



KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司

Interim Report **2004**

For the six months ended 30 June 2004

CORPORATE INFORMATION

Board of Directors

Executive Directors

Mr ANG Keng Lam

Chairman

Mr WONG Siu Kong

Deputy Chairman and Managing Director

Mr HO Shut Kan

Mr MA Wing Kai, William

Independent Non-executive Directors

Mr LAU Ling Fai, Herald

Mrs LEE Pui Ling, Angelina

Mr Christopher Roger MOSS, O.B.E.

Audit Committee

Mr Christopher Roger MOSS, O.B.E.

Chairman

Mr LAU Ling Fai, Herald

Mrs LEE Pui Ling, Angelina

Mr CHEW Fook Aun

Secretary to the Audit Committee

Finance Committee

Mr ANG Keng Lam

Mr WONG Siu Kong

Mr HO Shut Kan

Mr CHEW Fook Aun

Remuneration Committee

Mr ANG Keng Lam

Chairman

Mr WONG Siu Kong

Mr LAU Ling Fai, Herald

Mrs LEE Pui Ling, Angelina

Mr Christopher Roger MOSS, O.B.E.

Mr CHEW Fook Aun

Secretary to the Remuneration Committee

Qualified Accountant

Mr CHEW Fook Aun

Company Secretary

Ms CHOW Yin Ping, Anita

Auditors

PricewaterhouseCoopers

Certified Public Accountants

Key Dates

Closure of Registers of Members:

Interim Dividend Payment/Despatch of Scrip
Dividend Share Certificates:

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

13/F & 14/F
Cityplaza 3
14 Taikoo Wan Road
Taikoo Shing
Hong Kong

Branch Office

21/F, CITIC Tower
No 1 Tim Mei Avenue
Central
Hong Kong

Website

www.kerryprops.com

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke
Bermuda

Hong Kong Branch Registrar and Transfer Office

Abacus Share Registrars Limited
G/F, Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

Contact

Corporate Communications Department of
Kerry Properties Limited
13/F & 14/F
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Taikoo Shing
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30 August 2004 to 1 September 2004

13 October 2004

The Directors of Kerry Properties Limited (the "Company") are pleased to announce the unaudited interim results of the Company, its subsidiaries and associates (the "Group") for the six months ended 30 June 2004. The Audit Committee of the Board, comprising all the Independent Non-executive Directors of the Company, has met to review the results and the financial statements of the Group for the six months ended 30 June 2004 prior to recommending them to the Board for approval.

The Group's consolidated profit attributable to shareholders for the six months ended 30 June 2004 was HK\$698 million (2003: loss attributable to shareholders of HK\$591 million (excluding exceptional items, profit attributable to shareholders of HK\$384 million)). The profit for the current period is an increase of approximately 82% over the profit before exceptional items for the corresponding period in 2003.

Earnings per share for the period was HK58.44 cents (2003: loss per share: HK50.39 cents). The basis of calculating the earnings per share is detailed in note 6 below.

The Directors have declared an interim dividend of HK20 cents per share in cash for the six months ended 30 June 2004 (2003: HK13 cents) payable on Wednesday, 13 October 2004, to shareholders whose names appear on the registers of members of the Company on Wednesday, 1 September 2004, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2004 Interim Scrip Dividend Scheme").

The 2004 Interim Scrip Dividend Scheme is conditional upon: (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. In the unlikely event that any of the conditions are not satisfied, shareholders will receive the interim dividend for 2004 wholly in cash. The issue price of the new shares to be issued under the 2004 Interim Scrip Dividend Scheme will be fixed with reference to the average closing prices of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days to be determined by the Directors. Thereafter, a press announcement setting out the basis of allotment and the issue price of new shares under the 2004 Interim Scrip Dividend Scheme will be published. A circular containing details of the 2004 Interim Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Monday, 13 September 2004.

At the Company's Annual General Meeting held on 20 April 2004, shareholders approved the final dividend of HK15 cents per share for the year ended 31 December 2003 amounting to a total of approximately HK\$179 million. Shareholders were given a scrip alternative to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. A total of 314,252 shares were issued on 28 May 2004 at a price of HK\$11.97 per share (being the average of the closing price of the five consecutive trading days immediately preceding and including 27 April 2004), which was equivalent in total to approximately HK\$4 million in value, pursuant to this dividend scheme. The dividend payable in cash amounting to approximately HK\$175 million was paid on 28 May 2004.

UNAUDITED INTERIM RESULTS

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Notes	Unaudited	
		2004	2003
		HK\$'000	HK\$'000
Turnover	2	2,631,849	1,814,468
Cost of sales		(747,491)	(545,501)
Direct operating expenses		(1,005,766)	(719,114)
Gross profit		878,592	549,853
Other revenues		16,846	14,368
Other income		2,695	20,165
Provision in respect of stock of completed properties held for sale		–	(69,346)
Revaluation deficit on properties		–	(962,458)
Administrative expenses		(142,132)	(126,103)
Operating profit/(loss) before finance costs		756,001	(573,521)
Finance costs		(61,642)	(95,550)
Operating profit/(loss)	2,3	694,359	(669,071)
Share of results of associates			
– share of profits less losses		224,241	115,700
– provision for decline in carrying value		–	(136,585)
		224,241	(20,885)
Profit/(loss) before taxation		918,600	(689,956)
Taxation	4	(152,364)	73,267
Profit/(loss) after taxation		766,236	(616,689)
Minority interests		(68,266)	25,627
Profit/(loss) attributable to shareholders		697,970	(591,062)
Transfer to reserves	5	(80)	(8,783)
		697,890	(599,845)
Interim dividend		239,031	153,990
Earnings/(loss) per share	6	58.44 cents	(50.39) cents
Interim dividend per share		20 cents	13 cents

CONSOLIDATED BALANCE SHEET

	Notes	Unaudited 30 June 2004 HK\$'000	Audited 31 December 2003 HK\$'000
Fixed assets		21,377,953	20,960,492
Associates		4,386,154	4,621,841
Other non-current assets		1,430,922	1,495,763
Negative goodwill		(13,073)	(42,604)
Current assets			
Stock of completed properties held for sale		166,554	345,202
Properties under development for sale		741,682	999,777
Accounts receivable, prepayments and deposits	7	1,252,486	790,724
Tax recoverable		43,142	48,561
Tax reserve certificates		21,873	19,926
Trading securities		3,023	3,252
Pledged bank deposits		47,058	74,003
Cash and bank balances		2,260,089	1,520,059
		4,535,907	3,801,504
Current liabilities			
Accounts payable, deposits received and accrued charges	8	1,493,665	1,333,956
Taxation		113,853	60,150
Short-term bank loans and current portion of long-term liabilities	9	664,325	804,751
Unsecured bank overdrafts		–	1,921
		2,271,843	2,200,778
Net current assets		2,264,064	1,600,726
Total assets less current liabilities		29,446,020	28,636,218
Financed by:			
Share capital		1,195,157	1,191,527
Share premium		3,655,078	3,628,591
Other reserves		9,197,731	9,209,944
Retained profits		6,132,177	5,673,768
Proposed dividend		239,031	178,729
Shareholders' funds		20,419,174	19,882,559
Minority interests and loans		2,335,971	2,375,499
		22,755,145	22,258,058
Long-term liabilities	9	5,678,469	5,403,213
Deferred taxation		1,012,406	974,947
		29,446,020	28,636,218

FINANCIAL HIGHLIGHTS

	30 June 2004 HK\$M	31 December 2003 HK\$M
Shareholders' equity	20,419	19,883
Net borrowings	4,036	4,616
Net asset value per share	HK\$17.08	HK\$16.69
Gearing	20%	23%
Issued shares (in millions)	1,195	1,192

