

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

The Company is a limited liability company incorporated in Bermuda. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company has its primary listing on The Stock Exchange of Hong Kong Limited.

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

- (i) property development, investment and management in Hong Kong, 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 22 March 2007.

2 PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

(a) Basis of preparation

The consolidated financial statements of Kerry Properties Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") under the historical cost convention, as modified by the revaluation of certain buildings, port facilities, freehold land, available-for-sale investments, financial assets and financial liabilities (including derivative financial instruments) at fair value through profit or loss and investment properties, which are carried at fair value.

The preparation of financial statements in accordance with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

In 2006, the Group has applied the new standards, amendments and interpretations issued by the HKICPA that are effective for the accounting periods beginning on or after 1 January 2006. However, the adoption of these new standards does not have any significant effect on the results and financial position of the Group.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(a) Basis of preparation (Continued)

The following standards and interpretations to existing standards have been published that are mandatory for the accounting periods of the Group beginning on or after 1 January 2007 (unless otherwise stated) that the Group has not early adopted:

- Amendment to HKAS 1 'Presentation of Financial Statements – Capital Disclosures';
- HKFRS 7 'Financial Instruments: Disclosures';
- HKFRS 8 'Operating Segments' (effective from 1 January 2009);
- HK(IFRIC) – Int 8 'Scope of HKFRS 2';
- HK(IFRIC) – Int 9 'Reassessment of Embedded Derivatives'; and
- HK(IFRIC) – Int 10 'Interim Financial Reporting and Impairment'.

The Group has already commenced an assessment of the impact of these new standards and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

(b) Consolidation

The consolidated financial statements include the financial statements of the Company and all its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another equity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (see note 2(i)). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(b) Consolidation (Continued)

(ii) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Associated companies

Associated companies are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associated companies are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associated companies includes goodwill (net of any accumulated impairment loss) identified on acquisition (see note 2(i)).

The Group's share of its associated companies post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associated company equals or exceeds its interest in the associated company, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associated company.

Unrealised gains on transactions between the Group and its associated companies are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associated companies have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(d) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in the income statement, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the fair value reserve in equity.

(iii) Group Companies

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(e) Property, plant and equipment

Properties comprise mainly hotel properties, warehouses and logistics centres, staff quarters, freehold land and buildings and port facilities. Properties, except for staff quarters, are shown at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Staff quarters are stated at cost less aggregate depreciation and accumulated impairment losses. Cost represents the purchase price of the staff quarters and other costs incurred to bring them into existing use. All other property, plant and equipment are stated at historical cost less aggregate depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of properties are credited to other reserves in shareholders' equity. Decreases that offset previous increases of the same asset are charged against other reserves directly in equity; all other decreases are expensed in the income statement.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts less their residual values over their estimated useful lives. The principal annual rates used for this purpose are:

Properties other than freehold land and port facilities	Over their expected remaining useful lives ranging from 7 to 48 years
Port facilities	2.5%
Leasehold improvements	7% to 33%
Warehouse operating equipment	7% to 33%
Motor vehicles, furniture, fixtures and office equipment	5% to 33%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see note 2(j)).

The gain or loss on disposal of properties is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the income statement. Any revaluation reserve balance remaining attributable to the relevant asset is transferred to retained profits and is shown as a movement in reserves.

The gain or loss on disposal of all other property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the income statement.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(f) Investment properties

Property that is held for long term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it were a finance lease.

Investment property is measured initially at its cost, including related transaction costs.

After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by external valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of land classified as investment property; others, including contingent rent payments, are not recognised in the financial statements.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the income statement during the financial period in which they are incurred.

Changes in fair values are recognised in the income statement.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its fair value at the date of reclassification becomes its cost for accounting purposes. Property that is being constructed or developed for future use as investment property is classified as property under development and stated at cost until construction or development is complete, at which time it is reclassified and subsequently accounted for as investment property.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is recognised in equity as a revaluation of property, plant and equipment under HKAS 16. However, if a fair value gain reverses a previous impairment loss, the gain is recognised in the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(g) Properties under development

Properties under development are investments in freehold land, leasehold land and buildings on which construction work and development have not been completed. Properties under development comprise prepayments for leasehold land and land use rights that are measured at amortised cost less accumulated impairment losses, and a component in respect of the building that is stated at cost less accumulated impairment losses. Cost comprises construction costs and amounts capitalised in respect of amortisation of leasehold land prepayments and borrowing costs incurred in the acquisition of qualifying assets during the construction period and up to the date of completion of construction. On completion, the properties are reclassified to investment properties, property, plant and equipment or completed properties held for sale at the then carrying amount. The prepayments for leasehold land and land use rights in relation to the property, plant and equipment are reclassified to leasehold land and land use rights and are accounted for as operating leases. Any difference between the fair value of the investment property and its carrying amount at the date of reclassification is recognised in the income statement. Properties under development for sale represent properties under development which are due to be completed within one year and are intended for sale.

(h) Completed properties held for sale

Completed properties held for sale are initially measured at the carrying amount of the property at the date of reclassification from properties under development. Subsequently, the prepaid leasehold land component is measured at amortised cost less accumulated impairment losses; the building component is carried at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less selling expenses.

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised separately as a non-current asset. Goodwill on acquisitions of associated companies is included in investments in associated companies and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The Group allocates goodwill to each business segment in each country in which it operates.

(j) Impairment of non-financial assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Investments

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Assets in this category are classified as current assets.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as long term receivables and accounts receivable in the balance sheet.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Regular purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are presented in the income statement within other income or expenses, in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in the income statement; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as gains and losses from investment securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(k) Investments (Continued)

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement. Impairment testing of long-term receivables and accounts receivable is described in note 2(l).

(l) Long-term receivables and accounts receivable

Long-term receivables and accounts receivable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the income statement.

(m) Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedges); (2) hedges of a particular risk associated with a recognised asset or liability or highly probable forecast transactions (cash flow hedges); or (3) hedges of net investments in foreign operations.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Derivative financial instruments and hedging activities (Continued)

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative instruments are disclosed in note 19. Movements on the hedging reserve in shareholders' equity are shown in note 35. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months. Trading derivatives are classified as a current asset or liability.

(i) Fair value hedge

Changes in fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to the income statement over the period to maturity.

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs.

When a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(m) Derivative financial instruments and hedging activities (Continued)

(iii) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges. Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of or sold.

(iv) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivatives instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

(n) Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as a separate current liability in the balance sheet.

(o) Accounts payable

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

(p) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortised cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognised in shareholders' equity.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(q) Deferred income tax

Deferred income tax is provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(q) **Deferred income tax** (Continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary difference arising on investments in subsidiaries and associated companies, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

(r) **Employee benefits**

(i) Retirement benefit cost

The Group operates defined contribution plans and pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due.

(ii) Share-based compensation

The Group has granted options under two share option schemes. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the options granted, excluding the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Group revises its estimates of the number of options that are expected to vest. It recognises the impact of the revision of original estimates, if any, in the income statement with a corresponding adjustment to equity.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

(iii) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

(iv) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(s) Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

(t) Financial guarantees

A financial guarantee (a kind of insurance contract) is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the income statement immediately.

(u) Revenue and profit recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (i) Revenue from sales of properties is recognised upon execution of binding sales agreement or completion of development, whichever is the later.
- (ii) Rental revenue and other revenues incidental to the letting of properties are recognised on a straight-line basis over the periods of the respective leases.
- (iii) Revenue from provision of logistics services, including freight forwarding services, is recognised when services are rendered.
- (iv) Revenue from general storage and other ancillary services is recognised when the services are rendered. Revenue from leased storage is recognised on a straight-line basis over the periods of the respective leases.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(u) Revenue and profit recognition (Continued)

(v) Income on development consultancy and project management is recognised on a pro-rata basis according to the progress of the projects.

(vi) Income from property management is recognised when services are rendered.

(vii) Hotel revenue from rooms rental, food and beverage sales and other ancillary services is recognised when the services are rendered.

(viii) Dividend income is recognised when the right to receive payment is established.

(ix) Interest income is recognised on a time proportion basis, using the effective interest method.

(v) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. The up-front prepayments made for leasehold land and land use rights are amortised on a straight-line basis over the period of the lease except where the property is classified as an investment property or where there is impairment, the impairment is expensed in the income statement. The amortisation of leasehold land and land use rights is capitalised as part of the costs of the property when the leasehold land is under development.

(w) Borrowing costs

Borrowing costs are accounted for on the accrual basis and charged to the income statement in the year in which they are incurred, except for costs related to funding of the construction and acquisition of properties under development which are capitalised as part of the cost of that asset during the construction period and up to the date of completion of construction.

(x) Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are declared by the Directors in the case of interim dividends or approved by the Company's shareholders in the case of final dividends.

(y) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that outflow is probable, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3 FINANCIAL RISK MANAGEMENT

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest-rate risk, price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to manage certain risk exposures.

Risk management is carried out by the Group's management under the supervision of the Finance Committee. The Group's management identifies, evaluates and manages significant financial risks in the Group's individual operating units. The Board provides guidance for overall risk management.

(i) Market risk

(I) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group entities' functional currency. The Group has entered into cross currency swap contracts to manage its exposure to foreign exchange risk from recognised liabilities. Nevertheless, the cross currency swaps were not accounted for as hedging instruments as the conditions for hedging accounting were not met during the year.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign currency translation risk. Currency exposure arising from the net assets of the Group's foreign operations in the other countries is managed primarily through borrowings denominated in the relevant foreign currencies.

(II) Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest-rate risk.

The Group manages its cash flow interest rate risk by using floating-to-fixed interest rate swaps. Such interest rate swaps have the economic effect of converting borrowings from floating rates to fixed rates. Under the interest rate swaps, the Group agrees with other parties to exchange, at specified intervals (mainly monthly), the difference between fixed contract rates and floating rate interest amounts calculated by reference to the agreed notional principal amounts. Nevertheless, the interest rate swaps were not accounted for as hedging instruments as the conditions for hedge accounting were not met during the year.

(III) Price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale or at fair value through profit or loss. The Group is not exposed to commodity price risk.

3 FINANCIAL RISK MANAGEMENT (Continued)

(a) Financial risk factors (Continued)

(ii) Credit risk

The carrying amounts of bank balances and cash, accounts receivable and long-term receivables represent the Group's exposure to credit risk in relation to financial assets.

There is no concentration of credit risk with respect to accounts receivable from third party customers as the Group has a large number of customers which are internationally dispersed. The Group limits its exposure to credit risk through performing credit reviews and monitoring the financial strength of its major customers and generally does not require collateral on trade receivables.

(iii) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

(b) Fair value estimation

The fair value of financial instruments traded in active markets (such as listed securities at fair value through profit or loss and available-for-sale securities) is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the Group is the current bid price.

The carrying values less impairment provision of accounts receivable and payable are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 2(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates.

Useful lives of property, plant & equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Estimate of fair value of investment properties

The valuation of investment properties is performed in accordance with the 'Valuation Standards on Valuation of Properties' published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is reviewed annually by qualified valuers by considering the information from a variety of sources including:

- (i) current prices in an active market for properties of different nature, condition or location, adjusted to reflect those differences;
- (ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and
- (iii) discounted cash flow projections based on reliable estimates of future cash flows, derived from the terms of any existing lease and other contracts, and (where possible) from external evidence such as current market rents for similar properties in the same location and condition, and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(a) **Critical accounting estimates and assumptions** (Continued)

Estimate of fair value of investment properties (Continued)

If information on current or recent prices of investment properties is not available, the fair values of investment properties are determined using discounted cash flow valuation techniques. The Group uses assumptions that are mainly based on market conditions existing at each balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data, and actual transactions by the Group and those reported by the market.

The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Fair value of derivatives and other financial instruments

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at each balance sheet date.

(b) **Critical judgements in applying the entity's accounting policies**

Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement.

Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) The principal activities of the Group are disclosed in note 1. Revenues recognised during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Turnover		
Proceeds from sale of properties		
– completed properties		
– PRC	13,980	112,863
– Hong Kong	503,734	635,080
	517,714	747,943
– investment properties		
– PRC	59,172	36,582
– Hong Kong	2,284,156	427,920
	2,343,328	464,502
	2,861,042	1,212,445
Rental income	962,801	893,434
Hotel revenue	354,915	320,615
Storage and services income		
– warehouse	427,772	399,435
– logistics	5,543,018	5,141,772
	5,970,790	5,541,207
Project, property management and others	43,569	41,123
	10,193,117	8,008,824

(b) An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover		Operating profit	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Principal activities:				
Property rental				
– PRC	578,195	541,412	403,004	428,227
– Hong Kong	384,606	352,022	85,622	134,995
	962,801	893,434	488,626	563,222
Property sales				
– PRC	73,152	149,445	2,589	37,090
– Hong Kong	2,442,890	1,063,000	1,913,998	516,393
– Warehouses	345,000	–	179,451	–
	2,861,042	1,212,445	2,096,038	553,483
Hotel operations	354,915	320,615	124,906	111,023
Logistics and warehouse operations				
– warehouse	427,772	399,435	208,348	200,249
– logistics	5,543,018	5,141,772	195,317	201,565
	5,970,790	5,541,207	403,665	401,814
Infrastructure	–	–	(10,775)	(4,159)
Project, property management and others	43,569	41,123	(33,217)	78,620
	10,193,117	8,008,824	3,069,243	1,704,003
Change in fair value of investment properties	–	–	2,318,701	1,546,669
Revaluation deficit on buildings	–	–	–	(4,499)
	10,193,117	8,008,824	5,387,944	3,246,173
Principal markets:				
PRC	4,033,860	3,958,804	1,660,521	813,883
Hong Kong	4,708,333	2,780,724	3,685,689	2,368,465
United Kingdom	808,668	691,981	36,879	20,102
Others	642,256	577,315	4,855	43,723
	10,193,117	8,008,824	5,387,944	3,246,173

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Primary reporting format – business segments

	2006							
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue								
Turnover	1,006,262	2,827,496	–	6,315,790	–	43,569	–	10,193,117
Inter-segment revenue	434	–	–	–	–	53,056	(53,490)	–
Inter-segment interest income	–	–	–	–	–	553,115	(553,115)	–
	<u>1,006,696</u>	<u>2,827,496</u>	<u>–</u>	<u>6,315,790</u>	<u>–</u>	<u>649,740</u>	<u>(606,605)</u>	<u>10,193,117</u>
Results								
Segment results before change in fair value of properties	567,337	1,037,060	(7,660)	635,838	(10,411)	529,490	(553,115)	2,198,539
Change in fair value of properties	1,013,654	710,555	–	594,492	–	–	–	2,318,701
Segment results	1,580,991	1,747,615	(7,660)	1,230,330	(10,411)	529,490	(553,115)	4,517,240
Dividend income	–	1,364,736	8,301	–	–	31	–	1,373,068
Interest income	10,092	20,416	1	13,409	7,039	25,283	–	76,240
Interest expenses	(46,930)	(224,651)	–	(66,131)	(7,403)	(588,663)	553,115	(380,663)
Impairment loss on available-for-sale investments	–	(197,941)	–	–	–	–	–	(197,941)
Operating profit/(loss)	1,544,153	2,710,175	642	1,177,608	(10,775)	(33,859)	–	5,387,944
Share of results of associated companies	36,980	114,912	35,585	223,134	40,306	–	–	450,917
Profit before taxation	1,581,133	2,825,087	36,227	1,400,742	29,531	(33,859)	–	5,838,861
Taxation	(560,784)	(142,439)	–	(185,726)	–	(582)	–	(889,531)
Profit for the year	<u>1,020,349</u>	<u>2,682,648</u>	<u>36,227</u>	<u>1,215,016</u>	<u>29,531</u>	<u>(34,441)</u>	<u>–</u>	<u>4,949,330</u>
Profit attributable to:								
Company's shareholders	807,153	2,675,562	36,227	1,173,036	31,420	(34,448)	–	4,688,950
Minority interests	213,196	7,086	–	41,980	(1,889)	7	–	260,380
	<u>1,020,349</u>	<u>2,682,648</u>	<u>36,227</u>	<u>1,215,016</u>	<u>29,531</u>	<u>(34,441)</u>	<u>–</u>	<u>4,949,330</u>
	2005							
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue								
Turnover	1,011,472	1,415,022	–	5,541,207	–	41,123	–	8,008,824
Inter-segment revenue	450	–	–	–	–	32,504	(32,954)	–
Inter-segment interest income	–	–	–	–	–	285,758	(285,758)	–
	<u>1,011,922</u>	<u>1,415,022</u>	<u>–</u>	<u>5,541,207</u>	<u>–</u>	<u>359,385</u>	<u>(318,712)</u>	<u>8,008,824</u>
Results								
Segment results before change in fair value of properties	594,251	773,359	(3,627)	459,002	(3,998)	256,881	(285,758)	1,790,110
Change in fair value of properties	161,885	716,293	–	663,992	–	–	–	1,542,170
Segment results	756,136	1,489,652	(3,627)	1,122,994	(3,998)	256,881	(285,758)	3,332,280
Dividend income	–	6,922	7,014	–	–	–	–	13,936
Interest income	23,347	17,230	28	4,644	5,607	50,780	–	101,636
Interest expenses	(41,258)	(146,123)	–	(61,832)	(5,768)	(232,456)	285,758	(201,679)
Operating profit/(loss)	738,225	1,367,681	3,415	1,065,806	(4,159)	75,205	–	3,246,173
Share of results of associated companies	10,942	176,839	64,676	215,336	42,312	–	–	510,105
Profit before taxation	749,167	1,544,520	68,091	1,281,142	38,153	75,205	–	3,756,278
Taxation	(227,258)	(102,898)	–	(162,864)	–	(1,179)	–	(494,199)
Profit for the year	<u>521,909</u>	<u>1,441,622</u>	<u>68,091</u>	<u>1,118,278</u>	<u>38,153</u>	<u>74,026</u>	<u>–</u>	<u>3,262,079</u>
Profit attributable to:								
Company's shareholders	372,020	1,429,102	68,091	1,085,152	38,473	74,025	–	3,066,863
Minority interests	149,889	12,520	–	33,126	(320)	1	–	195,216
	<u>521,909</u>	<u>1,441,622</u>	<u>68,091</u>	<u>1,118,278</u>	<u>38,153</u>	<u>74,026</u>	<u>–</u>	<u>3,262,079</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(c) Primary reporting format – business segments (Continued)

