

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2006.

PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

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

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

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 94.

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

RESERVES

The movements in reserves of the Group and the Company during the year are set out in notes 34 and 35 to the financial statements.

DONATIONS

Charitable donations made by the Group during the year amounted to HK\$419,000.

PROPERTY, PLANT AND EQUIPMENT

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

INVESTMENT, HOTEL AND DEVELOPMENT PROPERTIES

Particulars of investment, hotel and development properties of the Group are set out on pages 36 to 47.

SHARE CAPITAL

The movements in the share capital of the Company during the year are set out in note 32 to the financial statements.

BONDS

Details of the bonds of the Group are set out in notes 28 and 29 to the financial statements.

CAPITALISED INTEREST

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

REPORT OF THE DIRECTORS (Continued)

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2006 are set out in note 43 to the financial statements.

ASSOCIATED COMPANIES

Particulars of the Group's associated companies as at 31 December 2006 are set out in note 44 to the financial statements.

PARTICULARS OF BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2006 are set out in notes 27 and 40 to the financial statements.

TEN-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last ten financial years are summarized on page 172.

DIRECTORS

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

Mr ANG Keng Lam (Chairman)[@]

Mr WONG Siu Kong (Deputy Chairman and Managing Director)[@]

Mr HO Shut Kan[@]

Mr MA Wing Kai, William[@]

Mr William Winship FLANZ^{*}

Mr LAU Ling Fai, Herald^{*}

Mr Christopher Roger MOSS, O.B.E.^{*}

Mr TSE Kai Chi[#]

[@] Executive Directors

^{*} Independent Non-executive Directors

[#] Non-executive Director

Messrs. Ma Wing Kai, William, Lau Ling Fai, Herald and Christopher Roger Moss, O.B.E. are due to retire from the Board by rotation in accordance with Bye-law 99(A) of the Company's Bye-laws at the forthcoming Annual General Meeting. Mr Moss has decided not to stand for re-election. The other retiring Directors, being eligible, all offer themselves for re-election. The Board would like to take this opportunity to record a special note of thanks and appreciation to Mr Moss for his contribution and advice during his tenure as a Director of the Company.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biography of Directors and senior management are set out on pages 73 to 76.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) The Company

Name of Director	Number of ordinary shares (Personal interests)	Number of underlying ordinary shares held under equity derivatives	Total	Approximate % of shareholding ⁷
Mr ANG Keng Lam	209,000 ¹	3,585,238 ³	3,794,238	0.31
Mr WONG Siu Kong	–	1,000,000 ³	1,000,000	0.08
Mr HO Shut Kan	–	490,000 ³	490,000	0.04
Mr MA Wing Kai, William	10,351 ¹	1,099,480 ³	1,109,831	0.09

(ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Approximate % of shareholding
		Personal interests	Family interests	Corporate interests	Other interests			
EDSA Properties Holding Inc.	Mr HO Shut Kan	1,570 ¹	–	–	–	–	1,570	0.00
Kerry Group Limited	Mr ANG Keng Lam	–	7,050,000 ⁴	–	8,000,000 ²	5,540,716 ⁵	20,590,716	1.43 ⁸
	Mr WONG Siu Kong	–	–	6,254,300 ⁶	–	4,617,263 ⁵	10,871,563	0.75 ⁸
	Mr HO Shut Kan	1,688,452 ¹	–	–	–	–	1,688,452	0.12 ⁸
	Mr MA Wing Kai, William	1,010,620 ¹	–	–	–	–	1,010,620	0.07 ⁸
Kerry Siam Seaport Limited	Mr TSE Kai Chi	400,000 ¹	–	–	–	–	400,000	0.03 ⁸
	Mr ANG Keng Lam	1 ¹	–	–	–	–	1	0.00
	Mr MA Wing Kai, William	1 ¹	–	–	–	–	1	0.00

Notes:

- This represents interests held by the relevant Director as beneficial owner.
- This represents interests held by the relevant Director through a discretionary trust of which the relevant Director is a contingent beneficiary.
- 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.
- 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.
- 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.
- This represents interests held by the relevant Director through his controlled corporation(s).
- The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 1,238,289,382 ordinary shares).
- The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited in issue as at 31 December 2006 (i.e. 1,442,552,967 ordinary shares).