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June 2004 HK\$'000	2003 HK\$'000
Operating activities		
Net cash generated from operations	939,695	854,030
Interest paid	(111,194)	(137,235)
Profits tax paid	(36,312)	(63,626)
Net cash from operating activities	792,189	653,169
Investing activities		
Purchase of fixed assets, excluding interest capitalised	(223,256)	(782,149)
Purchase of a subsidiary (net of cash and cash equivalents acquired)	(106,656)	–
Purchase of additional interest in subsidiaries	–	(110,000)
Additional investments in associates	(34,401)	(7,070)
Repayment of loans from associates	460,867	280,360
Purchase of long-term investments	–	(1,655)
Repayment of loans from/(loans to) investee companies	364	(700)
Decrease/(increase) in long-term receivables	57,835	(23,983)
Interest received	12,934	10,566
Dividends received from associates	15,018	6,482
Dividends received from unlisted investments	3,859	3,750
Dividends received from listed investments	66	56
Proceeds from sale of fixed assets	54,827	35,684
Proceeds from sale of an associate	4,336	–
Proceeds from sale of long-term investments	–	18,573
Net cash generated from/(used in) investing activities	245,793	(570,086)
Net cash inflow before financing	1,037,982	83,083
Financing activities		
Proceeds from issue of shares	26,355	430
Repayment of bank loans	(2,499,356)	(1,345,456)
Drawdown of bank loans	2,486,789	1,205,410
Capital injection from minority shareholders	1,941	474
Dividends paid	(175,418)	(23,909)
Dividends paid to minority shareholders in subsidiaries	(1,368)	(2,264)
Decrease in loans from minority shareholders	(161,919)	(14,247)
Net cash used in financing	(322,976)	(179,562)
Increase/(decrease) in cash and cash equivalents	715,006	(96,479)
Cash and cash equivalents at 1 January	1,592,141	1,421,245
Cash and cash equivalents at 30 June	2,307,147	1,324,766
Analysis of balances of cash and cash equivalents		
Pledged bank deposits	47,058	35,154
Cash and bank balances	2,260,089	1,289,612
	2,307,147	1,324,766

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited	
	Six months ended 30 June	
	2004	2003
	HK\$'000	HK\$'000
Total equity as at 1 January	19,882,559	19,796,430
Revaluation deficit on properties charged to revaluation reserves	–	(124,049)
Deferred tax charged to revaluation reserves	(457)	–
Revaluation deficit on non-trading securities	(5,326)	(120,619)
Exchange differences arising on translation of the accounts of the PRC and overseas subsidiaries and associates	(6,510)	29,894
Net losses not recognised in the profit and loss account	(12,293)	(214,774)
Profit/(loss) attributable to shareholders	697,970	(591,062)
Dividends	(179,179)	(140,466)
Issue of share capital	30,117	116,987
Total equity as at 30 June	<u>20,419,174</u>	<u>18,967,115</u>

NOTES TO THE ACCOUNTS

1. Principal Accounting Policies

These unaudited consolidated interim accounts are prepared in accordance with Hong Kong Statement of Standard Accounting Practice 25 – “Interim financial reporting” issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Listing Rules”).

These condensed interim accounts should be read in conjunction with the 2003 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2003.

2. Principal Activities and Segmental Analysis of Operations

An analysis of the Group’s turnover and contribution to operating profit/(loss) for the period by principal activities and markets is as follows:

	Turnover		Operating profit/(loss)	
	Six months ended 30 June		Six months ended 30 June	
	2004	2003	2004	2003
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental				
– PRC	242,895	237,932	180,604	(133,424)
– Hong Kong	149,943	172,090	54,737	(468,016)
	392,838	410,022	235,341	(601,440)
Property sales				
– PRC	422,449	203,779	79,762	33,296
– Hong Kong	590,845	377,766	141,987	(105,843)
	1,013,294	581,545	221,749	(72,547)
Hotel operations	124,274	61,543	51,462	(26,273)
Logistics and warehouse operations				
– warehouse	200,769	179,899	108,282	(19,983)
– logistics	880,195	560,921	49,315	15,690
	1,080,964	740,820	157,597	(4,293)
Infrastructure	–	–	(236)	(247)
Project, property management and others	20,479	20,538	28,446	35,729
	2,631,849	1,814,468	694,359	(669,071)
Principal markets:				
PRC	870,637	536,503	316,397	(131,902)
Hong Kong	1,233,558	909,635	360,416	(535,613)
United Kingdom	330,120	255,580	6,812	641
Others	197,534	112,750	10,734	(2,197)
	2,631,849	1,814,468	694,359	(669,071)

An analysis of the Group's revenue and results for the period by business segments is as follows:

	Six months ended 30 June 2004							
	HK\$'000							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	789,618	740,788	-	1,080,964	-	20,479	-	2,631,849
Inter-segment revenue	225	-	-	-	-	107,022	(107,247)	-
Inter-segment interest income	-	-	-	-	-	138,296	(138,296)	-
	<u>789,843</u>	<u>740,788</u>	<u>-</u>	<u>1,080,964</u>	<u>-</u>	<u>265,797</u>	<u>(245,543)</u>	<u>2,631,849</u>
RESULT								
Segment results	327,834	253,525	(4,465)	179,132	(236)	121,661	(138,296)	739,155
Dividend income	-	892	3,033	-	-	-	-	3,925
Interest income	2,958	4,527	-	458	2,255	2,723	-	12,921
Interest expenses	(18,964)	(62,220)	-	(21,993)	(2,255)	(94,506)	138,296	(61,642)
Operating profit/(loss)	311,828	196,724	(1,432)	157,597	(236)	29,878	-	694,359
Share of results of associates	9,895	96,762	16,041	84,267	17,276	-	-	224,241
Profit before taxation	321,723	293,486	14,609	241,864	17,040	29,878	-	918,600
Taxation	(75,707)	(40,004)	(4,024)	(28,855)	(3,337)	(437)	-	(152,364)
Profit after taxation	246,016	253,482	10,585	213,009	13,703	29,441	-	766,236
Minority interests	(54,022)	(6,030)	-	(8,215)	-	1	-	(68,266)
Profit attributable to shareholders	<u>191,994</u>	<u>247,452</u>	<u>10,585</u>	<u>204,794</u>	<u>13,703</u>	<u>29,442</u>	<u>-</u>	<u>697,970</u>

NOTES TO THE ACCOUNTS (continued)

2. Principal Activities and Segmental Analysis of Operations (continued)

	Six months ended 30 June 2003							
	HK\$'000							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	503,254	549,856	-	740,820	-	20,538	-	1,814,468
Inter-segment revenue	-	-	-	-	-	129,285	(129,285)	-
Inter-segment interest income	-	-	-	-	-	140,993	(140,993)	-
	<u>503,254</u>	<u>549,856</u>	<u>-</u>	<u>740,820</u>	<u>-</u>	<u>290,816</u>	<u>(270,278)</u>	<u>1,814,468</u>
RESULT								
Segment results before provision and revaluation deficit on properties	231,626	82,819	(2,449)	129,038	(247)	144,121	(140,993)	443,915
Provision in respect of stock of completed properties held for sale	-	(69,346)	-	-	-	-	-	(69,346)
Revaluation deficit on properties	(328,125)	(527,581)	-	(106,752)	-	-	-	(962,458)
Segment results	(96,499)	(514,108)	(2,449)	22,286	(247)	144,121	(140,993)	(587,889)
Dividend income	-	3,806	-	-	-	-	-	3,806
Interest income	1,648	4,897	-	173	2,221	1,623	-	10,562
Interest expenses	(31,550)	(68,454)	-	(26,752)	(2,221)	(107,566)	140,993	(95,550)
Operating (loss)/profit	(126,401)	(573,859)	(2,449)	(4,293)	(247)	38,178	-	(669,071)
Share of results of associates								
- share of profits less losses	11,696	26,100	19,436	(982)	59,450	-	-	115,700
- provision for decline in carrying value	-	(136,585)	-	-	-	-	-	(136,585)
	<u>11,696</u>	<u>(110,485)</u>	<u>19,436</u>	<u>(982)</u>	<u>59,450</u>	<u>-</u>	<u>-</u>	<u>(20,885)</u>
(Loss)/profit before taxation	(114,705)	(684,344)	16,987	(5,275)	59,203	38,178	-	(689,956)
Taxation	73,037	1,583	(1,035)	3,409	(3,692)	(35)	-	73,267
(Loss)/profit after taxation	(41,668)	(682,761)	15,952	(1,866)	55,511	38,143	-	(616,689)
Minority interests	8,892	17,005	-	(270)	-	-	-	25,627
(Loss)/profit attributable to shareholders	<u>(32,776)</u>	<u>(665,756)</u>	<u>15,952</u>	<u>(2,136)</u>	<u>55,511</u>	<u>38,143</u>	<u>-</u>	<u>(591,062)</u>

