BUSINESS REVIEW AND PROSPECTS

Turnover of the Group for the six months ended 30 June 2002 increased to HK$3,092 million (2001: HK$2,194 million) whilst profit attributable to shareholders increased by 29% to HK$363 million (2001: HK$281 million).

The increase in turnover is mainly due to the successful sales of properties in the first half of the year. Sales of Jupiter Terrace in North Point which commenced in January 2002 received an enthusiastic response from the public and contributed positively to the Group's profit for the period. However, with the continuing uncertainty in the Hong Kong property sector, the Directors have considered it prudent to make an additional provision of HK$133 million for the Constellation Cove project, of which the Group's 75% share amounts to approximately HK$100 million. Sales of Ocean Pointe and Constellation Cove have also been continuing and the Group has realised HK$90 million and HK$115 million, respectively, of the provisions made in respect of the two properties in line with the sales of these properties during the period.

The Group has continued to maintain very strong cashflows with its core portfolio of prime properties in Hong Kong and in the PRC through maintaining high occupancies, thus ensuring a continuing strong recurrent income base. The Logistics and Warehouse Division is also expanding its logistics network and has successfully moved into Europe with the acquisition of a freight forwarding and logistics company in the United Kingdom and a new joint venture in Shanghai in the PRC. Together with the improved performance of its infrastructure projects and the contributions from its international investments, the Group's profit attributable to shareholders has increased accordingly during the six months ended 30 June 2002.

HONG KONG PROPERTY DIVISION

The Hong Kong Property Division recorded total turnover of HK$2,005 million for the six months ended 30 June 2002 (2001: HK$1,340 million), representing 65% of the total turnover for the Group. Rental income for the six month period recorded a 12% decrease to HK$190 million compared with HK$217 million for the corresponding period last year mainly because of the disposal of Energy Plaza in July 2001. Proceeds from sales of properties for the six months ended 30 June 2002, however, increased by approximately 62% to HK$1,815 million from HK$1,123 million for the same period in 2001 due to the successful sales of Jupiter Terrace, Constellation Cove and Ocean Pointe. As a result of the Group's 75% share of the additional provision for Constellation Cove of HK$100 million, profit attributable to the Group from the Division amounted to approximately HK$19 million (2001: HK$57 million). In addition, as a result of this additional specific provision, the breakeven prices of the apartments, duplexes and houses in Constellation Cove have dropped from HK$3,850 per square foot ("psf") to HK$3,750 psf, HK$4,600 psf to HK$4,400 psf and HK$5,500 psf to HK$4,750 psf, respectively.

Development Properties

Jupiter Terrace, a property in North Point which the Group acquired in December 2001, was launched for public sale in January 2002. The property consists of two residential blocks with two and three bedroom units sizes of 628 and 738 square feet, respectively. The sale of the property received an enthusiastic response from the public and as at the date of this report, approximately 97% of the development has been sold. The 26,000 square feet commercial podium and the 47 carpark spaces in Jupiter Terrace were also 100% sold as at 30 June 2002.

HONG KONG PROPERTY DIVISION (continued)

Development Properties (continued)

Sales of Ocean Pointe in Sham Tseng are continuing during the period under review. As at 30 June 2002, approximately 95% of the development has been sold. Subsequent to the period end, an additional 4 units in Ocean Pointe were sold with only 26 units remaining.

The sale of Enterprise Square 2 is also satisfactory with approximately 98% of the development amounting to 240,785 square feet being sold as at 30 June 2002. Another 1,938 square feet of the development was also sold subsequent to 30 June 2002.

In March 2002, the Group commenced the sale of the apartment blocks in Constellation Cove, Tai Po Kau. 118 apartment units amounting to approximately 57% of the 208 apartment units have been sold as at 30 June 2002. In addition, 5 detached houses and 4 duplex villas were also sold at the same time. The property's certificate of compliance was received in May 2002 and the development is currently being handed over to purchasers. The detached houses and duplex villas are also expected to be relaunched for public sale in the near future. The Group intends to retain 15 detached houses with views over the Tolo Harbour for its investment property portfolio for lease.

Constellation Cove comprises a total of 286 residential units, including 50 deluxe detached houses ranging from 3,200 to 3,900 square feet, 28 uniquely designed duplex villas ranging from 2,700 to 2,900 square feet, 12 blocks of 10 storey luxury apartments offering 200 standard units from 1,300 to 1,500 square feet and 8 penthouse units of 3,000 square feet. Constellation Cove occupies a site area of approximately 800,000 square feet with nearly 90% reserved for extensive landscaping.