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

REPORT OF THE DIRECTORS (Continued)

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

Save as aforesaid, as at 31 December 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' INTERESTS IN CONTRACTS

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(i) The Company

As at 31 December 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 Corporation

Pursuant to a share option scheme adopted by Kerry Group Limited ("KGL"), the ultimate holding company of the Company, on 17 November 1999, the directors of KGL granted option shares in favour of the following Directors to subscribe for shares in KGL, with respective exercise price per option share of the unexercised options and the respective number of option shares exercisable adjusted with effect from 27 January 2006, and which remain outstanding as at 31 December 2006, are set out as follows:

Name of Director	Date of grant	Exercise period	Exercise price HK\$	Number of option shares of KGL
Mr ANG Keng Lam	04/05/2000	04/11/2000 – 03/05/2007	4.54	5,540,716
Mr WONG Siu Kong	04/05/2000	04/11/2000 – 03/05/2007	4.54	4,617,263

Apart from the aforesaid, at no time during the year ended 31 December 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 31 December 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 ¹	Approximate % of shareholding ²
Kerry Group Limited	Interest of controlled corporations	702,917,379	56.77
Kerry Holdings Limited	Interest of controlled corporations	702,917,379	56.77
Caninco Investments Limited	Beneficial owner	303,891,879	24.54
Darmex Holdings Limited	Beneficial owner	250,024,187	20.19
Moslane Limited	Beneficial owner	86,150,350	6.96

Notes:

1. Caninco Investments Limited ("Caninco"), Darmex Holdings Limited ("Darmex") and Moslane Limited ("Moslane") are wholly-owned subsidiaries of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex and Moslane are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
2. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2006 (i.e. 1,238,289,382 ordinary shares).

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

Apart from the aforesaid, as at 31 December 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.

PUBLIC FLOAT

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

PRE-EMPTIVE RIGHTS

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

STAFF

As at 31 December 2006, the Company and its subsidiaries had 8,251 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.

REPORT OF THE DIRECTORS (Continued)

SHARE OPTIONS

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme").

As at 31 December 2006, a total of 11,796,416 option shares were outstanding which comprised 4,983,916 option shares and 6,812,500 option shares granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

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

(i) 1997 Share Option Scheme

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

The period within which an option may be exercised was determined by the Board of Directors of the Company in its absolute discretion, save that no option might be exercised later than 10 years from the date on which the option was granted. Subject to the provisions of the 1997 Share Option Scheme, the Board might at its discretion when offering the grant of an option impose any conditions in relation thereto including the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the option in respect of all or some of the option shares would vest. The amount paid on acceptance of an option was HK\$1. The subscription price for any particular outstanding option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

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

SHARE OPTIONS (Continued)

(ii) 2002 Share Option Scheme

The 2002 Share Option Scheme is designed to motivate executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group to optimise their future contributions to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10% of the Shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said schemes) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30% of the Shares in issue from time to time. As at 31 December 2006, a total of 64,994,403 Shares (representing approximately 5.25% of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme. The maximum entitlement of each participant under the 2002 Share Option Scheme is 1% of the Shares in issue from time to time.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions in relation thereto including the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the option in respect of all or some of the option shares shall vest. The amount payable on acceptance of an option is HK\$1.

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

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

REPORT OF THE DIRECTORS (Continued)

SHARE OPTIONS (Continued)