3. Operating Profit/(Loss)

Six months ended 30 June
2004
HK\$'000

2003
HK\$'000

Operating profit/(loss) is stated after crediting/charging the following:

Crediting

Dividend income from listed and unlisted investments	3,925	3,806
Interest income	12,921	10,562
Gain/(loss) on sale of properties		
– Investment properties	(3,381)	(7,824)
– Properties under development and completed properties for sale	269,184	43,868
	265,803	36,044
Amortisation of negative goodwill	2,270	2,158

Charging

Depreciation	38,713	32,892
Amortisation of goodwill	1,637	1,195
Total finance costs incurred	111,194	137,235
Less: amount capitalised in properties under development	(49,552)	(41,685)
Total finance costs expensed during the period	61,642	95,550

4. Taxation

Six months ended 30 June
2004
HK\$'000

2003
HK\$'000

The taxation (charge)/credit comprises:

PRC taxation

Current	(49,962)	(27,881)
Overprovision in prior years	1,380	375
Deferred	(23,015)	97,450
	(71,597)	69,944

Hong Kong profits tax

Current	(43,038)	(20,367)
Overprovision in prior years	2,032	4,401
Deferred	(7,879)	23,991
	(48,885)	8,025

Overseas taxation

Current	(3,899)	(612)
Deferred	887	–
	(3,012)	(612)

Share of taxation attributable to associates

Current	(28,870)	(14,196)
Deferred	–	10,106
	(28,870)	(4,090)

(152,364)

73,267

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

NOTES TO THE ACCOUNTS (continued)

5. Transfer to Reserves

	Six months ended 30 June	
	2004	2003
	HK\$'000	<i>HK\$'000</i>
Transfer to:		
Enterprise expansion reserve	(80)	(61)
Share of surplus and capital reserves of associates	—	(8,722)
	<u>(80)</u>	<u>(8,783)</u>

6. Earnings/(Loss) per Share

The calculation of basic earnings/(loss) per share is based on the Group's profit attributable to shareholders of HK\$697,970,000 (2003: loss of HK\$591,062,000) and the weighted average number of 1,194,366,901 shares (2003: 1,173,021,525 shares) in issue during the period.

There was no dilution arising from the outstanding share options granted by the Company in 1997. For the six months ended 30 June 2004, the dilution from the outstanding share options granted by the Company in 1999, 2000, 2001 and 2002 was immaterial (2003: the relevant share options were anti-dilutive). Accordingly, diluted earnings/(loss) per share had not been shown.

7. 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 2004 was as follows:

	30 June	31 December
	2004	2003
	HK\$'000	<i>HK\$'000</i>
0–1 month	296,008	137,410
2–3 months	129,071	130,200
Over 3 months	20,836	20,538
	<u>445,915</u>	<u>288,148</u>

8. 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 2004 was as follows:

	30 June	31 December
	2004	2003
	HK\$'000	<i>HK\$'000</i>
0–1 month	131,076	140,587
2–3 months	25,734	33,418
Over 3 months	38,552	19,171
	<u>195,362</u>	<u>193,176</u>

9. Long-Term Liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Bank loans – unsecured	6,036,265	6,033,808
Bank loans – secured	306,529	174,156
Total bank loans (<i>note (i)</i>)	6,342,794	6,207,964
Short-term bank loans and current portion of long-term liabilities	(664,325)	(804,751)
	<u>5,678,469</u>	<u>5,403,213</u>

(i) At 30 June 2004, the Group's bank loans were repayable as follows:

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Within one year	664,325	804,751
In the second to fifth year		
In the second year	674,435	315,822
In the third year	4,345,046	650,244
In the fourth year	382,994	4,208,933
In the fifth year	274,086	224,292
	5,676,561	5,399,291
Over five years	1,908	3,922
	<u>6,342,794</u>	<u>6,207,964</u>

10. Contingent Liabilities

	30 June 2004 HK\$'000	31 December 2003 HK\$'000
Banking facilities		
Guarantees for banking and other facilities of certain associates and investee companies (<i>note (i)</i>)	480,438	789,061
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (<i>note (ii)</i>)	390,991	210,041
	<u>871,429</u>	<u>999,102</u>

(i) The Group has executed guarantees for banking and other facilities granted to certain associates and investee companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK\$480,438,000 (31 December 2003: HK\$789,061,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK\$530,723,000 (31 December 2003: HK\$1,406,842,000).

NOTES TO THE ACCOUNTS (continued)

10. Contingent Liabilities (continued)

- (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 at the balance sheet date amounted to approximately HK\$390,991,000 (31 December 2003: HK\$210,041,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK\$1,271,838,000 (31 December 2003: HK\$1,416,925,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2003.

11. Pledge of Assets

At 30 June 2004, the Group's total bank loans of HK\$6,342,794,000 (31 December 2003: HK\$6,207,964,000) included an aggregate amount of HK\$6,036,265,000 (31 December 2003: HK\$6,033,808,000) which is unsecured and an aggregate amount of HK\$306,529,000 (31 December 2003: HK\$174,156,000) which is secured by the following:

- (i) legal charges over certain properties with an aggregate net book value of HK\$1,560,018,000 (31 December 2003: HK\$1,459,514,000);
- (ii) charges on all assets, including bank balances amounting to HK\$47,058,000 (31 December 2003: HK\$74,003,000), of certain subsidiaries; and
- (iii) assignments of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) OVERALL RESULTS

The Group put in a strong performance during the first six months of 2004. Turnover of the Group for the six months ended 30 June 2004 was HK\$2,632 million (2003: HK\$1,814 million) which comprised largely of proceeds from the sale of properties, rental income, revenue from hotel operations, warehouse rental and logistics services. The increase in turnover during the period was mainly due to the launching of Enterprise Square 3 for sale, continuing sales of Arcadia Court in Shenzhen, the improved performance of Beijing Kerry Centre Hotel after SARS, growth in logistics revenue and the contribution from the newly acquired Siam Seaport Terminal & Warehouses Co., Ltd. in the Logistics Network Division.

The Group's consolidated profit attributable to shareholders for the six months ended 30 June 2004 was HK\$698 million (2003: loss attributable to shareholders of HK\$591 million). As Hong Kong's economy continues to recover and demand for quality housing in the PRC continues to increase as the economy prospers, the Group is optimistic that it will be able to maintain its profitability during the second half of 2004.

(B) PRC PROPERTY DIVISION

The PRC Property Division reported total turnover of HK\$789 million (2003: HK\$503 million) for the six months ended 30 June 2004, representing 30% of the Group's total turnover and a 57% increase over the corresponding period last year. Turnover from hotel operations increased significantly in the first six months of 2004 to HK\$124 million (2003: HK\$61 million). Net profit from the PRC Property Division also increased to HK\$192 million (2003: loss of HK\$33 million). The contribution from the Division increased in the period under review mainly as a result of the improved performance of the hotel operations which had been impacted by SARS last year as well as the continuing sales of Arcadia Court in Shenzhen and Central Residences in Fuzhou.