	2006							
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment assets	15,531,371	20,233,133	571	8,469,718	445,672	20,379,587	(20,443,775)	44,616,277
Associated companies	792,212	2,951,952	954,694	716,355	576,857	-	-	5,992,070
Available-for-sale investments	470	631,186	749,513	7,339	-	-	-	1,388,508
Long-term receivables	-	63,588	-	-	-	-	-	63,588
Tax recoverable	87,930	-	-	3,398	-	34,379	-	125,707
Tax reserve certificates	-	-	-	-	-	21,790	-	21,790
Listed securities at fair value through profit or loss	-	198,168	150	-	-	-	-	198,318
Total assets	16,411,983	24,078,027	1,704,928	9,196,810	1,022,529	20,435,756	(20,443,775)	52,406,258
Segment liabilities	5,060,804	15,387,704	30,564	4,201,458	520,831	10,848,037	(20,443,775)	15,605,623
Taxation and deferred taxation	1,876,057	675,058	6,397	443,012	-	6,690	-	3,007,214
Amounts due to minority shareholders	1,198,202	1,014,624	-	117,886	4,702	927	-	2,336,341
Total liabilities	8,135,063	17,077,386	36,961	4,762,356	525,533	10,855,654	(20,443,775)	20,949,178
Capital expenditure	2,488,984	1,136,609	-	399,117	-	960	-	4,025,670
Impairment loss on available-for-sale investments	-	197,941	-	-	-	-	-	197,941
Depreciation and amortisation	29,161	923	-	127,947	-	3,006	-	161,037
	2005							
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Segment assets	12,595,155	16,886,961	2,733	7,191,452	498,677	21,558,147	(21,440,373)	37,292,752
Associated companies	230,197	3,924,448	899,593	728,112	549,559	-	-	6,331,909
Available-for-sale investments	470	752,276	667,842	11,051	-	-	-	1,431,639
Long-term receivables	-	102,503	-	-	-	-	-	102,503
Tax recoverable	5,194	-	-	88	-	28,558	-	33,840
Tax reserve certificates	-	-	-	-	-	12,188	-	12,188
Listed securities at fair value through profit or loss	-	3,868	70	-	-	21,930	-	25,868
Total assets	12,831,016	21,670,056	1,570,238	7,930,703	1,048,236	21,620,823	(21,440,373)	45,230,699
Segment liabilities	3,392,158	15,082,133	30,284	4,393,409	555,872	12,276,609	(21,440,373)	14,290,092
Taxation and deferred taxation	1,320,543	570,759	15,432	293,469	-	6,740	-	2,206,943
Amounts due to minority shareholders	1,156,550	590,572	-	62,968	24,772	927	-	1,835,789
Total liabilities	5,869,251	16,243,464	45,716	4,749,846	580,644	12,284,276	(21,440,373)	18,332,824
Capital expenditure	884,155	4,219,405	-	208,643	-	1,856	-	5,314,059
Depreciation and amortisation	26,224	886	-	116,238	-	3,146	-	146,494

5 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (Continued)

(d) Secondary reporting format – geographical segments

	2006			
	Segment revenue HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
PRC	4,033,860	1,706,334	18,037,647	2,563,413
Hong Kong	4,708,333	2,769,253	25,224,097	1,197,663
United Kingdom	808,668	35,308	302,018	11,016
Others	642,256	6,345	1,052,515	253,578
	10,193,117	4,517,240	44,616,277	4,025,670

	2005			
	Segment revenue HK\$'000	Segment results HK\$'000	Segment assets HK\$'000	Capital expenditure HK\$'000
PRC	3,958,804	845,929	14,903,510	1,002,307
Hong Kong	2,780,724	2,422,332	21,457,059	4,234,144
United Kingdom	691,981	19,791	266,049	14,131
Others	577,315	44,228	666,134	63,477
	8,008,824	3,332,280	37,292,752	5,314,059

6 OPERATING PROFIT BEFORE FINANCE COSTS

	Group	
	2006 HK\$'000	2005 HK\$'000
Operating profit before finance costs is stated after crediting and charging the following:		
Crediting		
Gross rental income from investment properties		
– PRC	578,195	541,412
– Hong Kong	384,606	352,022
	962,801	893,434
Less: outgoings in respect of investment properties		
– PRC	(64,833)	(58,574)
– Hong Kong	(26,367)	(26,928)
	(91,200)	(85,502)
Net rental income from investment properties		
– PRC	513,362	482,838
– Hong Kong	358,239	325,094
	871,601	807,932
Dividend income from		
– listed investments	113	282
– unlisted investments	1,372,955	13,654
	1,373,068	13,936
Interest income	76,768	101,758
Less: amount capitalised in properties under development	(528)	(122)
	76,240	101,636
Gain on sale of investment properties	783,019	180,257
Exchange gains, net	37,172	45,891
Charging		
Cost of sale of completed properties	155,745	270,981
Logistics operating costs	4,407,979	4,120,622
Auditors' remuneration	9,257	6,169
Non-audit service fees paid and payable to auditor	951	3,379
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights	161,037	146,494
Operating lease charges – land and buildings	57,559	36,854
– vessels	57,994	87,043
Impairment loss on available-for-sale investments	197,941	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7 FINANCE COSTS

	2006 HK\$'000	Group 2005 HK\$'000
Interest expense:		
– bank borrowings: bank loans and overdrafts	387,712	214,730
– convertible bonds wholly repayable within five years (note 28)	123,161	86,701
– fixed rate bonds (note 29)	74,258	–
– derivative financial instruments	13,977	41,382
– others	21,952	11,082
Total finance cost incurred	621,060	353,895
Less: Amount capitalised in properties under development	(316,558)	(98,350)
	304,502	255,545
Fair value loss/(gain) on derivative financial instruments	76,161	(53,866)
Total finance costs expensed during the year	380,663	201,679

8 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

Land appreciation tax in the PRC is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditures.

The amount of taxation (charged)/credited to the consolidated income statement represents:

	2006 HK\$'000	Group 2005 HK\$'000
PRC taxation		
– Current	(217,922)	(127,991)
– Over/(under)provision in prior years	734	(217)
– Deferred	(363,613)	(109,707)
	(580,801)	(237,915)
Hong Kong profits tax		
– Current	(81,769)	(84,473)
– Overprovision in prior years	101	25,260
– Deferred	(205,450)	(178,584)
	(287,118)	(237,797)
Overseas taxation		
– Current	(21,160)	(18,515)
– Deferred	(452)	28
	(21,612)	(18,487)
	(889,531)	(494,199)

The Group's share of associated companies' taxation for the year of HK\$57,881,000 (2005: HK\$45,419,000) is included in the consolidated income statement under share of results of associated companies.

8 TAXATION (Continued)

The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	2006 HK\$'000	2005 HK\$'000
Profit before taxation	5,838,861	3,756,278
Less: Share of results of associated companies	(450,917)	(510,105)
	5,387,944	3,246,173
Calculated at Hong Kong profits tax rate of 17.5% (2005: 17.5%)	942,890	568,081
Tax effect of different taxation rates in other countries	258,175	114,748
Utilisation of previously unrecognised tax losses	(37,155)	(30,354)
Tax effect of net income/expenses that are not taxable/deductible in determining taxable profit	(420,925)	(135,792)
Tax loss not recognised	65,919	2,560
Tax effect of profit re-investment in the PRC	(40,846)	-
Overprovision of taxation in prior years	(835)	(25,044)
	767,223	494,199
Land appreciation tax	162,513	-
Tax effect of deduction of land appreciation tax	(40,205)	-
Taxation charge	889,531	494,199

9 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders dealt with in the financial statements of the Company is HK\$1,013,639,000 (2005: HK\$705,904,000).

10 DIVIDENDS

	2006 HK\$'000	Company 2005 HK\$'000
Interim, paid, of HK\$0.20 (2005: HK\$0.20) per ordinary share (note (a))	245,440	243,464
Final, proposed, of HK\$0.65 (2005: HK\$0.50) per ordinary share (note (b))	804,888	608,289
Additional prior year final dividend arising from the increase in number of ordinary shares in issue on the related record date	3,134	-
	1,053,462	851,753

(a) Amounts shown in respect of the interim dividend for the year ended 31 December 2006 reflect the cash dividend of HK\$0.20 (2005: HK\$0.20) per ordinary share. A scrip dividend alternative to the interim dividend was also offered, with the result that only approximately HK\$50,868,000 (2005: HK\$233,716,000) of the interim dividend was paid in cash.

(b) At a meeting held on 22 March 2007, the directors proposed a final dividend of HK\$0.65 per ordinary share. This proposed dividend is not reflected as a dividend payable in these financial statements.

The proposed final dividend for the year ended 31 December 2006, as referred to above, is calculated on the basis of 1,238,289,382 ordinary shares in issue as at 31 December 2006, and at a final dividend of HK\$0.65 per ordinary share. The actual amount of final dividend payable in respect of the year ended 31 December 2006 will be subject to the actual number of ordinary shares in issue on the record date, which is expected to be on or about 3 May 2007.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

11 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 ordinary shares in issue during the year.

	2006	2005
Weighted average number of shares in issue	1,224,938,512	1,213,558,181

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to shareholders	4,688,950	3,066,863
Basic earnings per share	HK\$3.83	HK\$2.53

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to shareholders	2,944,327	1,759,560
Basic earnings per share	HK\$2.40	HK\$1.45

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The Company has two categories of dilutive potential ordinary shares: convertible bonds and share options. The convertible bonds are assumed to have been converted into ordinary shares and the net profit is adjusted to eliminate the interest expense less the tax effect. For the share options, a calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average annual market share price of the Company's shares) based on the monetary value of the subscription rights attached to outstanding share options. The number of shares calculated as above is compared with the number of shares that would have been issued assuming the exercise of the share options.

	2006	2005
Weighted average number of shares in issue	1,224,938,512	1,213,558,181
Adjustment for convertible bonds	96,320,554	70,723,038
Adjustment for share options	8,708,293	7,060,260
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,329,967,359	1,291,341,479

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to shareholders	4,688,950	3,066,863
Adjustment for finance cost on convertible bonds	101,608	65,435
Profit used to determine diluted earnings per share	4,790,558	3,132,298
Diluted earnings per share	HK\$3.60	HK\$2.43

11 EARNINGS PER SHARE (Continued)

Diluted (Continued)

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

	2006 HK\$'000	2005 HK\$'000
Profit attributable to shareholders	2,944,327	1,759,560
Adjustment for finance cost on convertible bonds	101,608	65,435
Profit used to determine diluted earnings per share	3,045,935	1,824,995
Diluted earnings per share	HK\$2.29	HK\$1.41

12 EMPLOYEE BENEFIT EXPENSE

	2006 HK\$'000	Group 2005 HK\$'000
Staff costs, including directors' emoluments	910,496	753,102
Share options granted to directors and employees	17,302	28,627
Pension costs – defined contribution plans (note a)	66,058	56,503
	993,856	838,232

(a) Pensions – defined contribution plans

Pursuant to the Mandatory Provident Fund Schemes Ordinance (Chapter 485 of the Laws of Hong Kong) (the "MPF Ordinance"), companies within the Group in Hong Kong have enrolled all employees in Hong Kong aged between 18 and 65 into a mandatory provident fund scheme (the "MPF Scheme") from 1 December 2000.

The MPF Scheme is a master trust scheme established under a trust arrangement and governed by laws in Hong Kong. The assets of the MPF Scheme are held separately from the assets of the employer, the trustees and other service providers. Contributions are made to the MPF Scheme by the employers at 5% of the employees' relevant income as defined in the MPF Ordinance up to a maximum of HK\$1,000 per employee per month (the "MPF Contribution"). The employees also contribute a corresponding amount to the MPF Scheme if their relevant income is HK\$5,000 per month or more. The MPF Contributions are fully and immediately vested in the employees as accrued benefits once they are paid to the approved trustees of the MPF Scheme. Investment income or profit derived from the investment of accrued benefits (after taking into account any loss arising from such investment) is also immediately vested in the employees.

Certain companies within the Group are also participants of the Kerry Trading Co. Limited – Provident Fund Scheme (the "Fund") which is a defined contribution scheme as defined in the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong). The Fund is for certain salaried persons (the "Fund Members") under the employment of the companies participating in the Fund. The assets of the Fund are managed by the trustees of the Fund. Contributions are made to the Fund by companies participating in the Fund at 10% of the Fund Members' monthly basic salaries up to a maximum of HK\$5,000 per Fund Member per month (the "Basic Contribution") less the MPF Contribution if the Basic Contribution is higher than the MPF Contribution. Fund Members are entitled to 100% of the employers' contributions to the Fund plus investment earnings upon leaving employment after completing ten years of service or more, or upon retirement after attaining the retirement age after any number of years of service, or upon retirement due to ill health. Fund Members are also entitled to the employers' contributions to the Fund plus investment earnings calculated at a reduced scale of between 20% and 90% after completing a period of service of at least two but less than ten years. The unvested benefits of employees terminating employment forfeited in accordance with the terms of the Fund can be utilised by the companies participating in the Fund to reduce future contributions. During the year, forfeited contributions totaling HK\$1,119,000 (2005: HK\$890,000) were utilised leaving HK\$313,000 (2005: HK\$309,000) available at the year end to reduce future contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

12 EMPLOYEE BENEFIT EXPENSE (Continued)

(a) Pensions – defined contribution plans (Continued)

The Group also made defined contributions to pension plans as required by the relevant municipality or provincial governments in the PRC. The rates of contributions for the relevant periods ranged from 10% to 23% of the staff's salary. For overseas subsidiaries, the Group made contributions to defined contribution pension schemes in accordance with the schemes set up by the overseas subsidiaries and/or under statutory requirements.

(b) Directors' and senior management's emoluments

The remuneration of the Directors for the year ended 31 December 2006 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits (note) HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Mr ANG Keng Lam	–	3,254	24,570	3,120	60	31,004
Mr WONG Siu Kong	–	4,320	25,000	3,120	60	32,500
Mr HO Shut Kan	–	2,400	7,050	1,664	60	11,174
Mr MA Wing Kai, William	–	2,400	7,050	1,664	60	11,174
Mr William Winship FLANZ	250	–	–	–	–	250
Mr LAU Ling Fai, Herald	250	–	–	–	–	250
Mr Christopher Roger MOSS, O.B.E.	250	–	–	–	–	250
Mr TSE Kai Chi	250	–	–	–	–	250

The remuneration of the Directors for the year ended 31 December 2005 is set out below:

Name of Director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Other benefits (note) HK\$'000	Employer's contribution to pension scheme HK\$'000	Total HK\$'000
Mr ANG Keng Lam	–	2,894	14,780	5,125	60	22,859
Mr WONG Siu Kong	–	3,960	15,000	5,125	60	24,145
Mr HO Shut Kan	–	2,280	4,035	2,733	60	9,108
Mr MA Wing Kai, William	–	2,280	4,035	2,733	60	9,108
Mr William Winship FLANZ	350	–	–	–	–	350
Mr LAU Ling Fai, Herald	350	–	–	–	–	350
Mr Christopher Roger MOSS, O.B.E.	350	–	–	–	–	350
Mr TSE Kai Chi	83	–	–	–	–	83

Note:

Other benefits represent fair value of share options granted to the relevant director which was charged to the income statement in accordance with HKFRS 2.

