- Diluted		HK\$1.41	HK\$1.93

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Profit for the period	2,517,446	3,102,698
Other comprehensive income		
Items that may be reclassified to profit or loss		
Cash flow hedges	3,593	(84,559)
Fair value gain on available-for-sale investments	71,528	68,126
Share of other comprehensive income of associates	26,200	(80,243)
Net translation differences on foreign operations	(799,480)	102,978
Other comprehensive income for the period, net of tax	(698,159)	6,302
Total comprehensive income for the period	<u>1,819,287</u>	<u>3,109,000</u>
Total comprehensive income attributable to:		
Company's shareholders	1,547,840	2,774,787
Non-controlling interests	271,447	334,213
	<u>1,819,287</u>	<u>3,109,000</u>

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
	Note		
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	7	6,068,920	5,404,614
Investment properties	7	56,476,002	57,064,707
Leasehold land and land use rights	7	2,046,772	1,269,770
Properties under development		12,285,752	13,749,425
Land deposits		3,566,295	3,467,542
Associates		18,899,571	20,007,616
Derivative financial instruments		73,156	46,837
Available-for-sale investments		2,206,233	2,134,726
Long-term receivables		257,470	252,128
Intangible assets	7	122,504	122,504
		102,002,675	103,519,869
Current assets			
Properties under development		32,350,281	30,496,298
Completed properties held for sale		6,101,162	4,698,188
Accounts receivable, prepayments and deposits	8	1,604,979	1,135,784
Tax recoverable		120,281	112,756
Tax reserve certificates		215,560	170,471
Listed securities at fair value through profit or loss		215,669	190,857
Derivative financial instruments		29,037	27,918
Restricted bank deposits		403,031	348,404
Cash and bank balances		15,274,360	10,516,413
		56,314,360	47,697,089
Current liabilities			
Accounts payable, deposits received and accrued charges	9	14,275,436	10,015,448
Taxation		1,154,545	1,167,667
Short-term bank loans and current portion of long-term bank loans	10	2,677,413	9,641,826
Fixed rate bonds		7,907,062	3,253,716
Derivative financial instruments		30,614	1,317
		26,045,070	24,079,974
Net current assets		30,269,290	23,617,115
Total assets less current liabilities		132,271,965	127,136,984
Non-current liabilities			
Long-term bank loans	10	25,894,384	17,198,633
Fixed rate bonds		2,317,966	6,951,344
Amounts due to non-controlling interests		2,582,091	2,430,386
Derivative financial instruments		74,672	90,372
Deferred taxation		6,596,650	6,303,995
		37,465,763	32,974,730
ASSETS LESS LIABILITIES		94,806,202	94,162,254
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,443,148	1,445,856
Share premium		12,392,495	12,426,503
Other reserves		11,299,192	11,947,898
Retained profits		56,848,098	55,533,102
		81,982,933	81,353,359
Non-controlling interests		12,823,269	12,808,895
TOTAL EQUITY		94,806,202	94,162,254
FINANCIAL HIGHLIGHTS			
		Unaudited As at 30 June 2016	Audited As at 31 December 2015
Equity attributable to the Company's shareholders (HK\$ million)		81,983	81,353
Net borrowings (including bonds) (HK\$ million)		23,119	26,181
Net asset value (attributable to the Company's shareholders) per share		HK\$56.81	HK\$56.27
Gearing (Net borrowings / Equity attributable to the Company's shareholders)		28.2%	32.2%

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 2015. 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 2015.

The standards and amendments which are effective for the accounting period beginning on 1 January 2016 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 2015.

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

2. Financial risk management and fair value measurement

(i) Financial risk factors

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

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; and should be read in conjunction with the Group's annual financial statements as at 31 December 2015. 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 2016:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	-	102,193	-	102,193
Available-for-sale investments	552,869	-	1,653,364	2,206,233
Listed securities at fair value through profit or loss	215,669	-	-	215,669
Total assets	768,538	102,193	1,653,364	2,524,095
Liabilities				
Derivative financial instruments	-	105,286	-	105,286
Total liabilities	-	105,286	-	105,286

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

The following table presents the Group's financial assets and liabilities that are measured at fair value at 31 December 2015:

	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Derivative financial instruments	-	74,755	-	74,755
Available-for-sale investments	496,009	-	1,638,717	2,134,726
Listed securities at fair value through profit or loss	190,857	-	-	190,857
Total assets	686,866	74,755	1,638,717	2,400,338
Liabilities				
Derivative financial instruments	-	91,689	-	91,689
Total liabilities	-	91,689	-	91,689

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

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

The following table presents the changes in Level 3 instruments:

	Available-for-sale investments	
	2016	2015
	HK\$'000	HK\$'000
Opening balance as at 1 January	1,638,717	1,457,739
Gains/(losses) recognised in comprehensive income	14,668	(1,853)
Disposals	(21)	-
Closing balance as at 30 June	1,653,364	1,455,886

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

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

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

There were no changes in valuation techniques during the period.

(v) Group's valuation processes for financial instruments

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

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

The fair value of the listed fixed rate bonds as at 30 June 2016 was HK\$10,630,438,000 (31 December 2015: HK\$10,659,907,000).