(i) Investment Properties

Performance of the Group's PRC investment property portfolio has been satisfactory during the period under review. Gross rental income received from investment properties in the PRC, excluding income from Beijing Kerry Centre Hotel, amounted to HK\$243 million (2003: HK\$238 million) in the first six months of 2004, with Beijing and Shanghai Kerry Centres being the main contributors. Revenue from the hotel amounted to HK\$124 million (2003: HK\$61 million) for the six months ended 30 June 2004.

Despite increasing competition in Beijing, Shanghai and Shenzhen, the Group has been able to maintain its occupancy rates at very high levels. As at 30 June 2004, occupancies at the Group's investment properties, excluding the hotel, averaged 87% in Beijing, 92% in Shanghai and 98% in Shenzhen. Continuing efforts would be directed to provide a comfortable environment to tenants through high quality property management, a balanced retail outlet mix and the provision of comprehensive value added services.

Performance of the Beijing Kerry Centre Hotel which was impacted by SARS in the first six months of 2003 has also returned to normal. Average occupancy rate increased to 77% in the first six months of 2004 (2003: 45%), with the average transient rate being approximately US\$121 (2003: US\$107) per night.

(B) PRC PROPERTY DIVISION (continued)

(ii) Sales of Properties

Total gross proceeds from sales of properties in the PRC amounted to HK\$422 million in the first six months of 2004 (2003: HK\$204 million), mainly derived from the continuing sales of Arcadia Court in Shenzhen and Central Residences in Fuzhou, Fujian province.

Sales of the Group's 100% owned residential development, Arcadia Court in Futian District, Shenzhen, is continuing with approximately 88% of the development sold at the period end, achieving an average selling price of approximately RMB10,000 per square metre.

Construction of the Group's development, Central Residences, in Fuzhou has also been completed. As at the period end, approximately 75% of the development had been sold at an average price of approximately RMB4,000 per square metre.

(iii) Status of Developments

Construction of Phase 2 of Central Residences in Shanghai has commenced with superstructure work currently in progress. With the success of the project's Phase 1 development, the Group is confident that Phase 2 when launched will receive an enthusiastic response from the public. The development is scheduled to be launched for presale in early 2005.

On 13 April 2004, Shangri-La Asia Limited ("SA"), a connected party of the Company as defined under the Listing Rules, and the Company entered into a Master Agreement relating to the joint acquisition, ownership and development of several adjacent pieces of land in Jingan District, Shanghai, in the PRC, into a large mixed use development consisting of a hotel, offices, retail podium, residential and serviced apartments (the "Project"), which will be connected to the Shanghai Kerry Centre. The entering into of the relevant transactions contemplated under the Master Agreement constituted connected transactions for the Company under the Listing Rules. In addition, given the total estimated size of the Project, this also constituted discloseable transactions for the Company. Accordingly, a special general meeting was convened on 25 June 2004 to seek independent shareholders' approval. At the said special general meeting, 99% of the independent shareholders voted in favour of the transactions.

The Project allows both SA and the Group to consolidate the land it owns with adjacent plots of land so as to maximize the land's development potential. In view of the rapid economic growth in Shanghai and the success of the Group's other high end mixed use developments in the city in recent years, the Group is confident that this new development will be a landmark in the prime Nanjing West Road area of Shanghai. In addition, the Group also expects that this new development will further enhance the value of Shanghai Kerry Centre.

In Beijing, both the Shibalidian residential project and the resettlement project are progressing satisfactorily.

(C) HONG KONG PROPERTY DIVISION

The Hong Kong Property Division achieved total turnover of HK\$741 million (2003: HK\$550 million) during the six months ended 30 June 2004, representing 28% of the Group's total turnover and a 35% increase compared with the corresponding period last year. Net profit from the Division increased to HK\$247 million (2003: loss of HK\$666 million).

(i) Investment Properties

Gross rental revenue from investment properties in Hong Kong amounted to approximately HK\$150 million (2003: HK\$172 million) for the six months ended 30 June 2004 with a large proportion of the rentals derived from the Group's luxury residential properties in the Mid-Levels. As market sentiment improved in 2004, the occupancy rate of the Group's residential portfolio increased to approximately 96% as at 30 June 2004 compared with 90% as at the year end. As the economy recovers, the Group expects the leasing market to continue to improve and maintain its upward trend.

(ii) Sales of Properties

Total gross proceeds from sales of properties in Hong Kong amounted to approximately HK\$591 million (2003: HK\$378 million) in the first six months of 2004. Presales of Enterprise Square 3, the Group's newest commercial building in Kowloon Bay commenced during the period under review with approximately 45% of the development being sold at an average price of approximately HK\$1,700 per square foot as at 30 June 2004. Subsequent to the period end, another 14% of the development was sold resulting in an average selling price of approximately HK\$2,100 per square foot.

Sales of the Group's joint venture developments are also progressing well with The Cliveden and Residence Oasis being approximately 92% and 74% sold, respectively, at the period end. Island Harbourview, Park Avenue and Central Park, the Group's joint venture developments in Tai Kok Tsui, are approximately 93%, 97% and 93% sold at the period end.

(iii) Status of Developments

Construction of Branksome Crest is almost completed with the marketing campaign to lease the building having just commenced. With the Group's renowned reputation for developing high quality properties and the scarcity of new luxury development in the Mid-Levels, the Group is confident that Branksome Crest will command a premium in rental rates when it is fully leased.

To continue with its intention to develop a cluster of high quality offices and retail complexes in Kowloon Bay, the Group has started the development of Enterprise Square 5. The development would provide approximately 1.6 million square feet of grade A commercial space upon completion in 2006.

(D) OVERSEAS PROPERTY DIVISION

The Group's principal investments overseas are a 25% investment in Jacksons Landing in Sydney, Australia and a 73.88% beneficial interest in EDSA Properties Holdings Inc., a company listed on the Philippines Stock Exchange. Profit attributable to the Group from the Division for the six months ended 30 June 2004 amounted to HK\$11 million (2003: HK\$16 million).

(i) Jacksons Landing, Sydney, Australia

Presales of the development have continued with 829 units out of 1,016 units in the nine precincts released for sales and presales being sold as at 30 June 2004. The Group has equity accounted for its share of profits after tax from the investment for the first six months amounting to approximately HK\$6 million (2003: HK\$4 million).

(ii) EDSA Properties Holdings Inc. ("EPHI"), Philippines

EPHI also recorded an impressive profit during the first six months of the year. On 5 August 2004, EPHI announced its interim results for the six months ended 30 June 2004, reporting profit attributable to shareholders of approximately Pesos 138.0 million (2003: Peso 116.2 million). The increase in profit attributable to shareholders was mainly due to the successful implementation of the Shangri-La Plaza Mall renovation program which resulted in higher turnover for the mall. In addition, the Cineplex, comprising of five new cinemas of which three were opened as at 30 June 2004, successfully launched its first public screening on 2 June 2004 which has helped to increase the patronage of the mall.

Construction of The Shang Grand Tower, the 250 unit luxury residential condominium, is progressing according to schedule and is estimated to be completed by the end of 2005. As at 30 June 2004, there were only 116 units remaining available for sale.

The Group recorded profits of approximately HK\$5 million (2003: HK\$12 million) from its investments in EPHI in the six months ended 30 June 2004.

(E) LOGISTICS NETWORK DIVISION

The Logistics Network Division continues to be one of the major contributors of revenue to the Group. During the six months ended 30 June 2004, the Division achieved a turnover of HK\$1,081 million (2003: HK\$741 million) which represents approximately 41% of the Group's total turnover. Logistics revenue increased by approximately 57% to HK\$880 million (2003: HK\$561 million) for the six months ended 30 June 2004 whilst revenue from warehousing also increased by 12% to HK\$201 million (2003: HK\$180 million).

