



# INTERIM REPORT

For the six months ended 30 June 2006



**KERRY PROPERTIES LIMITED**

*(Incorporated in Bermuda with limited liability)*

Stock Code : 683

**CORPORATE INFORMATION AND KEY DATES****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 William Winship FLANZ

Mr LAU Ling Fai, Herald

Mr Christopher Roger MOSS, O.B.E.

**Non-executive Director**

Mr TSE Kai Chi

**Audit Committee**

Mr Christopher Roger MOSS, O.B.E.

*Chairman*

Mr LAU Ling Fai, Herald

Mr TSE Kai Chi

**Finance Committee**

Mr ANG Keng Lam

Mr WONG Siu Kong

Mr HO Shut Kan

**Remuneration Committee**

Mr ANG Keng Lam

*Chairman*

Mr WONG Siu Kong

Mr William Winship FLANZ

Mr LAU Ling Fai, Herald

Mr Christopher Roger MOSS, O.B.E.

**Qualified Accountant**

Ms CHANG Yin Wa

**Company Secretary**

Ms LI Siu Ching, Liz

**Auditors**

PricewaterhouseCoopers

*Certified Public Accountants***Registered Office**

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

**Head Office and Principal Place of Business**

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14 Taikoo Wan Road

Taikoo Shing

Hong Kong

**Branch Office**

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Hong Kong

**Website**[www.kerryprops.com](http://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

26/F, Tesbury Centre

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**Key Dates****Closure of Registers of Members**

4 October 2006 to 6 October 2006

(both days inclusive)

**Payment of Interim Dividend/Despatch of Share Certificates in respect of Scrip Dividend**

14 November 2006

## INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2006

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") is pleased to report the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2006. The Audit Committee of the Board, comprising three Non-executive Directors (two of whom are independent), has met to review the results and the financial statements of the Group for the six months ended 30 June 2006 prior to recommending them to the Board for approval.

The Group's consolidated net profit attributable to shareholders for the six months ended 30 June 2006 was HK\$1,996 million, representing an increase of 25% compared with HK\$1,602 million reported for 2005. In accordance with Hong Kong Accounting Standard 40 "Investment Property", the Group measured its investment property portfolio on a fair value basis and recorded change in fair values of investment properties (net of deferred taxation) of HK\$128 million for the six months ended 30 June 2006 (2005: HK\$761 million). Before taking into account the effects of the aforementioned revaluation adjustments, the Group recorded an increase of 122% in profit attributable to shareholders to HK\$1,868 million for the six months ended 30 June 2006 (2005: HK\$841 million). The increase was mainly due to the profit arising from the disposal of interest in Citibank Plaza by way of the Group's participation in the global offering of the Champion Real Estate Investment Trust (the "Champion REIT"), which amounted to HK\$1,160 million.

Earnings per share for the six months ended 30 June 2006 were HK\$1.64, representing an increase of 24% compared with HK\$1.32 per share in 2005. The basis of calculating the earnings per share is detailed in note 5 below.

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

	<b>Six months ended 30 June</b>		Increase
	<b>2006</b>	2005	
	<b>HK\$ million</b>	HK\$ million	
Profit attributable to shareholders before taking into account the net change in fair values of investment properties and related tax effects	<b>1,868</b>	841	122%
Add:			
Net change in fair values of investment properties and related tax effects	<u>128</u>	<u>761</u>	
Profit attributable to shareholders	<u><b>1,996</b></u>	<u>1,602</u>	25%

The Directors have declared an interim dividend of HK\$0.2 per share for the six months ended 30 June 2006 (2005: HK\$0.2), which is payable on Tuesday, 14 November 2006 to shareholders whose names appear on the Registers of Members of the Company on Friday, 6 October 2006, 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 "2006 Interim Scrip Dividend Scheme").

The 2006 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 aforementioned conditions are not satisfied, shareholders will receive the interim dividend for the six months ended 30 June 2006 wholly in cash. The issue price of the new shares to be issued under the 2006 Interim Scrip Dividend Scheme will be fixed with reference to the average closing price of the shares of the Company quoted on the Stock Exchange for five consecutive trading days to be determined by the Directors. A circular containing details of the 2006 Interim Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Wednesday, 18 October 2006.

At the Company's Annual General Meeting held on 3 May 2006, shareholders approved the final dividend of HK\$0.5 per share for the year ended 31 December 2005 which amounted to a total of approximately HK\$611.4 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. As a result, a total of 1,061,069 shares were issued on 9 June 2006 at a price of HK\$28.58 per share, which was equivalent to a total value of approximately HK\$30.3 million pursuant to the aforesaid scrip dividend scheme and a total amount of HK\$581.1 million was paid in cash on 9 June 2006.

## CONSOLIDATED INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2006	2005
		HK\$'000	HK\$'000
Turnover	2	3,769,025	3,845,593
Cost of sales		(302,326)	(167,362)
Direct operating expenses		(2,474,265)	(2,627,486)
Gross profit		992,434	1,050,745
Other revenues		38,867	40,585
Other income		14,047	11,488
Administrative expenses		(265,977)	(274,439)
		779,371	828,379
Change in fair value of investment properties		153,122	803,121
Dividend income from an available-for-sale investment		1,357,884	–
Impairment loss on available-for-sale investments		(197,941)	–
Profit arising from the disposal of property interest held by an available-for-sale investment		1,159,943	–
Operating profit before finance costs		2,092,436	1,631,500
Finance costs		(34,379)	(45,227)
Operating profit	2,3	2,058,057	1,586,273
Share of results of associated companies		184,205	276,526
Profit before taxation		2,242,262	1,862,799
Taxation	4	(163,066)	(194,552)
Profit for the period		2,079,196	1,668,247
Profit attributable to:			
Company's shareholders		1,995,913	1,601,559
Minority interests		83,283	66,688
		2,079,196	1,668,247
Interim dividend		244,966	242,657
Interim dividend per share		HK\$0.20	HK\$0.20
Earnings per share	5		
Basic		HK\$1.64	HK\$1.32
Diluted		HK\$1.55	HK\$1.29

**CONSOLIDATED BALANCE SHEET**

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2006</b>	2005
	<i>Note</i>	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment		<b>2,180,566</b>	2,127,365
Investment properties		<b>20,400,824</b>	20,510,591
Leasehold land and land use rights		<b>339,312</b>	325,326
Properties under development		<b>10,218,983</b>	7,855,171
Associated companies		<b>5,418,020</b>	6,331,909
Derivative financial instruments		<b>74,095</b>	11,663
Available-for-sale investments		<b>1,249,796</b>	1,431,639
Long-term receivables		<b>82,469</b>	102,503
Goodwill		<b>253,240</b>	244,061
		<b>40,217,305</b>	38,940,228
<b>Current assets</b>			
Stock of completed properties held for sale		<b>948,431</b>	248,557
Properties under development for sale		–	608,878
Accounts receivable, prepayments and deposits	6	<b>2,589,501</b>	2,796,880
Tax recoverable		<b>43,194</b>	33,840
Tax reserve certificates		<b>14,109</b>	12,188
Listed securities at fair value through profit or loss		<b>4,478</b>	25,868
Pledged bank deposits		<b>17,904</b>	32,514
Cash and bank balances		<b>2,007,093</b>	2,531,746
		<b>5,624,710</b>	6,290,471
<b>Current liabilities</b>			
Accounts payable, deposits received and accrued charges	7	<b>2,109,151</b>	2,502,615
Taxation		<b>120,013</b>	109,860
Short-term bank loans and current portion of long-term bank loans	8	<b>1,259,096</b>	1,016,983
Unsecured bank overdrafts		<b>4,766</b>	318
		<b>3,493,026</b>	3,629,776
Net current assets		<b>2,131,684</b>	2,660,695
Total assets less current liabilities		<b>42,348,989</b>	41,600,923

## CONSOLIDATED BALANCE SHEET (continued)

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2006</b>	2005
	Note	<b>HK\$'000</b>	<b>HK\$'000</b>
Non-current liabilities			
Long-term bank loans	8	<b>7,700,208</b>	8,317,403
Convertible bonds	9	<b>2,473,415</b>	2,413,095
Amounts due to minority shareholders		<b>2,044,153</b>	1,835,789
Derivative financial instruments		–	39,678
Deferred taxation		<b>2,157,301</b>	2,097,083
		<b>14,375,077</b>	14,703,048
<b>ASSETS LESS LIABILITIES</b>		<b>27,973,912</b>	26,897,875
Equity attributable to the Company's shareholders			
Share capital		<b>1,224,830</b>	1,216,579
Share premium		<b>4,038,168</b>	3,918,838
Other reserves		<b>9,192,779</b>	9,699,847
Retained profits		<b>11,522,564</b>	9,777,277
Proposed dividend		<b>244,966</b>	608,289
		<b>26,223,307</b>	25,220,830
Minority interests		<b>1,750,605</b>	1,677,045
<b>TOTAL EQUITY</b>		<b>27,973,912</b>	26,897,875

## FINANCIAL HIGHLIGHTS

	<b>30 June</b>	31 December
	<b>2006</b>	2005
Equity attributable to the Company's shareholders ( <i>HK\$ million</i> )	<b>26,223</b>	25,221
Net borrowings (including convertible bonds) ( <i>HK\$ million</i> )	<b>9,412</b>	9,184
Net asset value (attributable to the Company's shareholders) per share	<b>HK\$21.41</b>	HK\$20.73
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	<b>36%</b>	36%