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

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

(vii) Valuation of investment properties

	Completed residential properties	Completed commercial properties		Commercial properties under development	Total
	Hong Kong HK\$'000	Hong Kong HK\$'000	PRC HK\$'000	PRC HK\$'000	HK\$'000
At 1 January 2016	11,606,600	9,324,990	30,479,044	5,654,073	57,064,707
Additions	-	-	37,847	206,353	244,200
Net gains from fair value adjustment	-	-	277,226	642,049	919,275
Disposals	-	-	(37,823)	-	(37,823)
Transfer	-	-	674,305	(1,963,015)	(1,288,710)
Exchange adjustments	-	-	(378,839)	(46,808)	(425,647)
At 30 June 2016	<u>11,606,600</u>	<u>9,324,990</u>	<u>31,051,760</u>	<u>4,492,652</u>	<u>56,476,002</u>
At 1 January 2015	10,571,600	8,606,260	31,437,438	4,903,942	55,519,240
Additions	190,320	-	86	298,926	489,332
Net gains from fair value adjustment	59,680	-	312,305	424,125	796,110
Disposals	-	-	(40,696)	-	(40,696)
Exchange adjustments	-	-	43,705	8,235	51,940
At 30 June 2015	<u>10,821,600</u>	<u>8,606,260</u>	<u>31,752,838</u>	<u>5,635,228</u>	<u>56,815,926</u>

Valuation processes of the Group

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

Valuation techniques

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

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

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

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 2016, capitalisation rates of 3.3% to 5.5% (31 December 2015: 3.3% to 5.5%) and 7% to 9% (31 December 2015: 7% to 9%) are used in the income capitalisation method for Hong Kong and the PRC properties respectively.

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

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

3. Principal activities and segmental analysis of operations

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

	Turnover		Gross profit	
	Six months ended 30 June		Six months ended 30 June	
	2016	2015	2016	2015
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental and others				
- PRC Property	1,451,699	1,319,332	1,164,372	1,130,230
- Hong Kong Property	512,426	436,879	404,269	336,193
	1,964,125	1,756,211	1,568,641	1,466,423
Property sales				
- PRC Property (Note)	2,566,219	434,852	880,416	63,308
- Hong Kong Property	202,471	1,303,598	68,345	551,429
	2,768,690	1,738,450	948,761	614,737
Hotel operations - PRC Property	804,141	708,894	94,747	76,751
	<u>5,536,956</u>	<u>4,203,555</u>	<u>2,612,149</u>	<u>2,157,911</u>
Principal markets:				
- PRC	4,822,059	2,463,078	2,139,535	1,270,289
- Hong Kong	714,897	1,740,477	472,614	887,622
	<u>5,536,956</u>	<u>4,203,555</u>	<u>2,612,149</u>	<u>2,157,911</u>

Note: Sales of investment properties for the six months ended 30 June 2016 amounting to HK\$51,238,000 (2015: HK\$50,493,000) are excluded from turnover.

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

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

	Six months ended 30 June 2016				
	PRC	Hong Kong	Total		
	Property	Property	Operating	Others	Total
	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000
Revenue					
Turnover	4,822,059	714,897	5,536,956	-	5,536,956
Results					
Segment results - gross profit	2,139,535	472,614	2,612,149	-	2,612,149
Other income and net gains					131,136
Administrative and other operating expenses					(584,197)
Increase in fair value of investment properties					919,275
Operating profit before finance costs					3,078,363
Finance costs					(213,840)
Operating profit					2,864,523
Share of results of associates					547,725
Profit before taxation					3,412,248
Taxation					(894,802)
Profit for the period					2,517,446
Profit attributable to:					
Company's shareholders					2,040,920
Non-controlling interests					476,526
					2,517,446
Depreciation and amortisation	217,391	10,026	227,417	2,149	229,566

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

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

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

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

	As at 30 June 2016						
	PRC	Hong Kong	Overseas	Total			
	Property	Property	Property	Operating	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	HK\$'000
Total assets	<u>90,219,372</u>	<u>61,064,406</u>	<u>2,646,211</u>	<u>153,929,989</u>	<u>63,547,031</u>	<u>(59,159,985)</u>	<u>158,317,035</u>
Total liabilities	<u>54,652,149</u>	<u>30,952,614</u>	<u>134,742</u>	<u>85,739,505</u>	<u>36,931,313</u>	<u>(59,159,985)</u>	<u>63,510,833</u>
	As at 31 December 2015						
	PRC	Hong Kong	Overseas	Total			
	Property	Property	Property	Operating	Others	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	HK\$'000
Total assets	<u>84,950,238</u>	<u>59,994,791</u>	<u>2,617,017</u>	<u>147,562,046</u>	<u>57,971,645</u>	<u>(54,316,733)</u>	<u>151,216,958</u>
Total liabilities	<u>50,155,232</u>	<u>28,969,015</u>	<u>129,468</u>	<u>79,253,715</u>	<u>32,117,722</u>	<u>(54,316,733)</u>	<u>57,054,704</u>

4. Operating profit

Six months ended 30 June
2016 2015
HK\$'000 HK\$'000

Operating profit is stated after crediting/charging
the following :

Crediting

Dividend income from listed and unlisted investments	53,947	47,325
Interest income	127,116	138,217
Gain on sale of investment properties, net	9,944	6,835

Charging

Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	229,566	198,252
Provision for impairment loss for hotel property	80,682	-
Total finance costs incurred	672,123	654,863
Less: amount capitalised in properties under development and investment properties under construction	(448,035)	(419,322)
	224,088	235,541
Fair value (gain)/loss on derivative financial instruments	(10,248)	25,848
Total finance costs expensed during the period	213,840	261,389

5. Taxation

Six months ended 30 June

2016	2015
HK\$'000	HK\$'000

The taxation (charge)/credit comprises:

PRC taxation

Current

(432,169)

(137,703)

(Under)/over-provision in prior years

(911)

36

Deferred

(381,980)

(287,963)

(815,060)

(425,630)

Hong Kong profits tax

Current

(65,770)

(123,126)

Over/(under)-provision in prior years

13

(126)

Deferred

(4,506)

(9,908)

(70,263)

(133,160)

Overseas taxation

Current

(4,920)

(4,629)

Over-provision in prior years

25

-

Deferred

(4,584)

(5,160)

(9,479)

(9,789)

(894,802)

(568,579)

