

2008



INTERIM REPORT

For the six months ended 30 June 2008



KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 683

CORPORATE INFORMATION AND KEY DATES**Board of Directors**

Mr KUOK Khoon Chen⁺
Chairman
Mr WONG Siu Kong⁺
President & Chief Executive Officer
Mr HO Shut Kan⁺
Mr MA Wing Kai, William⁺
Mr SO Hing Woh, Victor, MBE, JP⁺
Mr CHAN Wai Ming, William
Mr QIAN Shaohua
Mr KU Moon Lun[#]
Mr LAU Ling Fai, Herald[#]
Ms WONG Yu Pok, Marina, JP[#]
Mr TSE Kai Chi[@]

Audit Committee

Mr LAU Ling Fai, Herald
Chairman
Mr KU Moon Lun
Ms WONG Yu Pok, Marina, JP
Mr TSE Kai Chi

Finance Committee

Mr KUOK Khoon Chen
Mr WONG Siu Kong
Mr HO Shut Kan

Remuneration Committee

Mr KUOK Khoon Chen
Chairman
Mr WONG Siu Kong
Mr KU Moon Lun
Mr LAU Ling Fai, Herald
Ms WONG Yu Pok, Marina, JP

Executive Committee

Mr KUOK Khoon Chen
Mr WONG Siu Kong
Mr HO Shut Kan
Mr MA Wing Kai, William
Mr SO Hing Woh, Victor, MBE, JP

Qualified Accountant

Mr YU Kam Wah

Company Secretary

Ms LI Siu Ching, Liz

Auditor

PricewaterhouseCoopers

Registered Office

Canon's Court
22 Victoria Street
Hamilton HM12
Bermuda

Head Office and Principal Place of Business

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

Website

www.kerryprops.com

Principal Share Registrar and Transfer Office

Butterfield Fund Services (Bermuda) Limited
Rosebank Centre
11 Bermudiana Road
Pembroke HM08
Bermuda

Hong Kong Branch Registrar and Transfer Office

Tricor Abacus Limited
26/F, Tesbury Centre
28 Queen's Road East
Wanchai, Hong Kong

Contact

Corporate Communications Department
Kerry Properties Limited
13/F – 14/F, Cityplaza 3
14 Taikoo Wan Road
Taikoo Shing, Hong Kong
Telephone: (852) 2967 2200
Facsimile: (852) 2967 9480

Key Dates**Closure of Registers of Members**

3 September 2008 and 4 September 2008

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

17 October 2008

+ *Executive Director*

Independent Non-executive Director

@ *Non-executive Director*

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") is pleased to report the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2008. The Audit Committee of the Board has met to review the results and the financial statements of the Group for the six months ended 30 June 2008 prior to recommending them to the Board for approval.

The Group's consolidated net profit attributable to shareholders for the six months ended 30 June 2008 was HK\$2,483 million, representing an increase of 1% compared with HK\$2,470 million reported for the same period in 2007. In accordance with Hong Kong Accounting Standard 40 "Investment Property", the Group measured its investment property portfolio on a fair value basis and recorded an increase in fair value of investment properties (net of deferred taxation) of HK\$948 million for the six months ended 30 June 2008 (2007: HK\$1,098 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 12% in profit attributable to shareholders to HK\$1,535 million for the six months ended 30 June 2008 (2007: HK\$1,372 million).

Earnings per share for the six months ended 30 June 2008 were HK\$1.74, representing a decrease of 10% compared with HK\$1.94 per share for the same period in 2007. The basis of calculating the earnings per share is detailed in note 5 below.

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

	Six months ended 30 June		Increase
	2008	2007	
	HK\$ million	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	1,535	1,372	12%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>948</u>	<u>1,098</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,483</u>	<u>2,470</u>	1%

The Directors have declared an interim dividend of HK\$0.3 per share for the six months ended 30 June 2008 (2007: HK\$0.3), which is payable on Friday, 17 October 2008 to shareholders whose names appear on the Registers of Members of the Company on Thursday, 4 September 2008, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2008 Interim Scrip Dividend Scheme").

The 2008 Interim Scrip Dividend Scheme is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. In the unlikely event that any of the aforementioned conditions are not satisfied, shareholders will receive the interim dividend for the six months ended 30 June 2008 wholly in cash. The issue price of the new shares to be issued under the 2008 Interim Scrip Dividend Scheme will be equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days immediately after Thursday, 4 September 2008. A circular containing details of the 2008 Interim Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Friday, 19 September 2008.