**CONSOLIDATED CASH FLOW STATEMENT**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2006</b>	<b>2005</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Operating activities</b>		
Net cash (used in)/generated from operations	<b>(186,335)</b>	733,843
Interest paid	<b>(222,566)</b>	(111,232)
Profits tax paid	<b>(102,224)</b>	(69,072)
Net cash (used in)/generated from operating activities	<b>(511,125)</b>	553,539
<b>Investing activities</b>		
Additions of property, plant and equipment, investment properties and properties under development	<b>(1,490,132)</b>	(226,247)
Purchase of a subsidiary (net of cash and cash equivalents acquired)	<b>(17,465)</b>	(8,174)
Purchase of additional interest in subsidiaries	<b>(5,198)</b>	(89,403)
Additional investments in associated companies	<b>(421,850)</b>	–
Repayment of loans from associated companies	<b>1,541,328</b>	272,148
Purchase of available-for-sale investments	<b>(730)</b>	(206)
Decrease in long-term receivables	<b>21,145</b>	51,274
Interest received	<b>32,923</b>	31,329
Dividends received from associated companies	<b>23,281</b>	170,495
Dividends received from listed and unlisted investments	<b>6,099</b>	9,259
Dividends received from an available-for-sale investment	<b>575,647</b>	–
Proceeds from sale of property, plant and equipment and investment properties	<b>368,226</b>	62,773
Proceeds from sale of available-for-sale investments	<b>–</b>	2,090
Proceeds from sale of listed investments	<b>22,717</b>	–
Net cash from investing activities	<b>655,991</b>	275,338
Net cash inflow before financing	<b>144,866</b>	828,877
<b>Financing activities</b>		
Proceeds from issue of shares	<b>97,256</b>	12,778
Proceeds from issue of convertible bonds, net of direct issue costs	<b>–</b>	2,469,895
Repayment of bank loans	<b>(7,967,699)</b>	(282,619)
Drawdown of bank loans	<b>7,575,205</b>	192,917
Capital contribution from minority shareholders	<b>9,800</b>	12,565
Dividends paid	<b>(581,098)</b>	(470,386)
Dividends paid to minority shareholders in subsidiaries	<b>(28,267)</b>	(17,567)
Increase/(decrease) in loans from minority shareholders	<b>206,226</b>	(3,956)
Net cash (used in)/generated from financing	<b>(688,577)</b>	1,913,627
<b>(Decrease)/increase in cash and cash equivalents</b>	<b>(543,711)</b>	2,742,504
<b>Cash and cash equivalents at 1 January</b>	<b>2,563,942</b>	2,233,757
<b>Cash and cash equivalents at 30 June</b>	<b>2,020,231</b>	4,976,261
<b>Analysis of balances of cash and cash equivalents</b>		
Pledged bank deposits	<b>17,904</b>	59,394
Cash and bank balances	<b>2,007,093</b>	4,919,945
Unsecured bank overdrafts	<b>(4,766)</b>	(3,078)
	<b>2,020,231</b>	4,976,261



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company						Minority interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2005	1,211,116	3,857,220	9,228,041	7,562,989	484,447	22,343,813	945,120	23,288,933
Deferred tax charged to revaluation reserves	-	-	(1,910)	-	-	(1,910)	-	(1,910)
Fair value gain on available-for-sale investments	-	-	3,418	-	-	3,418	-	3,418
Fair value gain on derivative financial instruments	-	-	9,525	-	-	9,525	-	9,525
Exchange differences arising on translation of the accounts of the PRC and overseas subsidiaries and associated companies	-	-	(17,866)	-	-	(17,866)	-	(17,866)
Net loss recognised directly in equity	-	-	(6,833)	-	-	(6,833)	-	(6,833)
Profit for the period	-	-	-	1,601,559	-	1,601,559	66,688	1,668,247
Total recognised (loss)/profit for the six months ended 30 June 2005	-	-	(6,833)	1,601,559	-	1,594,726	66,688	1,661,414
Issue of share capital	2,170	25,056	-	-	-	27,226	-	27,226
Issue of convertible bonds	-	-	143,501	-	-	143,501	-	143,501
Issue of share options	-	-	10,101	-	-	10,101	-	10,101
Dividends paid	-	-	-	(386)	(484,447)	(484,833)	(80,560)	(565,393)
2005 proposed interim dividend	-	-	-	(242,657)	242,657	-	-	-
Transfer	-	-	822	(822)	-	-	-	-
Share of deferred tax	-	-	-	-	-	-	(770)	(770)
Purchase of subsidiaries	-	-	-	-	-	-	3,399	3,399
Purchase of additional interest in subsidiaries	-	-	-	-	-	-	(67,217)	(67,217)
Capital injection from minority shareholders	-	-	-	-	-	-	12,565	12,565
Exchange adjustments	-	-	-	-	-	-	(6,445)	(6,445)
	2,170	25,056	154,424	(243,865)	(241,790)	(304,005)	(139,028)	(443,033)
Balance as at 30 June 2005	<u>1,213,286</u>	<u>3,882,276</u>	<u>9,375,632</u>	<u>8,920,683</u>	<u>242,657</u>	<u>23,634,534</u>	<u>872,780</u>	<u>24,507,314</u>

	Attributable to shareholders of the Company					Total	Minority interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2006	1,216,579	3,918,838	9,699,847	9,777,277	608,289	25,220,830	1,677,045	26,897,875
Deferred tax credited to revaluation reserves	-	-	782	-	-	782	-	782
Realisation on available-for-sale investments	-	-	(568,347)	-	-	(568,347)	-	(568,347)
Fair value gain on available-for-sale investments	-	-	912	-	-	912	-	912
Fair value gain on derivative financial instruments	-	-	1,130	-	-	1,130	-	1,130
Exchange differences arising on translation of the accounts of the PRC and overseas subsidiaries and associated companies	-	-	44,831	-	-	44,831	-	44,831
Net loss recognised directly in equity	-	-	(520,692)	-	-	(520,692)	-	(520,692)
Profit for the period	-	-	-	1,995,913	-	1,995,913	83,283	2,079,196
Total recognised (loss)/profit for the six months ended 30 June 2006	-	-	(520,692)	1,995,913	-	1,475,221	83,283	1,558,504
Issue of share capital	8,251	119,330	-	-	-	127,581	-	127,581
Issue of share options	-	-	11,099	-	-	11,099	-	11,099
Dividends paid	-	-	-	(3,135)	(608,289)	(611,424)	(28,267)	(639,691)
2006 proposed interim dividend	-	-	-	(244,966)	244,966	-	-	-
Transfer	-	-	2,525	(2,525)	-	-	-	-
Share of deferred tax	-	-	-	-	-	-	315	315
Purchase of additional interest in a subsidiary	-	-	-	-	-	-	(3,210)	(3,210)
Capital injection from minority shareholders	-	-	-	-	-	-	9,800	9,800
Exchange adjustments	-	-	-	-	-	-	11,639	11,639
	8,251	119,330	13,624	(250,626)	(363,323)	(472,744)	(9,723)	(482,467)
Balance as at 30 June 2006	<u>1,224,830</u>	<u>4,038,168</u>	<u>9,192,779</u>	<u>11,522,564</u>	<u>244,966</u>	<u>26,223,307</u>	<u>1,750,605</u>	<u>27,973,912</u>

## NOTES TO THE ACCOUNTS

### 1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

These condensed consolidated interim accounts should be read in conjunction with the 2005 annual financial statements. The accounting policies used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2005.

The HKICPA has issued a number of new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs").

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- HKAS 19 Amendment, 'Employee Benefits – Actuarial Gains and Losses, Group Plans and Disclosures';
- HKAS 39 Amendment, 'The Fair Value Option';
- HKAS 21 Amendment, 'The Effects of Changes in Foreign Exchange Rates – Net Investment in a Foreign Operation';
- HKAS 39 Amendment, 'Cash Flow Hedge Accounting of Forecast Intragroup Transactions';
- HKAS 39 & HKFRS 4 Amendments, 'Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts'; and
- HKFRS-Int 4, 'Determining whether an Arrangement contains a Lease'.

The adoption of these accounting standards has no significant impact on the Group's interim results and financial position.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- HK(IFRIC)-Int 8, 'Scope of HKFRS 2', effective for annual periods beginning on or after 1 May 2006;
- HK(IFRIC)-Int 9, 'Reassessment of Embedded Derivatives', effective for annual periods beginning on or after 1 June 2006;
- HKFRS 7, 'Financial instruments: Disclosures', effective for annual periods beginning on or after 1 January 2007; and
- HKAS 1 Amendment 'Capital Disclosures', effective for annual periods beginning on or after 1 January 2007.

The Group is in the process of assessing the impact of these new standards, amendments and interpretations on its results of operation and financial position.