12 EMPLOYEE BENEFIT EXPENSE (Continued)

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the five highest paid individuals during the year are as follows:

	2006 HK\$'000	2005 HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind	25,558	31,562
Discretionary bonuses	67,720	40,385
Pension contributions	300	300
	93,578	72,247

The emoluments fell within the following bands:

	Number of individuals	
	2006	2005
Emolument bands		
HK\$7,000,001 – HK\$7,500,000	–	1
HK\$7,500,001 – HK\$8,000,000	1	–
HK\$9,000,001 – HK\$9,500,000	–	2
HK\$11,000,001 – HK\$11,500,000	2	–
HK\$22,500,001 – HK\$23,000,000	–	1
HK\$24,000,001 – HK\$24,500,000	–	1
HK\$31,000,001 – HK\$31,500,000	1	–
HK\$32,000,001 – HK\$32,500,000	1	–
	5	5

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT

	Group								Total HK\$'000
	Hotel property HK\$'000	Warehouses and logistics centres HK\$'000	Staff quarters HK\$'000	Freehold land and buildings HK\$'000	Port facilities HK\$'000	Leasehold improvements HK\$'000	Warehouse operating equipment HK\$'000	Motor vehicles, furniture, fixtures and office equipment HK\$'000	
Cost or valuation									
At 1 January 2005	748,410	567,538	46,573	251,224	115,488	10,950	426,044	491,472	2,657,699
Additions, at cost	4,292	13,932	508	948	-	229	29,347	70,349	119,605
Acquisition of subsidiaries	-	-	-	2,004	-	-	74	3,432	5,510
Adjustment on revaluation	64,409	9,439	-	18,749	1,702	-	-	-	94,299
Disposals	-	-	(12,286)	-	-	-	(37,993)	(84,831)	(135,110)
Reclassification/transfer	-	(25,456)	-	(90)	-	-	(75,174)	75,263	(25,457)
Exchange adjustment	-	5,190	1,061	(14,454)	(6,566)	96	(7,685)	(4,098)	(26,456)
At 31 December 2005	817,111	570,643	35,856	258,381	110,624	11,275	334,613	551,587	2,690,090
At cost	-	-	35,856	-	-	11,275	334,613	551,587	933,331
At professional valuation	817,111	570,643	-	258,381	110,624	-	-	-	1,756,759
At 31 December 2005	817,111	570,643	35,856	258,381	110,624	11,275	334,613	551,587	2,690,090
Aggregate depreciation and accumulated impairment losses									
At 1 January 2005	-	-	11,289	-	-	8,813	242,445	320,251	582,798
Charge for the year	18,818	21,377	1,355	4,716	3,533	1,214	29,688	58,334	139,035
Acquisition of subsidiaries	-	-	-	-	-	-	50	2,476	2,526
Adjustment on revaluation	(18,818)	(21,453)	-	(4,622)	(3,461)	-	-	-	(48,354)
Disposals	-	-	(6,445)	-	-	-	(34,176)	(67,892)	(108,513)
Reclassification/transfer	-	-	-	-	-	-	(42,194)	42,194	-
Exchange adjustment	-	76	275	(94)	(72)	74	(3,675)	(1,351)	(4,767)
At 31 December 2005	-	-	6,474	-	-	10,101	192,138	354,012	562,725
Net book value as at 31 December 2005	817,111	570,643	29,382	258,381	110,624	1,174	142,475	197,575	2,127,365

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Group								
	Hotel property HK\$'000	Warehouses and logistics centres HK\$'000	Staff quarters HK\$'000	Freehold land and buildings HK\$'000	Port facilities HK\$'000	Leasehold improvements HK\$'000	Warehouse operating equipment HK\$'000	Motor vehicles, furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost or valuation									
At 1 January 2006	817,111	570,643	35,856	258,381	110,624	11,275	334,613	551,587	2,690,090
Additions, at cost	11,546	16,375	877	13,140	-	771	29,303	131,952	203,964
Acquisition of subsidiaries	-	3,000	-	-	-	-	3,818	5,161	11,979
Adjustment on revaluation	65,919	16,414	-	19,750	(7,022)	-	-	-	95,061
Disposals	-	(11,391)	(5,231)	(1,376)	-	(502)	(10,466)	(37,622)	(66,588)
Reclassification/transfer	-	31,367	-	29,889	-	-	-	4,410	65,666
Exchange adjustment	-	10,104	1,271	34,176	15,385	152	19,036	25,502	105,626
At 31 December 2006	894,576	636,512	32,773	353,960	118,987	11,696	376,304	680,990	3,105,798
At cost	-	-	32,773	-	-	11,696	376,304	680,990	1,101,763
At professional valuation	894,576	636,512	-	353,960	118,987	-	-	-	2,004,035
At 31 December 2006	894,576	636,512	32,773	353,960	118,987	11,696	376,304	680,990	3,105,798
Aggregate depreciation and accumulated impairment losses									
At 1 January 2006	-	-	6,474	-	-	10,101	192,138	354,012	562,725
Charge for the year	21,247	25,010	1,159	5,274	3,763	926	33,079	62,317	152,775
Acquisition of subsidiaries	-	-	-	-	-	-	858	1,907	2,765
Adjustment on revaluation	(21,247)	(24,393)	-	(5,267)	(3,942)	-	-	-	(54,849)
Disposals	-	(772)	(68)	(249)	-	(502)	(6,784)	(19,287)	(27,662)
Exchange adjustment	-	155	250	242	179	148	10,317	17,553	28,844
At 31 December 2006	-	-	7,815	-	-	10,673	229,608	416,502	664,598
Net book value as at 31 December 2006	894,576	636,512	24,958	353,960	118,987	1,023	146,696	264,488	2,441,200

- (a) As at 31 December 2006, property, plant and equipment and port facilities with an aggregate net book value of HK\$274,341,000 (2005: HK\$233,421,000) and HK\$118,987,000 (2005: HK\$110,624,000), respectively, were pledged as security for bank loan facilities granted to the Group (note 40).
- (b) Hotel property, warehouses and logistics centres in the PRC and Hong Kong were valued by DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited. Freehold land and buildings and port facilities in Thailand were valued by DTZ Debenham Tie Leung Limited while freehold land and buildings in Australia were valued by Rushton Group. They are independent professional valuers and the valuation was on an open market value basis as at 31 December 2006.
- (c) The carrying amount of the warehouses and logistics centres would have been HK\$379,579,000 (2005: HK\$348,013,000) had they been stated in the financial statements at cost less aggregate depreciation and accumulated impairment losses.
- (d) The carrying amount of freehold land and buildings and port facilities would have been HK\$238,397,000 (2005: HK\$178,119,000) and HK\$109,415,000 (2005: HK\$99,516,000), respectively, had they been stated in the financial statements at cost less aggregate depreciation and accumulated impairment losses.
- (e) The carrying amount of the hotel property would have been HK\$724,183,000 (2005: HK\$733,885,000) had they been stated in the financial statements at cost less aggregate depreciation and accumulated impairment losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

13 PROPERTY, PLANT AND EQUIPMENT (Continued)

	Company		
	Leasehold improvements HK\$'000	Motor vehicles, furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost			
At 1 January 2005	423	3,087	3,510
Additions, at cost	9	1,611	1,620
Disposals	–	(1,342)	(1,342)
At 31 December 2005	432	3,356	3,788
Aggregate depreciation			
At 1 January 2005	151	2,033	2,184
Charge for the year	65	469	534
Disposals	–	(1,197)	(1,197)
At 31 December 2005	216	1,305	1,521
Net book value			
As at 31 December 2005	216	2,051	2,267

	Company		
	Leasehold improvements HK\$'000	Motor vehicles, furniture, fixtures and office equipment HK\$'000	Total HK\$'000
Cost			
At 1 January 2006	432	3,356	3,788
Additions, at cost	7	602	609
At 31 December 2006	439	3,958	4,397
Aggregate depreciation			
At 1 January 2006	216	1,305	1,521
Charge for the year	66	603	669
At 31 December 2006	282	1,908	2,190
Net book value			
As at 31 December 2006	157	2,050	2,207

14 INVESTMENT PROPERTIES

	2006 HK\$'000	Group 2005 HK\$'000
At 1 January	20,510,591	19,105,540
Additions	68,906	14,421
Increase in fair value	2,318,701	1,546,669
Disposals	(1,560,309)	(284,245)
Transfer	299,653	125,256
Exchange adjustment	4,624	2,950
At 31 December	21,642,166	20,510,591

- (a) As at 31 December 2006, no investment properties were pledged as security for bank loan facilities. As at 31 December 2005, investment properties amounting to HK\$96,722,000 were pledged as security for bank loan facilities granted to the Group (note 40).
- (b) All investment properties were valued by DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited. They are independent professional valuers and the valuation was on an open market value basis as at 31 December 2006.
- (c) The Group's interest in investment properties at their net book values are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
In Hong Kong held on:		
Leases of over 50 years	8,438,765	8,539,432
Leases of between 10 to 50 years	5,058,565	5,154,168
Outside Hong Kong, held on:		
Leases of over 50 years	840,200	68,500
Leases of between 10 to 50 years	7,304,636	6,748,491
	21,642,166	20,510,591

15 LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held on:		
Leases of between 10 to 50 years	78,250	80,335
Outside Hong Kong, held on:		
Leases of between 10 to 50 years	260,159	244,991
	338,409	325,326
	2006 HK\$'000	2005 HK\$'000
At 1 January	325,326	392,215
Additions	-	1,583
Amortisation	(8,337)	(7,535)
Transfer	16,969	(63,710)
Exchange adjustment	4,451	2,773
	338,409	325,326

As at 31 December 2006, no leasehold land and land use rights were pledged as security for bank loan facilities. As at 31 December 2005, leasehold land and land use rights amounting to HK\$6,373,000 was pledged as security for bank loan facilities granted to the Group (note 40).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

16 PROPERTIES UNDER DEVELOPMENT

The Group's interest in properties under development at their net book values are analysed as follows:

	2006 HK\$'000	2005 HK\$'000
In Hong Kong, held on:		
Leases of over 50 years	2,101,687	595,192
Leases of between 10 to 50 years	5,258,868	4,236,675
Outside Hong Kong, held on:		
Leases of over 50 years	–	691,755
Leases of between 10 to 50 years	4,868,900	2,281,000
Freehold land and buildings	170,788	50,549
	12,400,243	7,855,171
	2006 HK\$'000	2005 HK\$'000
At 1 January	7,855,171	2,804,657
Additions during the year	3,743,586	4,312,434
Acquisition of subsidiaries	1,415,297	863,032
Transfer	(737,240)	(177,569)
Exchange adjustment	123,429	52,617
At 31 December	12,400,243	7,855,171

As at 31 December 2006, properties under development amounting to HK\$170,788,000 (2005: HK\$47,162,000) was pledged as security for bank loan facilities granted to the Group (note 40).

17 SUBSIDIARIES

	2006 HK\$'000	Company 2005 HK\$'000
Unlisted shares, at cost (note (a))	18,643,700	18,643,700
Amounts due from subsidiaries (note (b))	8,836,250	12,619,589
	27,479,950	31,263,289

(a) Details of subsidiaries are set out in note 43 to the financial statements.

(b) The amounts due from subsidiaries are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for an amount of HK\$5,882,389,000 (2005: HK\$9,852,528,000) which bears interest at prevailing market rates.

18 ASSOCIATED COMPANIES

	2006 HK\$'000	Group 2005 HK\$'000
Share of net assets (note a)	2,119,023	1,369,155
Amounts due from associated companies (note b)	3,928,807	5,012,888
Amounts due to associated companies (note c)	(55,760)	(50,134)
	5,992,070	6,331,909

- (a) Details of associated companies are set out in note 44 to the financial statements.
- (b) The amounts due from associated companies are unsecured, not repayable within twelve months from the balance sheet date and interest-free except for amounts totalling HK\$1,152,865,000 (2005: HK\$2,608,226,000) which bear interest at prevailing market rates.
- (c) The amounts due to associated companies are unsecured, interest-free and not repayable within twelve months from the balance sheet date.
- (d) The summarised financial information of associated companies is as follows:

	2006 HK\$'000	2005 HK\$'000
Aggregate attributable amounts of total assets	10,075,269	8,776,618
Aggregate attributable amounts of total liabilities	7,956,246	7,407,463
Aggregate attributable amounts of total revenue	1,051,938	1,206,214
Aggregate attributable amounts of net profit after tax	450,917	510,105

19 DERIVATIVE FINANCIAL INSTRUMENTS

	Group and Company			
	2006		2005	
	Assets HK\$'000	Liabilities HK\$'000	Assets HK\$'000	Liabilities HK\$'000
Cross currency swap contracts, at fair value (note a)	-	24,484	-	-
Interest rate swap contracts, at fair value (note b)	2,687	82,521	11,663	39,678
	2,687	107,005	11,663	39,678

- (a) The principal amounts under the outstanding cross currency swap contracts at 31 December 2006 amounting to US\$417,000,000 has been exchanged at inception and will be re-exchanged on expiry date at an average exchange rate of US\$1 to HK\$7.78 (approximate). Under these contracts, the fixed interest rates ranging from 5.64% to 5.75% per annum on the exchanged Hong Kong dollar principal amounts would be paid and the fixed interest rate at 6.375% per annum on the original US dollar principal amounts would be received.
- (b) The notional principal amounts of the outstanding interest rate swap contracts at 31 December 2006 were HK\$5,800,000,000 (2005: HK\$5,800,000,000).

At 31 December 2006, the fixed interest rates ranged from 3.65% to 4.70% (2005: 3.65% to 4.70%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

20 AVAILABLE-FOR-SALE INVESTMENTS

	2006 HK\$'000	Group 2005 HK\$'000
Listed securities, at fair value	431,634	–
Unlisted securities, at fair value	956,874	1,431,639
	1,388,508	1,431,639
Market value of listed securities in Hong Kong	431,634	–

21 LONG-TERM RECEIVABLES AND ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

	2006 HK\$'000	Group 2005 HK\$'000
Trade receivables (note (a))	2,102,061	918,080
Land deposits and related costs	863,940	1,390,255
Second mortgage loans receivable	65,852	106,339
Others	629,940	484,709
	3,661,793	2,899,383
Less: long-term receivables (note (b))	(63,588)	(102,503)
Current portion	3,598,205	2,796,880

The carrying amounts of long-term receivables and accounts receivable, prepayments and deposits approximate the fair value of these balances.

- (a) The Group maintains defined credit policies and applies credit policies appropriate to the particular business circumstances of the Group. At 31 December 2006 and 2005, the ageing analysis of the trade receivables of the Group were as follows:

	2006 HK\$'000	2005 HK\$'000
Below 1 month	1,636,354	459,297
Between 1 month and 3 months	274,310	361,819
Over 3 months	191,397	96,964
	2,102,061	918,080

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers.

- (b) The amount represents non-current portion of second mortgage loans to buyers of certain properties developed by the Group.

22 GOODWILL

	2006 HK\$'000	Group 2005 HK\$'000
At 1 January	244,061	185,737
Arising from purchase of subsidiaries	23,555	39,759
Arising from purchase of additional interest in subsidiaries	-	21,590
Impairment	(971)	-
Exchange adjustment	-	(3,025)
At 31 December	266,645	244,061

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to country of operation and business segment.

A segment-level summary of the goodwill allocation is presented below:

	2006 Logistics and Warehouse HK\$'000	2005 Logistics and Warehouse HK\$'000
PRC	136,946	135,133
Hong Kong	11,040	2,580
United Kingdom	71,253	71,253
Others	47,406	35,095
	266,645	244,061

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below:

Key assumptions used for value-in-use calculations

	Logistics and Warehouse			
	PRC	Hong Kong	United Kingdom	Others
Gross margin	5%	2%	5%-12%	0%-32%
Growth rate	2%	2%	2%	2%
Discount rate	10%	10%	10%	10%

These assumptions have been used for the analysis of each CGU within the business segment.

Management determined budgeted gross margin and growth rates based on past performance and its expectations of the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

23 STOCK OF COMPLETED PROPERTIES HELD FOR SALE

	Group	
	2006 HK\$'000	2005 HK\$'000
Leasehold land and land use rights	506,085	51,582
Other development costs	682,016	196,975
	1,188,101	248,557

24 LISTED SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group	
	2006 HK\$'000	2005 HK\$'000
Listed securities:		
– Hong Kong	198,168	25,798
– Malaysia	150	70
Market value of listed securities	198,318	25,868

25 CASH AND CASH EQUIVALENTS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Cash at bank and in hand	1,377,020	1,400,397	5,495	3,955
Short-term bank deposits	1,361,601	1,163,863	227,376	4,311
	2,738,621	2,564,260	232,871	8,266

The effective interest rate on short-term bank deposits was 3.93% (2005: 3.53%) per annum; these deposits have an average maturity of less than 1 month.

Cash and cash equivalents include the following for the purposes of the consolidated cash flow statement:

	Group	
	2006 HK\$'000	2005 HK\$'000
Pledged bank deposits	47,263	32,514
Cash and bank balances	2,691,358	2,531,746
	2,738,621	2,564,260
Unsecured bank overdrafts	(6,690)	(318)
	2,731,931	2,563,942

26 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

	Group	
	2006 HK\$'000	2005 HK\$'000
Trade payables	613,640	559,472
Construction costs payable	598,531	436,646
Rental and sales deposits	368,575	356,736
Amount due to a related company	–	323,294
Others	977,023	826,467
	2,557,769	2,502,615

The ageing analysis of trade payables of the Group as at 31 December 2006 was as follows:

	2006 HK\$'000	2005 HK\$'000
Below 1 month	404,326	326,336
Between 1 month and 3 months	117,889	117,952
Over 3 months	91,425	115,184
	613,640	559,472

27 BANK LOANS

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Non-current				
Bank loans				
– unsecured	6,095,233	8,194,489	3,750,000	7,380,000
– secured (note 40)	255,912	122,914	–	–
	6,351,145	8,317,403	3,750,000	7,380,000
Current				
Bank loans				
– unsecured	757,655	892,492	150,000	450,000
– secured (note 40)	45,773	124,491	–	–
	803,428	1,016,983	150,000	450,000
Total bank loans	7,154,573	9,334,386	3,900,000	7,830,000

The maturity of bank loans is as follows:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Within 1 year	803,428	1,016,983	150,000	450,000
Between 1 and 2 years	384,535	4,213,695	–	3,830,000
Between 2 and 5 years	5,492,566	4,100,871	3,750,000	3,550,000
Wholly repayable within 5 years	6,680,529	9,331,549	3,900,000	7,830,000
Over 5 years	474,044	2,837	–	–
	7,154,573	9,334,386	3,900,000	7,830,000

The effective annual interest rates of the major bank borrowings at the balance sheet date were as follows:

	2006			2005		
	HK\$	US\$	RMB	HK\$	US\$	RMB
Bank loans	4.24%	5.92%	5.02%	4.40%	4.74%	5.41%

The carrying amounts of all bank loans approximate their fair value.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

27 BANK LOANS (Continued)

The carrying amounts of the bank loans are denominated in the following currencies:

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Hong Kong dollar	6,001,991	8,480,000	3,900,000	7,830,000
US dollar	653,039	469,443	-	-
Renminbi	164,228	201,865	-	-
Other currencies	335,315	183,078	-	-
	7,154,573	9,334,386	3,900,000	7,830,000

28 CONVERTIBLE BONDS

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued an aggregate principal amount of HK\$2,500,000,000 zero-coupon guaranteed convertible bonds which are due in April 2010 at a redemption price of 119.354% of the principal amount. The bonds are guaranteed by the Company as to repayments, and are convertible into ordinary shares of HK\$1 per share in the Company at an initial conversion price of HK\$25.955 per share.

