

## REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2005.

### PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries comprise the following:

- (i) property development and investment in Hong Kong, the People's Republic of China (the "PRC") and the Asia Pacific region;
- (ii) logistics, freight and warehouse ownership and operations;
- (iii) infrastructure-related investments in Hong Kong and the PRC; and
- (iv) hotel ownership and operations in the PRC.

The Group is also involved in project and property management, mainly of its own development projects and properties, in Hong Kong, the PRC and the Asia Pacific region.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is set out in note 5 to the financial statements.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 92.

Particulars of dividends proposed and paid during the year are set out in note 10 to the financial statements.

### RESERVES

The movements in reserves of the Group and the Company during the year are set out in notes 35 and 36 to the financial statements.

### DONATIONS

Charitable donations made by the Group during the year amounted to HK\$5,880,000.

### PROPERTY, PLANT AND EQUIPMENT

Particulars of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 13 to the financial statements.

### INVESTMENT, HOTEL AND DEVELOPMENT PROPERTIES

Particulars of investment, hotel and development properties of the Group are set out on pages 36 to 48.

### SHARE CAPITAL

The movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

## REPORT OF THE DIRECTORS (Continued)

### CONVERTIBLE BONDS

Details of the convertible bonds of the Company are set out in note 30 to the financial statements.

### CAPITALISED INTEREST

The amounts of interest capitalised by the Group during the year are set out in notes 6 and 7 to the financial statements.

### SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2005 are set out in note 43 to the financial statements.

### ASSOCIATED COMPANIES

Particulars of the Group's associated companies as at 31 December 2005 are set out in note 44 to the financial statements.

### PARTICULARS OF BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2005 are set out in notes 29 and 41 to the financial statements.

### TEN-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last ten financial years are summarized on pages 187 and 188.

### DIRECTORS

The Directors who held office during the year and up to the date of this report were:

Mr ANG Keng Lam (Chairman)<sup>@</sup>

Mr WONG Siu Kong (Deputy Chairman and Managing Director)<sup>@</sup>

Mr HO Shut Kan<sup>@</sup>

Mr MA Wing Kai, William<sup>@</sup>

Mr William Winship FLANZ<sup>\*</sup>

Mr LAU Ling Fai, Herald<sup>\*</sup>

Mr Christopher Roger MOSS, O.B.E.<sup>\*</sup>

Mr TSE Kai Chi<sup>#</sup> (appointed on 1 September 2005)

<sup>@</sup> Executive Directors

<sup>\*</sup> Independent Non-executive Directors

<sup>#</sup> Non-executive Director

Mr Tse Kai Chi, being appointed as Director of the Company after the last Annual General Meeting, is due to retire from the Board in accordance with Bye-law 102(B) of the Company's Bye-laws and Messrs Ang Keng Lam, Wong Siu Kong and Ho Shut Kan are also due to retire from the Board by rotation in accordance with Bye-law 99(A) of the Company's Bye-laws, at the forthcoming Annual General Meeting. The retiring Directors, being eligible, all offer themselves for re-election.

### BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biography of Directors and senior management are set out on pages 70 to 72.

## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2005, 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 of Hong Kong Limited (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	2,621 <sup>1</sup>	–	–	466,386 <sup>2</sup>	6,201,877 <sup>3</sup>	6,670,884	0.55
Mr WONG Siu Kong	–	–	–	–	3,319,794 <sup>3</sup>	3,319,794	0.27
Mr HO Shut Kan	–	–	–	–	1,121,044 <sup>3</sup>	1,121,044	0.09
Mr MA Wing Kai, William	7,384 <sup>1</sup>	–	–	–	1,532,371 <sup>3</sup>	1,539,755	0.13
Mr William Winship FLANZ	–	–	–	–	–	–	–
Mr LAU Ling Fai, Herald	–	–	–	–	–	–	–
Mr Christopher Roger MOSS, O.B.E.	–	–	–	–	–	–	–
Mr TSE Kai Chi	–	–	–	–	–	–	–