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) on the estimated assessable profit for the six months ended 30 June 2016. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2016 at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

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

6. Earnings per share

Basic

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

	Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares in issue	<u>1,443,564,420</u>	<u>1,445,179,366</u>
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>2,040,920</u>	<u>2,788,788</u>
Basic earnings per share	<u>HK\$1.41</u>	<u>HK\$1.93</u>

Diluted

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

	Six months ended 30 June	
	2016	2015
Weighted average number of ordinary shares in issue	1,443,564,420	1,445,179,366
Adjustment for share options	<u>69,752</u>	<u>1,325,179</u>
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	<u>1,443,634,172</u>	<u>1,446,504,545</u>
	HK\$'000	HK\$'000
Profit attributable to shareholders	<u>2,040,920</u>	<u>2,788,788</u>
Diluted earnings per share	<u>HK\$1.41</u>	<u>HK\$1.93</u>

7. Capital expenditure

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000	Intangible assets HK\$'000
Net book value at 1 January 2016	5,404,614	57,064,707	1,269,770	122,504
Additions	90,934	244,200	-	-
Fair value gains	-	919,275	-	-
Disposals	(490)	(37,823)	-	-
Impairment	(80,682)	-	-	-
Transfer	942,594	(1,288,710)	837,676	-
Depreciation and amortisation	(206,702)	-	(23,414)	-
Exchange adjustment	(81,348)	(425,647)	(37,260)	-
Net book value at 30 June 2016	6,068,920	56,476,002	2,046,772	122,504
Net book value at 1 January 2015	5,039,271	55,519,240	1,198,161	122,504
Additions	63,405	489,332	-	-
Fair value gains	-	796,110	-	-
Disposals	(990)	(40,696)	-	-
Transfer	796,080	-	192,430	-
Depreciation and amortisation	(181,948)	-	(16,983)	-
Exchange adjustment	12,233	51,940	2,934	-
Net book value at 30 June 2015	5,728,051	56,815,926	1,376,542	122,504

8. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2016 is as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Below 1 month	104,618	242,232
Between 1 month and 3 months	132,561	12,883
Over 3 months	65,799	8,901
	302,978	264,016

9. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 30 June 2016 is as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Below 1 month	232,065	718,880
Between 1 month and 3 months	24,257	64,925
Over 3 months	56,989	14,594
	313,311	798,399

10. Bank loans

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Bank loans - unsecured	22,823,953	21,114,807
Bank loans - secured	5,747,844	5,725,652
Total bank loans (note (i))	28,571,797	26,840,459
Less: Short-term bank loans and current portion of long-term bank loans	(2,677,413)	(9,641,826)
	25,894,384	17,198,633

(i) As at 30 June 2016, the Group's bank loans were repayable as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Within one year	2,677,413	9,641,826
In the second to fifth year		
- In the second year	7,518,326	2,056,527
- In the third year	4,187,897	9,072,777
- In the fourth year	8,244,293	3,402,331
- In the fifth year	4,119,340	1,175,853
	24,069,856	15,707,488
Repayable within five years	26,747,269	25,349,314
Over five years	1,824,528	1,491,145
	28,571,797	26,840,459

11. Commitments

At 30 June 2016, the Group had capital and other commitments in respect of investment properties, leasehold land and land use rights and properties under development contracted for at the end of the period but not provided for in these financial statements as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Investment properties	272,354	536,354
Leasehold land and land use rights	2,593,627	2,889,925
Properties under development	10,394,015	11,971,037
	<u>13,259,996</u>	<u>15,397,316</u>

12. Contingent liabilities

Guarantees for banking and other facilities

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Guarantees for banking and other facilities of certain associates (note (i))	1,165,243	1,582,256
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	<u>2,828,320</u>	<u>1,711,670</u>
	<u>3,993,563</u>	<u>3,293,926</u>

- (i) The Group has executed guarantees for banking and other facilities granted to certain associates. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2016 amounted to approximately HK\$1,165,243,000 (31 December 2015: HK\$1,582,256,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2016 amounted to approximately HK\$1,894,646,000 (31 December 2015: HK\$2,470,547,000).
- (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 2016 amounted to approximately HK\$2,828,320,000 (31 December 2015: HK\$1,711,670,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2015.

13. Pledge of assets

As at 30 June 2016, the Group's total bank loans of HK\$28,571,797,000 (31 December 2015: HK\$26,840,459,000) included an aggregate amount of HK\$22,823,953,000 (31 December 2015: HK\$21,114,807,000) which is unsecured and an aggregate amount of HK\$5,747,844,000 (31 December 2015: HK\$5,725,652,000) 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\$20,788,862,000 (31 December 2015: HK\$21,689,027,000); and
- (ii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) OVERALL RESULTS

Turnover of the Group for the six months ended 30 June 2016 was HK\$5,537 million, which registered an increase of 32% when compared with the turnover of HK\$4,204 million for the corresponding six months ended 30 June 2015. 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 2016 was HK\$1,434 million (2015: HK\$2,182 million), representing a decrease of 34% over the period.

During the six months ended 30 June 2016, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$607 million (2015: HK\$607 million) was recognised in the Group's consolidated income statement.

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

	Six months ended 30 June		
	2016	2015	
	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	1,434	2,182	-34%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>607</u>	<u>607</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,041</u>	<u>2,789</u>	-27%

(B) PRC PROPERTY DIVISION

During the six months ended 30 June 2016, the Division recorded a turnover of HK\$4,822 million (2015: HK\$2,463 million), representing an increase of 96%. This growth mainly reflected a 490% increase in sales revenue from completed properties and a 10% increase in rental revenue. Gross profit also grew by 68% to HK\$2,139 million (2015: HK\$1,270 million).