## 2. Principal activities and segmental analysis of operations

An analysis of the Group's turnover and contribution to operating profit for the six months ended 30 June 2006 by principal activities and markets is as follows:

	Turnover		Operating profit	
	Six months ended 30 June		Six months ended 30 June	
	2006	2005	2006	2005
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental				
– People's Republic of China ("PRC")	<b>283,482</b>	265,128	<b>205,229</b>	190,657
– Hong Kong	<b>190,157</b>	170,215	<b>30,265</b>	64,232
	<b>473,639</b>	435,343	<b>235,494</b>	254,889
Property sales				
– PRC	<b>32,379</b>	69,239	<b>(99)</b>	12,871
– Hong Kong	<b>426,129</b>	335,430	<b>1,259,694</b>	196,142
	<b>458,508</b>	404,669	<b>1,259,595</b>	209,013
Hotel operations	<b>168,551</b>	151,333	<b>67,251</b>	57,920
Logistics and warehouse operations				
– warehouse	<b>212,790</b>	198,503	<b>113,739</b>	108,812
– logistics	<b>2,435,556</b>	2,635,274	<b>106,935</b>	95,317
	<b>2,648,346</b>	2,833,777	<b>220,674</b>	204,129
Infrastructure	–	–	<b>(7,119)</b>	(869)
Project, property management and others	<b>19,981</b>	20,471	<b>129,040</b>	58,070
	<b>3,769,025</b>	3,845,593	<b>1,904,935</b>	783,152
Change in fair value of investment properties	–	–	<b>153,122</b>	803,121
	<b>3,769,025</b>	<b>3,845,593</b>	<b>2,058,057</b>	<b>1,586,273</b>
Principal markets:				
PRC	<b>1,779,886</b>	2,107,163	<b>316,706</b>	302,431
Hong Kong	<b>1,357,314</b>	1,137,535	<b>1,706,269</b>	1,255,021
United Kingdom	<b>350,262</b>	335,700	<b>14,259</b>	4,836
Others	<b>281,563</b>	265,195	<b>20,823</b>	23,985
	<b>3,769,025</b>	<b>3,845,593</b>	<b>2,058,057</b>	<b>1,586,273</b>

## NOTES TO THE ACCOUNTS (continued)

### 2. Principal activities and segmental analysis of operations (continued)

An analysis of the Group's revenue and results for the six months ended 30 June 2006 by business segments is as follows:

	Six months ended 30 June 2006							Consolidated
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	
<b>REVENUE</b>								
Turnover	484,412	616,286	-	2,648,346	-	19,981	-	3,769,025
Inter-segment revenue	282	-	-	-	-	16,103	(16,385)	-
Inter-segment interest income	-	-	-	-	-	269,624	(269,624)	-
	<u>484,694</u>	<u>616,286</u>	<u>-</u>	<u>2,648,346</u>	<u>-</u>	<u>305,708</u>	<u>(286,009)</u>	<u>3,769,025</u>
<b>RESULTS</b>								
Segment results before change in fair value of investment properties and impairment loss on available-for-sale investments	289,824	218,754	(3,534)	252,551	(6,866)	259,399	(269,624)	740,504
Change in fair value of investment properties	-	153,122	-	-	-	-	-	153,122
Impairment loss on available-for-sale investments	-	(197,941)	-	-	-	-	-	(197,941)
Segment results	289,824	173,935	(3,534)	252,551	(6,866)	259,399	(269,624)	695,685
Dividend income	-	1,360,183	3,769	-	-	31	-	1,363,983
Interest income	5,965	9,822	-	5,017	3,726	8,238	-	32,768
Interest expenses	(23,408)	(100,859)	-	(36,894)	(3,979)	(138,863)	269,624	(34,379)
Operating profit/(loss)	272,381	1,443,081	235	220,674	(7,119)	128,805	-	2,058,057
Share of results of associated companies	6,294	37,016	13,413	102,843	24,639	-	-	184,205
Profit before taxation	278,675	1,480,097	13,648	323,517	17,520	128,805	-	2,242,262
Taxation	(79,203)	(42,897)	-	(40,838)	-	(128)	-	(163,066)
Profit for the period	<u>199,472</u>	<u>1,437,200</u>	<u>13,648</u>	<u>282,679</u>	<u>17,520</u>	<u>128,677</u>	<u>-</u>	<u>2,079,196</u>
Profit attributable to:								
Company's shareholders	139,715	1,432,553	13,648	262,324	19,001	128,672	-	1,995,913
Minority interests	59,757	4,647	-	20,355	(1,481)	5	-	83,283
	<u>199,472</u>	<u>1,437,200</u>	<u>13,648</u>	<u>282,679</u>	<u>17,520</u>	<u>128,677</u>	<u>-</u>	<u>2,079,196</u>

Six months ended 30 June 2005

HK\$'000

	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
<b>REVENUE</b>								
Turnover	485,700	505,645	-	2,833,777	-	20,471	-	3,845,593
Inter-segment revenue	218	-	-	-	-	15,487	(15,705)	-
Inter-segment interest income	-	-	-	-	-	101,896	(101,896)	-
	<u>485,918</u>	<u>505,645</u>	<u>-</u>	<u>2,833,777</u>	<u>-</u>	<u>137,854</u>	<u>(117,601)</u>	<u>3,845,593</u>
<b>RESULTS</b>								
Segment results before change in fair value of investment properties	275,924	311,609	(1,249)	232,254	(869)	72,021	(101,896)	787,794
Change in fair value of investment properties	-	323,561	-	479,560	-	-	-	803,121
Segment results	275,924	635,170	(1,249)	711,814	(869)	72,021	(101,896)	1,590,915
Dividend income	-	4,672	4,587	-	-	-	-	9,259
Interest income	3,518	7,921	-	1,599	2,439	15,849	-	31,326
Interest expenses	(17,994)	(63,828)	-	(29,724)	(2,439)	(33,138)	101,896	(45,227)
Operating profit/(loss)	261,448	583,935	3,338	683,689	(869)	54,732	-	1,586,273
Share of results of associated companies	6,733	131,890	8,680	110,908	18,315	-	-	276,526
Profit before taxation	268,181	715,825	12,018	794,597	17,446	54,732	-	1,862,799
Taxation	(83,271)	(69,518)	-	(41,357)	-	(406)	-	(194,552)
Profit for the period	<u>184,910</u>	<u>646,307</u>	<u>12,018</u>	<u>753,240</u>	<u>17,446</u>	<u>54,326</u>	<u>-</u>	<u>1,668,247</u>
Profit attributable to:								
Company's shareholders	136,951	645,096	12,018	735,669	17,497	54,328	-	1,601,559
Minority interests	47,959	1,211	-	17,571	(51)	(2)	-	66,688
	<u>184,910</u>	<u>646,307</u>	<u>12,018</u>	<u>753,240</u>	<u>17,446</u>	<u>54,326</u>	<u>-</u>	<u>1,668,247</u>

## NOTES TO THE ACCOUNTS (continued)

### 3. Operating profit

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	<b>6,099</b>	9,259
Dividend income from an available-for-sale investment	<b>1,357,884</b>	–
Interest income	<b>32,768</b>	31,326
Gain on sale of properties		
– Investment properties	<b>95,526</b>	11,871
– Completed properties	<b>60,656</b>	225,436
	<b>156,182</b>	237,307
<i>Charging</i>		
Depreciation and amortisation	<b>76,970</b>	71,648
Total finance costs incurred	<b>282,886</b>	138,437
Less: amount capitalised in properties under development	<b>(146,396)</b>	(19,185)
	<b>136,490</b>	119,252
Fair value (gain) on interest rate swap contracts	<b>(102,111)</b>	(74,025)
Total finance costs expensed during the period	<b>34,379</b>	45,227
Impairment loss on available-for-sale investments	<b>197,941</b>	–

**4. Taxation**

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	<b>(60,238)</b>	(55,536)
Underprovision in prior years	–	(217)
Deferred	<b>(25,399)</b>	(32,568)
	<b>(85,637)</b>	(88,321)
Hong Kong profits tax		
Current	<b>(31,393)</b>	(57,343)
Overprovision in prior years	<b>139</b>	15,876
Deferred	<b>(36,635)</b>	(56,836)
	<b>(67,889)</b>	(98,303)
Overseas taxation		
Current	<b>(9,521)</b>	(7,928)
Deferred	<b>(19)</b>	–
	<b>(9,540)</b>	(7,928)
	<b>(163,066)</b>	(194,552)

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the period ended 30 June 2006. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the period ended 30 June 2006 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. Earnings per share

#### Basic

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
Weighted average number of shares in issue	<u><b>1,220,460,846</b></u>	<u>1,212,029,672</u>

Including the effect of the change in fair value of investment properties and the related deferred taxation:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u><b>1,995,913</b></u>	<u>1,601,559</u>
Basic earnings per share	<u><b>HK\$1.64</b></u>	<u>HK\$1.32</u>

Excluding the effect of the change in fair value of investment properties and the related deferred taxation:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u><b>1,867,819</b></u>	<u>840,825</u>
Basic earnings per share	<u><b>HK\$1.53</b></u>	<u>HK\$0.69</u>

#### Diluted

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

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
Weighted average number of shares in issue	<b>1,220,460,846</b>	1,212,029,672
Adjustment for convertible bonds	<b>96,320,555</b>	44,701,252
Adjustment for share options	<b>9,437,138</b>	6,385,826
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u><b>1,326,218,539</b></u>	<u>1,263,116,750</u>

Including the effect of the change in fair value of investment properties and the related deferred taxation:

	<b>Six months ended 30 June</b>	
	<b>2006</b>	2005
	<b>HK\$'000</b>	HK\$'000
Profit attributable to shareholders	<b>1,995,913</b>	1,601,559
Finance cost on convertible bonds	<b>60,320</b>	27,205
	<hr/>	<hr/>
Profit used to determine diluted earnings per share	<b>2,056,233</b>	1,628,764
	<hr/>	<hr/>
Diluted earnings per share	<b>HK\$1.55</b>	HK\$1.29
	<hr/>	<hr/>

Excluding the effect of the change in fair value of investment properties and the related deferred taxation:

	<b>HK\$'000</b>	HK\$'000
Profit attributable to shareholders	<b>1,867,819</b>	840,825
Finance cost on convertible bonds	<b>60,320</b>	27,205
	<hr/>	<hr/>
Profit used to determine diluted earnings per share	<b>1,928,139</b>	868,030
	<hr/>	<hr/>
Diluted earnings per share	<b>HK\$1.45</b>	HK\$0.69
	<hr/>	<hr/>