### (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 Holding Inc.	Mr HO Shut Kan	1,570 <sup>1</sup>	–	–	–	–	1,570 <sup>#</sup>	0.00
Kerry Group Limited	Mr ANG Keng Lam	–	7,050,000 <sup>4</sup>	–	8,000,000 <sup>2</sup>	5,566,221 <sup>5</sup>	20,616,221	1.45 <sup>@</sup>
	Mr WONG Siu Kong	–	–	6,254,300 <sup>6</sup>	–	4,638,517 <sup>5</sup>	10,892,817	0.77 <sup>@</sup>
	Mr HO Shut Kan	765,000 <sup>1</sup>	–	–	–	927,703 <sup>5</sup>	1,692,703	0.12 <sup>@</sup>
	Mr MA Wing Kai, William	1,010,620 <sup>1</sup>	–	–	–	–	1,010,620	0.07 <sup>@</sup>
	Mr TSE Kai Chi	400,000 <sup>1</sup>	–	–	–	1,855,407 <sup>5</sup>	2,255,407	0.16 <sup>@</sup>
Kerry Siam Seaport Limited	Mr ANG Keng Lam	1 <sup>1</sup>	–	–	–	–	1	0.00
	Mr MA Wing Kai, William	1 <sup>1</sup>	–	–	–	–	1	0.00

## REPORT OF THE DIRECTORS (Continued)

### DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

#### (ii) Associated Corporations (Continued)

*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 contingent 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 option shares granted by the Company under the 1997 and 2002 share option schemes, details of which are set out in the section headed "Share Options" of this report.
  4. This represents interests held by the relevant Director and his spouse through a discretionary trust of which the relevant Director and his spouse are contingent beneficiaries.
  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 option shares 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 corporation(s).
- \* The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2005 (i.e. 1,216,578,922 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 31 December 2005 (i.e. 1,423,527,311 ordinary shares).

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 31 December 2005, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

#### (i) The Company

As at 31 December 2005, the number of outstanding option shares granted by the Company under the 1997 and 2002 Share Option Schemes to the Directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out in the section headed "Share Options" of this report.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (Continued)

### (ii) Associated Corporation

Pursuant to a share option scheme adopted by Kerry Group Limited ("KGL"), the ultimate holding company of the Company, on 17 November 1999, the directors of KGL granted option shares in favour of the following Directors to subscribe for shares in KGL, with respective exercise price per option share of the unexercised options and the respective number of option shares exercisable adjusted with effect from 26 May 2005, as follows:

<i>Name of Director</i>	<i>Date of grant</i>	<i>Exercise period</i>	<i>Exercise price before adjustment HK\$</i>	<i>Exercise price after adjustment HK\$</i>	<i>Number of option shares of KGL before adjustment</i>	<i>Reduced number of option shares of KGL granted to the Directors for the adjustment</i>	<i>Number of option shares of KGL after adjustment</i>
Mr ANG Keng Lam	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	6,000,000	433,779	5,566,221
Mr WONG Siu Kong	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	5,000,000	361,483	4,638,517
Mr HO Shut Kan	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	1,000,000	72,297	927,703
Mr TSE Kai Chi	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	2,000,000	144,593	1,855,407

Apart from the aforesaid, at no time during the year ended 31 December 2005 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 31 December 2005, 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:

<i>Name</i>	<i>Capacity in which ordinary shares were held</i>	<i>Number of ordinary shares</i>	<i>Percentage of ordinary shares to total number of ordinary shares in issue*</i> %
Kerry Group Limited	Interest of controlled corporations	752,972,645 (Notes 1, 2, 3 & 4)	61.89
Kerry Holdings Limited	Interest of controlled corporations	752,972,645 (Notes 1, 2, 3 & 4)	61.89
Caninco Investments Limited	Beneficial owner	303,891,879 (Note 2)	24.98
Darmex Holdings Limited	Beneficial owner	250,024,187 (Note 2)	20.55
Moslane Limited	Beneficial owner	86,150,350 (Note 2)	7.08
Kerry 1989 (C.I.) Limited	Interest of controlled corporations	81,708,438 (Notes 2 & 3)	6.72
Desert Grove Limited	Beneficial owner	80,877,390 (Note 3)	6.65

## REPORT OF THE DIRECTORS (Continued)

### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (Continued)

#### Notes:

1. Kerry Properties Limited is a subsidiary of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of 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.
  4. The Company has been notified that, as at 31 December 2005, each of KGL and KHL was interested in 754,796,879 ordinary shares of the Company (representing approximately 62.04% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
- \* The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2005 (i.e. 1,216,578,922 ordinary shares).