Profit attributable to the Group from the Division during the period amounted to HK\$205 million (2003: loss of HK\$2 million). Excluding the effects of the exceptional items in 2003, total profit for the Division for the six months ended 30 June 2004 amounted to more than double that of the same period last year, with the increase being mainly contributed by the port and terminals business which was newly acquired by the Division during the period. Profit attributable to the Group from the Division of HK\$205 million (2003: HK\$94 million (excluding the effect of the exceptional items)) comprised profit of HK\$32 million (2003: HK\$11 million) attributable to logistics operations, HK\$95 million (2003: HK\$84 million) contributed by Hong Kong warehouses and distribution centres and HK\$78 million (2003: loss of HK\$1 million) derived from logistics associate companies.

(i) Logistics Operations

The Division's logistics operations continued to achieve significant progress in the first half of 2004 and recorded revenue of HK\$880 million for the period when compared with HK\$561 million in 2003. As at 30 June 2004, the Division operated in 14 countries with approximately 1,800 staff.

A. *Logistics and Distribution*

Hong Kong

Having been providing logistics services to multiple industries during the last four years, the Division has achieved a leading position in Hong Kong as a premium logistics services provider. The growth in revenue is mainly attributed to the Division's efforts in focusing on major industries which include electronics, technology, food, beverages, fashion, retail, chemical and industrial.

Having achieved critical mass in certain industries, the Division is streamlining its capabilities into a solution oriented approach. With the Hong Kong community putting more focus on the hygiene aspects of food handling, the Division is leveraging on its strength in cold storage and its refrigerated truck fleet to service the food and beverages market. In the first half of 2004, the Division secured a number of integrated logistics accounts in the food and beverages sector. At present, the Division is serving several major food retail chains providing a full range of logistics services including handling of food supplies and direct shop distribution.

During the period, the Division achieved a breakthrough by penetrating into the healthcare sector through securing a medical product distribution contract which involves procurement of products, inventory control, track and trace and distribution to end users.

On a regional basis, the Division is contracted to operate regional distribution centres for several internationally famous brands which require consolidation in Hong Kong and re-export to the PRC or overseas. This business model actually helps clients to reduce their logistics costs in their home country and improve efficiency in their supply chain.

During the period, the Division made a significant step to extend its logistics capabilities in the logistics infrastructure business. In January 2004, the Group's interest in Asia Airfreight Terminal ("AAT") was transferred from the Infrastructure Division to the Division with the aim to better leverage the synergies and the opportunities amongst this company and the Division's existing operations. This investment has been providing an excellent source of recurrent income to the Group during the past few years. Profit attributable to the Group from AAT for the six months ended 30 June 2004 amounted to HK\$15 million (2003: HK\$12 million).

The Division believes that the diversification into different industries with a solution oriented approach would provide momentum to the growth of the Division's business.

(E) LOGISTICS NETWORK DIVISION (continued)

(i) Logistics Operations (continued)

A. Logistics and Distribution (continued)

Mainland China

The first half of 2004 also saw the continuous expansion of the Division's logistics capabilities in the PRC. Apart from the 43,000 square metres Yantian Port Logistics Centre which represents the Division's fastest growing operation in the PRC at the present time, a new 14,000 square metres bonded logistics centre will be completed in the second half of 2004 inside the Shanghai Waigaoqiao Free Trade Zone which will mainly serve inbound shipments from overseas to Shanghai.

In May, the Division signed an agreement to acquire a 30,000 square metres site in the Tianjin Free Trade Zone. It is intended to build a single-storey 15,000 square metres logistics centre at this site to provide warehousing, distribution and related value added services to customers. The facility is expected to be completed in 2005.

In addition to the transfer of AAT in Hong Kong mentioned above, the Group's interest in Chiwan Container Terminal ("CCT") was also transferred from the Infrastructure Division to the Division in January 2004. CCT is a source of strong recurrent income to the Group. Profit attributable to the Group from CCT for the six months ended 30 June 2004 amounted to HK\$63 million (2003: HK\$35 million).

Overseas

In March 2004, the Division also acquired a 54.98% equity interest in Siam Seaport Terminal & Warehouses Co., Ltd., which is operating a seaport terminal located at the Eastern Seaboard Area of Thailand near the Laem Chabang Commercial Port, providing loading and unloading and other port ancillary services to ocean vessels as well as warehouse storage and distribution services in Thailand.

The Division's logistics operations in Thailand also made significant progress during the period. At present, the Division is operating a fleet of over 50 trucks serving manufacturers, wholesalers as well as retailers. Together with its freight forwarding operations and the newly acquired ports and terminals operations in Thailand, the Division is now able to provide a full-fledged integrated supply chain solution to its customers. In view of the rapidly growing Thai economy and the continuous improvement in infrastructure in Thailand, the Division will continue to explore opportunities for further expansion in this area.

B. Freight Forwarding

The Division's freight forwarding revenue achieved strong growth in the first half of 2004 when compared with the same period in 2003. During the period, the Division was continuously seeking opportunities to expand its freight forwarding presence in the Asia Pacific Region. Having successfully set up offices in the Philippines and Vietnam in 2003, the Division restructured its own operations in Singapore, Malaysia and Indonesia in the first quarter of 2004 by forming a joint venture with Pacific Carriers Limited, a company within the Kuok Group. In addition, new freight offices were set up in Los Angeles in the United States in May 2004. Kerry Freight (Taiwan) Limited was also established during the period with the Division having a 51% interest.

Looking forward, the Division will continue to strengthen its international network and multinational presence through the appointment of solid and proactive agents as well as through joint ventures and acquisitions in selected countries.

(ii) Hong Kong Warehouses and Distribution Centres

Macro economic factors including the tightening up of import of general consumable products to the Mainland via Hong Kong and the increasing demand for quality warehouse space for re-export cargo have resulted in a slight increase in the warehousing market in Hong Kong during the first half of 2004. Market rental recorded a growth of 5% to 8% during the period while vacancies in the market have dropped to around 15%. With more multinationals exporting their logistics function to Asia, it is believed that Hong Kong, being a free port, is in an advantageous position to capture this new demand.

With the Hong Kong economy recovering and some warehouse operators converting their existing industrial buildings into other uses, this has led to a gradual decrease in the supply of storage space. The Division expects a continued moderate improvement in the performance of the warehousing business in the second half of 2004 and the existing occupancies in its portfolio to be maintained.

Being the leading warehouse operator in Hong Kong, the Division aims at maximizing the occupancy rate of its warehouse portfolio through effective marketing strategies and continuous quality maintenance. The occupancy rate for the entire warehouse portfolio operated by the Division in Hong Kong was 95% as at 30 June 2004 (2003: 92%).

(iii) Information Technology

Information Technology ("IT") is crucial to the Division's business development. After the successful implementation of the "WMS", "TMS", "FMS", and "T&T" in the "Kerrier" application systems, a new module "KerrierSSS" was deployed in March 2004 to serve the Division's newly developed agency and distribution business. To cope with the Division's global expansion, a reengineering initiative is also underway to upgrade the "Kerrier" systems with other features, such as business intelligence, enterprise collaboration, global accessibility and visibility. Looking ahead, the Division will continue to develop other specific IT capabilities in order to secure a leading position in the market.

(E) LOGISTICS NETWORK DIVISION (continued)

(iv) Future Plans

With the global supply chain function gradually migrating to the Asian region, the Division expects that the PRC and various Asian countries will continue to experience high rates of growth in their logistics industries in the coming years. Looking forward, the Division will continue with its development efforts in order to enhance its competitiveness and strengthen its logistics presence throughout Asia in securing potential customers and tapping potential new markets. It will also continue with its strategy to promote its Hong Kong operations as the regional hub for Asia for its multinational clients.