The Group's joint venture developments are continuing to be sold and are progressing well. The Group has equity accounted for its share of results from Phases 1 and 2 of the Tai Kok Tsui project, which are approximately 90% and 83% sold, respectively.

Investment Properties

The Group has continued with the sale of units in Enterprise Square. During the period under review, 14,721 square feet was sold and approximately 79% of the development has been sold as at the period end.

Notwithstanding difficult conditions in the Hong Kong leasing market, the Group's luxury residential portfolio, including Aigburth, Branksome, Tavistock and Tregunter Towers 1 and 2 in Mid-Levels and Belgravia in South Bay, is leasing well and has maintained an average occupancy rate of approximately 97%.

Olympian City 1 and 2, the commercial podiums of Phases 1 and 2 of the Tai Kok Tsui project, are also leasing well with occupancy rates of 94% and 92%, respectively, as at 30 June 2002.

The Group's investment portfolio continued to maintain high occupancy rates of 97%, 98% and 84% for residential, retail and offices, respectively, as at 30 June 2002.

Status of Developments

Site formation work of Ava Mansion in Mid-Levels has been fully completed and pile cap work is currently in progress. The development, with buildable gross floor area of approximately 143,000 square feet, will comprise a 47 storey luxury residential building providing a total of 60 units, including 2 garden duplexes, 54 typical units, 2 whole floor units and 2 duplexes with ancillary carparks and clubhouse facilities offering panoramic sea views over the city and the harbour. The development is due for completion in December 2003 and is intended to be retained for lease to further strengthen the Group's investment property portfolio.

Construction of the pile caps of Enterprise Square 3, an office development located adjacent to Enterprise Square and Enterprise Square 2 in Kowloon Bay, have been completed. The consent for superstructure work has also been issued by the Building Department. It is expected that the development will be completed in March 2004. Enterprise Square 3 is designed to be a 34 storey office tower built over a 6 storey podium for carpark and other facilities. When completed, the development will become a new landmark building in Kowloon Bay.

The superstructure consent for the towers in The Cliveden in Tsuen Wan, a low-density luxury residential development 50% owned by the Group, has been issued. The development is expected to comprise 9 residential towers of 10 storeys, with 210 three bedroom units in total. On 8 August 2002, pre-sale consent for the development was obtained. Construction is expected to be completed in December 2003.

Acquisitions and Future Plans

The Group acquired an industrial property, Chung Nam Industrial Building at 152-160 Kwok Shui Road in Tsuen Wan, for approximately HK$120 million in May 2002. With a plot ratio of 5 times, the property has a site area of approximately 40,000 square feet and a potential buildable gross floor area of approximately 200,000 square feet. The property also enjoys the convenience of good transportation facilities with the Tai Wo Hau MTR station in close proximity. It is expected that the site will be redeveloped into a residential development.

On 27 June 2002, a consortium formed by the Group and Sino Land Company Limited won the tender for the Tseung Kwan O Hang Hau Station Development with the MTR Corporation Limited. The development occupies a total site area of approximately 200,000 square feet with a buildable area of approximately 1.5 million square feet. The initial plan will comprise of 6 residential towers with a landscaped podium and clubhouse. The Group has a 40% equity interest in the development.

PRC PROPERTY DIVISION

Turnover from the PRC Property Division for the six months ended 30 June 2002 increased by 14% to HK$563 million (2001: HK$496 million), representing 18% of the Group's total turnover. Rental income from the Division decreased by approximately 11% to HK$218 million (2001: HK$246 million). Proceeds from sales of properties increased to HK$231 million (2001: HK$149 million) primarily due to sales of units of Central Residences and Kerry Everbright City in Shanghai. Revenues generated from the Beijing Kerry Centre Hotel for the first six months of this year increased by approximately 13% to HK$114 million (2001: HK$101 million). The contribution from this Division continues to be satisfactory due to the strong economic growth of the PRC and the PRC's successful entry into the World Trade Organisation ("WTO"). Profit attributable to the Group from the Division amounted to approximately HK$154 million (2001: HK$90 million).

Development Properties

The construction of Towers 1, 2 and 3 of Central Residences, the Group's Hua Shan Road luxury residential project in Shanghai, is now completed with Tower 5 expected to be completed by September 2002. The project was very well received by the public with Towers 1 and 2 being 99% and 100% sold, respectively. Towers 3 and 5 commenced pre-sales in June and November 2001 with exhibitions held in Hong Kong. As at 30 June 2002, Towers 3 and 5 were 87% and 63% sold and pre-sold, respectively, with another 3 units in Tower 5 sold subsequent to the period end.