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

Apart from the aforesaid, as at 31 December 2005, 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.

### PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the rules governing the listing of securities on the Stock Exchange (the "Listing Rules").

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

### STAFF

As at 31 December 2005, the Company and its subsidiaries had 7,572 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidized educational and training programs as well as a share option scheme.

## SHARE OPTIONS

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"). On 17 March 2005, a total of 8,540,000 option shares were granted under the 2002 Share Option Scheme.

As at 31 December 2005, a total of 25,426,091 option shares were outstanding which comprised 16,886,091 option shares and 8,540,000 option shares granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding option shares are set out).

### (i) 1997 Share Option Scheme

The 1997 Share Option Scheme was designed to give Executive Directors, managers or other employees holding an executive, managerial, supervisory or similar position in the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company to attract and retain individuals with experience and ability and to reward individuals for expected future performance.

The period within which an option may be exercised was determined by the Board of Directors of the Company in its absolute discretion, save that no option might be exercised later than 10 years from the date on which the option was granted. Subject to the provisions of the 1997 Share Option Scheme, the Board might at its discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the 1997 Share Option Scheme as it thought fit (as stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) conditions, restrictions or limitations relating to the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the option in respect of all or some of the option shares would vest.

The amount paid on acceptance of an option was HK\$1. The full amount of the subscription price for shares of the Company (the "Shares") must be paid upon exercise of an option.

The subscription price for any particular outstanding option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

The 1997 Share Option Scheme was terminated on 17 April 2002 such that thereafter no further options should be offered but the options which had been granted during its life should continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions should remain in full force and effect.

## REPORT OF THE DIRECTORS (Continued)

### SHARE OPTIONS (Continued)

#### (ii) 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.

Under the 2002 Share Option Scheme, the Board of Directors of the Company may, at its discretion, grant options to the eligible persons as defined in the 2002 Share Option Scheme (the "Eligible Person") to subscribe for Shares at HK\$1 per option. The basis of eligibility of any of the Eligible Persons to the grant of any options shall be determined by the Board of Directors of the Company from time to time on the basis of their contribution to the development and the growth of the Group.

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the Shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said schemes) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the Shares in issue from time to time. As at 31 December 2005, a total of 64,994,403 Shares (representing approximately 5.34% of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme. The maximum entitlement of each participant under the 2002 Share Option Scheme is 1 per cent. of the Shares in issue from time to time.



## SHARE OPTIONS (Continued)

### (ii) 2002 Share Option Scheme (Continued)

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the 2002 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the option shares shall vest. The amount payable on acceptance of an option is HK\$1. The period within which the amount of the subscription price for the Shares to be paid upon exercise of an option shall be determined by the Board of Directors of the Company.

The subscription price in respect of any particular option under the 2002 Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options.

The 2002 Share Option Scheme will expire on 16 April 2012.