Contracted sales of residential properties in the PRC showed strong growth during the reporting period. Performance of the Group's office properties held for investment remained resilient, while the retail portfolio continued to brace for market challenges.

(i) Investment Properties

During the six months ended 30 June 2016, the Group generated turnover of HK\$1,452 million (2015: HK\$1,319 million) and derived a gross profit of HK\$1,164 million (2015: HK\$1,130 million) from its portfolio of completed investment properties in the PRC, representing increases of 10% and 3%, respectively.

As at 30 June 2016, the Group has an investment property portfolio in the PRC with an aggregate gross floor area ("GFA") of 6.86 million square feet (as at 31 December 2015: 6.72 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2016:

	Group's attributable GFA							Occupancy rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou	Total	
	('000 square feet)							
Office	711	1,492	1,552	-	102	-	3,857	97%
Commercial	98	1,099	212	428	47	64	1,948	95%
Apartment	277	774	-	-	-	-	1,051	87%
	1,086	3,365	1,764	428	149	64	6,856	

As at 31 December 2015:

	Group's attributable GFA							Occupancy rate
	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Fuzhou	Total	
	('000 square feet)							
Office	711	1,503	1,552	-	-	-	3,766	98%
Commercial	98	1,099	212	428	-	64	1,901	98%
Apartment	277	774	-	-	-	-	1,051	87%
	1,086	3,376	1,764	428	-	64	6,718	

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

Property	Occupancy rate as at 30 June 2016	Occupancy rate as at 31 December 2015
Jing An Kerry Centre Phase I	92%	96%
Jing An Kerry Centre Phase II ⁽¹⁾	95%	96%
Kerry Parkside ⁽¹⁾	95%	97%
Beijing Kerry Centre ⁽¹⁾	97%	96%
Shenzhen Kerry Plaza Phase I	99%	97%
Shenzhen Kerry Plaza Phase II	99%	100%

Note:

(1) Excluding hotel.

Jing An Kerry Centre, Shanghai

This landmark mixed-use development is located in the heart of Shanghai's Nanjing Road business district. The 3.74 million square-foot prime development, Jing An Kerry Centre, integrates hotel, retail, office and residential space overlooking a beautifully landscaped piazza. The Group holds 74.25% and 51% interests in Phases I and II respectively. The luxurious Shangri-La Hotel is a key feature of Jing An Kerry Centre, which is now the pre-eminent shopping venue and most exclusive office address in Shanghai. As at 30 June 2016, 96% of the office (as at 31 December 2015: 97%) and 95% of the retail space (as at 31 December 2015: 95%) were leased. Jing An Shangri-La Hotel, West Shanghai, achieved an average occupancy rate of 75% (2015: 70%) during the period under review.

Kerry Parkside, Shanghai

Kerry Parkside, located in the Pudong District of Shanghai, is a 40.8%-held mixed-use property comprising a hotel, offices, serviced apartments, a retail mall and related ancillary facilities. As at 30 June 2016, the retail space and offices were 99% and 98% occupied respectively (as at 31 December 2015: 99% and 100%, respectively). The occupancy rate of the serviced apartments was 84% (as at 31 December 2015: 86%). Kerry Hotel Pudong, Shanghai reported an average occupancy rate of 73% (2015: 71%) during the period under review.

Beijing Kerry Centre

Beijing Kerry Centre is located in the heart of the capital city, combining high-quality office space, a shopping mall for famous brands, and Kerry Hotel Beijing together with serviced apartments. The Group holds a 71.25% interest in Beijing Kerry Centre. As at 30 June 2016, the occupancy rate of the retail portion was 100% (as at 31 December 2015: 100%), while the offices were 98% occupied (as at 31 December 2015: 98%). The serviced apartments were 95% leased (as at 31 December 2015: 91%). Kerry Hotel Beijing delivered an average occupancy rate of 81% (2015: 75%) during the period under review.

Shenzhen Kerry Plaza

Shenzhen Kerry Plaza, wholly owned by the Group, comprises three Grade-A office towers with a GFA of approximately 1.65 million square feet. Located at the core of the Futian CBD, it is conveniently connected with Futian railway station on the Guangzhou-Shenzhen-Hong Kong Express Rail Link now under construction. As at 30 June 2016, both Phases I and II of the development were 99% leased (as at 31 December 2015: 97% and 100%, respectively).

Tianjin Kerry Centre

Tianjin Kerry Centre is located on the east bank of the Haihe CBD in Hedong District, Tianjin, where it enjoys access to a convenient transportation network. Phase I of this 49%-owned mixed-use project includes a hotel, upscale residences and a shopping mall. The completed Phase I development delivered a GFA of approximately 3.6 million square feet. As at 30 June 2016, the Riverview Place mall was 82% leased (as at 31 December 2015: 87%). Shangri-La Hotel, Tianjin, reported an average occupancy rate of 59% (2015: 54%) during the period under review.

(ii) Sales of Properties

During the six months ended 30 June 2016, sales of completed properties in the PRC generated a turnover of HK\$2,566 million (2015: HK\$435 million), mainly from recognized sales of Enterprise Centre in Shanghai, Nanchang Arcadia Court, Putian Arcadia Court and Shenyang Arcadia Court and Enterprise Square. A gross profit of HK\$880 million (2015: HK\$63 million) has derived therefrom.

Enterprise Centre, Shanghai

Enterprise Centre at Kerry Everbright City Phase III in Jingan District was completed in the fourth quarter of 2015 with handover commencing in early 2016. This new phase, comprising three office towers and ancillary retail spaces, adds a GFA of approximately 1.1 million square feet to the overall development. As at 30 June 2016, 123 office units, representing 77% of all 160 units of Tower 3 (Enterprise Suites), had been sold. The Group holds a 74.25% interest in this project.