Investment Properties

The performance of the Group's investment portfolio in the PRC has been satisfactory. Leasing activities in Beijing Kerry Centre continue to be strong with approximately 90% and 94% of the office and retail space in the property being leased, respectively. The service apartments in Beijing Kerry Centre, Kerry Residences, were approximately 71% leased as at 30 June 2002.

Beijing Kerry Centre Hotel has also performed very well during the first six months of this year with an average occupancy rate of approximately 79% (2001: 66%).

Notwithstanding the highly competitive environment in the leasing market in Shanghai, the occupancy of Shanghai Kerry Centre remains high. As at 30 June 2002, the office tower and commercial podium were approximately 94% and 88% leased, respectively. Similar to Beijing Kerry Centre, the service apartments in Shanghai Kerry Centre are also branded Kerry Residences, with 80% of the apartments having been leased out as at 30 June 2002.

Sales and leasing of Kerry Everbright City in Shanghai are also progressing well. As at 30 June 2002, approximately 75% and 8% of Tower 1 and 1% and 94% of Tower 2 have also been leased and sold, respectively. Pacific Department Store has leased almost 100% of the shopping mall in Kerry Everbright City as its third retail department store in Shanghai.

As at 30 June 2002, the retail shops in International Apartments in Shanghai was approximately 64% and 30% leased and sold, respectively. In Shanghai Trade Square, approximately 31% and 65% of the office space have been leased and sold whilst the retail shops are approximately 69% and 31% leased and sold, respectively.

The marketing activities of Shenzhen Kerry Centre are continuing and approximately 62% and 36% of the office space have been leased and sold, respectively, at the period end. The commercial podium of Shenzhen Kerry Centre is currently 100% leased.

Status of Developments

Demolition of the existing buildings on the Cao Jia Yan site in Shanghai, located adjacent to Central Residences is in progress. The site was 90% vacant as at 30 June 2002 and vacant possession is targeted by August 2002. Conceptual designs for the project have been submitted to the local government authorities for approval.

The land use contract of No. 1288 Yan An Zhong Road in the Jingan District in Shanghai was signed on 6 February 2002. The Group intends to construct a high rise luxury residential development with total buildable area of approximately 44,700 square metres with landscaped gardens and recreational facilities. Feasibility studies and conceptual plans are now being prepared to try to encompass the development together with the adjoining Shanghai Kerry Centre. This development is expected to be completed by December 2004.

The construction of Shenzhen Regency Park Phase 3B has commenced and the show house will be ready for public viewing by the end of October 2002. The Phase 3B development comprises of 7 deluxe houses with 3 different individual designs. It will include 2 twin houses each measuring 385 square metres, 3 detached garden houses each measuring 688 square metres and 2 deluxe houses each measuring 798 square metres. Each of the 5 detached garden and deluxe houses has its own swimming pool and garage.

The construction of The Arcadia Court in Shenzhen Futian is approximately 20% completed. The development has a site area of approximately 33,000 square metres, comprising of 8 luxury residential towers of 23 to 30 storeys, providing three and four bedroom units of 125 to 223 square metres and penthouse units, together with an exclusive residents' clubhouse and a kindergarten. It is expected that pre-sales will commence in the fourth quarter of 2002 and the development will be completed in early 2004.

All piling works of the Yu Quan Hua Yuan project, a residential development in Fuzhou, have been completed and the substructure was 60% complete as at 30 June 2002. The development will comprise of 2 residential towers with 248 units, with sizes ranging from 134 square metres to 162 square metres. A commercial podium of 6,060 square metres will also be built.

Future Plans

Last year, the Group entered into a joint venture called Beijing BHL Logistics Limited to acquire a piece of land at Shibalidian in the Chaoyang District in Beijing. The Group has a 20% interest in the joint venture. The joint venture company is performing all necessary work for the relocation and resettlement of the current occupiers of the land. Subsequently the land will be parceled out to individual project companies to be formed for the development of the land. The project occupies a total site area of approximately 3.9 million square metres.

LOGISTICS AND WAREHOUSE DIVISION

The Logistics and Warehouse Division is one of the major contributors of revenue to the Group. During the six months ended 30 June 2002, the Division achieved a turnover of HK$502 million (2001: HK$336 million) which represents approximately 16% of the Group's turnover. Logistics revenue increased by approximately 153% to HK$306 million for the six months ended 30 June 2002 from HK$121 million in 2001, whilst revenue from warehousing dropped by 9% from HK$215 million for the first six months of 2001 to HK$196 million in 2002. The Division recorded earnings before interest and tax of HK$123 million for the period compared with HK$128 million for the corresponding period last year, which represents a drop of approximately 4%.