## REPORT OF THE DIRECTORS (Continued)

### SHARE OPTIONS (Continued)

Movements of the option shares, which were granted under the 1997 Share Option Scheme, during the year ended 31 December 2005 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the year	Transfer to other category during the year	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year (Note 1)	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2005	Exercise price HK\$	Exercise period
<b>I. Directors</b>												
Mr ANG Keng Lam	11/04/1997	N/A	1,759,380	-	-	-	-	-	-	1,759,380	14.92	11/04/1999-26/03/2007
	27/11/1999	I	428,630	-	-	-	-	-	-	428,630	9.64	27/05/2000-26/03/2007
	27/11/1999	II	428,629	-	-	-	-	-	-	428,629	9.64	27/05/2001-26/03/2007
										857,259		
	01/06/2000	I	350,000	-	-	-	-	-	-	350,000	6.70	01/06/2001-31/05/2010
	01/06/2000	II	350,000	-	-	-	-	-	-	350,000	6.70	01/06/2002-31/05/2010
	01/06/2000	III	348,743	-	-	-	-	-	-	348,743	6.70	01/06/2003-31/05/2010
										1,048,743		
	16/04/2002	I	518,248	-	-	-	-	-	-	518,248	6.85	16/04/2003-15/04/2012
	16/04/2002	II	518,247	-	-	-	-	-	-	518,247	6.85	16/04/2004-15/04/2012
										1,036,495		
										4,701,877		
Mr WONG Siu Kong	11/04/1997	N/A	1,172,919	-	-	-	-	-	-	1,172,919	14.92	11/04/1999-26/03/2007
	27/11/1999	I	214,314	-	-	-	-	-	-	214,314	9.64	27/05/2000-26/03/2007
	27/11/1999	II	214,314	-	-	-	-	-	-	214,314	9.64	27/05/2001-26/03/2007
										428,628		
	16/04/2002	I	-	-	-	-	-	-	-	-	6.85	16/04/2003-15/04/2012
	16/04/2002	II	518,247	-	-	-	-	(300,000)	-	218,247	6.85	16/04/2004-15/04/2012
										218,247		
										1,819,794		

## SHARE OPTIONS (Continued)

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the year	Transfer to other category during the year	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year (Note 1)	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2005	Exercise price HK\$	Exercise period
I. Directors (continued)												
Mr HO Shut Kan	11/04/1997	N/A	821,044	-	-	-	-	(500,000)	-	321,044	14.92	11/04/1999–26/03/2007
	02/03/2001	I	36,000	-	-	-	-	(36,000)	-	-	11.59	02/03/2002–01/03/2011
	02/03/2001	II	36,000	-	-	-	-	(36,000)	-	-	11.59	02/03/2003–01/03/2011
	02/03/2001	III	33,520	-	-	-	-	(33,520)	-	-	11.59	02/03/2004–01/03/2011
												-
	16/04/2002	I	-	-	-	-	-	-	-	-	6.85	16/04/2003–15/04/2012
	16/04/2002	II	77,736	-	-	-	-	(77,736)	-	-	6.85	16/04/2004–15/04/2012
												-
										321,044		
Mr MA Wing Kai, William	11/04/1997	N/A	234,582	-	-	-	-	-	-	234,582	14.92	11/04/1999–26/03/2007
	27/11/1999	I	133,946	-	-	-	-	-	-	133,946	9.64	27/05/2000–26/03/2007
	27/11/1999	II	133,945	-	-	-	-	-	-	133,945	9.64	27/05/2001–26/03/2007
										267,891		
	01/06/2000	I	-	-	-	-	-	-	-	-	6.70	01/06/2001–31/05/2010
	01/06/2000	II	119,585	-	-	-	-	(119,585)	-	-	6.70	01/06/2002–31/05/2010
	01/06/2000	III	135,055	-	-	-	-	(135,055)	-	-	6.70	01/06/2003–31/05/2010
												-
	02/03/2001	I	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2002–01/03/2011
	02/03/2001	II	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2003–01/03/2011
	02/03/2001	III	33,520	-	-	-	-	-	-	33,520	11.59	02/03/2004–01/03/2011
										105,520		
	16/04/2002	I	62,189	-	-	-	-	-	-	62,189	6.85	16/04/2003–15/04/2012
	16/04/2002	II	62,189	-	-	-	-	-	-	62,189	6.85	16/04/2004–15/04/2012
												-
										124,378		
										732,371		