(F) INFRASTRUCTURE DIVISION

In order to better leverage the synergies between Chiwan Container Terminal, Asia Airfreight Terminal and the Group's Logistics Network Division, the investments in the former two terminals have been transferred to the Logistics Network Division at the beginning of 2004. Accordingly, the Infrastructure Division of the Group currently comprises only the Group's 15% interest in Western Harbour Tunnel and the 15% interest in the management contract of the Cross Harbour Tunnel in Hong Kong. Total profits attributable to the Group from this Division amounted to approximately HK\$14 million (2003: HK\$56 million) for the six months ended 30 June 2004.

(G) 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. Total borrowings for the Group, as at 30 June 2004 amounted to HK\$6,343 million, of which 10% was repayable in one year, 11% repayable in two years whilst 69% and 10% were repayable in three years and over three years, respectively. During the period, the Group continued to maintain most of its borrowings on an unsecured basis with unsecured debt accounting for 95% of total borrowings as at 30 June 2004. 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. As and when required, the Group will also pledge specific assets for banking facilities granted for the development or acquisition of specific assets.

The gearing ratio for the Group amounted to approximately 20% based on net debt of HK\$4,036 million and shareholders' equity of HK\$20,419 million. The Group will also continue with its policy of maintaining a prudent gearing ratio.

Majority of the Group's borrowings are subject to floating interest rates. As at 30 June 2004, the Group had outstanding interest rate swap contracts amounting to HK\$4.46 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.

Foreign exchange exposure for the Group is small relative to its total asset base. As at 30 June 2004, total foreign currency borrowings excluding Renminbi borrowings amounted to approximately HK\$687 million. Renminbi loans at the period end amounted to RMB136 million and were used to finance the Group's projects in Mainland China.

As at 30 June 2004, the Group had total undrawn bank loan and overdraft facilities of approximately HK\$7,746 million and net cash on hand of approximately HK\$2,307 million. The generation of strong recurring cash flows from its investment property portfolio and from the warehouse and logistics operations provides the Group with a strong financial position and enables it to act upon investment opportunities as they arise.

In order to take advantage of the current low interest environment, the Group signed a syndicated loan agreement on 25 June 2004 for a five year unsecured HK\$7 billion facility. The interest rate for this facility is HIBOR plus 35 basis points. This facility is for general corporate funding requirements of the Group including refinancing an existing HK\$6 billion syndicated loan facility signed in June 2001. Responses from the banking community to this facility were very enthusiastic with 20 reputable financial institutions of various nationalities participating. The Group received total commitments of HK\$15.38 billion, which is 156% more than the initial facility size of HK\$6 billion.

On 28 June 2004, Standard and Poor's reaffirmed the Group's corporate rating to be of investment grade with a "BBB-" rating with a stable outlook.

(H) CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and transparency which the Directors believe provides a positive framework for the overall performance of the Group as well as enhances shareholders value. The Audit Committee, which comprised entirely of Independent Non-executive Directors, ensures that effective accountability mechanisms are in place and good reporting practices and internal control systems are implemented and followed.

(I) INVESTOR RELATIONS

In order to develop and maintain continuing good relations with the Group's shareholders and investors, the Group has continued to participate in various roadshows and conferences during the period as follows:

Date	Event	Organiser	Venue
March 2004	Asian Investment Conference 2004	Credit Suisse First Boston	Hong Kong
March 2004	Roadshow	Lehman Brothers	Sydney
May 2004	Asian Company Conference	ABN AMRO Asia Ltd	London/Boston/ New York
May 2004	Asian & Australian Property Conference	Deutsche Bank	Hong Kong

In May 2004, the Company was added as one of the constituent stocks of the MSCI Hong Kong Index. This would assist in raising the Company's profile and broadening its investor base.

(J) DIRECTORS AND STAFF

During the period, Mr Thaddeus Thomas Beczak and Mr Kuok Khoon Loong, Edward resigned as Executive Directors of the Company on 12 January 2004 and 1 March 2004 respectively. The Board would like to take this opportunity to record a special note of thanks and appreciation to both Mr Beczak and Mr Kuok for all their efforts and contribution during their tenures as Executive Directors of the Company.

On 1 March 2004, Mr Ma Wing Kai, William, an Executive Director and the Group General Manager of Kerry Logistics Network Limited, was appointed as an Executive Director of the Company.

As at 30 June 2004, the Company and its subsidiaries had 3,782 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 and other persons who may make a contribution 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 2004, options to subscribe for a total of 22,987,694 option shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

Movements of the options, which were granted under the 1997 Share Option Scheme, during the period are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of option shares held at 01/01/2004	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period ^(Note 1)	Number of option shares lapsed during the period	Number of option shares held at 30/06/2004	Exercise price HK\$	Exercise period	
1. Directors													
Mr ANG Keng Lam	11/04/1997	N/A	1,736,108	-	-	-	-	-	-	1,736,108	15.12	11/04/1999-26/03/2007	
	27/11/1999	I	422,927	-	-	-	-	-	-	422,927	9.77	27/05/2000-26/03/2007	
	27/11/1999	II	422,926	-	-	-	-	-	-	422,926	9.77	27/05/2001-26/03/2007	
										845,853			
	01/06/2000	I	345,000	-	-	-	-	-	-	345,000	6.79	01/06/2001-31/05/2010	
	01/06/2000	II	345,000	-	-	-	-	-	-	345,000	6.79	01/06/2002-31/05/2010	
	01/06/2000	III	344,843	-	-	-	-	-	-	344,843	6.79	01/06/2003-31/05/2010	
										1,034,843			
	16/04/2002	I	511,527	-	-	-	-	-	-	511,527	6.94	16/04/2003-15/04/2012	
	16/04/2002	II	511,527	-	-	-	-	-	-	511,527	6.94	16/04/2004-15/04/2012	
										1,023,054			
										<u>4,639,858</u>			
	Mr WONG Siu Kong	11/04/1997	N/A	1,157,405	-	-	-	-	-	-	1,157,405	15.12	11/04/1999-26/03/2007
		27/11/1999	I	211,463	-	-	-	-	-	-	211,463	9.77	27/05/2000-26/03/2007
27/11/1999		II	211,462	-	-	-	-	-	-	211,462	9.77	27/05/2001-26/03/2007	
										422,925			
01/06/2000		I	-	-	-	-	-	-	-	-	6.79	01/06/2001-31/05/2010	
01/06/2000		II	-	-	-	-	-	-	-	-	6.79	01/06/2002-31/05/2010	
01/06/2000		III	175,980	-	-	-	-	(175,980)	-	-	6.79	01/06/2003-31/05/2010	
										-			
16/04/2002		I	511,527	-	-	-	-	(511,527)	-	-	6.94	16/04/2003-15/04/2012	
16/04/2002		II	511,527	-	-	-	-	-	-	511,527	6.94	16/04/2004-15/04/2012	
									511,527				
									<u>2,091,857</u>				

(J) DIRECTORS AND STAFF (continued)

Share Option Scheme (continued)