The conversion price is subject to adjustment in certain events set out in the Trust Deed dated 8 April 2005. During the year, 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.

The fair values of the liability component and the equity component were determined upon the issuance of the convertible bonds.

The fair value of the liability component was calculated using a market interest rate for a bond with the same tenure but with no conversion features. The residual amount, representing the value of the equity component, is credited to a convertible bonds reserve under equity attributable to the Company's shareholders.

The convertible bonds recognised in the consolidated balance sheet are calculated as follows:

	HK\$'000
Face value of convertible bonds issued on 8 April 2005	2,500,000
Less: equity component	(145,250)
Liability component on initial recognition at 8 April 2005	2,354,750
Direct issue costs attributable to liability component	(28,356)
	2,326,394
Add: imputed finance cost in 2005	86,701
Liability component at 31 December 2005	2,413,095
Add: imputed finance cost in 2006 (note 7)	123,161
Liability component at 31 December 2006	2,536,256

The fair value of the liability component of the convertible bonds at 31 December 2006 amounted to approximately HK\$2,570,700,000. The fair value is calculated using cash flows discounted at a rate based on the borrowing rate of 4.6925% per annum.

Imputed finance cost on the bonds is calculated using the effective interest method by applying the effective interest rate of 5.1% per annum to the liability component.

29 FIXED RATE BONDS

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 are guaranteed by the Company as to repayment, and carry a coupon rate of 6.375% per annum and have a maturity term of 10 years.

The fixed rate bonds are listed on the Singapore Exchange Securities Trading Limited. The market value of the fixed rate bonds as at 31 December 2006 was HK\$3,292,330,000.

30 AMOUNTS DUE TO MINORITY SHAREHOLDERS – GROUP

The amounts due to minority shareholders represent proportionate funding from the minority shareholders of joint venture projects including an amount of approximately HK\$312,821,000 (2005: HK\$393,883,000) due to a subsidiary of Shangri-La Asia Limited, a related company whose shares are listed on the Stock Exchange of Hong Kong. These loans are unsecured, subordinated to the bank loans of the relevant subsidiaries, have no fixed terms of repayment, and interest-free except for an amount of HK\$395,969,000 (2005: HK\$114,270,000) which bears interest at prevailing market rates.

31 DEFERRED TAXATION

	2006 HK\$'000	Group 2005 HK\$'000
At 1 January	2,097,083	1,746,997
Purchase of subsidiaries (note 36 (b))	41	(16)
Deferred taxation charged to income statement	569,515	288,263
Deferred taxation charged directly to reserves	32,324	46,452
Deferred taxation charged directly to minority interests	9,830	14,520
Transfer (to)/from taxation	(4,276)	109
Exchange adjustment	300	758
At 31 December	2,704,817	2,097,083

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through the future taxable profits is probable. The Group has unrecognised tax losses of HK\$1,760,496,000 (2005: HK\$1,475,545,000) to be carried forward for offset against future taxable income.

The movement in deferred tax assets and liabilities during the year was as follows:

	Group			
	Revaluation HK\$'000	Accelerated depreciation allowances HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2005	1,737,805	175,278	(166,086)	1,746,997
Purchase of subsidiaries	–	(16)	–	(16)
Deferred taxation charged/(credited) to income statement	237,939	56,081	(5,757)	288,263
Deferred taxation charged directly to reserves	46,452	–	–	46,452
Deferred taxation charged directly to minority interests	14,520	–	–	14,520
Transfer from taxation	–	109	–	109
Exchange adjustment	–	758	–	758
At 31 December 2005	2,036,716	232,210	(171,843)	2,097,083

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

31 DEFERRED TAXATION (Continued)

	Group			
	Revaluation HK\$'000	Accelerated depreciation allowances HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 1 January 2006	2,036,716	232,210	(171,843)	2,097,083
Purchase of subsidiaries	–	41	–	41
Deferred taxation charged to income statement	496,225	20,056	53,234	569,515
Deferred taxation charged directly to reserves	32,324	–	–	32,324
Deferred taxation charged directly to minority interests	9,830	–	–	9,830
Transfer to taxation	–	(4,276)	–	(4,276)
Reclassification	(61,983)	61,983	–	–
Exchange adjustment	–	300	–	300
At 31 December 2006	2,513,112	310,314	(118,609)	2,704,817

32 SHARE CAPITAL

	Issued and fully paid Ordinary shares of HK\$1 each		Authorised Ordinary shares of HK\$1 each	
	2006 No. of shares	HK\$'000	2005 No. of shares	HK\$'000
At 31 December 2005 and 2006			10,000,000,000	10,000,000
At 1 January	1,216,578,922	1,216,579	1,211,116,330	1,211,116
Issue of scrip dividend shares (notes (a) and (b))	8,280,785	8,281	1,313,052	1,313
Issue of new shares as a result of exercise of share options (note (c))	13,429,675	13,429	4,149,540	4,150
At 31 December	1,238,289,382	1,238,289	1,216,578,922	1,216,579

- (a) On 3 May 2006, the Company approved a final dividend on its issued ordinary shares for the year ended 31 December 2005. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 1,061,069 ordinary shares of HK\$1 each were issued on 9 June 2006 under this scheme.
- (b) On 6 October 2006, the Company declared an interim dividend on its issued ordinary shares for the year ended 31 December 2006. The Company offered to its shareholders a scrip dividend alternative under which the shareholders could elect to receive new ordinary shares in lieu of a cash dividend. A total of 7,219,716 ordinary shares of HK\$1 each were issued on 14 November 2006 under this scheme.
- (c) During the year, a total of 13,429,675 option shares were exercised at exercise prices of HK\$14.92, HK\$9.64, HK\$6.70, HK\$11.59, HK\$6.85 and HK\$18.74, respectively, per share. Details of movements in share options during the year are set out in note 33.
- (d) Proceeds received in respect of the shares issued following the exercise of the share options were used as additional working capital for the Group.

33 SHARE OPTIONS

(a) 1997 Share Option Scheme

Under the 1997 Share Option Scheme, the directors of the Company were authorised, at their discretion, to invite executive directors and key employees of the Company or its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. The exercise price for any particular 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 no further options shall be offered but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options under the 1997 Share Option Scheme are as follows:

	2006		2005	
	Weighted average exercise price in HK\$ per share	Number	Weighted average exercise price in HK\$ per share	Number
At 1 January	11.99	16,886,091	11.68	21,035,631
Exercised during the year (note (i))	13.11	(11,902,175)	10.43	(4,149,540)
At 31 December (note (ii))		4,983,916		16,886,091

As at 31 December 2006, all the outstanding share options granted under the 1997 Share Option Scheme were exercisable. There were a total of 11,902,175 share options exercised during the year (2005: 4,149,540) and that the weighted average exercise price was HK\$13.11 each (2005: HK\$10.43 each). The related weighted average share price at the time of exercise was HK\$28.35 (2005: HK\$19.21).

(i) Details of share options exercised:

Exercise price per share (HK\$)	Number of share options	
	2006	2005
14.92	8,025,995	1,473,336
9.64	3,442,289	482,970
6.70	60,000	340,579
11.59	22,000	350,328
6.85	351,891	1,502,327
	11,902,175	4,149,540

Total amount of proceeds received from the exercise of share options was HK\$155,998,945 (2005: HK\$43,271,124).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

33 SHARE OPTIONS (Continued)

(a) 1997 Share Option Scheme (Continued)

(ii) Terms of share options at the balance sheet date were as follows:

Expiry date	Exercise price per share (HK\$)	Number of share options	
		2006	2005
26 March 2007	14.92	1,205,631	9,231,626
26 March 2007	9.64	64,292	3,506,581
31 May 2010	6.70	1,541,704	1,601,704
1 March 2011	11.59	568,907	590,907
15 April 2012	6.85	1,603,382	1,955,273
		4,983,916	16,886,091

(iii) No share options were granted/granted for adjustment, lapsed or cancelled during the year (2005: Nil).

(b) 2002 Share Option Scheme

The 2002 Share Option Scheme was adopted by the Company on 17 April 2002. Under the 2002 Share Option Scheme, the directors of the Company may, at their discretion, grant options to executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group subject to terms and conditions stipulated therein. The exercise price for any particular option shall be such price as the board of directors of the Company may in its absolute discretion determine at the time of grant of the relevant option subject to the compliance with the requirements for share option schemes under the Listing Rules.

Details of the movement of the share options under the 2002 Share Option Scheme are as follows:

	2006		2005	
	Exercise price in HK\$ per share	Number	Exercise price in HK\$ per share	Number
At 1 January	18.74	8,540,000	–	–
Granted during the year	–	–	18.74	8,540,000
Exercised during the year (note (i))	18.74	(1,527,500)	–	–
Lapsed during the year	18.74	(200,000)	–	–
At 31 December (note (ii))		6,812,500		8,540,000

As at 31 December 2006, there were a total of 6,812,500 outstanding share options granted under the 2002 Share Option Scheme, of which 2,650,000 were exercisable whilst 4,162,500 will be exercisable from 16 March 2007. There were a total of 1,527,500 share options exercised during the year (2005: Nil) and that the exercise price was HK\$18.74 each (2005: N/A). The related weighted average share price at the time of exercise was HK\$30.49 (2005: N/A).

33 SHARE OPTIONS (Continued)

(b) 2002 Share Option Scheme (Continued)

(i) Details of share options exercised:

Exercise price per share (HK\$)	Number of share options	
	2006	2005
18.74	1,527,500	Nil

Total amount of proceeds received from the exercise of share options was HK\$28,625,350 (2005: Nil).

(ii) Terms of share options at the balance sheet date were as follows:

Expiry date	Exercise price per share (HK\$)	Number of share options	
		2006	2005
16 March 2015	18.74	6,812,500	8,540,000

(iii) During the year, no share options were granted (2005: 8,540,000) or granted for adjustment (2005: Nil) or cancelled (2005: Nil). There were a total of 200,000 share options lapsed (2005: Nil).

34 SHARE PREMIUM

	2006 HK\$'000	2005 HK\$'000
At 1 January	3,918,838	3,857,220
Arising from scrip dividend (notes 32(a) and (b))	216,616	22,496
Arising from exercise of share options (note 32(c))	171,195	39,122
Transfer from share option reserve (note 35(f))	8,621	–
At 31 December	4,315,270	3,918,838

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 OTHER RESERVES

	Group							Total HK\$'000
	Hotel property revaluation reserve HK\$'000	Other properties revaluation reserve HK\$'000	Freehold land and buildings revaluation reserve HK\$'000	Available- for-sale investments revaluation reserve HK\$'000	Convertible bonds reserve HK\$'000	Hedging reserve HK\$'000	Others (note (a)) HK\$'000	
At 1 January 2005	29,444	414,097	26,455	877,577	-	(11,244)	7,891,712	9,228,041
On revaluation of properties (note (b))	59,300	34,398	15,043	-	-	-	-	108,741
Fair value gain on available-for-sale investments (note (c))	-	-	-	207,337	-	-	-	207,337
Provision of share options expense	-	-	-	-	-	-	28,627	28,627
Transfer from retained profits	-	-	-	-	-	-	822	822
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	-	(1,641)	-	-	-	17,682	16,041
Deferred taxation charged directly to reserves	(25,711)	(15,870)	(4,871)	-	-	-	-	(46,452)
Convertible bonds – equity component	-	-	-	-	143,501	-	-	143,501
Cash flow hedge	-	-	-	-	-	13,189	-	13,189
At 31 December 2005	63,033	432,625	34,986	1,084,914	143,501	1,945	7,938,843	9,699,847
At 1 January 2006	63,033	432,625	34,986	1,084,914	143,501	1,945	7,938,843	9,699,847
On revaluation of properties (note (b))	62,106	32,369	20,526	-	-	-	-	115,001
Fair value gain on available-for-sale investments (note (c))	-	-	-	93,044	-	-	-	93,044
Realisation on available-for-sale investments	-	-	-	(568,347)	-	-	-	(568,347)
Provision of share options expense	-	-	-	-	-	-	17,302	17,302
Transfer to share premium	-	-	-	-	-	-	(8,621)	(8,621)
Transfer to retained profits	-	(1,605)	-	-	-	-	(3,271)	(4,876)
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	-	-	-	-	-	-	239,100	239,100
Deferred taxation charged directly to reserves	(19,778)	(6,224)	(6,322)	-	-	-	-	(32,324)
Cash flow hedge	-	-	-	-	-	(1,290)	-	(1,290)
At 31 December 2006	105,361	457,165	49,190	609,611	143,501	655	8,183,353	9,548,836

35 OTHER RESERVES (Continued)

(a) Others

	Group					Total HK\$'000
	Capital reserve (note (d)) HK\$'000	Share options reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Enterprise expansion and general reserve funds (note (e)) HK\$'000	Capital redemption reserve (note (g)) HK\$'000	
At 1 January 2005	7,975,089	–	(119,826)	28,581	7,868	7,891,712
Provision of share options expense	–	28,627	–	–	–	28,627
Transfer from retained profits	–	–	–	822	–	822
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	–	–	17,682	–	–	17,682
At 31 December 2005	7,975,089	28,627	(102,144)	29,403	7,868	7,938,843
At 1 January 2006	7,975,089	28,627	(102,144)	29,403	7,868	7,938,843
Provision of share options expense	–	17,302	–	–	–	17,302
Transfer to share premium	–	(8,621)	–	–	–	(8,621)
Transfer to retained profits	–	–	–	(3,271)	–	(3,271)
Exchange differences arising from investments in the PRC and overseas subsidiaries/associated companies	–	–	238,858	242	–	239,100
At 31 December 2006	7,975,089	37,308	136,714	26,374	7,868	8,183,353

- (b) These represent surplus arising from revaluation of properties at the balance sheet date. The accounting policies in respect of revaluation of properties are set out in notes 2(e) and 2(f).
- (c) This represents surplus arising from valuation of the Group's available-for-sale investments at the balance sheet date. The accounting policy in respect of valuation of available-for-sale investments is set out in note 2(k).
- (d) Capital reserve of the Group arose from the Group's reorganisation in preparation for its listing on the Stock Exchange of Hong Kong in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associated companies subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001.
- (e) Enterprise expansion and general reserve funds are set up by subsidiaries and associated companies established and operating in the PRC. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

35 OTHER RESERVES (Continued)

(f) Other reserves of the Company

	Contributed surplus HK\$'000	Convertible bonds reserve HK\$'000	Share options reserve HK\$'000	Capital redemption reserves (note (g)) HK\$'000	Total HK\$'000
At 1 January 2005	17,793,308	–	–	7,868	17,801,176
Convertible bonds – equity component	–	143,501	–	–	143,501
Provision of share options expense	–	–	28,627	–	28,627
At 31 December 2005	17,793,308	143,501	28,627	7,868	17,973,304
At 1 January 2006	17,793,308	143,501	28,627	7,868	17,973,304
Provision of share options expense	–	–	17,302	–	17,302
Transfer to share premium (note 34)	–	–	(8,621)	–	(8,621)
At 31 December 2006	17,793,308	143,501	37,308	7,868	17,981,985

(i) The contributed surplus of the Company arose when the Company issued shares in exchange for the shares of companies being acquired, and represents the difference between the nominal value of the Company's shares issued and the value of net assets of the companies acquired. Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus is distributable to the shareholders. At Group level, the contributed surplus is reclassified into its components of reserves of the underlying subsidiaries.

(ii) As at 31 December 2006, the reserves of the Company available for distribution amounted to approximately HK\$18,919,415,000 (2005: HK\$18,762,640,000).

(g) The capital redemption reserve arose from the purchase of the Company's shares for cancellation during 1998 and 2002 and represents a transfer from the Company's retained profits equivalent to the nominal value of the shares purchased for cancellation.

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of profit before taxation to net cash generated from operations

	Group	
	2006 HK\$'000	2005 HK\$'000
Profit before taxation	5,838,861	3,756,278
Depreciation and amortisation	161,037	146,494
Dividend income from listed and unlisted investments	(1,373,068)	(13,936)
Impairment loss on available-for-sale investments	197,941	–
Finance costs	380,663	201,679
Interest income	(76,240)	(101,636)
(Gain)/loss on sale of property, plant and equipment	(7,020)	11,410
Gain on sale of investment properties	(783,019)	(180,257)
Gain on sale of subsidiaries	(9,675)	–
Gain on sale of listed securities at fair value through profit or loss	(669)	–
Loss/(gain) on valuation of listed securities at fair value through profit or loss	4,528	(1,657)
Impairment of goodwill	971	–
Change in fair value of investment properties and revaluation deficit on buildings	(2,318,701)	(1,542,170)
Share of results of associated companies	(450,917)	(510,105)
Operating profit before working capital changes	1,564,692	1,766,100
Increase in stock of completed properties held for sale, properties under development for sale, and accounts receivable, prepayments and deposits	(1,702,691)	(407,924)
Increase/(decrease) in accounts payable, deposits received and accrued charges	284,724	(645,644)
Net cash generated from operations	146,725	712,532

(b) Purchase of subsidiaries

(i) Hong Kong Property

On 31 August 2006, the Group acquired 71% of the share capital of Champrich Investments Limited, which holds various properties located at 20 Shan Kwong Road and 1-5 Village Terrace, Happy Valley through various wholly-owned subsidiaries. These properties were acquired for redevelopment purpose. The acquired business did not generate any significant revenue, profit or loss during the year ended 31 December 2006.