Nanchang Arcadia Court

Three towers of Nanchang Arcadia Court have been completed with handover commencing in late 2015. Another two towers under construction will be completed in the second half of 2016. As at 30 June 2016, 337 residential units, representing 77% of all 436 units, had been sold/pre-sold. The Group holds an 80% interest in this project.

Putian Arcadia Court

Units at Putian Arcadia Court were delivered from 2015. As at 30 June 2016, 1,698 residential units, representing 93% of all 1,820 units, had been sold. The Group holds a 60% interest in this project.

Shenyang Arcadia Court and Enterprise Square

Four towers of Shenyang Arcadia Court and Enterprise Square have been completed and delivered for occupation. Two towers of Shenyang Arcadia Court under construction will be completed in 2017. As at 30 June 2016, 601 units, representing 62% of all 972 residential units, and 135 units, representing 59% of all 229 office units, had been sold. The Group holds a 60% interest in this project.

Tangshan Arcadia Court

Tangshan Arcadia Court Phases I to III with 14 towers are available for sale. As at 30 June 2016, 1,336 units, representing 89% of all 1,495 units, had been sold. The Group holds a 40% interest in this residential project.

Tianjin Arcadia Court

The three residential towers of Tianjin Arcadia Court have been completed and handed over consecutively. Up to 30 June 2016, 968 units, representing 86% of all 1,126 units, had been sold. The Group holds a 49% interest in this residential project.

(iii) Properties under Development

The Group's balanced strategy is primarily focused on the development of large-scale mixed-use projects in the CBDs of major cities, in parallel with active residential development activities to drive sales income.

Qianhai, Shenzhen

The Group holds a commercial site for development in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone. Qianhai is a special economic zone situated in a key location in the Pearl River Delta with a planned efficient transportation system. Slated to be transformed into a finance hub, Qianhai has been conceived with lifestyle-enhancing features and amenities to create a sustainable urban district.

This 350,000 square-foot site lies close to the Guangshen Yanjiang Expressway and enjoys a front sea view, making it an ideal location for office, apartment and commercial property development. Total buildable GFA will aggregate to approximately 2.2 million square feet. The project is wholly owned by the Group and represents the first substantial investment in Qianhai by a major Hong Kong corporation. The project is expected to be completed in 2019.

Hangzhou

The Group is developing Hangzhou Kerry Centre, a project 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 will comprise a luxury hotel, Grade-A offices, premium apartments and a retail mall complex. Project construction is now underway and the development is targeted for completion within 2016. As at 30 June 2016, the offices were in full operation with 85% leased (2015: N/A). Midtown Shangri-La, Hangzhou has been completed and was soft-opened in March 2016, with an average occupancy rate of 51% (2015: N/A) during the period. The Group holds a 75% stake in the project.

The Group is also working on a residential and commercial development spread out over five wholly-owned lots of land in the city. This project is located in the core area of the Hangzhou Zhijiang National Tourist and Holiday Resort. With an aggregate site area of approximately 1.53 million square feet, it will yield a GFA of approximately 2.27 million square feet occupied by Castalia Court, a residential property development, as well as approximately 210,000 square feet of commercial space. With construction works currently underway, the project is targeted for completion in phases from 2017 onwards. As at 30 June 2016, 831 residential units, representing 49% of all 1,683 units, had been pre-sold.

Shenyang

The Group's 60%-owned Shenyang Kerry Centre project is located on the east side of Qingnian Street, to the south of Qingnian Park in Shenyang, the provincial capital of Liaoning Province. Lying at the core of the city's landmark Golden Corridor development, the site will yield a GFA of approximately 13 million square feet. This mixed-use project will include a hotel, offices, a shopping mall and residences. Phase I of the development is in the construction stage and has been partially completed. Phase II has also commenced construction, while Phase III of the development is now at the planning stage. Shangri-La Hotel, Shenyang recorded an average occupancy rate of 64% (2015: 62%) during the period under review.

Nanchang

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a mixed-use property through a joint venture with Shangri-La Asia Limited ("**Shangri-La**"). This 80%-held project is situated on the west bank of the Ganjiang River at the heart of Honggutan Central District. Its development includes a hotel, office, commercial and high-end residential properties. Construction of the residential portion is in progress, with one tranche of the units already completed and handed over consecutively. The hotel and residential portion will deliver a GFA of approximately 1.7 million square feet. Shangri-La Hotel, Nanchang recorded an average occupancy rate of 57% (2015: 58%) during the period under review.

Zhengzhou

The Group and Shangri-La are also collaborating on developing a site located on the east side of Huayuan Road and to the south of Weier Road in Zhengzhou City, Henan Province. The site will yield a GFA of approximately 2.3 million square feet for development into hotel, residential, commercial and office properties. The project is expected to be completed in phases from 2019 onwards. The Group holds a 55% interest in this project.

Changsha

The Group's wholly-owned residential project in the Tianxin District of Changsha, the provincial capital of Hunan Province, is expected to deliver a GFA of approximately 3.2 million square feet. Phase I of the Changsha Xiangjiang Arcadia Court has been completed and handed over in tranches. Construction works of Phase II is currently underway, and the project is scheduled to be completed in phases before 2019. As at 30 June 2016, 607 Phase I units, representing 93% of all 656 units therein, had been sold and 262 Phase II units, representing 43% of all 607 units therein, had been pre-sold.

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 been substantially sold and delivered. Phase II, with a total GFA of approximately 2.15 million square feet, is due for completion by stages from 2017 onwards. Sales of the Phase II residential units were launched in 2015 and as at 30 June 2016, 1,185 units, representing 62% of all 1,905 units, had been pre-sold. The Group holds a 55% interest in this project.

In July 2016, the Group signed a Shares Transfer Agreement with an independent third party to sell all its investments in the Phase III development. Completion of the shares transfer is expected to be in the second half of 2016.