Movements of the option shares, which were granted under the 1997 Share Option Scheme, during the year ended 31 December 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	Transfer from other category during the year	Transfer to other category during the year	Number of option shares exercised during the year ¹	Number of option shares held as at 31/12/2006	Exercise price HK\$	Exercise Period
1. Directors									
Mr ANG Keng Lam	11/04/1997	N/A	1,759,380	-	-	(1,759,380)	-	14.92	11/04/1999 – 26/03/2007
	27/11/1999	I	428,630	-	-	(428,630)	-	9.64	27/05/2000 – 26/03/2007
	27/11/1999	II	428,629	-	-	(428,629)	-	9.64	27/05/2001 – 26/03/2007
	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
	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
Mr WONG Siu Kong	11/04/1997	N/A	1,172,919	-	-	(1,172,919)	-	14.92	11/04/1999 – 26/03/2007
	27/11/1999	I	214,314	-	-	(214,314)	-	9.64	27/05/2000 – 26/03/2007
	27/11/1999	II	214,314	-	-	(214,314)	-	9.64	27/05/2001 – 26/03/2007
	16/04/2002	II	218,247	-	-	(218,247)	-	6.85	16/04/2004 – 15/04/2012
Mr HO Shut Kan	11/04/1997	N/A	321,044	-	-	(321,044)	-	14.92	11/04/1999 – 26/03/2007
Mr MA Wing Kai, William	11/04/1997	N/A	234,582	-	-	(165,000)	69,582	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
	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
2. Continuous Contract Employees	11/04/1997	N/A	1,990,360	181,874	-	(1,768,488)	403,746	14.92	11/04/1999 – 26/03/2007
	27/11/1999	I	436,855	-	-	(429,043)	7,812	9.64	27/05/2000 – 26/03/2007
	27/11/1999	II	508,673	-	-	(452,193)	56,480	9.64	27/05/2001 – 26/03/2007
	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
	02/03/2001	I	148,000	-	-	(15,000)	133,000	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	148,000	-	-	(7,000)	141,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	126,076	-	-	-	126,076	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	288,077	-	-	(81,822)	206,255	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	288,076	-	-	(51,822)	236,254	6.85	16/04/2004 – 15/04/2012
3. Others	11/04/1997	N/A	3,753,341	-	(181,874)	(2,839,164)	732,303	14.92	11/04/1999 – 26/03/2007
	27/11/1999	I	503,638	-	-	(503,638)	-	9.64	27/05/2000 – 26/03/2007
	27/11/1999	II	503,637	-	-	(503,637)	-	9.64	27/05/2001 – 26/03/2007
	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
	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
Total:			16,886,091	181,874	(181,874)	(11,902,175)	4,983,916		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$28.46.
- During the year, no option shares were 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 year ended 31 December 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 year ¹	Number of option shares lapsed during the year	Number of option shares held as at 31/12/2006	Exercise price HK\$	Exercise Period
1. Directors								
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
Mr WONG Siu Kong	17/03/2005	I	750,000	(500,000)	–	250,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	750,000	–	–	750,000	18.74	17/03/2007 – 16/03/2015
Mr HO Shut Kan	17/03/2005	I	400,000	(310,000)	–	90,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	400,000	–	–	400,000	18.74	17/03/2007 – 16/03/2015
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
2. Continuous Contract Employees	17/03/2005	I	1,970,000	(717,500)	(92,500)	1,160,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	1,970,000	–	(107,500)	1,862,500	18.74	17/03/2007 – 16/03/2015
Total:			8,540,000	(1,527,500)	(200,000)	6,812,500		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$28.46.
- During the year, no option shares were transferred to/from other category, granted/granted for adjustment or cancelled under the 2002 Share Option Scheme.

SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

REPORT OF THE DIRECTORS (Continued)

DIRECTOR'S INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2006 and up to the date of this report, the following Directors were considered to have interests in the following businesses ("Excluded Businesses"), being businesses which competed or were likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses in which (a) the Group was interested and (b) the Directors' only interests were as directors appointed to represent the interests of the Group.

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

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

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

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

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

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

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

CONNECTED TRANSACTIONS

- (I) On 1 June 2006, the Company and Shangri-La Asia Limited (“SA”) jointly announced that Kerry (Tianjin) Ltd (“Party A”), Kerry Properties (Tianjin) Ltd. (“Party B”) and Allgreen Properties (Tianjin) Pte. Ltd. (“Party C”) had entered into a share transfer agreement (the “Share Transfer Agreement”) and a joint venture contract (the “JV Contract”) (collectively, the “Contracts”), both dated 1 June 2006, to undertake a property development project in Hedong District, Tianjin, PRC through 天津嘉里房地產開發有限公司 (Tianjin Kerry Real Estate Development Co., Ltd.) (“JVCO”). The scope of business of JVCO is to undertake the development, construction, operation and management of the hotel and composite complex within a plot of land located at Liuwei Road, Hedong District, Tianjin, PRC with an area of approximately 86,164 sq.m.