Profit attributable to the Group from the Division for the period amounted to HK$76 million (2001: HK$52 million), representing a growth of 46% which is mainly due to a decrease in interest expenses. HK$70 million (2001: HK$50 million) in profit is attributable to warehousing and HK$6 million (2001: HK$2 million) is derived from logistics operations.

Leasing of Warehouse

The first half of 2002 continued to be a difficult period for the warehousing business in Hong Kong. The development of alternative warehouse locations in the PRC, together with the continuing decline in cargo tonnage passing through Hong Kong with more direct shipments between coastal ports in the PRC and other parts of the world, has led to a continued decrease in demand for warehouse space in Hong Kong. Market rental in the first half of 2002 dropped by approximately 20% when compared with December 2001, with tariffs remaining flat from June 2002.

Notwithstanding such adverse market conditions, the Division was still able to maintain a fairly stable rental income during the period because it adopted a proactive leasing policy by extending its target tenant segments from export-oriented sectors to domestic distribution sectors in order to minimize the uncertainties generated by external economic factors. The average occupancy rate of the entire warehouse portfolio operated by the Division for the six months ended 30 June 2002 stood at 97%.

In the second half of 2002, the Division will continue to evaluate opportunities to maximize the capital value and rental yields of its warehouse portfolio by controlling costs and upholding the quality and standards of service whilst on the other hand continuously extending its proactive marketing efforts, as well as converting more warehouse space to other activities with higher yields whenever possible.

Logistics Business

Along with the continued expansion of the Division's logistics operations overseas, logistics revenue increased to HK$306 million for the six months ended 30 June 2002, representing a growth of 153% compared with the corresponding period in 2001. 58% of such revenues were generated from outside Hong Kong.

Freight

Seeing the growing influence of China in the world economy, it is expected that China will soon become a major player in the Asian logistics industry, especially after the existing barriers to market entry are lifted and other limitations on foreign investments are phased out according to WTO obligations. In view of this, in 2002, the Division has continued to focus its development efforts in the PRC. Four freight offices in various coastal and large cities in the PRC, including Shenzhen, Qingdao, Shanghai and Tianjin were set up in the first quarter of 2002. More offices will be established in other areas such as Xiamen and Futian when the volume from these regions can achieve critical mass and are able to sustain themselves. In April, the Division successfully obtained a Class A operating license in Beijing through a 50% joint venture company, Kerry BHL Logistics Limited ("KBHL"). This international freight forwarding operating license can be rolled-out to other cities in the PRC in one year's time. Once this freight forwarding network is in place, the Division will be able to secure more multinational clients who are exploring business opportunities on the mainland.

Logistics and distribution

The development of the freight forwarding network in the PRC will also add synergy to the Division's existing logistics and warehouse operations in Beijing, Shanghai and Yantian. Apart from a rented logistics centre of approximately 3,300 square metres located in the Shanghai Waigaoqiao Free Trade Zone and a similarly rented distribution centre of approximately 7,567 square metres located in Lao Jun Tang in the Chaoyang District of Beijing, both of which are currently in operation, the Division is in the process of constructing a 40,000 square metres logistics facility in Yantian. The construction will be completed in the second quarter of 2003. The facility, when completed, will serve as another regional hub for the Division for its penetration into the booming Pearl River Delta market.

In northern China, KBHL commenced long-haul transport operations in the first quarter of 2002. Knowing that China's vast geographical expanse creates significant opportunities for movement of goods and distribution activities, development efforts in this long-haul transport business will continue during the year to complement the Division's other network points in the region.

In Thailand, the Division is also in the process of constructing its first logistics facility outside of Hong Kong and the PRC. The building is a 16,000 square metres facility located in the area of Laem Chabang Port which is south of Bangkok. It will commence operations in late 2002.

In Hong Kong, the Division has continued to gain large logistics contracts in addition to its existing 70 plus logistics customer portfolio. In the future, other than extending its efforts to enhance its competencies and competitive advantages to secure a leading position in the logistics business in Hong Kong, the primary role of the Division's Hong Kong operations will be to leverage its established foundation and resources in building a competitive nationwide network of logistics operations in the mainland, thus establishing its position as a total solution service provider in the PRC.