On 24 November 2006, the Group acquired 80% of the share capital of Rink Management Group Limited, which will operate the ice rink at MegaBox when it opens around June 2007. The acquired business did not generate any significant revenue, profit or loss during the year ended 31 December 2006.

(ii) Logistics Network

Effective from 1 January 2006, Shanghai Kerry CHJ Logistics Limited became a 97% subsidiary of the Group as a result of the acquisition of an additional 47% interest in the company. The acquired business contributed revenues of HK\$19,740,000 and net profit of HK\$378,000 to the Group for the year ended 31 December 2006.

On 2 March 2006, the Group acquired the entire share capital of Wah Cheong Company, Limited, a food distribution company in Hong Kong. The acquired business contributed revenues of HK\$87,236,000 and net loss of HK\$564,000 to the Group for the period from acquisition up to 31 December 2006. If the acquisition had occurred on 1 January 2006, the revenues and loss attributable to the Group would have been HK\$90,872,000 and HK\$909,000, respectively.

On 1 October 2006, the Group acquired 51% of Reliable Freight Forwarders Private Limited (subsequently renamed as Kerry Reliable Logistics Private Limited), a freight forwarding company operating in India. The acquired business contributed revenues of HK\$28,195,000 and net profit of HK\$133,000 to the Group for the period from acquisition up to 31 December 2006. If the acquisition had occurred on 1 January 2006, the revenues and profit attributable to the Group would have been HK\$126,528,000 and HK\$1,078,000 respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(b) Purchase of subsidiaries (Continued)

(iii) Details of net assets acquired and goodwill are as follows:

	2006			2005
	Hong Kong Property HK\$'000	Logistics HK\$'000	Total HK\$'000	HK\$'000
Net assets acquired:				
Property, plant and equipment	-	9,214	9,214	2,984
Properties under development	1,415,297	-	1,415,297	863,032
Accounts and other receivables	581	58,225	58,806	614,902
Cash and bank balances	522	33,618	34,140	19,015
Accounts and other payables	(160)	(74,510)	(74,670)	(709,827)
Tax recoverable	-	77	77	385
Bank overdrafts	-	(511)	(511)	-
Taxation	-	(204)	(204)	-
Deferred taxation	-	(41)	(41)	16
	1,416,240	25,868	1,442,108	790,507
Less: Minority interests and loans	(410,619)	(2,095)	(412,714)	(328,202)
	1,005,621	23,773	1,029,394	462,305
Goodwill	-	23,555	23,555	39,759
	1,005,621	47,328	1,052,949	502,064
Interest originally held by the Group as an associated company	-	(5,119)	(5,119)	-
	1,005,621	42,209	1,047,830	502,064
Satisfied by:				
Cash	1,005,621	42,209	1,047,830	201,785
Accounts payable	-	-	-	300,279
	1,005,621	42,209	1,047,830	502,064

The fair value of net assets acquired of each subsidiary approximates to their book value at the respective dates of acquisition.

(c) Analysis of the net cash outflow in respect of the purchase of subsidiaries

	2006 HK\$'000	2005 HK\$'000
Cash consideration	1,047,830	201,785
Cash and bank balances acquired	(34,140)	(19,015)
Bank overdrafts acquired	511	-
Net cash outflow in respect of the purchase of subsidiaries	1,014,201	182,770

36 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (Continued)

(d) Analysis of the net cash inflow in respect of the disposal of subsidiaries

	2006 HK\$'000	2005 HK\$'000
Net assets disposed of:		
Accounts receivable, prepayments and deposits	156,624	–
Cash and bank balances	830	–
Accounts payable, deposits received and accrued charges	(157,484)	–
	(30)	–
Interest in associated companies	10	–
	(20)	–
Gain on disposal of subsidiaries	9,675	–
Total consideration	9,655	–
Cash consideration	9,655	–
Cash and bank balances disposed of	(830)	–
Net cash inflow in respect of the disposal of subsidiaries	8,825	–

(e) Non-cash transactions

In May 2006, Throng Limited, an available-for-sale financial asset, disposed of its entire interest in Citibank Plaza by way of participation in the global offering of Champion Real Estate Investment Trust (the "Champion REIT"). Subsequent to this transaction, Throng Limited declared a dividend to its shareholders and the Group's share of this dividend amounted to HK\$1,357,884,000. Part of such dividend was distributed to the Group by 114,796,151 units of Champion REIT.

In December 2006, the Group disposed of its interests in three floors of Citibank Tower to Champion REIT. The consideration was partly settled by 50,880,000 units of Champion REIT.

37 RELATED PARTY TRANSACTIONS

The following transactions were carried out with related parties during the year:

(a) Purchases of services

	2006 HK\$'000	2005 HK\$'000
Marketing, consultancy and administrative management fees expense (note)	20,702	18,423

Note: This represents payment of services fee to Shangri-La International Hotel Management Limited, a subsidiary of Shangri-La Asia Limited ("SA"), a related company of the Group, which provided marketing, consultancy and administrative management services to a member of the Group. The service fees payable during the year were determined at either a fixed amount or a certain percentage of the gross operating revenue of the relevant company in accordance with the agreement for the provision of the above services.

(b) Key management compensation

	2006 HK\$'000	2005 HK\$'000
Salaries and other short-term benefits	76,044	49,264
Share-based payments	9,568	15,716
Post-employment benefits	240	240
	85,852	65,220

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

37 RELATED PARTY TRANSACTIONS (Continued)

(c) Year-end balances

	2006 HK\$'000	2005 HK\$'000
Receivables from related parties:		
Associated companies (note 18)	3,928,807	5,012,888
Payables to related parties:		
Subsidiaries of SA		
– included under accounts payable, deposits received and accrued charges (note 26)	–	323,294
– included under amounts due to minority shareholders (note 30)	312,821	393,883
Associated companies (note 18)	55,760	50,134

(d) Guarantees for banking and other facilities of certain associated companies

The Group has executed guarantees for banking and other facilities granted to certain associated companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2006 amounted to approximately HK\$1,633,214,000 (2005: HK\$102,473,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2006 amounted to approximately HK\$1,662,218,000 (2005: HK\$112,573,000). The above-mentioned amounts are also reflected in the guarantees given by the Group for banking and other facilities disclosed in note 39(a).

(e) Other related party transactions

- (i) On 1 June 2006, Kerry (Tianjin) Ltd ("Party A"), Kerry Properties (Tianjin) Ltd. ("Party B") and Allgreen Properties (Tianjin) Pte. Ltd. ("Party C") entered into a share transfer agreement (the "Share Transfer Agreement") and a joint venture contract (the "JV Contract") 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 and Party C are wholly-owned subsidiaries of SA and Allgreen Properties Limited ("AG"), respectively. Both SA and AG are related companies of the Company. Party B is a wholly-owned subsidiary of the Company.

37 RELATED PARTY TRANSACTIONS (Continued)

(e) Other related party transactions (Continued)

- (ii) On 8 September 2006, Whole Grace Limited ("WGL"), a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement (the "Sale and Purchase Agreement") with Kerry Holdings Limited ("KHL"), immediate holding company of the Company, 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. The consideration for the sale and purchase was approximately HK\$54,381,000. Following the completion of the Sale and Purchase Agreement on 31 October 2006, Able Time was 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.

- (iii) On 26 September 2006, Instant Vision Holdings Limited ("IVH"), Seanoble Assets Limited ("SAL") and KHL entered into a sale and purchase agreement (the "Agreement") 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 on 29 September 2006, Expert Vision was 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 a wholly-owned subsidiary of the Company and SAL is a wholly-owned subsidiary of SA.

- (iv) As disclosed in the 2004 and 2005 annual reports, on 13 April 2004, the Group and SA entered into a master agreement in relation to the joint acquisition, ownership and development of five sites in Jingan District, Shanghai, PRC. Following the acquisition of 50.5% equity interest in Shanghai Ji Xiang Properties Co. Ltd in 2005, during the year of 2006, the Group disposed a 48.5% interest in one of the five sites mentioned above which was previously 99%-owned by the Group to Kerry Shanghai (Jingan Nanli) Ltd, a wholly-owned subsidiary of SA, at a consideration of US\$12,776,754 (approximately HK\$99,235,771).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

38 COMMITMENTS

- (a) At 31 December 2006, the Group had capital commitments in respect of properties under development and property, plant and equipment not provided for in these financial statements as follows:

	2006 HK\$'000	2005 HK\$'000
Contracted but not provided for	4,158,755	4,586,977
Authorised but not contracted for	174,034	137,667
	4,332,789	4,724,644

- (b) At 31 December 2006, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	2006 HK\$'000	2005 HK\$'000
Land and buildings:		
Within one year	73,532	61,844
In the second to fifth year, inclusive	114,334	101,437
Over five years	99,773	88,836
	287,639	252,117
Vessels:		
Within one year	36,674	46,338
In the second to fifth year, inclusive	37,870	110,340
	74,544	156,678
	362,183	408,795

- (c) At 31 December 2006, the Group had future aggregate minimum lease rental receivable under non-cancellable operating leases as follows:

	2006 HK\$'000	2005 HK\$'000
Land and buildings:		
Within one year	924,882	901,775
In the second to fifth year, inclusive	1,273,007	718,866
Over five years	655,636	473,066
	2,853,525	2,093,707

39 CONTINGENT LIABILITIES

- (a) **Guarantees for banking and other facilities**

	Group		Company	
	2006 HK\$'000	2005 HK\$'000	2006 HK\$'000	2005 HK\$'000
Guarantees for banking and other facilities of certain subsidiaries, associated companies and investee companies (notes (i) and (ii))	1,685,232	413,517	4,335,254	1,361,039
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (iii))	445	48,346	445	3,350
	1,685,677	461,863	4,335,699	1,364,389

- (i) 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 31 December 2006 amounted to approximately HK\$1,685,232,000 (2005: HK\$413,517,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2006 amounted to approximately HK\$1,714,236,000 (2005: HK\$423,617,000).

39 CONTINGENT LIABILITIES (Continued)

(a) Guarantees for banking and other facilities (Continued)

- (ii) The Company has executed guarantees to banks for facilities granted to certain subsidiaries, associated companies and investee companies. The utilised amount of such facilities covered by the Company's guarantees which also represented the financial exposure of the Company as at 31 December 2006 amounted to approximately HK\$4,335,254,000 (2005: HK\$1,361,039,000). The total amount of such facilities covered by the Company's guarantees as at 31 December 2006 amounted to approximately HK\$4,412,057,000 (2005: HK\$1,481,614,000).

- (iii) The Group and the Company have 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 and the Company's guarantees which also represented the financial exposure of the Group and the Company as at 31 December 2006 amounted to approximately HK\$445,000 (2005: HK\$48,346,000) and HK\$445,000 (2005: HK\$3,350,000), respectively. The total amount of such facilities covered by the Group's and the Company's guarantees as at 31 December 2006 amounted to approximately HK\$445,000 (2005: HK\$148,922,000) and HK\$445,000 (2005: HK\$3,350,000), respectively.

(b) Other guarantees and undertakings

- (i) A wholly-owned subsidiary of the Company, through its associated company, has a 20% interest in a company which is engaged in the development of a site in the Olympic Mass Transit Railway Station Development. Another wholly-owned subsidiary of the Company, through its associated company, has a 32.5% interest in another company which is engaged in the development of an adjacent site. The companies developing the sites (the "Developers") were each granted exclusive rights to develop the relevant sites pursuant to separate development agreements (the "Development Agreements") entered into by each of the Developers and MTR Corporation Limited ("MTRC").

Pursuant to two deeds of guarantee in relation to each of the above developments, the Company has provided several guarantees in favour of the MTRC for the due and punctual performance and observance by each of the Developers of 20% and 32.5%, respectively, of the Developer's obligations, liabilities, stipulations, acts and duties under or in connection with the respective Development Agreements and the due and punctual payment of 20% and 32.5%, respectively, of all monies and liabilities due, owing or payable to the MTRC from or by each of the Developers under or in connection with the respective Development Agreements.

In consideration of the MTRC entering into and agreeing to the terms of the sale and purchase agreement (the "S & P Agreement") and certain trust arrangements (the "Trust Arrangements") in relation to the sale of an office development developed by the Developer in which the Group has a 20% interest, the Company has agreed to provide several guarantees and indemnities to indemnify MTRC against 20% of all claims, demands, cost, damages, losses, expenses and/or liabilities which MTRC may incur or suffer and which are in any way connected with or resulting from the entering into and/or the observance and/or performance of the S & P Agreement and/or the carrying out by MTRC of the Trust Arrangements. The Company has also guaranteed the payment on demand of 20% of the full amount of such costs, losses, expenses or liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 CONTINGENT LIABILITIES (Continued)

(b) Other guarantees and undertakings (Continued)

- (ii) The Group has a 15% effective interest in Western Harbour Tunnel Company Limited (“WHTCL”) which acquired a 30-year franchise from the Government of the Hong Kong Special Administrative Region (the “Government”) to build and operate the Western Harbour Crossing (the “Crossing”). Pursuant to a deed of guarantee dated 2 September 1993 as amended by a deed of novation dated 27 June 1995, a second deed of novation dated 12 October 1998 and a third deed of novation dated 30 May 2000 (the “Guarantee”), the Company together with the other beneficial shareholders of WHTCL have jointly and severally undertaken to the Government that if the aggregate of all costs incurred by WHTCL up to the operating date of the Crossing and all maintenance and repair costs incurred by WHTCL after the operating date of the Crossing but before the issuance of the maintenance certificate exceeds HK\$7,534,000,000 then they will pay to WHTCL such excess amount.

Pursuant to a shareholders agreement dated 30 December 1992 as amended by a cross-indemnity deed dated 20 December 1993, a supplemental deed dated 8 September 1994, a second supplemental deed dated 12 October 1998 and a third supplemental deed dated 23 May 2000 in respect of WHTCL, the Company together with the other beneficial shareholders have agreed that in relation to any claim made or asserted under the Guarantee, as between themselves, the total of all liabilities in respect of such claim and of all costs, charges and expenses suffered or incurred by any of them resulting therefrom or attributable thereto shall be shared by them in proportion to their respective ultimate ownership of the issued capital of WHTCL.

- (iii) A wholly-owned subsidiary of the Company, through its associated company, has a 40% interest in a company which is engaged in the development of a site at the Hang Hau Mass Transit Railway Station Development (the “Hang Hau Developer”). The Hang Hau Developer was granted exclusive rights to develop the site pursuant to a development agreement (the “Hang Hau Development Agreement”) entered into by the Hang Hau Developer with, amongst others, MTRC.

Pursuant to a deed of guarantee in relation to the above development, the Company has provided several guarantees in favour of MTRC for the due and punctual performance and observance by the Hang Hau Developer of 40% of its obligations, liabilities, stipulations, acts and duties under or in connection with the Hang Hau Development Agreement and the due and punctual payment of 40% of all monies and liabilities due, owing or payable to MTRC from the Hang Hau Developer under or in connection with the Hang Hau Development Agreement.

39 CONTINGENT LIABILITIES (Continued)

(b) Other guarantees and undertakings (Continued)

- (iv) The Group has 38.2% interest in a company (the "Seller") which, pursuant to a sale and purchase agreement (the "Mortgage S&P Agreement"), has sold certain loans (the "Loans") to The Hong Kong Mortgage Corporation Limited (the "HKMC"). Pursuant to a support agreement (the "Support Agreement") entered into by the Company with, amongst others, the HKMC, the Company has severally undertaken that (i) if the Seller fails to repurchase any Loans in accordance with the Mortgage S&P Agreement, to, or to procure a third party approved by the HKMC to, complete repurchase of such Loans; and (ii) if the Seller fails to pay when due any amount in full in respect of the Loans required to be paid by it to the HKMC, to pay on behalf of the Seller on a several basis an amount equal to 38.2% of the amount that the Seller has failed to pay to the HKMC.

The Company has also severally undertaken with the HKMC that it shall indemnify and keep indemnified the HKMC, its directors, officers and employees and its successors and assignees from and against 38.2% of all liabilities, losses, damages, actions, proceedings, demands, claims, costs and expenses which may be brought against, suffered or incurred by such indemnified person by reason of any breach of the Seller's undertakings, representations and warranties in the Mortgage S&P Agreement and the Support Agreement or of any breach of the Company's representations, warranties and undertakings in the Support Agreement.

- (v) The Group has a 50% interest in a company ("Party 1") which owns a piece of land in Cheung Sha Wan while another company ("Party 2") owns an adjacent piece of land. Party 1 and Party 2 are negotiating the joint redevelopment of the two pieces of land. Prior to the joint redevelopment, the parties need to surrender the existing two pieces of land to the Government in exchange for the grant of a new lot for commercial/residential development with public car park facilities (the "Proposed Land Exchange"). The Proposed Land Exchange involves the grant of a street and its associated footpaths as part of the new lot and requires the permanent closure of the abovementioned street and its associated footpaths.