## 6. 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 2006 is as follows:

	<b>As at 30 June 2006 HK\$'000</b>	As at 31 December 2005 HK\$'000
Below 1 month	<b>669,558</b>	459,297
Between 1 month and 3 months	<b>344,759</b>	361,819
Over 3 months	<b>131,418</b>	96,964
	<hr/>	<hr/>
	<b>1,145,735</b>	918,080
	<hr/>	<hr/>

## NOTES TO THE ACCOUNTS (continued)

### 7. 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 2006 is as follows:

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000
Below 1 month	360,983	326,336
Between 1 month and 3 months	101,231	117,952
Over 3 months	138,673	115,184
	<u>600,887</u>	<u>559,472</u>

### 8. Bank loans

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000
Bank loans – unsecured	8,729,063	9,086,981
Bank loans – secured	230,241	247,405
Total bank loans (note (i))	8,959,304	9,334,386
Less: Short-term bank loans and current portion of long-term bank loans	<u>(1,259,096)</u>	<u>(1,016,983)</u>
	<u>7,700,208</u>	<u>8,317,403</u>

(i) As at 30 June 2006, the Group's bank loans were repayable as follows:

	As at 30 June 2006 HK\$'000	As at 31 December 2005 HK\$'000
Within one year	1,259,096	1,016,983
In the second to fifth year		
In the second year	330,937	4,213,695
In the third year	1,305,137	326,157
In the fourth year	18,324	3,759,586
In the fifth year	6,020,360	15,128
	<u>7,674,758</u>	<u>8,314,566</u>
Wholly repayable within five years	8,933,854	9,331,549
Over five years	25,450	2,837
	<u>8,959,304</u>	<u>9,334,386</u>

**9. Convertible bonds**

During the six months ended 30 June 2006, there had been no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds by Wise Insight Finance Limited. Details of the convertible bonds can be found in the annual financial statements for the year ended 31 December 2005.

**10. Contingent liabilities**

The following material changes are noted in relation to guarantees given by the Group for banking and other facilities:

	<b>As at 30 June 2006 HK\$'000</b>	As at 31 December 2005 HK\$'000
Guarantees for banking and other facilities of certain associated companies and investee companies undertaken by the Group (note (a))	<b>1,649,681</b>	413,517
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (b))	<u><b>4,082</b></u>	<u>48,346</u>
	<u><b>1,653,763</b></u>	<u>461,863</u>

(a) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. The utilised amount of such facilities covered by the Group's guarantees, which also represented the financial exposure of the Group as at 30 June 2006, amounted to approximately HK\$1,649,681,000 (31 December 2005: HK\$413,517,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2006 amounted to approximately HK\$1,686,351,000 (31 December 2005: HK\$423,617,000).

(b) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees, which also represented the financial exposure of the Group as at 30 June 2006, amounted to approximately HK\$4,082,000 (31 December 2005: HK\$48,346,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2006 amounted to approximately HK\$105,723,000 (31 December 2005: HK\$148,922,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2005.

**11. Pledge of assets**

As at 30 June 2006, the Group's total bank loans of HK\$8,959,304,000 (31 December 2005: HK\$9,334,386,000) included an aggregate amount of HK\$8,729,063,000 (31 December 2005: HK\$9,086,981,000) which is unsecured and an aggregate amount of HK\$230,241,000 (31 December 2005: HK\$247,405,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties and port facilities of the Group with an aggregate net book value of HK\$568,424,000 (31 December 2005: HK\$494,302,000);
- (ii) charges on all assets, including bank balances amounting to HK\$17,904,000 (31 December 2005: HK\$32,514,000), of certain subsidiaries of the Group; and
- (iii) assignments of insurance proceeds of certain properties of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (A) Overall Results

The Group continued to demonstrate a strong financial performance during the first six months of 2006. Turnover of the Group for the six months was HK\$3,769 million, which registered a slight decrease of 2% when compared with the turnover of HK\$3,846 million for the corresponding six months ended 30 June 2005. The Group's turnover mainly comprises proceeds from the continuing sales of properties, rental income as well as revenue from hotel operations, warehouse operations and logistics services. The decrease in turnover during the period was mainly due to the restructuring of the business of Kerry EAS Logistics Limited ("KEAS") by cutting down certain high-risk, low-margin business operations.

During the six months ended 30 June 2006, the net change in fair values of the Group's investment properties and related tax effects in the aggregate amount of HK\$128 million was recognized in the Group's consolidated income statement (2005: HK\$761 million).

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

	<b>Six months ended 30 June</b>		Increase
	<b>2006</b>	2005	
	<b>HK\$ million</b>	HK\$ million	
Profit attributable to shareholders before taking into account the net change in fair values of investment properties and related tax effects	<b>1,868</b>	841	122%
Add:			
Net change in fair values of investment properties and related tax effects	<u>128</u>	<u>761</u>	
Profit attributable to shareholders	<u><b>1,996</b></u>	<u>1,602</u>	25%

Excluding the effect of the net change in fair values of the Group's investment properties and related tax effects, the 122% year-on-year increase in the profit attributable to shareholders during the first six months of 2006 was mainly attributable to the profit arising from the disposal of interest in Citibank Plaza by way of the Group's participation in the global offering of the Champion REIT, which amounted to HK\$1,160 million.

**(B) Mainland China Property Division**

During the six months ended 30 June 2006, the Mainland China Property Division reported turnover of HK\$485 million (2005: HK\$486 million) and a net profit attributable to the Group of HK\$140 million (2005: HK\$137 million). There was no change in fair value of investment properties for the six months ended 30 June 2006 (2005: nil).

The Group continues to focus on, and has achieved satisfactory progress in, the development of large-scale, mixed-use property projects in strategic locations.

**(i) Investment Properties**

During the first six months of 2006, the Group's portfolio of investment properties in Mainland China generated rental turnover and operating profit from rental activities of HK\$284 million and HK\$205 million, respectively (2005: HK\$265 million and HK\$191 million, respectively).

As at 30 June 2006, the Group's investment property portfolio in Mainland China totalled an aggregate gross floor area ("GFA") of 3,316,920 square feet (as at 31 December 2005: 3,334,070 square feet). The geographical distribution of the Group's investment properties in Mainland China is set out in the table below:

	<b>Beijing</b> <i>(square feet)</i>	<b>Shanghai</b> <i>(square feet)</i>	<b>Shenzhen</b> <i>(square feet)</i>	<b>Fuzhou</b> <i>(square feet)</i>	<b>Total GFA</b> <i>(square feet)</i>
Office	814,665	632,259	115,054	–	1,561,978
Commercial	184,998	400,707	107,256	63,986	756,947
Residential	277,330	148,688	–	–	426,018
Carparks & Others	194,698	235,075	142,204	–	571,977
<b>Total GFA</b>	<b><u>1,471,691</u></b>	<b><u>1,416,729</u></b>	<b><u>364,514</u></b>	<b><u>63,986</u></b>	<b><u>3,316,920</u></b>

As at 30 June 2006, the Group's investment property portfolio of office, commercial and residential properties achieved occupancy rates of 95%, 91% and 70%, respectively (as at 31 December 2005: 95%, 92% and 72%, respectively). Highlights of the occupancy rates of the Group's major investment properties in Mainland China as at 30 June 2006 were as follows:

<b>Property</b>	<b>Occupancy rate as at 30 June 2006</b>	Occupancy rate as at 31 December 2005
Beijing Kerry Centre	<b>89%</b>	89%
Shanghai Kerry Centre	<b>90%</b>	91%
Shenzhen Kerry Centre	<b>95%</b>	96%
Kerry Everbright City Phase I	<b>93%</b>	95%

**(ii) Sales of Completed Properties**

Sales of completed properties in Mainland China during the first six months of 2006 contributed turnover and operating loss of HK\$32 million and HK\$0.1 million, respectively (2005: HK\$69 million and operating profit of HK\$13 million, respectively).

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (B) Mainland China Property Division (continued)

#### (iii) *Properties under Development*

##### *Shanghai*

The 641,000 square-foot Central Residences Phase II, a luxury residential development in Changning District, Shanghai, is scheduled to be completed by the fourth quarter of 2006.

Also, in Shanghai, the 1,576,000 square-foot Kerry Everbright City Phase II development project in Zhabei District comprises office, residential and commercial properties and development programme progresses as scheduled. The residential towers are expected to be completed in 2007.

As at 30 June 2006, all the underlying contract approvals were obtained from the PRC government authorities with regard to the mixed-use property development project in Jingan District, Shanghai, which the Group joint ventures with Shangri-La Asia Limited ("SA") on a 51%/49% basis. With a maximum investment amount of US\$700 million, the project comprises the development of two luxury hotels, office and retail properties and over an aboveground GFA of approximately 2,536,000 square feet. Development and construction works of the project are expected to commence in early 2007 and is expected to be completed in phases between 2009 and 2011.

Development of a mixed-use property in Pudong, Shanghai, continues with expected completion in phases between 2009 and 2011. The site, which is adjacent to the Shanghai New International Expo Centre, is expected to offer an aboveground buildable GFA of 2,476,000 square feet, comprising hotel, offices, serviced suites/serviced apartments, commercial properties and related ancillary facilities. The Group has a 40.8% interest in this joint venture project.

##### *Shenzhen*

In Shenzhen's Futian Central District, development of a grade-A office complex is progressing as scheduled. The project will deliver a GFA of 807,000 square feet and is expected to be completed in the third quarter of 2007.