LOGISTICS AND WAREHOUSE DIVISION (continued)

Acquisitions and Future Plans

In April 2002, the Division made a significant step to achieve its transformation from a Pan-Asian integrated logistics company into a global player by acquiring a 91% stake in Trident International Limited ("Trident"). Trident is one of the leading players in the Asia-United Kingdom trade for sea freight with approximately 70% of its TEUs relating to routes to/from the PRC and Hong Kong. It has built up a comprehensive range of logistics services and employs over 200 staff in three cities in the United Kingdom with a total of 38,000 square metres of Customs Authorized Warehousing in London and Manchester. This acquisition has enabled the Division to jump start its freight forwarding business in the PRC. The impact and synergy brought about by this acquisition will be fully reflected in the results of the Division starting from the second half of year 2002.

Subsequent to the period end on 26 July 2002, the Division further expanded its logistics business in Shanghai with the formation of a joint venture company, Shanghai Kerry CHJ Logistics Limited ("Kerry CHJ"), with Shanghai Caohejing Hi-Tech Park Development Corporation ("CHJ"). The total investment in Kerry CHJ is estimated to amount to approximately HK$232 million with each party owning a 50% interest. The objective of the joint venture company is to combine the strengths of CHJ with its strong customer pool and it's land bank in other developing areas in Shanghai and the logistics experience of Kerry to provide logistics services to the enterprises in Caohejing and other areas in Shanghai.

The Division is also in the process of incorporating a new joint venture company called EPHI Logistics Holdings Inc. which is to be 60% owned by EDSA Properties Holdings Inc., an associated company of the Company in the Philippines, with the remaining 40% interest held by the Division. The purpose of this joint venture is to invest and operate freight and logistics businesses in the Philippines.

As at 30 June 2002, the Division operates in 12 countries and 27 cities around the world. With its global logistics and freight forwarding network connections gradually coming online, both geographically and in terms of infrastructure, it is expected that it will enable the Division to increase its market share in the growing logistics market and compete with other long-established international freight forwarding competitors in Europe.

INFRASTRUCTURE-RELATED INVESTMENTS

Profit attributable to the Group from the Division for the six months ended 30 June 2002 amounted to approximately HK$43 million (2001: HK$46 million). The decrease is due to the disposal of the Hu-Ning Expressway in December 2001 whilst profits from the remaining investments during the period have actually increased.

Shenzhen Kaifeng Terminal Co., Ltd. changed its name to Chiwan Container Terminal Co., Ltd ("CCT") in February 2002. CCT continued to make good progress during the period under review. For the six months ended 30 June 2002, CCT handled 508,887 TEUs, representing an increase of 94% compared to 262,371 TEUs for the first six months of 2001. The significant increase in container throughput is mainly due to an increase in market demand as a result of the PRC's accession to the WTO as well as a recovery of the United States market, with American companies rebuilding inventories. During the six months ended 30 June 2002, the Group had equity accounted for HK$21 million (2001: HK$5 million) in profits after tax from this investment.

Asia Airfreight Terminal is continuing to operate profitably at the Chek Lap Kok airport. Total tonnage handled during the six months ended 30 June 2002 was approximately 191,111 tons (2001: 169,285 tons). The Group had equity accounted for its share of profits after tax amounting to HK$11 million (2001: HK$9 million) for the six months ended 30 June 2002.

The performance of Western Harbour Tunnel has continued to improve and it made a positive contribution to the Group during the period under review. During the six months ended 30 June 2002, the Group had equity accounted for its share of profits from the investment amounting to HK$11 million (2001: HK$4 million).

The management, operation and maintenance contract for the Cross Harbour Tunnel, previously awarded to a joint venture company formed by the shareholders of Western Harbour Tunnel and in which the Group has a 15% interest, will expire in September 2002. In June 2002, the joint venture company successfully secured a contract with the Government for two years commencing September this year, extendable for another two years thereafter.

INTERNATIONAL INVESTMENTS

Profit attributable to the Group from the Division for the six months ended 30 June 2002 amounted to HK$29 million compared to HK$13 million for the corresponding period last year.

Pre-sales of Jacksons Landing, the Group's joint venture project in Sydney, Australia, have continued with satisfactory results. As at 30 June 2002, 619 units out of 645 units in the first six precincts released for pre-sale have been sold. Construction of other precincts is proceeding according to schedule. The Group had equity accounted for its share of profits after tax for the first six months amounting to HK$10 million (2001: HK$7 million).

The Group has continued to enjoy a stable income from its investment in EDSA Properties Holdings Inc. ("EPHI") in the Philippines. Despite the keen competition in the market, both Shangri-La Plaza Mall, a premier shopping mall in Manila, and The Enterprise Center, a twin tower grade A commercial building in the Makati Central Business District, have managed to secure high occupancy rates, thereby generating good recurrent income. As at 30 June 2002, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center stood at 96% and 86%, respectively.