Pursuant to an undertaking (the "Undertaking") dated 6 January 2006, in consideration of the Government entering into and continuing the negotiations with Party 1 and Party 2 on the Proposed Land Exchange, the Company and other parties, including the holding companies of the shareholders of Party 1 and Party 2, have jointly and severally undertaken, covenanted and agreed that they shall indemnify and keep indemnified the Government and any of its officers from and against all and any actions (including judicial reviews), liabilities, demands, claims, expenses, costs and losses arising directly or indirectly out of or in connection with the gazetting of the permanent closure of the abovementioned street and its associated footpaths under the Roads (Works, Use and Compensation) Ordinance and the authorisation of such closure.

Pursuant to a deed of cross indemnity and a collateral deed of cross indemnity, both dated 6 January 2006, the Group's liabilities under the Undertaking shall be several and shall be determined based on its share of interest in the joint redevelopment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

39 CONTINGENT LIABILITIES (Continued)

(b) Other guarantees and undertakings (Continued)

- (vi) A wholly-owned subsidiary of the Company, Wealthy State Investments Limited (“Wealthy State”), has been granted the right to jointly develop a site in Sai Ying Pun, Hong Kong pursuant to a development agreement (the “SYP Development Agreement”) entered into between Wealthy State and the Urban Renewal Authority (“URA”).

Pursuant to a guarantee in relation to the above development, the Company has provided guarantees in favour of URA for the due and punctual performance and fulfilment of all Wealthy State’s obligations under the SYP Development Agreement or arising out of or in connection with the SYP Development Agreement (including Wealthy State’s obligations to make payments under the terms of the SYP Development Agreement).

(c) Litigation

Kerry EAS Logistics Limited (“KEAS”) is involved in a legal case in which an airline operator, together with five other plaintiffs, including the insurers of the aircraft, are claiming for damages, costs and interest, against six defendants, including KEAS, on a joint and several basis in relation to the alleged damages amounting to approximately US\$65.6 million (equivalent to approximately HK\$511.7 million, based on the exchange rate of US\$1 = HK\$7.8) caused to an aircraft in 2000 in respect of the transportation of certain chemical substance.

The damages sought by the plaintiffs of approximately US\$65.6 million represent the market value of the aircraft at the time when the damage occurred less the resale value of the aircraft after repairs. According to the pleadings and the affidavits of the five other plaintiffs, the actual compensation made by them to the airline operator amounted to 15% of the total loss. The remaining 85% of the total loss was compensated by other reinsurers. These reinsurers have not brought any legal action against the six defendants as at the date of this report. Under the PRC laws, the maximum liability of the six defendants under the current legal case is only 15% of the total loss.

Based on the opinion of the legal advisers of the Group, it is unlikely that KEAS will be found liable for the claimed damages and losses. Accordingly, no provision has been made in the financial statements.

Pursuant to the sale and purchase agreement, the vendor of KEAS has undertaken to indemnify the Group in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising in respect of various litigations against KEAS including the abovementioned legal case.

40 PLEDGE OF ASSETS – GROUP

At 31 December 2006, the Group's total bank loans of HK\$7,154,573,000 (2005: HK\$9,334,386,000) included an aggregate amount of HK\$6,852,888,000 (2005: HK\$9,086,981,000) which is unsecured and an aggregate amount of HK\$301,685,000 (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 (notes 13 to 16);
- (ii) charges on all assets, including bank balances amounting to HK\$47,263,000 (2005: HK\$32,514,000), of certain subsidiaries; and
- (iii) assignments of insurance proceeds of certain properties.

41 EVENTS AFTER THE BALANCE SHEET DATE

(a) Issuance of convertible bonds

On 22 February 2007, Gainlead International Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate principal amount of HK\$2,350,000,000. These convertible bonds are zero coupon-based, have a maturity term of 5 years until 22 February 2012 and are convertible into the Company's ordinary shares at a conversion price of HK\$52.65 per share (subject to adjustments).

(b) Conversion of convertible bonds issued in 2005

Subsequent to the balance sheet date and up to 22 March 2007, an aggregate principal amount of HK\$756,210,000 of the convertible bonds issued in 2005 has been converted into an aggregate of 29,135,413 ordinary shares of HK\$1 each in the Company, representing approximately 30.2% of the entire amount of the aforementioned convertible bonds of HK\$2,500,000,000.

42 ULTIMATE HOLDING COMPANY

The directors regard Kerry Group Limited, a company incorporated in the Cook Islands, as being the ultimate holding company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES

As at 31 December 2006, the Company held interests in the following subsidiaries which are categorized according to the business divisions of the Group, namely, Property Division, Infrastructure Division, Logistics Network Division and Other Divisions as listed below:

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Property Division					
Aberporth Resources Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ Amble Aim Sdn. Bhd.	MAL	Investment holding	2	RM1	100%
Ansellman Limited	BVI	Investment holding	1	US\$1	100%
Auto Plaza Limited	HK	Investment holding, property investment and carpark operation	4,998 2 ⁽²⁾	HK\$1 HK\$1	100%
Baron Development Limited	BVI	Investment holding	1	US\$1	100%
Barriedale Limited	BVI	Investment holding	10,000	US\$1	100%
⁽⁵⁾⁽⁸⁾ Beihai Kerry Property Development Ltd.	PRC	Property development	RMB9,000,000	–	100%
⁽⁹⁾ Beijing Jia Ao Real Estate Development Co., Ltd.	PRC	Property investment	US\$77,967,600	–	71.25%
⁽⁹⁾ Beijing Kerry Centre Hotel Co., Ltd.	PRC	Hotel ownership and operation	US\$33,000,000	–	71.25%
Best Pacific Investments Limited	HK	Dormant	1	HK\$1	71%
Bethan Company Limited	HK	Dormant	2	HK\$1	100%
Big Sky Resources Limited	BVI	Investment holding	100	US\$1	100%
Burgo Inc	BVI	Dormant	1,000	US\$1	100%
Calistock Limited	BVI	Investment holding in HK	1	US\$1	100%
Capital Rise Investments Limited	HK	Property development	1	HK\$1	71%
Cashel Assets Limited	BVI	Investment holding in HK	1	US\$1	100%
Chain Base Limited	HK	Property development	1	HK\$1	71%
Champrich Investments Limited	BVI	Investment holding	1,000,000	HK\$1	71%
Clavering Services Limited	BVI	Investment holding	1,000	US\$1	100%
Comphor Company Limited	BVI	Investment holding	10	US\$1	100%
Darcey Investments Limited	BVI	Investment holding	100	US\$1	100%
Data Giant Holdings Limited	BVI	Investment holding	1	US\$1	100%
Denver Rose Investments Limited	BVI	Investment holding in HK	1	US\$1	100%
Dragon Wisdom Limited	BVI	Investment holding	1	US\$1	100%
Errol Company Ltd.	BVI	Investment holding	1	US\$1	100%
Even Wise Limited	HK	Dormant	1	HK\$1	100%
Fair Page Limited	HK	Property leasing	2	HK\$1	100%
Fair Town Limited	HK	Property investment	1	HK\$1	100%
Fortune Mega Investments Limited	BVI	Investment holding	1	US\$1	100%
Garden Streams Limited	BVI	Investment holding	1	US\$1	100%
Giant Noble Investments Limited	BVI	Investment holding	1	US\$1	100%
Glory Cheer Limited	SMA	Dormant	1	US\$1	100%
Goldash Holdings Limited	BVI	Investment holding	1	US\$1	100%
Golden Concord Properties Limited	HK	Property investment	1	HK\$1	100%
Golden Explorer Group Limited	BVI	Investment holding	1	US\$1	100%
Grandgain Holdings Limited	BVI	Investment holding	10,000	US\$1	100%
Great Bless Limited	BVI	Investment holding	1	US\$1	100%
Harvard Developments Limited	BVI	Dormant	12	US\$1	75%
Hong Kong Shanghai Development Co Ltd.	SMA	Investment holding	8,000,000	HK\$1	65%
Instant Vision Holdings Limited	BVI	Investment holding	1	US\$1	100%

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Property Division (Continued)					
Interseed Company Limited	HK	Property trading	2	HK\$1	100%
Irrewarra Holdings Limited	BVI	Investment holding	1	US\$1	100%
Join Sky Investment Limited	HK	Property development	1	HK\$1	71%
Julian Holdings Limited	BVI	Investment holding	1	US\$1	100%
Kanya Corp.	BVI	Investment holding	1,000	US\$1	100%
Kerry Beijing (Guang Hua) Ltd	SMA	Investment holding	1,000,000	HK\$1	75%
Kerry Beijing (Shibalidian) Development Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Beijing (Shibalidian) Recreation Club Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Beijing (Xinyuanli) Housing Ltd. (formerly known as Kerry Beijing (Shibalidian) Housing Ltd.)	SMA	Investment holding	1	US\$1	100%
⁽⁸⁾ Kerry Cao Jia Yan Properties (Shanghai) Co., Ltd.	PRC	Property investment	US\$13,400,000	–	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Centre Real Estate (Shenzhen) Co. Ltd.	PRC	Property investment	HK\$142,000,000	–	100%
Kerry Development (Chengdu) Ltd. (formerly known as Kerry Beijing (Shibalidian) Exhibition Centre Ltd.)	SMA	Dormant	1	HK\$1	100%
Kerry Development (China) Limited	HK	Provision of administrative support services	1	HK\$1	100%
⁽⁵⁾⁽⁸⁾ Kerry Development (Manzhouli) Co., Ltd.	PRC	Property development	US\$6,800,000	–	100%
⁽⁸⁾ Kerry Development (Shanghai) Co., Ltd.	PRC	Property investment	US\$40,000,000	–	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Development (Shenzhen) Co., Ltd.	PRC	Property development	HK\$633,350,000	–	100%
Kerry Fuzhou (Gutian) Ltd.	SMA	Investment holding	6,000,000	HK\$1	100%
Kerry Guangxi (Beihai) Ltd	SMA	Investment holding	1,500,000	HK\$1	100%
Kerry Hangzhou (Hua Feng) Limited	BVI	Dormant	1	US\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Huafeng Property Development (Hangzhou) Co., Ltd.	PRC	Property development	HK\$139,000,000	–	100%
Kerry Properties (Australia) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Properties (China) Limited	BVI	Investment holding	4,554,642,958	HK\$1	100% *
Kerry Properties (Chongqing) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Properties (H.K.) Limited	HK	Investment holding	1,000 200,000,000 ⁽²⁾	HK\$1 HK\$1	100%
Kerry Properties (Hangzhou) Ltd.	SMA	Investment holding	85,000,000	HK\$1	100%
Kerry Properties (Hohhot) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Properties (Hong Kong) Limited	BVI	Investment holding	41,317,948	HK\$0.01	100%
Kerry Properties (Macau) Limited	Macau	Construction and property development	1,000,000	MOP1	71%
Kerry Properties (Manzhouli) Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Properties (Ningbo) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Properties (Philippines) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Properties (Shenzhen Central District) Ltd.	SMA	Dormant	1	HK\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Properties (Shenzhen) Co., Ltd.	PRC	Property development	HK\$112,082,975	–	100%
Kerry Properties (Sydney) Pty Ltd	Australia	Investment holding	1	A\$1	100%
Kerry Properties (Tianjin) Ltd.	SMA	Investment holding	1	HK\$1	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Property Division (Continued)					
Kerry Properties (Xiamen) Ltd. (formerly known as Kerry Beijing (Shibalidian) Commercial Ltd.)	SMA	Dormant	1	HK\$1	100%
Kerry Properties (Yangzhou) Ltd.	SMA	Investment holding	1,000,000	HK\$1	100%
⁽⁵⁾ Kerry Properties Beijing (Shibalidian) Holdings Company Limited	BVI	Investment holding	1	US\$1	100%
Kerry Properties Beijing Kerry Centre Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Properties International Limited	BVI	Investment holding	1	HK\$1	100% *
Kerry Properties Shenzhen Kerry Centre Limited	HK	Investment holding	5,000,000	HK\$1	100%
⁽⁵⁾⁽⁸⁾ Kerry Real Estate (Hangzhou) Co. Ltd.	PRC	Property development	US\$62,000,000	–	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Real Estate (Yangzhou) Co., Ltd.	PRC	Property development	US\$11,600,000	–	100%
Kerry Residences Limited	HK	Dormant	2	HK\$1	100%
Kerry Shanghai (Cao Jia Yan) Ltd.	SMA	Investment holding	2	US\$1	100%
Kerry Shanghai (Hongkou) Ltd.	SMA	Investment holding	6,000,000	HK\$1	60%
Kerry Shanghai (Jingan Beili) Ltd	SMA	Investment holding	1,000,000	HK\$1	75%
Kerry Shanghai Development Ltd	SMA	Investment holding	1,000,000	HK\$1	100%
Kerry Shanghai Pudong Investments Ltd.	SMA	Investment holding	1	HK\$1	100%
Kildare Limited	HK	Dormant	2	HK\$1	100%
Kingsfield Development Limited	HK	Dormant	1	HK\$1	100%
Mable Road Company Limited	HK	Property investment	10 10,000 ⁽²⁾	HK\$1 HK\$1	100%
Madigan Company Limited	HK	Property trading	2	HK\$1	100%
Magnifair Company Limited	HK	Property development	10,000	HK\$1	100%
Maple Crest Development Limited	BVI	Investment holding and property trading in HK	120	US\$1	75%
Marrakesh Limited	BVI	Investment holding	1	US\$1	100%
Mazlo Holdings Limited	BVI	Investment holding	1	US\$1	100%
MegaBox Development Company Limited	HK	Property development	2	HK\$1	100%
MegaBox Management Services Limited (formerly known as Mega Box Retail Management Limited)	HK	Property management	2	HK\$1	100%
Merlin Limited	SMA	Investment holding in PRC	1,000,000	HK\$1	100%
Mid-Levels Portfolio (Aigburth) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (Aigburth) Limited	Cook Islands	Property investment in HK	9	US\$1	100%
Mid-Levels Portfolio (Branksome) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (Branksome) Limited	HK	Property investment	100	HK\$10	100%
Mid-Levels Portfolio (Century Tower II) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (Gladdon) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (Gladdon) Limited	HK	Property investment	100	HK\$10	100%
Mid-Levels Portfolio (May Tower I) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (May Tower I) Limited	HK	Dormant	100	HK\$1	100%
Mid-Levels Portfolio (Tavistock) Holdings Limited	BVI	Investment holding	1	US\$1	100%

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Property Division (Continued)					
Mid-Levels Portfolio (Tavistock) Limited	HK	Property investment	100	HK\$10	100%
Mid-Levels Portfolio (Tregunter Towers 1 & 2) Holdings Limited	BVI	Investment holding	100	US\$1	100%
Mid-Levels Portfolio (Tregunter Towers 1 & 2) Limited	BVI	Property investment in HK	1	US\$1	100%
Mid-Levels Portfolio (Valverde) Holdings Limited	BVI	Investment holding	1	US\$1	100%
Mid-Levels Portfolio (Valverde) Limited	HK	Property investment and trading	100	HK\$10	100%
Mid-Levels Portfolio Holdings Limited	BVI	Investment holding	1	US\$1	100%
Newick Limited	HK	Property development	1	HK\$1	71%
Nite Lites Limited	BVI	Investment holding	10,000	HK\$1	100%
NMC 6 Limited	BVI	Dormant	1	US\$1	100%
NMC 7 Limited	BVI	Dormant	1	US\$1	100%
NMC 8 Limited	BVI	Dormant	1	US\$1	100%
NMC 9 Limited	BVI	Dormant	1	US\$1	100%
Norbiton Group Limited	BVI	Investment holding	10,000	HK\$1	100%
Norminster Limited	HK	Investment holding	1,000	HK\$1	100%
Ocean City Investments Limited	BVI	Investment holding	1	US\$1	75%
Olsen Holdings Limited	BVI	Investment holding	1	US\$1	100%
Panawin Limited	HK	Property development	1	HK\$1	71%
Pembroke Development Investments Limited	BVI	Investment holding in HK	10,000	HK\$1	100%
Pettico Limited	HK	Provision of finance services	2	HK\$10	100%
Pirton Resources Limited	BVI	Investment holding	1	US\$1	100%
Port Destiny Limited	HK	Dormant	2	HK\$1	100%
Positive Delight Limited	BVI	Investment holding	1	US\$1	100%
Prismatic Limited	HK	Property development and trading	2	HK\$10	100%
Purview Assets Limited	BVI	Investment holding	1	US\$1	100%
Rayhay Company Limited	HK	Provision of financial services	2	HK\$1	100%
⁽⁵⁾ Rink Management Group Limited	HK	Management services	1,000,000	HK\$1	80%
Rise Fortune Investments Limited	SMA	Dormant	1	US\$1	100%
⁽⁵⁾⁽⁸⁾ Risenland Development (Fuzhou) Co., Ltd.	PRC	Property development	HK\$44,000,000	–	100%
Rodder Holdings Limited	BVI	Investment holding in HK	1	US\$1	100%
Roving Spirit Limited	BVI	Investment holding	10,000	HK\$1	100%
Sageman Limited	BVI	Investment holding	1	US\$1	100%
Scene View Limited	BVI	Investment holding	1	US\$1	100%
Senworld Investment Limited	HK	Dormant	2	HK\$1	100%
⁽⁹⁾ Shanghai Gang Hu Properties Co., Ltd.	PRC	Property investment and development	US\$155,300,000	–	64.35%
⁽⁸⁾ Shanghai Ji Xiang Properties Co., Ltd.	PRC	Property development	US\$99,000,000	–	51%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Shanghai Jin Ci Hou Properties Company Limited	PRC	Property development	US\$102,500,000	–	51%
⁽⁹⁾ Shanghai Kerry Real Estate Development Co., Ltd.	PRC	Property investment	US\$12,000,000	–	55.20%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Shanghai Ming Cheng Real Estate Development Co., Ltd.	PRC	Property development	US\$9,000,000	–	51%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Property Division (Continued)					
⁽⁹⁾ Shanghai Xin Ci Hou Properties Co., Ltd.	PRC	Property investment	US\$60,000,000	–	74.25%
Shun On Properties Limited	HK	Property development	1	HK\$1	71%
Smart State Holdings Limited	BVI	Investment holding	1	US\$1	100%
Spring Capital Holdings Limited	BVI	Investment holding	1	US\$1	100%
Taskan Limited	HK	Property development	2	HK\$1	100%
Tellson International Limited	BVI	Investment holding	1	US\$1	100%
Templepatrick Limited	HK	Provision of finance service	100	HK\$1	100%
Travel Aim Investment B.V.	Netherlands	Investment holding	18,000	EUR0.45	100%
Trebanos Investment Company Limited	HK	Dormant	2	HK\$1	100%
Viola Developments Limited	BVI	Investment holding	1	US\$1	100%
Washers Limited	BVI	Investment holding	10,000	HK\$1	100%
Wealthy State Investments Limited	HK	Property development	1	HK\$1	100%
Whole Base Investments Limited	HK	Investment holding	1	HK\$1	100%
Whole Grace Limited	BVI	Investment holding	1	US\$1	100%
Wing Tak Cheung Limited	HK	Property development and trading	1,000	HK\$10	100%
Wirabay Limited	BVI	Provision of trustee services	1	US\$1	100%
Wiseside Investment Company Limited	HK	Dormant	2	HK\$1	75%
Woody Company Limited	HK	Property investment	2	HK\$1	100%
Wymer Limited	BVI	Investment holding	5,000	US\$1	100%
Ying He Company Limited	HK	Investment holding	10 21,000,000 ⁽²⁾	HK\$1 HK\$1	100%
Under Infrastructure Division					
Kerry-ChemQuest (Beijing) Waste Incineration Ltd.	SMA	Dormant	1	HK\$1	51%
Kerry CQ (Changzhou) Waste Incineration Ltd.	SMA	Investment holding	1	HK\$1	51%
Kerry CQ (Shanghai) Waste Incineration Limited	BVI	Dormant	1	HK\$1	51%
Kerry CQ Environmental Engineering Limited	BVI	Investment holding	100	HK\$1	51%
Kerry CQ Waste Incineration Limited	BVI	Investment holding	100	HK\$1	51%
Kerry Communications Limited	BVI	Investment holding	1	US\$1	100%
Kerry Electricity (Hubei Jingmen) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Electricity (Jiangxi) Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Electricity (Zhongshan) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Electricity Limited	BVI	Investment holding	1	US\$1	100%
Kerry Environmental Infrastructure Limited	BVI	Dormant	1	HK\$1	100%
Kerry Environmental Limited	BVI	Investment holding	1	US\$1	100%
Kerry Infrastructure (PRC) Limited	BVI	Investment holding	10,000	US\$1	100%
Kerry Infrastructure Development Limited	HK	Provision of management services and administrative support	1	HK\$1	100%
Kerry Infrastructure Limited	BVI	Investment holding	595,026,381	HK\$1	100% *
Kerry Telecommunications (Shanghai) Limited	BVI	Investment holding	1	HK\$1	100%
Pinewealth Investments Ltd.	SMA	Investment holding	1	HK\$1	100%
Silverstone Assets Limited	BVI	Investment holding in HK	100,000	US\$1	100%