Category	Date of grant	Tranche	Number of option shares held at 01/01/2004	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period ^(Note 1)	Number of option shares lapsed during the period	Number of option shares held at 30/06/2004	Exercise price HK\$	Exercise period	
1. Directors (continued)													
Mr HO Shut Kan	11/04/1997	N/A	810,184	-	-	-	-	-	-	810,184	15.12	11/04/1999-26/03/2007	
	27/11/1999	I	137,451	-	-	-	-	(137,451)	-	-	9.77	27/05/2000-26/03/2007	
	27/11/1999	II	137,450	-	-	-	-	(137,450)	-	-	9.77	27/05/2001-26/03/2007	
										-			
	02/03/2001	I	35,000	-	-	-	-	-	-	35,000	11.74	02/03/2002-01/03/2011	
	02/03/2001	II	35,000	-	-	-	-	-	-	35,000	11.74	02/03/2003-01/03/2011	
	02/03/2001	III	34,172	-	-	-	-	-	-	34,172	11.74	02/03/2004-01/03/2011	
										104,172			
	16/04/2002	I	-	-	-	-	-	-	-	-	6.94	16/04/2003-15/04/2012	
	16/04/2002	II	76,728	-	-	-	-	-	-	76,728	6.94	16/04/2004-15/04/2012	
										76,728			
										<u>991,084</u>			
	Mr MA Wing Kai, William ^(Note 2)	11/04/1997	N/A	-	231,480	-	-	-	-	-	231,480	15.12	11/04/1999-26/03/2007
		27/11/1999	I	-	132,164	-	-	-	-	-	132,164	9.77	27/05/2000-26/03/2007
27/11/1999		II	-	132,163	-	-	-	-	-	132,163	9.77	27/05/2001-26/03/2007	
										264,327			
01/06/2000		I	-	-	-	-	-	-	-	-	6.79	01/06/2001-31/05/2010	
01/06/2000		II	-	118,000	-	-	-	-	-	118,000	6.79	01/06/2002-31/05/2010	
01/06/2000		III	-	133,265	-	-	-	-	-	133,265	6.79	01/06/2003-31/05/2010	
										251,265			
02/03/2001		I	-	35,000	-	-	-	-	-	35,000	11.74	02/03/2002-01/03/2011	
02/03/2001		II	-	35,000	-	-	-	-	-	35,000	11.74	02/03/2003-01/03/2011	
02/03/2001		III	-	34,172	-	-	-	-	-	34,172	11.74	02/03/2004-01/03/2011	
										104,172			
16/04/2002		I	-	61,383	-	-	-	-	-	61,383	6.94	16/04/2003-15/04/2012	
16/04/2002		II	-	61,383	-	-	-	-	-	61,383	6.94	16/04/2004-15/04/2012	
									122,766				
									<u>974,010</u>				

Category	Date of grant	Tranche	Number of option shares held at 01/01/2004	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period ^(Note 1)	Number of option shares lapsed during the period	Number of option shares held at 30/06/2004	Exercise price HK\$	Exercise period	
1. Directors (continued)													
Mr KUOK Khoon Loong, Edward ^(Note 3)	11/04/1997	N/A	2,893,516	-	(2,893,516)	-	-	-	-	-	15.12	11/04/1999-26/03/2007	
	27/11/1999	I	422,927	-	(422,927)	-	-	-	-	-	9.77	27/05/2000-26/03/2007	
	27/11/1999	II	422,926	-	(422,926)	-	-	-	-	-	9.77	27/05/2001-26/03/2007	
	01/06/2000	I	-	-	-	-	-	-	-	-	6.79	01/06/2001-31/05/2010	
	01/06/2000	II	190,000	-	(190,000)	-	-	-	-	-	6.79	01/06/2002-31/05/2010	
	01/06/2000	III	344,843	-	(344,843)	-	-	-	-	-	6.79	01/06/2003-31/05/2010	
	16/04/2002	I	511,527	-	(511,527)	-	-	-	-	-	6.94	16/04/2003-15/04/2012	
	16/04/2002	II	511,527	-	(511,527)	-	-	-	-	-	6.94	16/04/2004-15/04/2012	
2. Continuous Contract Employees													
11/04/1997	N/A		4,884,215	-	(1,041,660)	-	-	-	-	3,842,555	15.12	11/04/1999-26/03/2007	
27/11/1999	I		1,654,678	-	(290,760)	-	-	(454,640)	-	909,278	9.77	27/05/2000-26/03/2007	
27/11/1999	II		1,654,651	-	(290,757)	-	-	(454,632)	-	909,262	9.77	27/05/2001-26/03/2007	
										1,818,540			
01/06/2000	I		361,770	-	-	-	-	(303,000)	-	58,770	6.79	01/06/2001-31/05/2010	
01/06/2000	II		703,000	-	(174,000)	-	-	(339,000)	-	190,000	6.79	01/06/2002-31/05/2010	
01/06/2000	III		847,291	-	(209,576)	-	-	(346,088)	-	291,627	6.79	01/06/2003-31/05/2010	
										540,397			
02/03/2001	I		343,000	-	(56,000)	-	-	(14,000)	-	273,000	11.74	02/03/2002-01/03/2011	
02/03/2001	II		343,000	-	(56,000)	-	-	(14,000)	-	273,000	11.74	02/03/2003-01/03/2011	
02/03/2001	III		334,886	-	(54,675)	-	-	(13,669)	-	266,542	11.74	02/03/2004-01/03/2011	
										812,542			
16/04/2002	I		457,966	-	(61,383)	-	-	(132,994)	-	263,589	6.94	16/04/2003-15/04/2012	
16/04/2002	II		736,577	-	(61,383)	-	-	(61,382)	-	613,812	6.94	16/04/2004-15/04/2012	
										877,401			
										<u>7,891,435</u>			

(J) DIRECTORS AND STAFF (continued)

Share Option Scheme (continued)

Category	Date of grant	Tranche	Number of option shares held at 01/01/2004	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period ^(Note 1)	Number of option shares lapsed during the period	Number of option shares held at 30/06/2004	Exercise price HK\$	Exercise period
3. Others	11/04/1997	N/A	-	3,703,696	-	-	-	-	-	3,703,696	15.12	11/04/1999-26/03/2007
	27/11/1999	I	-	581,523	-	-	-	-	-	581,523	9.77	27/05/2000-26/03/2007
	27/11/1999	II	-	581,520	-	-	-	-	-	581,520	9.77	27/05/2001-26/03/2007
										1,163,043		
	01/06/2000	I	-	-	-	-	-	-	-	-	6.79	01/06/2001-31/05/2010
	01/06/2000	II	-	246,000	-	-	-	(190,000)	-	56,000	6.79	01/06/2002-31/05/2010
	01/06/2000	III	-	421,154	-	-	-	(30,000)	-	391,154	6.79	01/06/2003-31/05/2010
										447,154		
	02/03/2001	I	-	21,000	-	-	-	-	-	21,000	11.74	02/03/2002-01/03/2011
	02/03/2001	II	-	21,000	-	-	-	-	-	21,000	11.74	02/03/2003-01/03/2011
	02/03/2001	III	-	20,503	-	-	-	-	-	20,503	11.74	02/03/2004-01/03/2011
										62,503		
	16/04/2002	I	-	511,527	-	-	-	-	-	511,527	6.94	16/04/2003-15/04/2012
	16/04/2002	II	-	511,527	-	-	-	-	-	511,527	6.94	16/04/2004-15/04/2012
										1,023,054		
										6,399,450		
Total			26,303,507	7,593,460	(7,593,460)	-	-	(3,315,813)	-	22,987,694		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$12.53.
- Mr Ma Wing Kai, William was appointed as an Executive Director of the Company during the period. In this respect, the options granted to Mr Ma were re-classified from the category of "Continuous Contract Employees" to the category of "Directors" during the period.
- Mr Kuok Khoon Loong, Edward resigned as an Executive Director of the Company during the period. The options granted to Mr Kuok remain exercisable following his resignation and those options were re-classified from the category of "Directors" to the category of "Others" during the period.
- No option was cancelled during the period.