On 6 August 2002, EPHI announced its interim results for the six months ended 30 June 2002, reporting profit attributable to shareholders of approximately Pesos 94.37 million which represents a decrease of 23% over the corresponding period in 2001 of approximately Pesos 122.45 million. The drop in profit attributable to shareholders was mainly due to an increase in interest expenses during the period under review as a result of bank loans taken out to finance the mall's renovation program.

In addition, on 6 August 2002, the Board of Directors of EPHI including the independent directors unanimously approved EPHI entering into a Memorandum of Agreement with its associate company, Kuok Philippine Properties, Inc. to finance a luxury high-rise development at the corner of Dela Rosa and Perea Street in Legaspi Village, Makati. The project comprises a total site area of 2,856 square metres with a construction area of 68,793 square metres and is conveniently located at the heart of Makati's Central Business District and is situated close to the Enterprise Center.

During the period, the Group recorded profits from its investments in EPHI amounting to HK$19 million (2001: HK$6 million). The Group is confident that the investment will continue to enhance its recurrent income base.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and transparency which the Directors believe would provide a positive framework for the overall operations of the Group as well as to enhance shareholders' value.

In February 2002, Euromoney, the prestigious international financial magazine, conducted a survey on the "Best Companies in Asia". The Company is honoured to have been ranked amongst the top three best property companies in Hong Kong in the survey.

During the period under review, corporate governance practices carefully designed by the Group have continued to be in operation. Amongst others, these practices include the maintenance of an effective internal control system, the proper delegation of authority, the establishment of clear lines of responsibility and accountability and also the existence of an internal audit team. Going forward, the Group will still strive to maintain the highest standards of corporate governance and transparency in its operations and development.

CREDIT RATING

On 21 May 2002, Standard & Poor's performed a review of the ratings of eight property companies in Hong Kong including the Company. The Group is only one of the three companies out of the eight which were reviewed which had its investment grade rating of "BBB–" reaffirmed.

FINANCIAL REVIEW

The Group has centralised funding for all its operations at the Group level. This policy achieves better control of treasury operations and lower average cost of funds. In addition, foreign exchange exposure does not pose a significant risk for the Group given that the level of foreign exchange exposure is small relative to the total asset base. During the period, the Group redeemed all the outstanding convertible bonds with a total principal value of US$197.18 million. US$ borrowings as at 30 June 2002 has therefore been reduced to US$32 million. The rental and sales of properties in the PRC are linked to the US$ whilst expenditures in the PRC are mainly in Renminbi.

In order to take advantage of the current low interest environment, the Group signed a syndicated loan agreement on 23 January 2002 for a 5 year unsecured facility amounting to HK$4.5 billion. The interest rate for this facility is HIBOR plus 40 basis points and the facility has been used to refinance an existing HK$4.205 billion syndicated loan facility signed in May 2000. Responses from the banking community to this facility were very enthusiastic with 13 reputable banks and financial institutions underwriting the transaction and 17 banks participating as lenders upon conclusion of the loan. The Group received total commitments of HK$7.15 billion, which is 58% more than the initial facility size of HK$4.5 billion. Despite the large amount of oversubscription for the facility, the Group decided to maintain the facility amount at HK$4.5 billion.

This facility was self-arranged by the Group. The successful conclusion of the loan is evidence of the strong support for the Group amongst the banking community.

FINANCIAL REVIEW (continued)

The majority of the Group's borrowings are subject to floating interest rates except for certain loans in the PRC, Korea and Thailand which are fixed interest loans. The Group has entered into interest rate swap contracts amounting to HK$6.1 billion in total, enabling the Group to hedge its interest rate exposure in the current low interest environment and to have a more stable interest rate profile over the next few years.

As and when required, the Group will also pledge specific assets to banks for banking facilities granted for the development or acquisition of specific assets.

With the successful conclusion of the self-arranged syndicated loan in January 2002 and the total redemption of the Group's convertible bonds, the Group has extended the maturity profile of its borrowings and at the same time lowered its borrowing costs. As at 30 June 2002, total borrowings of the Group amounted to HK$6,991 million, of which 17% (31 December 2001: 34%) is due within one year whilst 11% (31 December 2001: 12%) and 72% (31 December 2001: 54%) are due in the second year and in the third to fifth years, respectively. During the period, the Group continued to maintain most of its borrowings on an unsecured basis. As at 30 June 2002, unsecured debt comprised approximately 87% of total borrowings while total net borrowings amounted to approximately HK$5,811 million, resulting in a gearing ratio of approximately 26% based on shareholders' equity of approximately HK$22,373 million.