Jinan

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

Kunming

The Group, together with Shangri-La, is developing two adjoining sites in Kunming City, Yunnan Province. The sites are earmarked for hotel and apartment use, with a GFA of approximately 900,000 square feet. The Group holds a 55% interest in this project, which is scheduled to be completed in 2019.

Nanjing

The Group is developing a residential site located at Da Guang Road in Nanjing's Qin Huai District. This wholly-owned project, Nanjing Jinling Arcadia Court, has a site area of approximately 396,000 square feet and a GFA of approximately 1 million square feet. Project construction is in progress, and is scheduled for completion in 2017. Pre-sales of the project commenced in the fourth quarter of 2015, and as at 30 June 2016, 162 residential units, representing 38% of all 429 units, had been pre-sold.

Ningbo

The site under development in Ningbo is located in the Eastern New Town Core Region and is earmarked for The Berylville, a high-end residential project, in which the Group holds a 50% interest. Construction works for Phase I, with a GFA of approximately 400,000 square feet, have been completed. As at 30 June 2016, 80 units, representing 82% of all 97 units, of the Phase I development had been sold. Basement structure works for Phase II are in progress. This new phase will yield a total of 437 residential units with a total GFA of approximately 629,000 square feet.

Putian

The Group and Shangri-La are co-developing a site at Jiuhua Road, Putian City, Fujian Province. Expected to yield a GFA of approximately 4 million square feet, the site is earmarked for the development of residential, hotel and ancillary commercial properties. The residential portion is completed in stages from 2015 to mid 2016 onwards. The Group holds a 60% interest in this project.

Qinhuangdao

Phase I of Habitat, the Group's 60%-owned deluxe seaside residential project close to Beidaihe in Qinhuangdao, Hebei Province, generating a GFA of approximately 1.6 million square feet, has been completed. As at 30 June 2016, 302 Phase I residential units, representing 39% of all 780 units, had been sold.

Tangshan

The Group's 40%-owned mixed-use project in Tangshan comprises hotel, residential and ancillary commercial properties, with a GFA of approximately 3.3 million square feet. Shangri-La Hotel, Tangshan reported an average occupancy rate of 46% (2015: N/A) during the period under review. The ancillary commercial properties have recently been completed.

Yingkou

In May 2016, the Group signed Shares Transfer Agreements with an independent third party to sell all its investments in Yingkou. Completion of the shares transfer is expected to be in the second half of 2016.

(C) HONG KONG PROPERTY DIVISION

During the six months ended 30 June 2016, the Hong Kong Property Division reported a turnover of HK\$715 million (2015: HK\$1,741 million) and a gross profit of HK\$473 million (2015: HK\$888 million).

The Division's turnover for the period was mainly derived from recognized sales of completed residential properties at 1 & 3 Ede Road, 8 LaSalle and carparking spaces of The Summa. Sales of Dragons Range and pre-sales of The Bloomsway and Mantin Heights, which was launched in April 2016, delivered steady sales during the period under review.

The Division's portfolio of office and retail properties continued to deliver steady recurrent rental income, reflecting high occupancy levels and resilient rentals.

(i) Investment Properties

Turnover generated from the Group's completed investment properties in Hong Kong amounted to HK\$512 million (2015: HK\$437 million), producing a gross profit of HK\$404 million (2015: HK\$336 million) for the period under review.

As at 30 June 2016, the Group's completed investment property portfolio in Hong Kong had an aggregate GFA of 2.78 million square feet (as at 31 December 2015: 2.78 million square feet). Set out below are the breakdown of GFA and the respective occupancy rates, together with the comparative figures:

	As at 30 June 2016		As at 31 December 2015	
	Group's attributable GFA ('000 square feet)	Occupancy rate	Group's attributable GFA ('000 square feet)	Occupancy rate
Apartment	722	97%	722	85%
Commercial	1,223	100%	1,223	100%
Office	840	85%	840	99%
	<u>2,785</u>		<u>2,785</u>	

Enterprise Square Five/MegaBox, Kowloon Bay

MegaBox blends shopping, recreation, dining and art into one innovatively designed complex in Kowloon East. This pioneering retail and lifestyle venue offers a GFA of 1.1 million square feet. As at 30 June 2016, the mall had an occupancy rate of approximately 100% (as at 31 December 2015: 100%).

The two Grade-A office towers of Enterprise Square Five, with a GFA of 519,000 square feet, were 79% leased (as at 31 December 2015: 98%).

MegaBox continues to record strong leasing performance on the back of a tenant mix designed to serve local families and shoppers. Leasing activity also remains stable for the office units with Kowloon East's transformation into a new CBD continues.

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 approximately 100% of the space occupied (as at 31 December 2015: 100%) as at 30 June 2016.

Branksome Grande, Mid-Levels

Located at No. 3 Tregunter Path, Branksome Grande is a twin-tower development of 24 floors, offering a total of 94 residential units, including two penthouses. Comprehensive renovation of the entire building was completed in 2015. As at 30 June 2016, the property was 100% leased (as at 31 December 2015: 76%).

(ii) Sales of Properties

During the first six months of 2016, sales of completed properties held for sale in Hong Kong contributed a turnover of HK\$203 million (2015: HK\$1,304 million) to the Group. A gross profit of HK\$69 million (2015: HK\$552 million) was derived from recognized sales of completed residential properties at 1 & 3 Ede Road, 8 LaSalle and carparking spaces of The Summa.

The Division also derived satisfactory profit from the sale of Dragons Range. Pre-sales of The Bloomsway and Mantin Heights delivered steady sales during the period under review.

1 & 3 Ede Road, Kowloon Tong

The development consists of a house, One Ede Road, and 40 apartments at Three Ede Road, with a total saleable area of approximately 70,000 square feet. As at 30 June 2016, 38 apartments and the house, representing 95% of the total, had been sold.