In May 2006, the Group acquired through public tender a 85,000 square-foot site in Futian, Shenzhen which is located adjacent to the abovementioned site designated for office property development. The new site is expected to offer a developable GFA of 850,000 square feet, which is intended for development into an office property to be held for leasing purpose upon its expected completion in 2009.

##### *Manzhouli*

The development of an apartment and commercial property project in Manzhouli, Inner Mongolia, is expected to be completed by 2009. The project has a buildable GFA of 716,000 square feet.

*Hangzhou*

Project planning works have commenced on a site in Xia Cheng District, Hangzhou, Zhejiang Province, which the Group has successfully acquired by way of tender from the Hangzhou Bureau of Land Resources. Offering a total buildable GFA of 1,895,000 square feet, the site will be designated for mixed-use development comprising a hotel, apartments and a commercial shopping complex. The project is expected to be completed in phases between 2009 and 2010.

*Yangzhou*

The development of a site in Yangzhou, Jiangsu Province, also progresses as scheduled. Comprising hotel and apartment developments, the project offers a total buildable GFA of 1,032,000 square feet and is expected to be completed in 2009.

*Tianjin*

In June 2006, the Group entered into a share transfer agreement and a joint venture contract for the undertaking of a mixed-use property development project in Hedong District, Tianjin. Pursuant to the contract, the total investment amount will be RMB4,552.5 million (HK\$4,390.8 million), of which the Group's share is HK\$2,151.5 million. The project site is located in Tianjin's central business district, and has the potential of being developed into a mixed-use property with an aboveground GFA of approximately 5,371,000 square feet. The development of this prime piece of land, which is currently intended to include hotel, serviced apartments, offices, residence, shopping mall and related ancillary facilities, comprises a proportion to be held for leasing which upon completion of development will provide recurrent income for the Group. The first phase of construction is expected to commence in the fourth quarter of 2006 and to be completed in late 2009.

**(iv) Beijing Kerry Centre Hotel**

During the six months ended 30 June 2006, Beijing Kerry Centre Hotel recorded turnover and operating profit of HK\$169 million and HK\$67 million, respectively (2005: HK\$152 million and HK\$58 million, respectively), and achieved an average occupancy rate of 75% (2005: 80%).

**(C) Hong Kong Property Division**

During the first six months of 2006, the Hong Kong Property Division reported turnover of HK\$616 million (2005: HK\$506 million) and a net profit attributable to the Group of HK\$1,432 million (2005: HK\$645 million), after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$128 million (2005: HK\$286 million).

The Division achieved stable performances in terms of rental rates and occupancies for its investment properties in Hong Kong. Sales of completed properties during the period under review contributed healthy profit margins for the Division.

As referred to above, during the six months ended 30 June 2006, the Group recorded a profit of HK\$1,160 million from the disposal of interest in Citibank Plaza by way of the Group's participation in the global offering of the Champion REIT, whose property asset comprises rentable floor area of 1,160,227 square feet of Citibank Plaza. The Champion REIT was listed on The Stock Exchange of Hong Kong Limited on 24 May 2006 after a successful initial public offering. As at 30 June 2006, the Group held a 4.2% interest in the Champion REIT.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (C) Hong Kong Property Division (continued)

#### (i) Investment Properties

During the six months ended 30 June 2006, the Group's premier portfolio of investment properties in Hong Kong contributed rental turnover and operating profit from rental activities of HK\$190 million and HK\$30 million, respectively (2005: HK\$170 million and HK\$64 million, respectively).

As at 30 June 2006, the Group's investment property portfolio in Hong Kong totalled an aggregate GFA of 1,668,921 square feet (as at 31 December 2005: 1,803,751 square feet), which comprise the following:

	<b>Total GFA</b> <i>(square feet)</i>
Residential	1,073,265
Commercial	387,305
Office	<u>208,351</u>
<b>Total GFA</b>	<b><u>1,668,921</u></b>

As at 30 June 2006, the occupancy rates of the Group's investment property portfolio of residential, commercial and office properties were 93%, 91% and 94%, respectively (as at 31 December 2005: 93%, 94% and 96%, respectively).

#### (ii) Sales of Completed Properties

Sales of completed properties in Hong Kong during the first six months of 2006 generated turnover of HK\$426 million (2005: HK\$336 million), which was mainly derived from the sales of (i) the remaining units at Constellation Cove; (ii) certain units at Tregunter Towers on a strata-title basis; and (iii) office units at Enterprise Square Three, Kowloon Bay. Together with the disposal of interest in Citibank Plaza by way of the Group's participation in the global offering of the Champion REIT, the Division recorded an operating profit of HK\$1,260 million from property sales during the six-month period ended 30 June 2006 (2005: HK\$196 million).

Occupation permit in relation to the Group's luxury residential development at 15 Ho Man Tin Hill Road, Kowloon, was issued in April 2006, and the project is expected to be launched in the market in the fourth quarter of 2006. This project, comprising 69 deluxe residential units in an exclusive neighbourhood, offers a GFA of 155,000 square feet.

**(iii) Properties under Development**

*Enterprise Square Five/Megabox*

Construction works continue at the Group's major grade-A retail, entertainment and office development complex, Enterprise Square Five in Kowloon Bay. Completion of the project is scheduled for mid-2007. With a planned GFA of 1.6 million square feet, the project comprises two office towers with an aggregate GFA of 0.5 million square feet, as well as the 1.1 million square-foot "**MegaBox**", a proprietary retail and entertainment destination which upon completion of development will be the largest commercial mall in East Kowloon.

In May 2006, the Group signed a lease agreement with Hang Seng Bank Limited in relation to the tenancy of the entire 15-storey office Tower 2, with a GFA measuring 262,000 square feet.

*Shelley Street*

Construction works have commenced in relation to the residential project in Central Mid-Levels at No. 38 Shelley Street, Hong Kong. The project comprises a residential tower with commercial facilities, with an aggregate developable GFA of 47,000 square feet. It is expected to be completed by fourth quarter of 2007.

*First Street/Second Street*

With site-investigation work completed, the joint development project with the Urban Renewal Authority at First Street/Second Street in Mid-Levels West, Hong Kong, made further progress. Earmarked for residential and commercial development with a GFA of 394,000 square feet, this project is expected to become a landmark in Mid-Levels West upon expected completion in the fourth quarter of 2008.

*Tsuen Wan*

With regard to the 398,000 square-foot residential property development project in Kwok Shui Road, Tsuen Wan, development works are expected to commence in the third quarter of 2006, with an expected completion date by the third quarter of 2009.

*Ap Lei Chau*

The residential sales project in Ap Lei Chau, in which the Group has a 35% interest and an attributable share of GFA measuring 320,000 square feet, commenced site formation works with an expected completion date in the second quarter of 2009.

*Yuk Yat Street*

Demolition work for the redevelopment of No. 5 and No. 9 Yuk Yat Street in To Kwa Wan, Kowloon, commenced in March 2006. Construction works are expected to commence in the second quarter of 2007, with an expected completion date by the first quarter of 2009. The site has a developable GFA of 163,000 square feet and is earmarked for development into residential and commercial properties.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (C) Hong Kong Property Division (continued)

#### (iv) Major Acquisitions and Developments

##### *Hong Kong*

During the six months ended 30 June 2006, the Group made a number of strategic acquisitions in Hong Kong with a view to increasing the Group's land bank to sustain ongoing development momentum.

In March 2006, the Group acquired a property site located at 865 King's Road, Hong Kong. With a site area of 34,000 square feet, the project is expected to offer a developable GFA of over 511,000 square feet which is planned for redevelopment into an office property with an expected completion date in 2009. On 8 September 2006, the Company entered into a sale and purchase agreement with Kerry Holdings Limited ("Kerry Holdings", the controlling shareholder of the Company) pursuant to which Kerry Holdings agreed to acquire from the Group a 60% interest in the holding company of the site together with the same proportion of the shareholder's loans advanced from the Group to such holding company up to the date of completion of the aforesaid sale and purchase agreement. The transaction is pending the approval from the Company's independent shareholders.

In May 2006, the Group acquired the Novotel Century Harbourview Hotel located at 508 Queen's Road West, Hong Kong, underlining the Group's confidence in Western District and the strong demand for hotel rooms which benefits from an increasing number of travellers. The hotel has 288 guest rooms and measures a total GFA of 125,000 square feet.

Also in May 2006, the Group acquired a 71% interest and proportionate shareholder's loans in a company which holds certain existing residential properties located at No. 20 Shan Kwong Road and No. 1-5 Village Terrace in Happy Valley, Hong Kong. The existing site offers a developable GFA of 218,000 square feet, and the Group intends to redevelop the existing residential properties which is expected to be completed in 2009.

##### *Macau*

As regards the residential property development project in Macau, an agreement has been reached with the Macau SAR Government for the exchange of land. The plot of land offered is part of a reclamation scheme announced earlier by the Macau SAR Government.

Approval has been obtained from the Macau SAR Government on the conceptual design of the planned development with a maximum GFA of 2,800,000 square feet. The project is in line with the Group's strategy of building high-end developments and is a reflection of the Group's confidence in the prospects of the property market in Macau.

**(D) Overseas Property Division**

The Group's Overseas Property Division holds a portfolio of properties in Australia and the Philippines. During the six months ended 30 June 2006, the Division recorded a net profit after tax of HK\$14 million (2005: HK\$12 million).