The Group will continue to obtain financing on a fully unsecured basis whenever possible and supplement such borrowings with secured project financing as and when the need arises. The Group will also continue its policy of maintaining a prudent gearing ratio.

At 30 June 2002, the Group had total undrawn facilities of approximately HK$6,290 million and net cash on hand of approximately HK$1,180 million. In addition, the Group also continues to generate strong recurring cashflows from its core investment property portfolio. This strong financial position enables the Group to take advantage of investment opportunities with confidence.

ENVIRONMENTAL PROTECTION INITIATIVES

The Group has continued with its initiatives to incorporate environmental protection measures in its projects. Starting from the design of the properties to the selection of materials and equipments, enhancement of the environment is achieved through well planned landscaping and the introduction of a "Green Property Management System". It is the Group's intention to incorporate this eco-friendly concept into all of its developments. In Ava Mansion, The Cliveden and Enterprise Square 3, three of the Group's latest developments, the Group continues with its initiatives to incorporate environmental protection measures in its developments by introducing the green property management system. In addition, the designs in The Cliveden have also taken into account units with balconies to allow maximum light penetration. The Group will continue to explore the possibilities of having more environmental protection measures implemented in its future developments where appropriate.

In July this year, The Enterprise Center in Manila received an award for its Energy Conservation Program at the 3rd Annual Asean Energy Awards held in Brunei. Final judging revealed that The Enterprise Center was the most energy efficient building in the Philippines and the fifth most energy efficient building in the whole ASEAN region.

CORPORATE COMMUNICATIONS INITIATIVES

Website

The Kerry Properties website, *www.kerryprops.com*, has continued to be well received by the investment community and buyers of properties with average number of hits during the six months ended 30 June 2002 increasing to 518,407 hits (2001: 296,832 hits) per month.

Investor Relations

In order to develop and maintain continuing good relations with the Group's investors, the Group participated in various roadshows and conferences during the six months ended 30 June 2002 as follows:

Date	Event	Organiser	Venue
March 2002	Roadshow	Salomon Smith Barney	London
May 2002	Investor Briefing	EDSA Properties Holdings Inc.	Manila
May 2002	Roadshow	Morgan Stanley	Sydney

Subsequent to the period end on 1 August 2002, the Group participated in a Hong Kong property corporate day organised by Deutsche Securities for institutional investors.

In addition, the Company is currently working on a Level 1 American Depositary Receipt program which will allow the Company to access a wider spectrum of potential investors.

DIRECTORS AND STAFF

As at 30 June 2002, the Company and its subsidiaries had 3,012 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical cover, subsidised educational and training programmes as well as a share option scheme.

Share Option Scheme

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group to optimise their future contributions to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions.

As at 30 June 2002, options to subscribe for a total of 32,294,818 option shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

DIRECTORS AND STAFF (continued)

Share Option Scheme (continued)

Movements of the options, which have been granted and exercised under the 1997 Share Option Scheme, during the period are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Number of option shares held at 01/01/2002	Number of option shares granted during the period	Number of option shares granted for adjustments	Number of option shares exercised during the period	Number of option shares lapsed during the period	Number of option shares held at 30/06/2002	Exercise price (HK$)	Grant date	Exercise period
Directors[2]	6,435,479	–	–	–	–	6,435,479	15.50	11/04/1997	11/04/1999 – 26/03/2007
	1,269,318 [3]	–	–	–	–	1,269,318	10.01	27/11/1999	27/05/2000 – 26/03/2007
	1,269,319 [3]	–	–	–	–	1,269,319	10.01	27/11/1999	27/05/2001 – 26/03/2007
	1,036,000 [4]	–	–	–	–	1,036,000	6.96	01/06/2000	01/06/2001 – 31/05/2010
	1,036,000 [4]	–	–	–	–	1,036,000	6.96	01/06/2000	01/06/2002 – 31/05/2010
	1,028,815 [4]	–	–	–	–	1,028,815	6.96	01/06/2000	01/06/2003 – 31/05/2010
	34,000 [5]	–	–	–	–	34,000	12.03	02/03/2001	02/03/2002 – 01/03/2011
	34,000 [5]	–	–	–	–	34,000	12.03	02/03/2001	02/03/2003 – 01/03/2011
	33,662 [5]	–	–	–	–	33,662	12.03	02/03/2001	02/03/2004 – 01/03/2011
	–	1,575,000 [6]	–	–	–	1,575,000	7.10	16/04/2002	16/04/2003 – 15/04/2012
	–	1,575,000 [6]	–	–	–	1,575,000	7.10	16/04/2002	16/04/2004 – 15/04/2012
Continuous Contract Employees	4,933,852	–	–	–	–	4,933,852	15.50	11/04/1997	11/04/1999-26/03/2007
	1,707,873 [3]	–	–	–	–	1,707,873	10.01	27/11/1999	27/05/2000-26/03/2007
	1,707,901 [3]	–	–	–	–	1,707,901	10.01	27/11/1999	27/05/2001-26/3/2007
	1,854,000 [4]	–	–	(24,000)	(41,000)	1,789,000	6.96	01/06/2000	01/06/2001-31/05/2010
	1,854,000 [4]	–	–	(24,000)	(41,000)	1,789,000	6.96	01/06/2000	01/06/2002-31/05/2010
	1,743,604 [4]	–	–	–	(36,468)	1,707,136	6.96	01/06/2000	01/06/2003-31/05/2010
	396,000 [5]	–	–	–	–	396,000	12.03	02/03/2001	02/03/2002-01/03/2011
	396,000 [5]	–	–	–	–	396,000	12.03	02/03/2001	02/03/2003-01/03/2011
	366,948 [5]	–	–	–	–	366,948	12.03	02/03/2001	02/03/2004-01/03/2011
	–	805,000 [6]	–	–	–	805,000	7.10	16/04/2002	16/04/2003-15/04/2012
	–	805,000 [6]	–	–	–	805,000	7.10	16/04/2002	16/04/2004-15/04/2012
Others	564,515	–	–	–	–	564,515	15.50	11/04/1997	11/04/1999-26/03/2007
Total	27,701,286	4,760,000	–	(48,000)	(118,468)	32,294,818			