8 LaSalle, Ho Man Tin

This redevelopment project of 56 units is situated at No. 8 La Salle Road, Ho Man Tin, a neighbourhood offering a network of quality primary and secondary schools. The project delivers a saleable area of approximately 53,000 square feet. 50 units of the project, representing 89% of the total, had been sold as at 30 June 2016.

Dragons Range, Kau To, Sha Tin

Together with Sino Group and Manhattan Group, the Group has co-developed Dragons Range, a residential project of 973 units at No. 33 Lai Ping Road, Kau To, Sha Tin, with a saleable area of approximately 878,000 square feet. The Group holds a 40% stake in this project, which has already been delivered for occupation. As at 30 June 2016, 915 units had been sold, accounting for 94% of the total.

(iii) Properties under Development

The Bloomsway, So Kwun Wat

The Group is developing The Bloomsway, a residential project at Nos. 18, 28 & 29 Tsing Ying Road, So Kwun Wat, with a buildable GFA of approximately 940,000 square feet. The site is to be developed into a large-scale residential property of 1,100 units, scheduled for completion in the first quarter of 2017. Pre-sales of the project were launched in November 2015. As at 30 June 2016, 588 units had been sold, accounting for 53% of the total.

Mantin Heights, Ho Man Tin

The Group is developing a residential site at 28 Sheung Shing Street, Ho Man Tin, with superstructure works currently in progress. The site occupies an area of approximately 259,000 square feet with a buildable GFA of approximately 1.14 million square feet. The project of 1,429 units is scheduled for completion in the first quarter of 2017. Pre-sales of the project were launched in April 2016. As at 30 June 2016, 87 units had been sold, accounting for 6% of the total.

Shan Kwong Road, Happy Valley

A new residential project is currently under development at No. 7A Shan Kwong Road, Happy Valley. It will yield a buildable GFA of approximately 81,000 square feet, and is scheduled to be completed in the first quarter of 2017.

Lung Cheung Road, Beacon Hill

The Group is developing a site in Beacon Hill with an area of approximately 115,000 square feet and a buildable GFA of approximately 116,000 square feet. The site is planned to be developed into a low-density premium residential project, and is scheduled for completion in 2018.

New Redevelopment Project at Hing Hon Road, Sai Ying Pun

The Group is moving ahead with plans to develop a new residential project at Nos. 5-8 Hing Hon Road, following amalgamation of the original development at Nos. 5-6 with an adjacent development at Nos. 7-8. The ownership unification of the new site was completed in December 2015. The joint redevelopment project, in which the Group holds a 71% interest, will deliver a buildable GFA of approximately 68,000 square feet. The project is scheduled to be completed in 2019.

LaSalle Road/Boundary Street, Ho Man Tin

In June 2016, the Group completed the acquisition of the entire building at Nos. 168-168C Boundary Street in Ho Man Tin and will jointly redevelop the site together with a site at Nos. 10-12A LaSalle Road, which it acquired in 2013. This redevelopment project lies adjacent to 8 LaSalle, and will deliver an aggregate developable GFA of 45,000 square feet, scheduled for completion in 2019.

Macau

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

In respect of the Nam Van Lake project, the land concession period ended on 30 July 2016. Up to date, no declaration of the lease expiry has been published in the Official Gazette of Macau or notified to the registered lessee, a wholly-owned subsidiary of the Group. As such, the subsidiary remains the registered lessee of the land.

The Group has sought advice from a legal advisor in Macau. Based on the fact that the non-development was not attributable to the Group, the Group would have a right to pursue a claim for its damages and loss of profits should the Macau SAR Government repossess the land without any compensation. Considering the above, the Directors are of the opinion that no provision is required for the Nam Van Lake project as at 30 June 2016.

(D) OVERSEAS PROPERTY DIVISION

The Group holds a portfolio of upscale properties in the Philippines. These investments are held through Shang Properties, Inc. (“**SPI**”), in which the Division maintains a 34.61% equity interest and a 30.75% interest in its depository receipts. SPI holds a 100% interest in the Shangri-La Plaza Mall, Manila, and indirect interests in The Enterprise Center, an office and commercial property in Makati, Manila’s financial district. As at 30 June 2016, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 94% and 87%, respectively (as at 31 December 2015: 88% and 96%, respectively).

The development of One Shangri-La Place, a residential project located in Mandaluyong City, Manila, has been completed. As at 30 June 2016, a total of 1,248 units (as at 31 December 2015: 1,225) had been sold, accounting for 96% of the total.

SPI currently has three major projects under development:

The first is a project in Makati City to redevelop a site into a high-rise residential building, Shang Salcedo Place, with a GFA of approximately 655,000 square feet. As at 30 June 2016, 533 units (as at 31 December 2015: 432), representing 71% of the total 749 residential units had been sold.

SPI is developing a site of more than 116,000 square feet located in Malugay Street, Makati City. This development project, The Rise, will have a GFA of approximately 1.63 million square feet, comprising 3,044 residential units and approximately 96,000 square feet of commercial space. Sales of The Rise have met with a strong market response, with 2,035 residential units (as at 31 December 2015: 1,829), or 67% of the total 3,044 units sold as at 30 June 2016.

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 2016, 46 residential units (as at 31 December 2015: 29) had been sold, accounting for 47% of the total 98 units available for sale.

(E) OUTLOOK

(i) PRC Property Division

China's property sector has staged an encouraging rebound since the start of 2016. This upturn reflects the Central Government's supportive policies aimed at reducing the inventory of unsold properties, as well as improved consumer and investor confidence.