**(i) Australia**

As at 30 June 2006, 887 units (as at 31 December 2005: 868 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 97% of a total of 910 units available for sale. The Group recorded an attributable share of net profit after tax of approximately HK\$0.4 million for the six months ended 30 June 2006 (2005: HK\$1 million) from this mixed-use residential and commercial development, which is located on a 12-hectare site on the Pyrmont Peninsula in Sydney.

**(ii) The Philippines**

The Group's investments in property interests in the Philippines are held through its 73.88% aggregate direct and indirect interests in EDSA Properties Holdings Inc. ("EPHI"), whose investment property interests comprise a 78.72% interest in the Shangri-La Plaza Mall, Manila, and indirect interests in The Enterprise Centre, an office and commercial property in Makati, Manila's financial district.

In August 2006, EPHI reported an interim net profit attributable to shareholders of Peso 224 million for the six months ended 30 June 2006 (2005: Peso 139 million). The Group recorded profits of approximately HK\$15 million (2005: HK\$11 million) from its investments in EPHI during the six months ended 30 June 2006.

As at 30 June 2006, the Shangri-La Plaza Mall reported an occupancy rate of 96% (as at 31 December 2005: 96%), whilst the occupancy rate at The Enterprise Centre was 98% (as at 31 December 2005: 96%).

As at 30 June 2006, 92% (as at 31 December 2005: 84%) of the GFA of The Shang Grand Tower in Manila was sold. EPHI holds a 67% beneficial interest in this property development. Development of The St. Francis Towers project in Manila continues with completion scheduled for the end of 2008.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (E) Logistics Network Division

During the six months ended 30 June 2006, the Logistics Network Division recorded a 6.6% drop in turnover to HK\$2,648 million (2005: HK\$2,834 million). Net profit attributable to the Group from the Division during the first six months of 2006 amounted to HK\$262 million (2005: HK\$261 million, before taking into account the increase in fair value of HK\$475 million (net of deferred taxation) on warehouse properties held by the Group as investment properties). This relatively mild earnings growth was mainly due to the increase in interest expenses, as well as a drop in the Division's share of profit after tax from its 25%-owned Chiwan Container Terminal due to slower growth in cargo volume handled.

#### (i) Logistics Operations

The Division's logistics operations contributed turnover of HK\$2,435 million (2005: HK\$2,635 million) during the first half of 2006. The drop in turnover from logistics operations during the period was mainly a result of the restructuring of the business of KEAS by cutting down certain high-risk, low-margin business operations. The Division has since refocused its Mainland China operations on niche international freight forwarding businesses. A 13% growth in operating profit to HK\$107 million (2005: HK\$95 million) was recorded from logistics operations which was partly a result of this business portfolio enhancement.

During the six months ended 30 June 2006, a total of 51,728 tons (2005: 56,105 tons) of cargo was handled by air and 127,939 TEUs (2005: 180,684 TEUs) by sea, representing decreases of 7.8% and 29.2%, respectively, over those of the corresponding first six months of 2005.

#### *Hong Kong*

During the first six months of 2006, Kerry Logistics Network Limited ("Kerry Logistics") furthered its lead in the logistics sector in Hong Kong and continued to secure large, integrated logistics contracts from customers seeking to establish regional logistics hubs in Hong Kong.

During the period under review, the trading arm of the Division, KerryFlex Supply Chain Solutions Limited ("KerryFlex"), recorded strong business growth across its broad customer base ranging from healthcare to catering and fast-moving grocery segments. It also extended its foothold in the food service sector with the acquisition of Wah Cheong Company, Limited, a leading local importer and distributor of non-perishable products with a business track record of over 50 years. This acquisition is also expected to strengthen KerryFlex's distribution network servicing food-and-beverage outlets and to pave the way for the Division's participation in procurement projects for hotel chains.

#### *China Focus*

After the acquisition of a 70% interest in KEAS, the Division now leads in terms of nationwide logistics coverage in Mainland China, serving over 1,100 cities in over 32 provinces with around 120 offices, 4,000 staff, 1,500 trucks and over 3,000,000 square feet of warehouse and logistics facilities.

With the ongoing integration of the existing Kerry Logistics' Mainland China operations with those of KEAS during the first six months of 2006, the restructuring of the KEAS management system has been substantially completed. The Division will continue to fine-tune its business restructuring efforts to align management procedures and cultures across all operating units in Mainland China. Synergies between Kerry Logistics and KEAS have already begun to materialize and have contributed to an enhanced operating margin for the Division.

The newly completed 173,000 square-foot bonded logistics centre in Tianjin's Free Trade Zone commenced operations in the first half of 2006. This is the Division's largest bonded facility in Northern China and is strategically located near Tianjin Xingang, the biggest container hub in that region of China. Construction of the 269,000 square-foot bonded logistics centre in Shenzhen's Futian Free Trade Zone has also been completed. The Division will continue to explore opportunities for adding new logistics facilities to its portfolio in Mainland China.

#### *Asia Based*

The first half of 2006 also witnessed the continued expansion of the Division's logistics operations across Southeast Asia.

In Thailand, the commencement of operations at the new 800,000 square-foot Inland Container Depot ("ICD") at Siam Seaport, together with container berth expansion works in progress and efforts to establish a nationwide distribution network, have significantly strengthened the Division's substantial foothold in the country's warehousing and logistics sector.

Solid growth in freight forwarding and logistics operations was also recorded in Singapore, Malaysia and Indonesia. In Vietnam, the Division has acquired a 140,000 square-foot distribution centre at the Song Than II Industrial Zone in Binh Duong Province in July 2006. The Division will look into the feasibility of acquiring further logistics facilities to support business expansion in Vietnam.

To date, the Division is operating a fleet of more than 240 trucks and a portfolio of over 4,500,000 square feet of logistics facilities including logistics centres, port facilities and container yards, in Southeast Asia, including Australia.

#### *Global Network*

The first half of 2006 saw the continued expansion of the Division's business and operations worldwide through continued expansion of agency network, aiming to strengthen its multinational presence, particularly in Europe. The Division is now exploring further investment and expansion opportunities in the region. Leveraging its dominant position in Mainland China and Asia, it is expected that such expansion will add value to the existing logistics operations of the Division in Europe and in developing Asia-bound freight forwarding businesses.

There has also been an upgrade in the Division's logistics network in Australia, which is expected to support future business rollouts in the country. The construction of an 88,000 square-foot logistics centre is underway and will commence operation before the end of 2006.

The Division sets its sights on new horizons by capitalising on new business opportunities worldwide.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (E) Logistics Network Division (continued)

#### (ii) *Hong Kong Warehouses and Distribution Centres*

During the period under review, the Division maintained a dominant presence in Hong Kong. With a portfolio of 13 warehouses occupying an aggregate GFA of 6.74 million square feet as at 30 June 2006, the Division continues to be the single largest warehouse owner and operator in Hong Kong. Amidst a general trend for manufacturers and distributors to reduce inventories, the Division's warehouse portfolio in Hong Kong maintained an occupancy rate of 95% as at 30 June 2006 (as at 31 December 2005: 97%), achieved through constant service innovations and quality pledges to customers.

During the six months ended 30 June 2006, the Division's Hong Kong warehouse portfolio generated turnover of HK\$213 million (2005: HK\$199 million) and an operating profit of HK\$114 million (2005: HK\$109 million, before taking into account the increase in fair value of HK\$479 million on warehouse properties held by the Group as investment properties). There was no change in fair value of the Hong Kong warehouse portfolio for the six months ended 30 June 2006. The Division expects further growth in the second half of 2006 for its warehousing operations in Hong Kong on the back of healthy domestic demand. The Division will also benefit from reduced general cargo space in Hong Kong as the redevelopment of industrial buildings continues.

#### (iii) *Information Technology*

The Division continues to invest in state-of-the-art information technology applications with the aim of delivering supply chain visibility and business intelligence to customers. With the successful deployment of "K2", the Division has implemented a new-generation web-based freight forwarding management system, the latest of the Division's initiatives to enable accurate and efficient supply chain management. The Division is confident of sustaining its leading position in deploying logistics enabling technologies in the industry.

#### (iv) *Awards and Achievements*

The Division was honoured as "Storage Company of the Year" by Lloyd's FTB Asia, a monthly magazine which focuses on supply chain and logistics trends in Asia. The award was presented to the Division on 29 June 2006 in Beijing, in recognition of its strengths and achievements in the logistics sector.

In a further effort to extend the Division's endeavour in achieving quality accreditation for operations across the full spread of markets where it operates, Kerry Logistics (Thailand) Limited received ISO 9001 certification in July 2006 covering the provision of distribution, land transportation, warehousing and logistics services.

**(F) Infrastructure Division**

The Infrastructure Division continues to generate a steady stream of recurrent income for the Group through investments in a range of infrastructure, environmental protection and utilities projects in Hong Kong and Mainland China. Net profit attributable to the Group from this Division during the six months ended 30 June 2006 amounted to approximately HK\$19 million (2005: HK\$17 million).

**(i) Hong Kong**

In Hong Kong, the Group holds a 15% interest in the Western Harbour Crossing and a 15% interest in the Cross Harbour Tunnel management contract. The Group's share of net profits from these investments amounted to HK\$21 million during the six months ended 30 June 2006 (2005: HK\$18 million).

**(ii) Mainland China**

The water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region, in which the Group has an effective 13% interest, commenced commercial operations in October 2005.

In collaboration with TieTong Telecommunications Corporation Shanghai Branch Company, the Group's 25%-owned REDtone Telecommunications (China) Limited ("REDtone China") is engaged in the provision of long distance, domestic and international discount call packages to mobile phone and fixed-line subscribers in Mainland China. REDtone China's business operations initially cover users in Shanghai, which will be expanded to other regions in Mainland China.