Pursuant to the Share Transfer Agreement, (a) Party A will transfer its 49% interest in the registered capital of JVCO to Party B at a consideration of RMB313,137,850 (HK\$304,017,330) together with the proportionate shareholders’ loans at a consideration of US\$6,215,155.49 (HK\$48,167,455); and (b) Party A will transfer its 31% interest in the registered capital of JVCO to Party C at a consideration of RMB198,107,619 (HK\$192,337,494) together with the proportionate shareholders’ loans at a consideration of US\$3,932,037.15 (HK\$30,473,288). Following the completion of the Share Transfer Agreement, JVCO will be owned by Party A, Party B and Party C in the proportions of 20%, 49% and 31%, respectively. According to the JV Contract, the maximum contribution of Party B to JVCO is expected to be RMB2,450,000,000 (HK\$2,378,640,777).

Party A, Party B and Party C are wholly-owned subsidiaries of SA, the Company and Allgreen Properties Limited (“AG”), respectively. Kerry Holdings Limited (“KHL”) is the controlling shareholder of the Company under the Listing Rules. SA is an associate of KHL under the Listing Rules and is therefore a connected person of the Company. The controlling shareholder of AG, Kuok (Singapore) Limited, owns 100% of a substantial shareholder of a non-wholly owned subsidiary of the Company. Therefore, AG is a connected person of the Company at the subsidiaries’ level. Accordingly, the entering into of the Contracts constitutes connected transactions for the Company under the Listing Rules. The Contracts and the transactions contemplated thereunder were approved by the independent shareholders of the Company at a special general meeting held on 30 August 2006.

- (II) On 4 July 2006, the Company announced that the Company had granted proportionate several guarantees (“Guarantees”) on 30 June 2006 in favour of 中糧財務有限責任公司 (COFCO Finance Corporation Limited) (“COFCO Finance”) to guarantee the repayment of 15% of the facilities provided by COFCO Finance to 北京中糧廣場發展有限公司 (Beijing COFCO Plaza Development Co., Ltd.) (“Beijing COFCO”) under two loan agreements dated 10 September 2003 and 31 January 2005, respectively. The amounts guaranteed by the Company in respect of the two facilities will not exceed RMB27,420,000 (HK\$26,621,000) and RMB39,180,000 (HK\$38,039,000), respectively.

Beijing COFCO is beneficially owned as to 40% by 中國糧油食品(集團)有限公司 (China National Cereals, Oils & Foodstuffs Corporation) (“COFCO CN”) and as to 60% by Top Spring Development (Beijing) Limited (“Top Spring”). Top Spring is beneficially owned as to 75% by COFCO (Hong Kong) Limited (a wholly-owned subsidiary of COFCO CN) and as to 25% by a wholly-owned subsidiary of the Company. Another indirect wholly-owned subsidiary of COFCO CN is a substantial shareholder of a 65% owned subsidiary of the Company. Beijing COFCO is a subsidiary of COFCO CN. Therefore, Beijing COFCO is regarded as a connected person of the Company. Accordingly, the granting of the Guarantees constitutes connected transactions for the Company under the Listing Rules.

REPORT OF THE DIRECTORS (Continued)

CONNECTED TRANSACTIONS (Continued)

(III) On 10 August 2006, the Company and SA jointly announced that they had entered into several guarantees on 9 August 2006 in favour of Bank of China, Beijing Branch (the "Bank") to guarantee the repayment of the facility provided by the Bank to 北京嘉奧房地產開發有限公司 (Beijing Jia Ao Real Estate Development Co., Ltd.) ("Beijing Jia Ao") under a loan agreement dated 9 August 2006. The amount guaranteed by the Company is 71.25% of the monies owed by Beijing Jia Ao to the Bank in respect of the facility, being in the sum of up to US\$30,637,500 (HK\$237,440,625).