# REPORT OF THE DIRECTORS (Continued)

## SHARE OPTIONS (Continued)

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the year	Transfer to other category during the year	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year (Note 1)	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2005	Exercise price HK\$	Exercise period
2. Continuous Contract Employees	11/04/1997	N/A	2,963,696	–	–	–	–	(973,336)	–	1,990,360	14.92	11/04/1999–26/03/2007
	27/11/1999	I	604,194	–	–	–	–	(167,339)	–	436,855	9.64	27/05/2000–26/03/2007
	27/11/1999	II	652,854	–	–	–	–	(144,181)	–	508,673	9.64	27/05/2001–26/03/2007
										945,528		
	01/06/2000	I	133,000	–	–	–	–	(29,000)	–	104,000	6.70	01/06/2001–31/05/2010
	01/06/2000	II	175,564	–	–	–	–	(29,000)	–	146,564	6.70	01/06/2002–31/05/2010
	01/06/2000	III	196,248	–	–	–	–	(27,939)	–	168,309	6.70	01/06/2003–31/05/2010
										418,873		
	02/03/2001	I	234,000	–	–	–	–	(86,000)	–	148,000	11.59	02/03/2002–01/03/2011
	02/03/2001	II	234,000	–	–	–	–	(86,000)	–	148,000	11.59	02/03/2003–01/03/2011
	02/03/2001	III	198,884	–	–	–	–	(72,808)	–	126,076	11.59	02/03/2004–01/03/2011
										422,076		
	16/04/2002	I	332,125	–	–	–	–	(44,048)	–	288,077	6.85	16/04/2003–15/04/2012
	16/04/2002	II	332,124	–	–	–	–	(44,048)	–	288,076	6.85	16/04/2004–15/04/2012
									576,153			
									4,352,990			
3. Others	11/04/1997	N/A	3,753,341	–	–	–	–	–	–	3,753,341	14.92	11/04/1999–26/03/2007
	27/11/1999	I	589,363	–	–	–	–	(85,725)	–	503,638	9.64	27/05/2000–26/03/2007
	27/11/1999	II	589,362	–	–	–	–	(85,725)	–	503,637	9.64	27/05/2001–26/03/2007
										1,007,275		
	01/06/2000	I	45,000	–	–	–	–	–	–	45,000	6.70	01/06/2001–31/05/2010
	01/06/2000	II	45,000	–	–	–	–	–	–	45,000	6.70	01/06/2002–31/05/2010
	01/06/2000	III	44,088	–	–	–	–	–	–	44,088	6.70	01/06/2003–31/05/2010
										134,088		
	02/03/2001	I	22,000	–	–	–	–	–	–	22,000	11.59	02/03/2002–01/03/2011
	02/03/2001	II	22,000	–	–	–	–	–	–	22,000	11.59	02/03/2003–01/03/2011
	02/03/2001	III	19,311	–	–	–	–	–	–	19,311	11.59	02/03/2004–01/03/2011
										63,311		
	16/04/2002	I	518,248	–	–	–	–	(518,248)	–	–	6.85	16/04/2003–15/04/2012
	16/04/2002	II	518,247	–	–	–	–	(518,247)	–	–	6.85	16/04/2004–15/04/2012
									–			
									4,958,015			
<b>Total</b>			<b>21,035,631</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>–</b>	<b>(4,149,540)</b>	<b>–</b>	<b>16,886,091</b>		

## SHARE OPTIONS (Continued)

Movements of the option shares, which were granted under the 2002 Share Option Scheme, during the year ended 31 December 2005 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the year	Transfer to other category during the year	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year (Note 1)	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2005	Exercise price HK\$	Exercise period
<b>I. Directors</b>												
Mr ANG Keng Lam	17/03/2005	I	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2006–16/03/2015
	17/03/2005	II	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2007–16/03/2015
										1,500,000		
Mr WONG Siu Kong	17/03/2005	I	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2006–16/03/2015
	17/03/2005	II	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2007–16/03/2015
										1,500,000		
Mr HO Shut Kan	17/03/2005	I	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2006–16/03/2015
	17/03/2005	II	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2007–16/03/2015
										800,000		
Mr MA Wing Kai, William	17/03/2005	I	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2006–16/03/2015
	17/03/2005	II	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2007–16/03/2015
										800,000		
<b>2. Continuous Contract Employees</b>	17/03/2005	I	-	-	-	1,970,000	-	-	-	1,970,000	18.74	17/03/2006–16/03/2015
	17/03/2005	II	-	-	-	1,970,000	-	-	-	1,970,000	18.74	17/03/2007–16/03/2015
										3,940,000		
<b>Total</b>			<b>-</b>	<b>-</b>	<b>-</b>	<b>8,540,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,540,000</b>		

Notes:

- The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$19.28.
- No option was cancelled during the year.