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Logistics Network Division					
Able Plus Holdings Limited	BVI	Investment holding	1	US\$1	100%
Asia Air Cargo (Hong Kong) Limited	HK	Dormant	1	HK\$1	100%
Balkis Limited	BVI	Investment holding	10,000	US\$1	100%
Barrowdale Limited	BVI	Investment holding	1,000	US\$1	100%
Beaverton Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾⁽⁶⁾ Beijing Kerry EAS Real Estate Management Limited	PRC	Property management	RMB500,000	–	70%
Belminton Inc.	BVI	Investment holding	1,000	US\$1	100%
Busyhigh Limited	SMA	Investment holding	1	HK\$1	100%
Capabletech Limited	BVI	Investment holding	1	US\$1	100%
Capital Plus Assets Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ Charlicks New Guinea Ltd.	Papua New Guinea	Dormant	27,000	PGK2	99.99%
Clever Wise Management Limited	BVI	Provision of nominee services	1	US\$1	70%
Cremorne Investments Limited	BVI	Investment holding	100	US\$1	100%
Dec Limited	BVI	Investment holding	10,000	US\$1	100%
Denleigh Limited	BVI	Investment holding	1	US\$1	100%
Eas Cross Border Trucking Limited	HK	Transportation services	1	HK\$1	100%
Eas Da Tong International Aircargo Company Limited	HK	Investment holding	100,000	HK\$1	100%
Eas Da Tong International Trucking Company Limited	HK	Transportation services	1,000,000	HK\$1	100%
Eas Express Services Limited	HK	Provision of express services	10,000	HK\$1	100%
Eas International Aircargo Co. Limited	HK	Provision of freight forwarding services	10,000	HK\$1	100%
⁽⁵⁾⁽⁹⁾ EAS International Logistics (Shanghai) Co., Ltd.	PRC	Logistics business	US\$6,000,000	–	70%
Eas International Logistics Centre Limited	HK	Logistics services	50,000,000	HK\$1	70%
Eas International Shipping Co., Limited	HK	Provision of freight forwarding and shipping services	100 1,000,000 ⁽²⁾	HK\$1 HK\$1	70%
Eas International Transportation (HK) Limited	HK	Investment holding	100,000	HK\$1	70%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Eas Logistics (Shenzhen) Co., Ltd.	PRC	Warehouse and logistics business	US\$400,000	–	70%
Ever Asset Group Limited	BVI	Investment holding	1	US\$1	100%
Evershine Equity Limited	BVI	Investment holding	1	US\$1	100%
Fortune Rising Ltd.	BVI	Investment holding	1	US\$1	70%
High Success Group Limited	BVI	Investment holding	10	US\$1	70%
Intelligain Investments Limited	BVI	Investment holding	1	US\$1	100%
Intellocean Investments Limited	BVI	Investment holding	1	US\$1	100%
International Enterprise Co. Limited	HK	Investment holding	10 10,000 ⁽²⁾	HK\$1 HK\$1	100%
Kerry Cargo Centre Limited	HK	Warehouse ownership	2	HK\$1	100%
⁽⁵⁾⁽⁹⁾ Kerry Cargo Transportation Co Ltd	PRC	Provision of transportation services	HK\$9,850,000	–	100%
Kerry Cold Store (Hong Kong) Limited	HK	Warehouse operation	2	HK\$10	100%
Kerry D.G. Warehouse (Kowloon Bay) Limited	HK	Warehouse ownership	20,000,000	HK\$1	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Logistics Network Division (Continued)					
Kerry Distribution (Hong Kong) Limited	HK	Provision of distribution services	500,000	HK\$1	100%
⁽⁵⁾⁽⁶⁾ Kerry Distribution (Thailand) Limited	Thailand	Provision of distribution services	200,000 ⁽⁴⁾	Baht100	71%
⁽⁵⁾⁽⁹⁾ Kerry EAS Logistics (Qingdao) Co., Ltd.	PRC	Logistics business	US\$200,000	–	70%
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Kerry EAS Logistics (SHENZHEN) Ltd.	PRC	Freight forwarding business	US\$1,000,000	–	70%
⁽⁵⁾⁽⁸⁾ Kerry EAS Logistics (Xiamen) Co., Ltd.	PRC	Logistics business	US\$1,100,000	–	70%
⁽⁵⁾⁽⁹⁾ Kerry EAS Logistics Limited	PRC	Freight forwarding and logistics business	RMB150,000,000	–	70%
⁽⁵⁾⁽⁸⁾ Kerry EAS Warehouse (Zhuhai Free Trade Zone) Ltd.	PRC	Provision of cargo storage services	HK\$1,000,000	–	70%
Kerry Facilities Management (Hong Kong) Limited	HK	Building management and guarding	2	HK\$1	100%
Kerry Facilities Management Services Limited	HK	Building management and guarding	2	HK\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry FFTZ Warehouse (Shenzhen) Ltd.	PRC	Warehouse and logistics business	HK\$70,000,000	–	51%
⁽⁵⁾ Kerry Freight (Australia) Pty Ltd	Australia	Freight forwarding	2	A\$1	100%
Kerry Freight (Hong Kong) Limited	HK	Freight forwarding	100 27,500 ⁽²⁾	HK\$100 HK\$100	100%
⁽⁵⁾⁽⁶⁾ Kerry Freight (Korea) Inc.	Korea	Freight forwarding	100,000	KRW5,000	50.99%
⁽⁵⁾⁽⁶⁾ Kerry Freight (Taiwan) Limited	Taiwan	Freight forwarding	2,900,000	TWD10	51%
⁽⁵⁾⁽⁶⁾ Kerry Freight (Thailand) Limited	Thailand	Freight forwarding	115,000 ⁽⁴⁾	Baht100	58%
Kerry Freight International (Europe) Limited	HK	Investment holding	1	HK\$1	100%
Kerry Freight International (Taiwan) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Freight International Limited	HK	Freight forwarding	2	HK\$1	100%
Kerry Freight Services (China) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Freight Services (Europe) Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ Kerry Freight Services (Far East) Pte. Ltd.	Singapore	Investment holding	1	S\$1	100%
Kerry Freight Services (HKSAR) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Freight Services (Korea) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Freight Services (Philippines) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Freight Services (South East Asia) Limited (formerly known as Kerry Logistics Services (South East Asia) Limited)	BVI	Investment holding	10,000	HK\$1	100%
Kerry Freight Services (Taiwan) Limited	BVI	Investment holding	10,000	HK\$1	100%
Kerry Freight Services (Thailand) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Freight Services (U.K.) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Freight Services (USA) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Freight Services Limited	BVI	Investment holding	1	HK\$1	100%
⁽⁵⁾⁽⁶⁾ Kerry Integrated Logistics (Vietnam) Co., Ltd.	Vietnam	Warehouse and logistics services	US\$2,400,000	–	100%
⁽⁵⁾ Kerry Logistics (Australia) Pty Ltd	Australia	Operation of logistics business, rail terminal and container depot	1,000,000	A\$2	100%
Kerry Logistics (Beijing) Ltd.	SMA	Investment holding	1	US\$1	100%
⁽⁵⁾ Kerry Logistics (Belgium)	Belgium	International freight forwarding	186	EUR100	100%

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Logistics Network Division (Continued)					
⁽⁵⁾⁽⁶⁾ Kerry Logistics (Cambodia) Pte. Ltd.	Cambodia	International freight forwarding	1,000	KHR20,000	100%
⁽⁵⁾ Kerry Logistics (Central Europe) GmbH	Germany	Investment holding	EUR250,000	–	100%
Kerry Logistics (China) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Logistics (Futian FTZ) Investments Ltd.	SMA	Investment holding	1	HK\$1	100%
⁽⁵⁾ Kerry Logistics (Germany) GmbH	Germany	International freight forwarding	EUR50,000	–	100%
Kerry Logistics (HKSAR) Limited	BVI	Investment holding	1	US\$1	100%
Kerry Logistics (Hong Kong) Limited	HK	Operation of logistics business	10,000,000	HK\$1	100%
⁽⁵⁾ Kerry Logistics (Macau) Limited	Macau	Logistics services	MOP100,000	–	100%
⁽⁵⁾⁽⁸⁾ Kerry Logistics (Malaysia) Sdn Bhd	MAL	Logistics and freight forwarding	1,000,000	RM1	67%
⁽⁵⁾ Kerry Logistics (Netherlands) B.V.	The Netherlands	International freight forwarding	EUR18,000	–	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.	PRC	Operation of logistics business	HK\$44,000,000	–	100%
Kerry Logistics (Shenzhen Futian) Investments Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Logistics (Shenzhen Yantian) Ltd.	SMA	Investment holding	1	HK\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Logistics (Shenzhen) Co., Ltd.	PRC	Operation of logistics business	HK\$3,300,000	–	100%
⁽⁵⁾ Kerry Logistics (Singapore) Pte. Ltd.	Singapore	International sea and air forwarding	500,000	S\$1	67%
⁽⁵⁾ Kerry Logistics (South East Asia) Pte. Ltd.	Singapore	Investment holding	4,500,000	S\$1	67%
⁽⁵⁾ Kerry Logistics (Switzerland) GmbH	Switzerland	International freight forwarding	CHF20,000	–	100%
Kerry Logistics (Taiwan) Investments Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾⁽⁶⁾ Kerry Logistics (Thailand) Limited	Thailand	Operation of logistics business	1,600,000 ⁽⁴⁾	Baht100	71%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Logistics (Tianjin) Co., Ltd.	PRC	Operation of logistics business	HK\$20,000,000	–	100%
Kerry Logistics (Tianjin) Investments Ltd.	SMA	Investment holding	10,000	HK\$1	100%
⁽⁵⁾ Kerry Logistics (UK) Limited	UK	Sea and air freight forwarding	20,000	£1	91%
Kerry Logistics (Waigaoqiao) Ltd.	SMA	Investment holding	1	HK\$1	100%
⁽⁵⁾ Kerry Logistics (Western Europe)	Belgium	Investment holding	186	EUR100	100%
⁽⁵⁾ Kerry Logistics GmbH	Austria	International freight forwarding	EUR35,000	–	100%
Kerry Logistics Holding (Macau) Limited (formerly known as Bestford Resources Limited)	BVI	Investment holding	1	HK\$1	100%
⁽⁵⁾ Kerry Logistics Holding EU	Belgium	Investment holding	300	EUR100	100%
⁽⁵⁾ Kerry Logistics Holdings (Australia) Pty Ltd	Australia	Investment holding	100	A\$1	100%
Kerry Logistics Infrastructure Limited	BVI	Investment holding	10,000	HK\$1	100%
Kerry Logistics Limited	BVI	Investment holding	42,430,000	HK\$1	100%
Kerry Logistics Network Limited	Bermuda	Investment holding in HK	500,000	HK\$1	100% *
Kerry Logistics Services (Australia) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Logistics Services (Macau) Limited (formerly known as Kerry Logistics (Macau) Limited)	BVI	Investment holding	1	HK\$1	100%
Kerry Logistics Services (Spain) Limited	BVI	Investment holding	1,000	US\$1	100%
Kerry Logistics Services (Thailand) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Logistics Services (Vietnam) Limited (formerly known as Kerry Logistics Services (Korea) Limited)	BVI	Investment holding	1	HK\$1	100%
Kerry Logistics Services Limited	BVI	Investment holding	2	US\$1	100%
Kerry Logistics Shanghai Corporation	SMA	Investment holding	1	HK\$1	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Logistics Network Division (Continued)					
⁽⁵⁾ Kerry Records Management Limited	UK	Documents storage	100	£1	91%
Kerry Records Management Services Limited	HK	Documents storage	2	HK\$1	100%
⁽⁵⁾ Kerry Reliable Logistics Private Limited	India	Logistics and freight forwarding	10,000	INR10	51%
⁽⁵⁾⁽⁶⁾ Kerry Siam Seaport Limited	Thailand	Operating deep-sea wharf and warehouses	48,450,000	Baht10	56.65%
Kerry TC Warehouse 1 (Block A) Limited	BVI	Warehouse ownership in HK	1	US\$1	100%
Kerry TC Warehouse 1 (Block B) Limited	BVI	Warehouse ownership in HK	1	US\$1	100%
Kerry TC Warehouse 2 Limited	HK	Warehouse ownership	10,000	HK\$1	100%
Kerry TC Warehouse Holdings Limited	BVI	Investment holding	10,000,000	HK\$1	100%
Kerry Warehouse (Chai Wan) Limited	HK	Warehouse ownership and operation	10,000,000	HK\$1	100%
Kerry Warehouse (Fanling 1) Limited	HK	Warehouse ownership and operation	2	HK\$1	100%
Kerry Warehouse (Fanling 2) Limited	HK	Dormant	2	HK\$1	100%
Kerry Warehouse (HKSAR) Limited	BVI	Investment holding	1	HK\$1	100%
Kerry Warehouse (Hong Kong) Limited	HK	Warehouse operation	25,000,000	HK\$1	100%
Kerry Warehouse (Kwai Chung) Limited	HK	Warehouse ownership and operation	30,000	HK\$1	100%
Kerry Warehouse (Shatin) Limited	HK	Warehouse ownership and operation	10,000,000	HK\$1	100%
Kerry Warehouse (Sheung Shui) Limited	HK	Warehouse ownership and operation	5,000,000	HK\$1	100%
Kerry Warehouse (Tsuen Wan) Limited	HK	Warehouse ownership and operation	2	HK\$1	100%
Kerry Warehouse (Yuen Long 1) Limited	HK	Dormant	2	HK\$1	100%
Kerry Warehouse Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ KerryFlex Supply Chain Solutions (Macau) Limited	Macau	Provision of supply chain solutions, import and export services	MOP100,000	–	100%
KerryFlex Supply Chain Solutions Limited	HK	Provision of supply chain solutions services	5,000,000	HK\$1	100%
Kimberley Inc.	BVI	Investment holding	1,000	US\$1	100%
KLN Container Line Limited	BVI	Freight forwarding business	1,200,000	HK\$1	100%
⁽⁵⁾⁽⁷⁾ Kuok Pengangkutan Sdn. Bhd.	MAL	Freight forwarding and logistics	2,500,000	RM1	31.22%
La Corte Investments Limited	BVI	Investment holding	1	US\$1	100%
Lap Sun Wholesaling Network Limited	HK	Wholesaling	2	HK\$1	100%
Longstone Holdings Limited	BVI	Investment holding	100	US\$1	100%
Mainco Management Limited	HK	Building management	10,000	HK\$1	100%
Nettlefold Limited	BVI	Investment holding	10,000	US\$1	100%
Newtonmore Investments Limited	BVI	Investment holding	1	HK\$1	100%
Norwarth Investments Limited	BVI	Provision of management services	1	US\$1	100%
Omisoka Holdings Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ Orion Shipping and Forwarding Limited	UK	Freight forwarding	20,000	£1	57.79%
Pacific Worth Group Limited	BVI	Investment holding	1	US\$1	100%
Pan Asia Airlines Investment Limited	SMA	Dormant	1	US\$1	100%
Pola Company Limited	BVI	Investment holding	1,000	US\$1	100%
Ponnelle Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ PT Kerry Logistics (Indonesia)	Indonesia	Freight forwarding and logistics	50,000	US\$1	60.30%
Quintoll Limited	BVI	Investment holding	1	US\$1	100%
Renmark Limited	BVI	Investment holding	1	US\$1	100%
Rightful Investments Limited	BVI	Investment holding	1	US\$1	100%
Rocfaith Investments Limited	SMA	Investment holding	1	US\$1	70%
Shabu Inc.	BVI	Investment holding	1	US\$1	100%