Subsequent to the period end, options comprising a total of 78,782 option shares were exercised under the 1997 Share Option Scheme. As at the date of this report, options to subscribe for a total of 22,908,912 option shares were still outstanding under the 1997 Share Option Scheme.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.22 OF THE LISTING RULES

The Company has obtained a waiver from the Stock Exchange under rule 13.22 of the Listing Rules from disclosing a proforma combined balance sheet of affiliated companies (as defined under rule 13.11(2)(a) of the Listing Rules). Instead, in accordance with rule 13.22 of the Listing Rules, the Company discloses the following information, as an alternative, in relation to the affiliated companies as at the end of the most recent financial period reported on by the affiliated companies. This information has been extracted from the relevant audited accounts or management accounts of the affiliated companies.

	<i>Notes</i>	<i>HK\$'000</i>
The Group's share of total indebtedness analysed as follows:		
Bank borrowings	1	607,496
Other borrowings including loans from shareholders	2	<u>3,878,842</u>
		<u>4,486,338</u>
The Group's share of capital commitments		
Authorised but not contracted for		386,971
Contracted but not provided for		<u>376,152</u>
		<u>763,123</u>

Notes:

1. The above amount includes bank borrowings by affiliated companies which are not guaranteed by the Group. As at 30 June 2004, banking and other facilities utilised by the affiliated companies and guaranteed by the Group amounted to approximately HK\$162 million.
2. The above amount includes borrowings from the Group. As at 30 June 2004, such borrowings amounted to approximately HK\$3,520 million.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2004, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

(i) The Company

Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to total number of ordinary shares in issue* %
	Personal interests	Family interests	Corporate interests	Other interests			
Mr ANG Keng Lam	2,585 ¹	-	-	523,733 ²	4,639,858 ³	5,166,176	0.43
Mr WONG Siu Kong	-	-	-	-	2,091,857 ³	2,091,857	0.18
Mr HO Shut Kan	-	-	-	-	991,084 ³	991,084	0.08
Mr MA Wing Kai, William	2,632 ¹	-	-	-	974,010 ³	976,642	0.08
Mr LAU Ling Fai, Herald	-	-	-	-	-	-	-
Mrs LEE Pui Ling, Angelina	-	-	-	-	-	-	-
Mr Christopher Roger MOSS, O.B.E.	-	-	-	-	-	-	-

(ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to total number of ordinary shares in issue %
		Personal interests	Family interests	Corporate interests	Other interests			
EDSA Properties Holdings Inc.	Mr HO Shut Kan	1,570 ¹	-	-	-	-	1,570 [#]	0.00
Kerry Group Limited	Mr ANG Keng Lam	-	7,050,000 ⁴	-	7,000,000 ²	6,000,000 ⁵	20,050,000	1.39 [@]
	Mr WONG Siu Kong	-	-	5,254,300 ⁶	-	5,000,000 ⁵	10,254,300	0.71 [@]
	Mr HO Shut Kan	465,000 ¹	-	-	-	1,000,000 ⁵	1,465,000	0.10 [@]
	Mr MA Wing Kai, William	710,620 ¹	-	-	-	-	710,620	0.05 [@]
Siam Seaport Terminal & Warehouses Co., Ltd.	Mr ANG Keng Lam	1 ¹	-	-	-	-	1	0.00
	Mr MA Wing Kai, William	1 ¹	-	-	-	-	1	0.00

Notes:

1. This represents interests held by the relevant director as beneficial owner.
 2. This represents interests held by the relevant director through a discretionary trust of which the relevant director is a beneficiary.
 3. This represents interests in options held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the options granted by the Company under the 1997 Share Option Scheme, details of which are set out in the sub-section headed "Share Option Scheme" under the section headed "Directors and Staff" above.
 4. This represents interests held by the relevant director's spouse.
 5. This represents interests in options held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the options granted by Kerry Group Limited, details of which are set out in the section headed "Directors' Rights to Acquire Shares or Debentures" below.
 6. This represents interests held by the relevant director through his controlled corporations.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2004 (i.e. 1,195,156,792 ordinary shares).
- # The relevant notification was filed under the repealed Securities (Disclosure of Interests) Ordinance.
- @ The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited in issue as at 30 June 2004 (i.e. 1,438,495,795 ordinary shares).

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

All the interests disclosed in sections (i) and (ii) above represent long positions in the shares of the Company or the Associated Corporations.

Save as aforesaid, as at 30 June 2004, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(i) The Company

As at 30 June 2004, the number of outstanding options granted by the Company under the 1997 Share Option Scheme to the Directors to subscribe for shares of the Company, as recorded in the register required to be kept by the Company under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code was set out in the sub-section headed "Share Option Scheme" under the section headed "Directors and Staff" of this report.

(ii) Associated Corporations

Pursuant to a share option scheme adopted by Kerry Group Limited, the ultimate holding company of the Company, on 17 November 1999, the directors of Kerry Group Limited granted options in favour of the following Directors to subscribe for shares in Kerry Group Limited as follows:

Name of Director	Date of grant	Exercise period	Exercise price HK\$	Number of option shares of Kerry Group Limited
Mr ANG Keng Lam	04/05/2000	04/11/2000–03/05/2007	4.20	6,000,000
Mr WONG Siu Kong	04/05/2000	04/11/2000–03/05/2007	4.20	5,000,000
Mr HO Shut Kan	04/05/2000	04/11/2000–03/05/2007	4.20	1,000,000

Apart from the aforesaid, at no time during the six months ended 30 June 2004 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2004, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Percentage of ordinary shares to total number of ordinary shares in issue*
			%
Kerry Group Limited	Interest of controlled corporations	751,042,097 <i>(Notes 1, 2 & 3)</i>	62.84
Kerry Holdings Limited	Interest of controlled corporations	751,042,097 <i>(Notes 1, 2 & 3)</i>	62.84
Caninco Investments Limited	Beneficial owner	299,632,708 <i>(Note 2)</i>	25.07
Darmex Holdings Limited	Beneficial owner	246,519,994 <i>(Note 2)</i>	20.63
Moslane Limited	Beneficial owner	84,942,917 <i>(Note 2)</i>	7.11
Kerry 1989 (C.I.) Limited	Interest of controlled corporations	80,688,908 <i>(Notes 2 & 3)</i>	6.75
Desert Grove Limited	Beneficial owner	79,743,860 <i>(Note 3)</i>	6.67

Notes:

1. Kerry Properties Limited is a subsidiary of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of Kerry Group Limited ("KGL") and, accordingly, the shares in which KHL is shown to be interested are also included in the shares in which KGL is shown to be interested.
 2. Caninco Investments Limited ("Caninco"), Darmex Holdings Limited ("Darmex"), Moslane Limited ("Moslane") and Kerry 1989 (C.I.) Limited ("Kerry 1989 CI") are wholly-owned subsidiaries of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex, Moslane and Kerry 1989 CI are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
 3. Desert Grove Limited ("Desert") is a wholly-owned subsidiary of Kerry 1989 CI which in turn is a wholly-owned subsidiary of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Desert are shown to be interested are also included in the shares in which Kerry 1989 CI, KHL and KGL are shown to be interested.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2004 (i.e. 1,195,156,792 ordinary shares).

All the interests disclosed under this section represent long positions in the shares of the Company.

Apart from the aforesaid, as at 30 June 2004, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

CODE OF BEST PRACTICE

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the six months ended 30 June 2004, in compliance with Appendix 14 of the Listing Rules except that the Non-executive Directors of the Company are not appointed for a specific term as they are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the Company's Bye-laws.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). Following specific enquiry by the Company, the Directors have confirmed compliance with the required standard set out in the Securities Dealing Code throughout the period from 1 January 2004 to 30 June 2004.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from Monday, 30 August 2004 to Wednesday, 1 September 2004, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 pm on Friday, 27 August 2004. The dividend warrants and certificates for the new shares to be issued pursuant to the 2004 Interim Scrip Dividend Scheme will be distributed on or about Wednesday, 13 October 2004.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2004.

By Order of the Board
Ang Keng Lam
Chairman

Hong Kong SAR, 10 August 2004