## REPORT OF THE DIRECTORS (Continued)

### SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the forthcoming Annual General Meeting of the Company.

### MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the five largest customers combined and the five largest suppliers combined are less than 30% of the Group's total turnover and purchases, respectively.

### DIRECTOR'S INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year and up to the date of this report, the following Directors were considered to have interests in the following businesses ("Excluded Businesses"), being businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses in which (a) the Group was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Group.

Mr Ang Keng Lam was a director of and had interests in shares in Allgreen Properties Limited ("Allgreen"), the businesses of which consisted of property investment and development, project management and operation of office premises, retail space and serviced apartments in Singapore. The Directors believe that as the size of these Excluded Businesses is not insignificant when compared with the property businesses of the Group, it is likely that these Excluded Businesses may compete with the property businesses of the Group in the Asia Pacific region. Allgreen was listed on the Singapore Exchange Securities Trading Limited as at the date of this report.

Messrs Ang Keng Lam and Wong Siu Kong were directors of and had interests in shares in the Shangri-La Asia Limited ("SA") group of companies, the businesses of which consisted of hotel ownership and operation. The Directors believe that as the size of that part of these Excluded Businesses in Beijing, where the Group has hotel businesses, is not insignificant when compared with the hotel business of the Group in Beijing, it is likely that these Excluded Businesses may compete with the hotel business of the Group in Beijing. SA was listed on the Stock Exchange as at the date of this report.

Messrs Ang Keng Lam and Wong Siu Kong were directors of (but did not have any interests in shares in) the China World Trade Center Ltd. group of companies, the businesses of which consisted of property investment and development and hotel ownership and operation in the PRC. The Directors believe that as the size of these Excluded Businesses is not insignificant when compared with the property and hotel businesses of the Group in the PRC, it is likely that these Excluded Businesses may compete with the property and hotel businesses of the Group in the PRC.

## DIRECTOR'S INTERESTS IN COMPETING BUSINESS (Continued)

Mr Wong Siu Kong was a director of and had interests in shares in Kuok (Singapore) Limited, one of the principal activities of the Kuok (Singapore) Limited group of companies consisted of owners and operators of warehouses in Singapore and Malaysia. The Directors believe that as the size of these Excluded Businesses is not insignificant when compared with the warehouse businesses of the Group in the South East Asian market, it is likely that these Excluded Businesses may compete with the warehouse businesses of the Group in the South East Asian market.

The Executive Directors were directors of and/or had interests in shares in the Kerry Group Limited group of companies, the businesses of which consisted of property investment and development, hotel ownership and operation, warehouse ownership and operation, port terminal ownership and operation and freight operations. The size of these Excluded Businesses is considered to be insignificant when compared with similar businesses of the Group. On this basis, the Directors do not consider any competition between these Excluded Businesses as specified under this paragraph and similar businesses of the Group to be significant.

The Excluded Businesses are operated and managed by companies (and in the case of Allgreen, and SA, by publicly listed companies) with independent management and administration. On this basis, the Directors believe that the Group is capable of carrying on its businesses independently of the Excluded Businesses and at arm's length from the Excluded Businesses.

The Directors, including those interested in the Excluded Businesses, will, as and when required under the Bye-laws of the Company, abstain from voting on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates has a material interest.

## CONNECTED TRANSACTIONS

(I) On 12 August 2005, the Company announced that Clever Wise Management Limited ("Clever Wise"), an indirect non-wholly owned subsidiary of the Company, entered into several agreements dated 5 August 2005 (collectively, the "Eas Agreements") with Mr Tay Poh Cheok (a shareholder of Eas International Transportation (S'pore) Pte Ltd ("EIT") and Eas International Shipping Pte Ltd ("EIS") holding 39% and 35% of the issued share capital of EIT and EIS respectively prior to the transfer of shares under the Eas Agreements) and Ms Lim Beng Lay (a shareholder of EIT and EIS holding 6% and 5% of the issued share capital of EIT and EIS respectively prior to the transfer of the shares under the Eas Agreements). Under the Eas Agreements, Clever Wise has agreed to sell its entire shareholdings in EIT and EIS, representing 55% and 60% of the respective issued share capital of EIT and EIS, to Mr Tay and Ms Lim at an aggregate sum of S\$1,005,602 (approximately HK\$4,746,440) subject to the terms and conditions of the Eas Agreements. The transaction will enable the Group to better coordinate and utilise its resources and capital deployed and maximise the synergy with other offices within the Group's global freight forwarding network.