In relation to the joint venture proposed development project of a solid-waste incineration plant in Changzhou, Jiangsu Province, the consortium members entered into an agreement on 4 July 2006 to discontinue all work in connection with the project. This came after two other consortium members evinced their intention in March 2006 to withdraw from the consortium, due to their inability to provide the necessary funding. As approval for the change in the composition of the consortium had not been obtained from the PRC government authorities, the award of the project was subsequently revoked by the relevant PRC government authorities.

**(G) Financial Review**

The Group has centralized funding for all its operations at the Group level where foreign exchange exposure is also reviewed and monitored. This policy also achieves better control of treasury operations and lower average cost of funds.

Foreign exchange exposure for the Group is small relative to its total asset base. As at 30 June 2006, total foreign currency borrowings (excluding Renminbi (RMB) borrowings) amounted to the equivalence of HK\$620 million and RMB loans amounted to the equivalence of HK\$597 million. Therefore, non-RMB total foreign currency borrowings and RMB loans each represented approximately 5% of the Group's total borrowings of HK\$11,432 million as at 30 June 2006.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (G) Financial Review (continued)

Out of the Group's total borrowings as at 30 June 2006, HK\$1,259 million (representing approximately 11%) was repayable within one year, HK\$331 million (representing approximately 3%) was repayable within two years, HK\$9,817 million (representing approximately 85%) was repayable between three to five years and HK\$25 million (representing less than 1%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 98% of total borrowings as at 30 June 2006. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 30 June 2006, the gearing ratio for the Group was 36%, based on net debt of HK\$9,412 million and shareholder's equity of HK\$26,223 million.

The majority of the Group's bank borrowings bear interest costs which are based on floating interest rates. As at 30 June 2006, the Group had outstanding interest rate swap contracts which amounted to HK\$5.8 billion in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile in the next five years.

In terms of the Group's available financial resources as at 30 June 2006, the Group had total undrawn bank loan and overdraft facilities of HK\$6,276 million and net cash on hand of HK\$2,020 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operation, and logistics, freight forwarding and warehousing businesses provide the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

The Group signed a syndicated loan agreement on 27 February 2006 for an unsecured HK\$6 billion revolving loan facility. The interest rate for this facility is HIBOR (Hong Kong Interbank Offered Rate) plus 29 basis points. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK\$4.5 billion syndicated loan facility obtained in January 2002. The facility was launched on 27 February 2006, with participations received from 18 reputable international and local banks and financial institutions.

On 15 August 2006, Standard & Poor's reaffirmed to Kerry Properties Limited a "BBB-" credit rating with a stable outlook.

On 25 August 2006, Gain Silver Finance Limited, a wholly-owned subsidiary of the Company, issued fixed rate bonds in the aggregate principal amount of US\$420,000,000 (the "Fixed Rate Bonds"). The Fixed Rate Bonds carry a coupon rate of 6.375% and have a maturity term of 10 years. The issuance of the Fixed Rate Bonds enables the Group to extend its debt maturity profile and broaden its fixed-income investor base. Standard & Poor's awarded the Fixed Rate Bonds with a "BBB-" credit rating.

**(H) Investor Relations**

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. In March 2006, the Group participated in the Asian Investment Conference organized by Credit Suisse in Hong Kong.

**(I) Directors and Staff**

As at 30 June 2006, the Executive Directors of the Company are Messrs Ang Keng Lam (Chairman), Wong Siu Kong (Deputy Chairman and Managing Director), Ho Shut Kan and Ma Wing Kai, William, the Non-executive Director of the Company is Mr Tse Kai Chi and the Independent Non-executive Directors of the Company are Messrs William Winship Flanz, Lau Ling Fai, Herald and Christopher Roger Moss, o.B.E.

As at 30 June 2006, the Company and its subsidiaries had 7,663 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 Option Schemes***

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 enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 30 June 2006, a total of 18,080,647 option shares were outstanding which comprised 10,125,647 option shares and 7,955,000 option shares granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (J) Outlook

#### (i) *Mainland China Property Division*

In May 2006, the Ministry of Construction, the National Development and Reform Commission, the People's Bank of China and other relevant government authorities in Mainland China jointly introduced new measures to further curb rapid increases in property prices in metropolitan areas and to promote a healthy development of Mainland China's property market in the future. These measures, which are effective from 1 June 2006, include (among others) (i) the requirement for at least 70% of approved land supplies for residential property development to be designated for developing low-to-medium cost and small-to-medium sized units; (ii) the requirement for 70% of residential projects approved after 1 June 2006 to consist of units each measuring less than 90 square metres in floor area; (iii) the increase in minimum down payment from 20% to 30% in respect of purchase of any underlying residential property with unit floor area measuring 90 square metres or more; and (iv) the imposition of a business tax levy on the entire proceeds from re-sale of residential properties if the holding period is shorter than 5 years.

The Group is of the view that the above measures, which target mainly at the residential sector, are unlikely to have a significant impact on the Group, for reason that the Group does not have a high concentration of residential properties to be developed for sales within the Group's existing property development portfolio. On the other hand, the Group's mixed-use property development projects, such as those located in Shanghai (Jingan and Pudong Districts), Hangzhou and Tianjin, each has a diversified development mix comprising a fairly sizeable leasing portion which cover office, commercial and hotel properties. This enables the Group's property development portfolio in Mainland China to be well-positioned to capitalize on the Group's experience, expertise and successful track records in the development of high quality office, commercial and apartment complexes (such as Beijing Kerry Centre and Shanghai Kerry Centre), and to benefit from a recurrent income stream to be generated from the leasing portions of these mixed-use properties upon completion of development. This will essentially enhance the Group's overall recurrent income base going forward.

With a strong history of high quality property development and an established market niche in the high-end property sector, the Group is confident that the changes in the landscape of Mainland China's property market will be favourable to the Group and will strengthen the Group's competitive advantages and leading position. Capitalizing on its successful business model in Beijing, Shanghai and Shenzhen, over the long term, the Group will continue to explore opportunities which offer attractive development potentials in these metropolitan cities and in the major secondary cities in Mainland China.

#### (ii) *Hong Kong Property Division*

Although market concerns over interest rate hikes have resulted in investors' caution and therefore corrections in local residential property prices during the first half of 2006, the Group maintains its view that the high-end residential property sector will continue its healthy development over the long term. As the market begins to stabilise on expectations of an end to the interest rate hike in the latter part of 2006, over the long term, the Group will continue to leverage its strong brand equity in the development of premium-quality residential properties in prime locations, particularly in neighbourhoods with good connectivity to Hong Kong's commuting system, facilities and amenities.

For the office sector, the Group is confident of the ongoing demand for grade-A office space, fuelled by the continually active business activities as Hong Kong continues to reaffirm its position as a major international finance and service centre.

The continually improving economic environment is also a favourable factor behind the strengthening of the retail property sector. The Group's positive outlook is validated by the strong response from tenants who have signed up for "MegaBox", the Group's major commercial property project which, upon completion of development in mid-2007, will be the largest shopping and entertainment destination in East Kowloon.

**(iii) Logistics Network Division**

The Division maintains a very positive outlook for its future business developments across the Asia-Pacific region, Europe and North America. It will continue to strengthen its global network, in particular in terms of its sales and marketing capabilities. Management and business restructuring efforts will also be expended across the Division's business scope to maximize synergies from new acquisitions. To sustain profitability, the Division will also focus on developing businesses for strategic trade links and niche end-user industries.

The Division continues to explore business opportunities in other regions, following its successful penetration into the China market through the acquisition and integration of KEAS into Kerry Logistics' Mainland China operations. As synergies begin to be derived from a greatly strengthened capability and expanded nationwide network, the Division expects to enjoy further growth in its recurrent income and earnings streams from this market. The Division is poised for further expansion in the logistics network elsewhere in the world as trade flows between Mainland China and other parts of Asia, Europe and North America continue to grow.

**(iv) Infrastructure Division**

The Division will evaluate and pursue viable investment opportunities in infrastructure projects which are capable of generating attractive financial returns and steady recurrent income to the Group, as and when suitable opportunities arise.

**(v) Overall**

The Group continues to benefit from a healthy portfolio of property, logistics and infrastructure businesses. With this well-balanced portfolio of assets and earnings base, the Group is able to maintain a strong recurrent income stream which can weather unforeseeable property market cycles and their impact on property sales income. The Group is also well-equipped to pursue new investment opportunities to sustain growth momentum and enhance financial return to shareholders.

## **CORPORATE GOVERNANCE**

### **Compliance with Code Provisions under Appendix 14 of the Listing Rules**

During the six months ended 30 June 2006, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code Provision(s)") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for the deviation that there is no separation between the roles of Chairman and Chief Executive Officer. After due consideration, the Board proposed not to comply with this Code Provision for reason that each Executive Director of the Company is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The Company's Chairman also ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. In addition, the Company's Independent Non-executive Directors bring along strong independence element to the Board's deliberation.

Accordingly, the Board operates in a functional manner with clearly defined objectives, strategies and responsibilities. Therefore, the Board is of the view that the separate appointment of Chairman and Chief Executive Officer is not necessary.

### **Audit Committee**

The Audit Committee of the Board has met to review the results and the financial statements of the Group for the six months ended 30 June 2006 with no disagreement prior to recommending them to the Board for approval. In reviewing these financial statements, the Audit Committee has discussed with the external auditors regarding the accounting policies adopted and, in particular, the impact of the new HKASs and HKFRSs on the financial statements of the Group for the six months ended 30 June 2006.