Beijing Jia Ao is owned as to 95% by Kerry Beijing (Guang Hua) Ltd (which is in turn owned indirectly as to 75% by the Company and 25% by SA) and 5% by 北京北奧有限公司 (Beijing Bei Ao Inc.). As Beijing Jia Ao is a non wholly-owned subsidiary of the Company where SA (a connected person of the Company as explained in (I) above) is entitled to exercise 23.75% of the voting power at any general meeting of Beijing Jia Ao, Beijing Jia Ao is a connected person of the Company under the Listing Rules. Accordingly, the granting of the guarantee by the Company for the benefit of Beijing Jia Ao constitutes a connected transaction for the Company.

(IV) On 13 September 2006, the Company announced that Whole Grace Limited ("WGL"), an indirect wholly-owned subsidiary of the Company, had entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with KHL on 8 September 2006 whereby KHL agreed to acquire from WGL 60% of the entire equity interest in Able Time Group Limited ("Able Time") together with the same proportion of the shareholder's loans. Following the completion of the Sale and Purchase Agreement, Able Time will be owned by WGL and KHL in the proportions of 40% and 60%, respectively. According to the shareholders' agreement between WGL and KHL, the maximum commitment of WGL to Able Time and its wholly-owned subsidiary, Ubagan Limited ("Ubagan") is expected to be HK\$1,480,000,000.

The scope of business of Able Time is to invest in Ubagan and the scope of business of Ubagan is solely to acquire the property at Nos. 863-865 King's Road, Hong Kong (the "Property") and to undertake the construction and re-development of the Property into a Grade A office development.

WGL is an indirect wholly-owned subsidiary of the Company and KHL is the controlling shareholder of the Company. Under the Listing Rules, KHL is regarded as a connected person of the Company. Accordingly, the entering into of the Sale and Purchase Agreement and the Shareholders' Agreement constitutes a connected transaction for the Company under the Listing Rules. The Sale and Purchase Agreement and the shareholders' agreement and the transactions contemplated thereunder were approved by the independent shareholders of the Company at a special general meeting held on 24 October 2006.

CONNECTED TRANSACTIONS (Continued)

- (V) On 27 September 2006, the Company and SA jointly announced that Instant Vision Holdings Limited (“IVH”), Seanoble Assets Limited (“SAL”) and KHL had entered into a sale and purchase agreement (the “Agreement”) on 26 September 2006 in respect of the formation of a joint venture for acquisition through Expert Vision Holdings Limited (“Expert Vision”) of the property located at No. 508 Queen’s Road West, Hong Kong with a total gross floor area of approximately 125,000 square feet at the acquisition cost of HK\$588,380,000.

Pursuant to the Agreement, IVH agreed to transfer (a) 30% of the entire equity interest in Expert Vision to SAL together with the proportionate shareholders’ loans at an aggregate sum of HK\$18,262,595.17; and (b) 40% of the entire equity interest in Expert Vision to KHL together with the proportionate shareholders’ loans at an aggregate sum of HK\$24,350,126.88. Following the completion of the Agreement, Expert Vision will be owned by IVH, SAL and KHL in the proportions of 30%, 30% and 40%, respectively. According to the shareholders’ agreement between IVH, SAL and KHL, the maximum funding commitment of IVH to Expert Vision and its wholly-owned subsidiary is expected to be HK\$201,000,000.

IVH is an indirect wholly-owned subsidiary of the Company and SAL is a direct wholly-owned subsidiary of SA. KHL is the controlling shareholder of each of the Company and SA. Under the Listing Rules, SAL and KHL are regarded as connected persons of the Company. Accordingly, the entering into of the Agreement and the shareholders’ agreement constitutes connected transactions for the Company under the Listing Rules.