Before the entering into of the Eas Agreements, EIT and EIS were indirect non-wholly owned subsidiaries of the Company. Mr Tay was a substantial shareholder and a director of each of EIT and EIS and the spouse of Ms Lim, and hence a connected person of the Company. Ms Lim was a director of each of EIT and EIS and the spouse of Mr Tay, and hence also a connected person of the Company. The entering into of the Eas Agreements were therefore connected transactions of the Company under the Listing Rules.

## REPORT OF THE DIRECTORS (Continued)

### CONNECTED TRANSACTIONS (Continued)

- (II) On 2 December 2005, the Company and SA jointly announced that 上海陸家嘴金融貿易區開發股份有限公司 (Shanghai Lujiazui Finance & Trade Zone Development Co., Ltd.) ("Party A"), Kerry Shanghai (Pudong) Ltd. ("Party B"), Kerry Shanghai Pudong Investments Ltd. ("Party C") and Allgreen Properties (Shanghai) Pte. Ltd. ("Party D") (collectively, the "JV Parties") entered into a joint venture contract (the "JV Contract") dated 9 October 2005 for the establishment of a joint venture company ("JVCO") to undertake a property development project in Pudong, Shanghai, PRC. Upon its establishment, JVCO will be owned by Party A, Party B (a wholly-owned subsidiary of SA), Party C (a wholly-owned subsidiary of the Company) and Party D in the proportions of 20%, 23.20%, 40.80% and 16%, respectively.

The scope of business of the JVCO is to acquire a plot of land adjacent to the Shanghai New International Expo Centre, Pudong, Shanghai, PRC with an area of approximately 58,900 sq.m. (the "Project Site") currently owned by a state-owned enterprise, namely, 上海市浦東土地發展(控股)公司 (Shanghai Pudong Land Development (Holding) Corporation) and to develop the Project Site into a mixed-use development which is currently intended to comprise (subject to market conditions) hotel (with meeting facilities), offices, serviced suites/ serviced apartments, commercial and related ancillary facilities.

To cater for any possible increase in the total investment amount of JVCO due to unforeseen factors beyond the current expectations of the JV Parties, on 30 November 2005, Party B, Party C and Party D also entered into a funding agreement (the "Funding Agreement") pursuant to which Party B, Party C and Party D agree that if a funding request in excess of the total investment amount under the JV Contract of US\$489,604,000 (approximately HK\$3,818,911,200) is made by JVCO in accordance with the terms of the JV Contract, they will, as between themselves, contribute to such funding request in proportion to their then respective capital contributions in JVCO and upon the same terms and conditions. The purpose of the Funding Agreement is to record the agreement amongst Party B, Party C and Party D that none of them shall be obliged to commit further funding contribution to, or for the benefit of, JVCO if the total investment amount of JVCO exceeds US\$590,000,000 (approximately HK\$4,602,000,000).

Party B, Party C and Party D are wholly-owned subsidiaries of SA, the Company and Allgreen Properties Limited ("AG"), respectively. Kerry Holdings Limited ("KHL") is the controlling shareholder of the Company under the Listing Rules. SA is an associate of KHL under the Listing Rules and is therefore a connected person of the Company. The controlling shareholder of AG, Kuok (Singapore) Limited, owns 100% of a substantial shareholder of a non-wholly owned subsidiary of the Company. Therefore, AG is a connected person of the Company at the subsidiaries' level.

Accordingly, the entering into of the JV Contract and the Funding Agreement constitute connected transactions for the Company under the Listing Rules. The JV Contract and the Funding Agreement were approved by the independent shareholders of the Company at a special general meeting held on 16 February 2006.