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Logistics Network Division (Continued)					
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Shanghai Kerry CHJ Logistics Limited	PRC	Operation of logistics business	HK\$14,040,000	–	97%
⁽⁵⁾⁽⁶⁾⁽¹⁰⁾ Shanghai Song Jiang Eas Logistics Co., Ltd.	PRC	Provision of transportation services	RMB2,500,000	–	56%
Sharp Mega Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Shenzhen Kerry Yantian Port Logistics Company Limited	PRC	Operation of logistics business	RMB88,000,000	–	55%
Shine Concept Investments Limited	BVI	Investment holding	1	US\$1	100%
Sino Galaxy Investment Limited	HK	Dormant	15,600,000	HK\$1	70%
Sky Wealth Investments Limited	BVI	Investment holding	1	US\$1	100%
Smart Honor Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾⁽⁶⁾⁽¹⁰⁾ Suzhou Industrial Park District Kerry Eas Logistics Co., Ltd. (formerly known as Suzhou Industrial Park District Eas International Logistics Co., Ltd.)	PRC	Provision of logistics business	RMB5,000,000	–	70%
Terowie Holdings Limited	BVI	Investment holding	10,000	HK\$1	100%
⁽⁵⁾⁽⁶⁾ Tianjin Kerry Eas Customs Declaration Limited	PRC	Acting as agent to import and export goods	RMB1,500,000	–	70%
Time Advantage Holdings Limited	BVI	Investment holding	1	US\$1	70%
Top Wise Agents Limited	BVI	Dormant	1	US\$1	100%
Torres Investments Limited	BVI	Investment holding	10,000	HK\$1	100%
Treasure Lake Limited	BVI	Investment holding	1	US\$1	100%
⁽⁵⁾ Trident International Limited	UK	Dormant	1	£1	91%
Twindale Limited	BVI	Investment holding	1	US\$1	100%
Wah Cheong Company, Limited	HK	General merchants	150,000	HK\$100	99.87%
Wise Group Investments Limited	SMA	Investment holding	1	US\$1	70%
⁽⁵⁾⁽⁶⁾⁽¹⁰⁾ Wuxi Huatong Warehouse Services Co., Ltd.	PRC	Warehouse storage services	RMB500,000	–	70%
⁽⁵⁾⁽⁶⁾ Xinjiang Kerry EAS Logistics Limited	PRC	Logistics business	RMB3,000,000	–	70%
Yanawa Limited	BVI	Investment holding	1	US\$1	100%
Zinnerman Limited	BVI	Investment holding	1	US\$1	100%
Under Other Divisions					
Alpine Project Management Ltd.	SMA	Project management in Asia	1	US\$1	100%
Architectural Design and Management Services Limited	HK	Provision of architectural services	2	HK\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Beijing Kerry Datalinks Limited	PRC	Operation of internet data centre	US\$2,100,000	–	100%
Close Encounters Limited	BVI	Investment holding	10,000	HK\$1	100%
Gain Silver Finance Limited	BVI	Group financing	1	US\$1	100%
iBe-Datalinks (Beijing) Limited	SMA	Investment holding	1	HK\$1	100%
iBe-Tech Investments Limited	BVI	Investment holding	1	US\$1	100% *
ISA Investments Limited	BVI	Investment holding	1	US\$1	100%
Kerry Corporate Services Limited	HK	Provision of corporate services	1	HK\$1	100%
Kerry Estate Management Limited	BVI	Investment holding	10,000	HK\$1	100% *
Kerry Overseas Project Management Limited (Jia Li Hai Wai Xiang Mu Guan Li Limited)	Liberia	Project management in Asia	1	US\$100	100%
Kerry Project Management (H.K.) Limited	HK	Project management	300,000	HK\$1	100%
Kerry Project Services Limited	HK	Dormant	2	HK\$1	100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

43 GROUP STRUCTURE – SUBSIDIARIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Issued share capital ⁽¹⁾ / Registered capital		Indirect interest held unless denoted with *
			Number/ Amount	Par value per share	
Under Other Divisions (Continued)					
⁽⁶⁾⁽⁸⁾ Kerry Properties Development Management (Shanghai) Co., Ltd.	PRC	Real estate management	US\$650,000	–	100%
Kerry Properties Nominees Limited	BVI	Provision of nominee services	1,000	HK\$1	100%
Kerry Properties Treasury Limited	BVI	Investment holding and group financing	4,670,665,187	HK\$1	100% *
⁽⁶⁾⁽⁸⁾ Kerry Property Management (Beijing) Co., Ltd.	PRC	Property management and corporate consultancy services	HK\$500,000	–	100%
Kerry Property Management Services Limited	HK	Property management	20	HK\$1	100%
Kerry Real Estate Agency Limited	HK	Estate agency	2	HK\$1	100%
⁽⁵⁾⁽⁶⁾⁽⁸⁾ Kerry Real Estate Management (Shenzhen) Ltd.	PRC	Real estate management	HK\$3,000,000	–	100%
Kerry Real Estate Services (Beijing) Ltd.	SMA	Dormant	1	HK\$1	100%
Kerry Real Estate Services (Fuzhou) Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Real Estate Services (Shanghai) Ltd.	SMA	Investment holding	1	HK\$1	100%
Kerry Real Estate Services (Shenzhen) Ltd.	SMA	Investment holding	1	HK\$1	100%
Southwark Profits Limited	BVI	Investment holding	100	US\$1	100%
Tellico Investment Limited	Liberia	Investment holding	1	US\$1	100%
Toccate Company Limited	HK	Financing	10 1,000,000 ⁽²⁾	HK\$1 HK\$1	100%
Upsmart Investments Limited	HK	Dormant	2	HK\$1	100%
Win House/Kai Tai (Joint Venture) Company Limited	HK	Provision of construction work	100	HK\$1	75%
Win House Industries Limited	HK	Investment holding and provision of construction work	1,000,000	HK\$1	100%
Wing Tsing Financial Services Limited	BVI	Group financing in HK	1	US\$1	100%
Wise Insight Finance Limited	BVI	Group financing in HK	1	US\$1	100%
⁽⁵⁾⁽⁸⁾ Yu Quan Property Management (Fuzhou) Ltd.	PRC	Real estate management	HK\$500,000	–	100%

Notes:

- (1) all being ordinary shares and fully paid up except otherwise stated
- (2) non-voting deferred shares
- (3) preference shares
- (4) common shares
- (5) companies not audited by PricewaterhouseCoopers
- (6) English translation of name only
- (7) deemed subsidiary
- (8) wholly foreign-owned enterprise
- (9) sino-foreign equity joint venture enterprise
- (10) domestic joint venture enterprise
- (11) deemed associated company
- (12) companies having a financial accounting period which is not coterminous with the Group

BVI British Virgin Islands
 HK Hong Kong
 MAL Malaysia
 PHI Philippines
 PRC The People's Republic of China
 SMA Samoa
 UK United Kingdom

44 GROUP STRUCTURE – ASSOCIATED COMPANIES

As at 31 December 2006, the Company held interests in the following associated companies which are categorized according to the business divisions of the Group, namely, Property Division, Infrastructure Division and Logistics Network Division as listed below:

Name	Place of incorporation/ establishment	Principal activities	Class of shares/ Registered capital	Interest held indirectly
Under Property Division				
Able Time Group Limited	BVI	Investment holding	Ordinary	40%
⁽⁵⁾⁽¹²⁾ Ariel Investments Limited	HK	Investment holding	Ordinary	45%
Bay Tower Properties Limited	BVI	Investment holding	Ordinary	33.33%
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Beijing BHL Logistics Limited	PRC	Land resettlement	US\$20,000,000	20%
⁽⁵⁾ Benefit Bright (B.V.I.) Limited	BVI	Investment holding in HK	Ordinary	32.50%
⁽⁵⁾ Benefit Bright Limited	HK	Property investment and trading	Ordinary	32.50%
Brisbane Trading Company Limited	HK	Investment holding and property trading	Ordinary Non-voting deferred	50%
⁽⁵⁾ Capital Fun Limited	HK	Provision of nominee services	Ordinary	20%
⁽⁵⁾ Cardiff Investments Limited	HK	Investment holding	Ordinary	30%
⁽⁵⁾ Cavalcade Holdings Limited	BVI	Investment holding	Ordinary	45%
Cheerjoy Development Limited	HK	Property development	Ordinary	35%
Cushion Company Limited	HK	Dormant	Ordinary	33.33%
EDSA Parking Services, Inc.	PHI	Carpark operations	Common	39.12%
EDSA Properties Holdings Inc.	PHI	Property development, investment holding and real estate management	Common	39.12%
⁽⁵⁾ Enterprico Investment Limited	HK	Loan financing	Ordinary	45%
Expert Vision Holdings Limited	BVI	Investment holding	Ordinary	30%
Fine Winner Holdings Limited	HK	Hotel ownership and operation	Ordinary	30%
⁽⁵⁾⁽¹²⁾ Grand Creator Investment (BVI) Limited	BVI	Investment holding	Ordinary	40%
⁽⁵⁾⁽¹²⁾ Grand Creator Investment Limited	HK	Property development and trading	Ordinary	40%
⁽⁵⁾⁽¹²⁾ Hang Hau Station (Project Management) Limited	HK	Project management	Ordinary	40%
⁽⁵⁾ Harvest Sun (B.V.I.) Limited	BVI	Investment holding in HK	Ordinary	20%
⁽⁵⁾ Harvest Sun Limited	HK	Property investment and trading	Ordinary	20%
Hilaire Inc.	BVI	Investment holding	Ordinary	33.33%
⁽⁵⁾⁽¹²⁾ Jacksons Landing Development Pty. Limited	Australia	Property development	Ordinary	25%
⁽⁵⁾⁽¹²⁾ Jacksons Landing Estate Management Pty Limited	Australia	Property management	Ordinary	25%
⁽⁵⁾ Kerry Hung Kai Warehouse (Cheung Sha Wan) Limited	HK	Warehouse operation	Ordinary	50%
⁽⁵⁾ Kosco Limited	BVI	Provision of nominee services	Ordinary	32.50%
⁽⁵⁾ Olympian City 1 (Project Management) Limited	HK	Project management	Ordinary	20%
⁽⁵⁾ Olympian City 1 Management Company Limited	HK	Leasing and estate management	Ordinary	20%
⁽⁵⁾ Olympian City 2 (Project Management) Limited	HK	Project management	Ordinary	32.50%
⁽⁵⁾ Olympian City 2 Finance Company Limited	HK	Provision of finance services	Ordinary	38.20%
⁽⁵⁾ Olympian City 2 Management Company Limited	HK	Leasing and estate management	Ordinary	32.50%
Point Perfect Investments Limited	BVI	Investment holding	Ordinary	35%
Portstewart Limited	HK	Provision of finance services	Ordinary	50%
⁽⁵⁾⁽¹²⁾ Reca Limited	BVI	Provision of nominee services	Ordinary	40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

44 GROUP STRUCTURE – ASSOCIATED COMPANIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Class of shares/ Registered capital	Interest held indirectly
Under Property Division (Continued)				
⁽⁵⁾⁽¹²⁾ Residence Oasis Finance Company Limited	HK	Provision of finance services	Ordinary	40%
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Shanghai Pudong Kerry City Properties Co., Ltd.	PRC	Property development	US\$163,201,340	40.80%
Shangri-La Plaza Corporation	PHI	Operation of shopping mall and other related activities	Common Preference	30.80%
The Shang Grand Tower Corporation	PHI	Property development	Common Preference	39.12%
⁽¹²⁾ Time Rank Limited	HK	Property trading	Ordinary	50%
⁽⁵⁾ Top Spring Development (Beijing) Limited	HK	Investment holding	Ordinary	25%
⁽⁵⁾ Twin Luck Worldwide Ltd.	BVI	Investment holding	Ordinary	50%
Ubagan Limited	HK	Property development	Ordinary	40%
⁽⁵⁾ Win Chanford Enterprises Limited	HK	Property investment	Ordinary	45%
⁽⁵⁾ Wolver Hollow Company Limited	HK	Warehouse ownership	Ordinary	50%
⁽⁵⁾⁽¹²⁾ Wu Wing International Company, Limited	HK	Property trading and investment	Ordinary	45%
Under Infrastructure Division				
Adwood Company Limited	HK	Investment holding	Ordinary	30%
⁽⁵⁾⁽⁹⁾⁽¹¹⁾ Hohhot Chunhua KVV Water Treatment Company Limited	PRC	Water treatment facilities ownership and management	RMB192,329,200	13%
⁽⁵⁾⁽⁹⁾⁽¹¹⁾ Hohhot Chunhua VWK Water Operation Company Limited	PRC	Water treatment facilities operation and maintenance	RMB14,000,000	19.5%
⁽¹¹⁾⁽¹²⁾ Hong Kong Transport, Logistics and Management Company Limited	HK	Tunnel management, operation and maintenance	Ordinary	15%
⁽¹¹⁾⁽¹²⁾ Hong Kong Tunnels and Highways Management Company Limited	HK	Tunnel management	Ordinary	15%
Kerry CQ JV Environmental Engineering Limited	BVI	Investment holding	Ordinary	50%
Kerry CQ Water (Hohhot) Limited	BVI	Investment holding	Ordinary	50%
⁽⁵⁾⁽¹¹⁾ KVV Investment Company Limited	HK	Investment holding	Ordinary	25.5%
⁽⁵⁾⁽¹¹⁾⁽¹²⁾ REDtone Telecommunications (China) Limited	HK	Investment holding	Ordinary	25%
⁽⁵⁾⁽⁸⁾⁽¹¹⁾⁽¹²⁾ REDtone Telecommunications (Shanghai) Limited	PRC	Provision of technical support services to telecommunications provider	US\$3,490,000	25%
⁽¹¹⁾⁽¹²⁾ Western Harbour Tunnel Company Limited	HK	Tunnel operation and management	Ordinary	15%
Under Logistics Network Division				
⁽¹¹⁾⁽¹²⁾ Asia Airfreight Services Limited	HK	Provision of air cargo services	Ordinary	15%
⁽¹¹⁾⁽¹²⁾ Asia Airfreight Terminal Company Limited	HK	Air cargo handling terminal operation	Ordinary	15%
⁽⁹⁾ Chiwan Container Terminal Co., Ltd	PRC	Port terminal operation	US\$70,500,000	25%
⁽⁵⁾⁽⁶⁾⁽¹⁰⁾ CV Global Logistics (Beijing) Limited	PRC	Logistics business	RMB50,000,000	50%
⁽⁵⁾⁽⁹⁾ Dalian Hantong Logistics Co., Ltd.	PRC	Warehousing and container maintenance	US\$2,720,000	35%
⁽⁵⁾ Eas System (M) Sdn. Bhd.	MAL	Dormant	Ordinary	34.27%
⁽⁵⁾ Eas Transportation (M) Sdn. Bhd.	MAL	Dormant	Ordinary	48.30%
EPHI Logistics Holdings, Inc.	PHI	Investment holding	Common	40%

44 GROUP STRUCTURE – ASSOCIATED COMPANIES (Continued)

Name	Place of incorporation/ establishment	Principal activities	Class of shares/ Registered capital	Interest held indirectly
Under Logistics Network Division (Continued)				
⁽⁵⁾⁽⁶⁾⁽⁹⁾ Kerry BHL Logistics Limited	PRC	Provision of logistics services	US\$12,000,000	50%
⁽⁵⁾ Kerry Freight Philippines, Inc.	PHI	Freight and logistics business	Common	20.40%
⁽⁵⁾ Kerry Salvat Logistics, S.A.	Spain	Transportation forwarding and materials handling	Ordinary	50%
⁽⁵⁾⁽⁶⁾ Kerry Samyoung Logistics (Korea) Ltd.	Korea	Provision of logistics services, packing, loading and unloading services	Ordinary	30.60%

Notes:

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- (3) preference shares
- (4) common shares
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- (6) English translation of name only
- (7) deemed subsidiary
- (8) wholly foreign-owned enterprise
- (9) sino-foreign equity joint venture enterprise
- (10) domestic joint venture enterprise
- (11) deemed associated company
- (12) companies having a financial accounting period which is not coterminous with the Group

BVI	British Virgin Islands
HK	Hong Kong
MAL	Malaysia
PHI	Philippines
PRC	The People's Republic of China
SMA	Samoa
UK	United Kingdom