- (VI) On 30 January 2007, the Company announced that Wing Tak Cheung Limited (the “Vendor”) (through its agent, Kerry Real Estate Agency Limited) had entered into two memoranda for sale, both dated 29 January 2007, with Ace Rate Investments Limited (“ARIL”) and Jumbo Hub Limited (“JHL”) (collectively, the “Purchasers”) pursuant to which the Vendor agreed to sell and the Purchasers agreed to purchase the following property units (the “Property Units”) at the development known as “15 Homantin Hill”:

- (1) ARIL would purchase Property Unit 39A together with Car-parking Space no. 15 on Car-park Level 2 at the consideration of HK\$45,416,000; and
- (2) JHL would purchase Property Unit 39B together with Car-parking Space no. 16 on Car-park Level 2 at the consideration of HK\$36,338,000.

The Vendor is an indirect wholly-owned subsidiary of the Company and the Purchasers are indirect 79.17%-owned subsidiaries of KHL. KHL is the controlling shareholder of the Company. Under the Listing Rules, the Purchasers are regarded as connected persons of the Company. Accordingly, the sales of the Property Units by the Vendor to the Purchasers constituted connected transactions for the Company under the Listing Rules.

Note:

In this section, for illustrative purposes and in accordance with the relevant circulars previously issued by the Company in relation to the relevant transactions, amounts denominated in RMB have been converted into HK\$ at the rate of RMB1.03=HK\$1.00 and US\$1.00=HK\$7.75.

REPORT OF THE DIRECTORS (Continued)

CONTINUING CONNECTED TRANSACTIONS

As set out in the previous annual reports of the Company and an announcement dated 30 May 2006, Shangri-La International Hotel Management Limited ("SLIM"), being an indirect wholly-owned subsidiary of SA, and its fellow subsidiaries (wholly-owned subsidiaries of the SA group (the "SA Group")) are currently providing hotel management, marketing, communication and reservation services (the "Hotel Management Services") to The Kerry Centre Hotel in Beijing, PRC pursuant to the hotel management, marketing and related agreements (the "Hotel Management Agreements") entered into between Beijing Kerry Centre Hotel Co., Ltd. ("BKCH") and SLIM on 30 June 1998 (as modified by an addendum dated 26 January 2004). The Hotel Management Agreements were entered for 20 years ending on 27 August 2019, with an option to renew for 10 years which is exercisable by mutual agreement of both parties.

BKCH is the owner of The Kerry Centre Hotel, Beijing. BKCH is owned as to 95% by Kerry Beijing (Guang Hua) Ltd. ("KBGH") and 5% by an independent third party. KBGH is owned as to 75% by the Group and 25% by the SA Group. SLIM is indirectly wholly-owned by SA. SA is an associate of KHL (which is a substantial shareholder of the Company) and is therefore a connected person of the Company. Accordingly, the provision of the Hotel Management Services by SLIM to BKCH is treated as continuing connected transactions of the Company under the Listing Rules.

During the remaining tenure of the Hotel Management Agreements, the annual aggregate fees payable by the Group pursuant to the Hotel Management Agreements for each of the financial years of the Company ending 31 December 2019 are not expected to exceed HK\$75,000,000 (the "Cap"). The fees paid by the Group under the Hotel Management Agreements for the year ended 31 December 2006 amount to HK\$20,702,000, which is within the Cap.

The continuing connected transactions mentioned above have been reviewed by the Independent Non-Executive Directors of the Company who have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;
2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
3. in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Company's board of directors confirming that the continuing connected transactions:

1. have received the approval of the Company's board of directors;
2. have been conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and
3. have not exceeded the relevant annual cap as disclosed in the relevant press announcement.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.22 OF THE LISTING RULES

Financial Assistance and Guarantees to Affiliated Companies

As at 31 December 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:

	Combined <i>HK\$ million</i>	The Group's attributable interest <i>HK\$ million</i>
Non-current assets	29,222	9,168
Current assets	2,729	907
Current liabilities	(2,874)	(836)
Net current (liabilities)/assets	(145)	71
Total assets less current liabilities	29,077	9,239
Non-current liabilities	(22,047)	(7,120)
Net assets	7,030	2,119

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

AUDITOR

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board

Ang Keng Lam

Chairman

Hong Kong, 22 March 2007