- (III) On 10 February 2006, the Company announced that Kerry Environmental Limited ("KEL"), Chemquest (Overseas) Limited ("CQOL") and Kerry CQ Environmental Engineering Limited ("KCQE") (owned by KEL and CQOL in the proportions of 51% and 49%, respectively) entered into a joint venture agreement on 26 September 2005 (the "KCQE Agreement") in respect of KCQE.



## CONNECTED TRANSACTIONS (Continued)

The scope of business of KCQE is to invest in a project relating to the building, operation and maintenance of a plant for the purpose of waste incineration and generating electricity in Changzhou City, Jiangsu Province, the PRC (the "Changzhou Project").

The total maximum contribution to be made by KEL and CQOL shall be RMB164 million (approximately HK\$157.7 million). KEL and CQOL are required to provide their proportionate share of such commitment in the sum of RMB83.64 million (approximately HK\$80.4 million) and RMB80.36 million (approximately HK\$77.3 million), respectively.

The Changzhou Project represents a good opportunity for the Group to strengthen its business in the infrastructure-related investment in the PRC.

KEL is an indirect wholly-owned subsidiary of the Company. CQOL is a substantial shareholder of KCQE and it is therefore a connected person of the Company under the Listing Rules. Accordingly, the transaction contemplated under the KCQE Agreement constitutes a connected transaction of the Company under the Listing Rules.

## CONTINUING CONNECTED TRANSACTIONS

During the financial year ended 31 December 2005, the Company has in effect the continuing connected transactions set out below which are potentially non-exempt continuing connected transactions under the revised Listing Rules which came into effect on 31 March 2004.

Shangri-La International Hotel Management Limited ("SLIM") has been providing hotel management, marketing, communication and reservation services ("Hotel Management Services") to The Kerry Centre Hotel in Beijing, China pursuant to hotel management, marketing and related agreements ("Hotel Management Agreements") entered into between Beijing Kerry Centre Hotel Co., Ltd. ("BKCH") and SLIM on 30 June 1998. BKCH is the owner of The Kerry Centre Hotel, Beijing. BKCH is owned as to 95% by Kerry Beijing (Guang Hua) Ltd which is owned as to 75% by the Group and 25% by the SA Group. SLIM is indirectly owned by SA, an associate of KHL (which is a substantial shareholder of the Company). Accordingly, the provision of the Hotel Management Services by SLIM to BKCH are continuing connected transactions of the Company under the Listing Rules.

During the year ended 31 December 2005, an aggregate amount of HK\$18,423,000 have been paid to SLIM and its related entities by BKCH.

The Hotel Management Agreements, which were entered into prior to the revised Listing Rules coming into effect on 31 March 2004, are for a period longer than 3 years and are not subject to annual caps. The Company is consulting the Stock Exchange whether it is necessary for the Company to conform to the requirements for continuing connected transactions under the revised Listing Rules in respect of these transactions in view of the fact that it may not be feasible to terminate these transactions and enter into new arrangements with SLIM.

For the year ended 31 December 2005, the aggregate amount paid to SLIM is more than 0.1% but less than 2.5% of the applicable percentage ratios (as defined under the Listing Rules).

## REPORT OF THE DIRECTORS (Continued)

### CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.22 OF THE LISTING RULES Financial Assistance and Guarantees to Affiliated Companies

As at 31 December 2005, the financial assistance given to, and guarantees given for facilities granted to, affiliated companies (as defined in the Listing Rules) together in aggregate continue to exceed the relevant percentage ratios of 8% under the Listing Rules. In accordance with Rule 13.22 of the Listing Rules, the combined balance sheet of and the Group's attributable interest in these affiliated companies as at the latest practicable date are set out as follows:

	Combined HK\$ million	The Group's attributable interest HK\$ million
Non-current assets	25,186	6,824
Current assets	3,878	1,143
Current liabilities	(2,627)	(830)
Net current assets	1,251	313
Total assets less current liabilities	26,437	7,137
Non-current liabilities	(18,309)	(5,047)
Net assets	8,128	2,090

### 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 year.

### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



Ang Keng Lam

Chairman

Hong Kong, 24 March 2006