### **Remuneration Committee**

During the six months ended 30 June 2006, the Remuneration Committee of the Board has reviewed the remuneration package of the Executive Directors for the year ending 31 December 2006 prior to recommending them to the Board for approval. The Remuneration Committee has recommended to the Board to approve the salaries, housing allowances and pension contributions of the Executive Directors of the Company for the year ending 31 December 2006 and the payment of bonuses to the Executive Directors of the Company for the year ended 31 December 2005.

## SHARE OPTIONS

Movements of the option shares, which were granted under the 1997 Share Option Scheme, during the six months ended 30 June 2006 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 01/01/2006	Number of option shares exercised during the period (Note 1)	Number of option shares held as at 30/06/2006	Exercise price HK\$	Exercise period
<b>1. Directors</b>							
Mr ANG Keng Lam	11/04/1997	N/A	1,759,380	(1,200,000)	559,380	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		
					<u>3,501,877</u>		
	Mr WONG Siu Kong	11/04/1997	N/A	1,172,919	(1,172,919)	–	14.92
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
					–		
16/04/2002		I	–	–	–	6.85	16/04/2003-15/04/2012
16/04/2002		II	218,247	–	218,247	6.85	16/04/2004-15/04/2012
				218,247			
				<u>218,247</u>			
Mr HO Shut Kan	11/04/1997	N/A	321,044	(321,044)	–	14.92	11/04/1999-26/03/2007
					–		

## SHARE OPTIONS (continued)

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2006	Number of option shares exercised during the period (Note 1)	Number of option shares held as at 30/06/2006	Exercise price HK\$	Exercise period	
<b>1. Directors (continued)</b>								
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	
					–			
	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			
					<u>464,480</u>			
	<b>2. Continuous Contract Employees</b>							
	11/04/1997	N/A		1,990,360	(1,022,449)	967,911	14.92	11/04/1999-26/03/2007
	27/11/1999	I		436,855	(312,878)	123,977	9.64	27/05/2000-26/03/2007
27/11/1999	II		508,673	(205,376)	303,297	9.64	27/05/2001-26/03/2007	
					427,274			
01/06/2000	I		104,000	(25,000)	79,000	6.70	01/06/2001-31/05/2010	
01/06/2000	II		146,564	(25,000)	121,564	6.70	01/06/2002-31/05/2010	
01/06/2000	III		168,309	(10,000)	158,309	6.70	01/06/2003-31/05/2010	
					358,873			
02/03/2001	I		148,000	(22,000)	126,000	11.59	02/03/2002-01/03/2011	
02/03/2001	II		148,000	–	148,000	11.59	02/03/2003-01/03/2011	
02/03/2001	III		126,076	–	126,076	11.59	02/03/2004-01/03/2011	
					400,076			
16/04/2002	I		288,077	(20,000)	268,077	6.85	16/04/2003-15/04/2012	
16/04/2002	II		288,076	–	288,076	6.85	16/04/2004-15/04/2012	
					556,153			
					<u>2,710,287</u>			

## SHARE OPTIONS (continued)

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2006	Number of option shares exercised during the period (Note 1)	Number of option shares held as at 30/06/2006	Exercise price HK\$	Exercise period
3. Others	11/04/1997	N/A	3,753,341	(870,000)	2,883,341	14.92	11/04/1999-26/03/2007
	27/11/1999	I	503,638	(428,630)	75,008	9.64	27/05/2000-26/03/2007
	27/11/1999	II	503,637	(428,629)	75,008	9.64	27/05/2001-26/03/2007
					150,016		
	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		
					<u>3,230,756</u>		
<b>Total</b>			<u>16,886,091</u>	<u>(6,760,444)</u>	<u>10,125,647</u>		

## Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$27.34.
- During the period, no option shares were transferred to/from other category, granted/granted for adjustment, cancelled or lapsed under the 1997 Share Option Scheme.



## SHARE OPTIONS (continued)

Movements of the option shares, which were granted under the 2002 Share Option Scheme, during the six months ended 30 June 2006 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 01/01/2006	Number of option shares exercised during the period (Note 1)	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2006	Exercise price HK\$	Exercise period
<b>1. 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	(430,000)	(77,500)	1,462,500	18.74	17/03/2006-16/03/2015
	17/03/2005	II	1,970,000	-	(77,500)	1,892,500	18.74	17/03/2007-16/03/2015
						3,355,000		
<b>Total</b>			<b>8,540,000</b>	<b>(430,000)</b>	<b>(155,000)</b>	<b>7,955,000</b>		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$27.34.
- During the period, no option shares were transferred to/from other category, granted/granted for adjustment or cancelled under the 2002 Share Option Scheme.

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

As at 30 June 2006, 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 the total number of ordinary shares in issue* %
	Personal interests	Family interests	Corporate interests	Other interests			
Mr ANG Keng Lam	157,000 <sup>1</sup>	-	-	-	5,001,877 <sup>3</sup>	5,158,877	0.42
Mr WONG Siu Kong	-	-	-	-	1,718,247 <sup>3</sup>	1,718,247	0.14
Mr HO Shut Kan	-	-	-	-	800,000 <sup>3</sup>	800,000	0.07
Mr MA Wing Kai, William	10,275 <sup>1</sup>	-	-	-	1,264,480 <sup>3</sup>	1,274,755	0.10
Mr William Winship FLANZ	-	-	-	-	-	-	-
Mr LAU Ling Fai, Herald	-	-	-	-	-	-	-
Mr Christopher Roger MOSS, O.B.E.	-	-	-	-	-	-	-
Mr TSE Kai Chi	-	-	-	-	-	-	-

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

### (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 the 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 <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>	5,540,716 <sup>5</sup>	20,590,716	1.44 <sup>@</sup>
	Mr WONG Siu Kong	–	–	6,254,300 <sup>6</sup>	–	4,617,263 <sup>5</sup>	10,871,563	0.76 <sup>@</sup>
	Mr HO Shut Kan	1,688,452 <sup>1</sup>	–	–	–	–	1,688,452	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	2,246,905 <sup>1</sup>	–	–	–	–	2,246,905	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

#### 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 30 June 2006 (i.e. 1,224,830,435 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 2006 (i.e. 1,434,192,856 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 2006, 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' RIGHTS TO ACQUIRE SHARES OR DEBENTURES****(i) The Company**

As at 30 June 2006, 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.

**(ii) Associated Corporations**

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 27 January 2006, and which remain outstanding as at 30 June 2006, are set out as follows:

Name of Director	Date of grant	Exercise period	Exercise price before adjustment <i>HK\$</i>	Exercise price after adjustment <i>HK\$</i>	Number of option shares of KGL before adjustment	Reduced number of option shares of KGL granted to the Directors for the adjustment	Number of option shares of KGL after adjustment
Mr ANG Keng Lam	04/05/2000	04/11/2000-03/05/2007	4.52	4.54	5,566,221	25,505	5,540,716
Mr WONG Siu Kong	04/05/2000	04/11/2000-03/05/2007	4.52	4.54	4,638,517	21,254	4,617,263

Apart from the aforesaid, at no time during the six months ended 30 June 2006 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 2006, 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	752,972,645 <i>(Notes 1, 2, 3 &amp; 4)</i>	61.48
Kerry Holdings Limited	Interest of controlled corporations	752,972,645 <i>(Notes 1, 2, 3 &amp; 4)</i>	61.48
Caninco Investments Limited	Beneficial owner	303,891,879 <i>(Note 2)</i>	24.81
Darmex Holdings Limited	Beneficial owner	250,024,187 <i>(Note 2)</i>	20.41
Moslane Limited	Beneficial owner	86,150,350 <i>(Note 2)</i>	7.03
Kerry 1989 (C.I.) Limited	Interest of controlled corporations	81,708,438 <i>(Notes 2 &amp; 3)</i>	6.67
Desert Grove Limited	Beneficial owner	80,877,390 <i>(Note 3)</i>	6.60

*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 30 June 2006, each of KGL and KHL was interested in 752,917,379 ordinary shares of the Company (representing approximately 61.47% of the Company's issued share capital) and this decrease 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 30 June 2006 (i.e. 1,224,830,435 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 2006, 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.

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

As at 30 June 2006, 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 8% under the assets ratio test as defined 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 dates (being the dates to which the latest accounts of these affiliated companies were prepared) are set out as follows:

	<b>Combined</b> <i>HK\$ million</i>	<b>The Group's attributable interest</b> <i>HK\$ million</i>
Non-current assets	27,745	7,658
Current assets	4,075	1,265
Current liabilities	(2,485)	(816)
Net current assets	<u>1,590</u>	<u>449</u>
Total assets less current liabilities	29,335	8,107
Non-current liabilities	<u>(19,037)</u>	<u>(5,277)</u>
Net assets	<u><u>10,298</u></u>	<u><u>2,830</u></u>

**CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS**

The Board has adopted the Model Code as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). The Directors have confirmed their compliance with the required standards set out in the Securities Dealing Code during the six months ended 30 June 2006.

**CLOSURE OF REGISTERS OF MEMBERS**

The Registers of Members of the Company will be closed from Wednesday, 4 October 2006 to Friday, 6 October 2006, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2006, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at 26/F, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Tuesday, 3 October 2006. The dividend warrants and share certificates for the new shares to be issued pursuant to the 2006 Interim Scrip Dividend Scheme will be distributed on or about Tuesday, 14 November 2006.

## **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 2006.

By Order of the Board  
**Ang Keng Lam**  
*Chairman*

Hong Kong, 15 September 2006