With a portfolio of prime-quality properties and a sound business strategy, the PRC Property Division is well positioned to address the forthcoming market challenges. The Division recorded strong sales during the first six months, and management expects this momentum to continue into the remainder of the year, primarily driven by residential projects in Putian, Chengdu, Nanchang, Nanjing and Tangshan.

The investment property portfolio will continue to deliver a stable performance despite some downward pressure on the office sector caused by an increase in supply. The shopping malls yielded improved results during the first half as the Division continued to fine-tune its retail mix according to prevailing market conditions. This process of transformation is ongoing. A steady leasing performance is also forecast for the serviced apartments. This rental asset base remains a core component of the Group's overall business portfolio.

In the longer term, the Division has in the pipeline a number of completions of mixed-use and residential projects across China. These projects, coupled with the new development in Qianhai, will drive the Division's future business growth. The coming quarters are not without challenges, but management continues to look ahead with confidence.

(ii) Hong Kong Property Division

The external environment and domestic segment are sending mixed signals on the outlook for Hong Kong. Notwithstanding an asset market correction during the first half of 2016, the local economy has exhibited resilience on the back of a largely stable business environment and labour market. However, as an open economy, Hong Kong is susceptible to rising downside risks from fragile global economic conditions.

The Hong Kong Property Division has been able to sustain robust sales momentum amidst a consolidation mode in the residential market. It will continue to respond to market changes with a pragmatic business strategy that is adapted to the market, while aiming for sustained growth over the long term.

The investment property portfolio contributes a growing stream of recurrent revenue and earnings to the Group. The office segment, comprising Grade-A assets in Island East and Kowloon East, is expected to continue performing well. The retail portfolio, including the family-friendly mall in Kowloon East, is also delivering a steady performance.

The Division will continue to pursue investment opportunities in Hong Kong to foster long-term growth. Management holds a continued stable outlook for the Division.

(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 2016, total foreign currency borrowings (excluding RMB borrowings) amounted to the equivalence of HK\$10,225 million and RMB loans amounted to the equivalence of HK\$8,697 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 26% and 22% respectively, of the Group's total borrowings of HK\$38,797 million as at 30 June 2016.

The non-RMB total foreign currency borrowings of HK\$10,225 million include the Fixed Rate Bonds amounting to US\$1,320 million (net of direct issue costs). The Group has arranged cross currency swap and forward exchange contracts amounting to US\$517 million and US\$425 million, respectively, to hedge the exchange rate exposure between United States dollars and Hong Kong dollars. Besides, the Group has also arranged cross currency swap and forward exchange contracts amounting to RMB900 million and RMB513 million, respectively, to hedge the exchange rate exposure between Renminbi and Hong Kong dollars.

Out of the Group's total borrowings as at 30 June 2016, HK\$10,584 million (representing approximately 27%) was repayable within one year, HK\$7,518 million (representing approximately 19%) was repayable in the second year, HK\$18,870 million (representing approximately 49%) was repayable in the third to fifth years and HK\$1,825 million (representing approximately 5%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 85% of total borrowings as at 30 June 2016. 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 2016, the gearing ratio for the Group was 28.2% (as at 31 December 2015: 32.2%), calculated based on net debt of HK\$23,119 million and shareholders' equity of HK\$81,983 million.

As at 30 June 2016, the Group had outstanding interest rate swap contracts which amounted to HK\$4,000 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile.

In terms of the Group's available financial resources as at 30 June 2016, the Group had total undrawn bank loan facilities of HK\$17,777 million and cash on hand of HK\$15,678 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio and hotel operations provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 25 January 2016, the Group signed a loan agreement for an unsecured HK\$10 billion term and revolving loan facility with 19 reputable international and local banks and financial institutions. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK\$8.45 billion syndicated loan facility obtained in January 2011.

STAFF

As at 30 June 2016, the Company and its subsidiaries had approximately 8,000 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programmes as well as share option schemes.

SHARE OPTIONS

On 5 May 2011, the Shareholders 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 2016, a total of 44,937,000 Share Options were outstanding which comprised 10,775,000 and 34,162,000 Share Options granted under the 2002 Share Option Scheme and the 2011 Share Option Scheme respectively.

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

During the six months ended 30 June 2016, the Company repurchased 2,708,500 shares on the Stock Exchange at an aggregate consideration of HK\$52,227,910 (“**Repurchase**”). The Repurchase was made for the enhancement of Shareholders’ value. Details of the Repurchase are as follows:

Month	Number of ordinary shares	Price paid per share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
January 2016	2,708,500	19.40	19.08	52,227,910
Total	2,708,500			52,227,910

All 2,708,500 shares repurchased were cancelled during the six months ended 30 June 2016. Apart from the above, 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 2016.

CORPORATE GOVERNANCE

During the six months ended 30 June 2016, 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 serving as both the Chairman and the Chief Executive Officer of the Company is a deviation from A.2.1 of the code provisions which requires that the roles of chairman and chief executive should be separated and should not be performed by the same individual.

As Mr. Wong has extensive experience in the business of the Group, it is more efficient for Mr. Wong to perform the role of Chairman as well as Chief Executive Officer of the Company. It is also more favorable to the development and management of the Group’s business. Moreover, Mr. Ho Shut Kan, the President of the Company, is responsible for the day-to-day management of the business of the Group and all other members of the Board have the experience and expertise to ensure balance of power and authority so that the power is not concentrated in any one individual.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Tuesday, 6 September 2016 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 Monday, 5 September 2016. The Interim Dividend is payable on Thursday, 15 September 2016 to Shareholders whose names appear on the Registers of Members on Tuesday, 6 September 2016.

By Order of the Board
Kerry Properties Limited
Li Siu Ching, Liz
Company Secretary

Hong Kong, 22 August 2016

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

Executive Directors:

Messrs. Wong Siu Kong, Ho Shut Kan, Chin Siu Wa, Alfred 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

* *For identification purpose only*