Notes:

1. At the date before the options were granted during the period, i.e. 15 April 2002, the value of the options granted to the respective parties is listed below based on the market value of HK$7.15 per share:

	HK$
Directors:	22,522,500
Continuous contract employees:	11,511,500
Total:	34,034,000

2. For the breakdown of the "Directors" category, please refer to the section headed "Directors' Rights to Acquire Shares or Debentures" in this report.

3. The options granted on 27 November 1999 are exercisable in 2 tranches.

4. The options granted on 1 June 2000 are exercisable in 3 tranches.

5. The options granted on 2 March 2001 are exercisable in 3 tranches.

6. The options granted on 16 April 2002 are exercisable in 2 tranches.

7. No options were cancelled during the period.

In accordance with Rule 17.08 of the Listing Rules, a valuation of the Company's options granted during the period has been calculated based on the Black-Scholes option pricing model as stipulated in Rule 17.08. This model was developed for use in estimating the fair value of traded options which do not have vesting restrictions and which are fully transferable. In addition, the option valuation model requires the input of highly subjective assumptions, including the expected stock-price volatility. As the Company's options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The following assumptions, measured based on the date when the options were granted, were used in determining the pro forma amount:

	2002
Stock volatility (assuming 260 trading days per year)	45.44%
Expected life from grant date (in years)	10
Risk-free interest rate (interest rate for the Exchange Fund Notes)	6.0%
Expected dividend yield	4.0%

Based on the closing price of the Company's share on the date of grant and the above assumptions, the computed fair value of the options granted during the period was HK$2.73 per option share.

DIRECTORS AND STAFF (continued)

Share Option Scheme (continued)

Pursuant to the terms of the 1997 Share Option Scheme, the Company adjusted the exercise price per option share of the unexercised options and the number of option shares comprised thereunder on 12 August 2002 following the adjustment events arising from the changes in the Company's issued share capital on 9 October 2001 and 31 May 2002. The exercise prices have been adjusted from HK$15.50 to HK$15.30, from HK$10.01 to HK$9.88, from HK$6.96 to HK$6.87, from HK$12.03 to HK$11.88 and from HK$7.10 to HK$7.02 in respect of the unexercised options granted on 11 April 1997, 27 November 1999, 1 June 2000, 2 March 2001 and 16 April 2002, respectively, with additional corresponding option shares of 155,978, 78,324, 109,034, 15,908 and 54,216 granted accordingly.

CONCLUSION

The outlook of the Hong Kong economy continues to be uncertain. Nevertheless, the Group believes in the long term prospects of the Hong Kong property market and accordingly has invested in a number of property developments in Hong Kong during the half year under review. Business in the PRC is also expected to improve with the PRC's accession to the WTO and the growing demand for a better living environment. Given the Group's quality and strategically located property portfolio, its stable and healthy recurrent income base as well as its strong financial standing, the Group is in a good position to capture any opportunities and meet the challenges ahead.