At the Company's Annual General Meeting held on 6 May 2008, shareholders approved the final dividend of HK\$0.65 per share for the year ended 31 December 2007 which amounted to a total of approximately HK\$926.1 million. Shareholders were given a scrip alternative to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. As a result, a total of 1,228,740 shares were issued on 17 June 2008 at a price of HK\$54.47 per share, which was equivalent to a total value of approximately HK\$66.9 million pursuant to the aforesaid scrip dividend scheme and a total amount of HK\$859.2 million was paid in cash on 17 June 2008.

CONSOLIDATED INCOME STATEMENT

	Note	Unaudited	
		Six months ended 30 June	
		2008	2007
		HK\$'000	HK\$'000
Turnover	2	7,227,932	5,815,979
Cost of sales		(903,153)	(749,797)
Direct operating expenses		(3,965,428)	(3,243,789)
Gross profit		2,359,351	1,822,393
Other income and net gains		435,179	135,825
Administrative expenses		(478,670)	(372,268)
		2,315,860	1,585,950
Increase in fair value of investment properties		1,173,194	1,331,191
Operating profit before finance costs		3,489,054	2,917,141
Finance costs			
– Before fair value gain on derivative financial instruments		(124,984)	(155,161)
– Fair value gain on derivative financial instruments		20,045	159,671
		(104,939)	4,510
Operating profit	2,3	3,384,115	2,921,651
Share of results of associated companies		180,529	174,230
Profit before taxation		3,564,644	3,095,881
Taxation	4	(846,013)	(537,792)
Profit for the period		2,718,631	2,558,089
Profit attributable to :			
Company's shareholders		2,482,888	2,470,343
Minority interests		235,743	87,746
		2,718,631	2,558,089
Interim dividend		428,051	396,882
Interim dividend per share		HK\$0.30	HK\$0.30
Earnings per share	5		
– Basic		HK\$1.74	HK\$1.94
– Diluted		HK\$1.71	HK\$1.84

CONSOLIDATED BALANCE SHEET

	Note	Unaudited As at 30 June 2008 HK\$'000	Audited As at 31 December 2007 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,126,247	3,102,485
Investment properties		30,883,046	28,324,740
Leasehold land and land use rights		418,384	402,478
Properties under development		20,425,268	14,138,189
Land deposits		3,549,097	3,525,737
Associated companies		5,489,730	5,686,005
Derivative financial instruments		25,100	18,684
Available-for-sale investments		1,640,669	1,789,752
Long-term receivables		28,454	36,748
Goodwill		439,581	306,149
		66,025,576	57,330,967
Current assets			
Properties under development		4,897,042	5,408,011
Completed properties held for sale		706,186	579,784
Accounts receivable, prepayments and deposits	6	3,018,093	2,731,716
Tax recoverable		113,797	102,248
Tax reserve certificates		21,790	21,790
Listed securities at fair value through profit or loss		177,538	224,743
Pledged bank deposits		68,414	64,234
Cash and bank balances		3,942,835	4,236,714
		12,945,695	13,369,240
Current liabilities			
Accounts payable, deposits received and accrued charges	7	3,284,198	4,330,440
Taxation		985,686	587,346
Short-term bank loans and current portion of long-term bank loans	8	2,221,495	649,555
Derivative financial instruments		27,352	32,888
Secured bank overdrafts		12,448	4,624
Unsecured bank overdrafts		2,516	26,204
		6,533,695	5,631,057
Net current assets		6,412,000	7,738,183
Total assets less current liabilities		72,437,576	65,069,150

CONSOLIDATED BALANCE SHEET (continued)

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2008	2007
	Note	HK\$'000	HK\$'000
Non-current liabilities			
Long-term bank loans	8	8,538,859	6,953,242
Convertible bonds	9	2,408,169	2,346,387
Fixed rate bonds		3,255,540	3,254,340
Amounts due to minority shareholders		2,509,422	2,378,154
Derivative financial instruments		55,317	63,410
Deferred taxation		3,652,854	3,295,152
		20,420,161	18,290,685
ASSETS LESS LIABILITIES		52,017,415	46,778,465
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,426,836	1,424,278
Share premium		11,890,367	11,804,186
Other reserves		11,996,106	11,263,616
Retained profits		20,645,833	18,592,906
Proposed dividend		428,051	925,781
		46,387,193	44,010,767
Minority interests		5,630,222	2,767,698
TOTAL EQUITY		52,017,415	46,778,465
FINANCIAL HIGHLIGHTS			
		30 June	31 December
		2008	2007
Equity attributable to the Company's shareholders (<i>HK\$ million</i>)		46,387	44,011
Net borrowings (including bonds) (<i>HK\$ million</i>)		12,428	8,933
Net asset value (attributable to the Company's shareholders) per share		HK\$32.51	HK\$30.90
Gearing (Net borrowings/Equity attributable to the Company's shareholders)		26.8%	20.3%

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	1,099,254	283,589
Interest paid	(305,728)	(255,256)
Income tax paid	(225,169)	(87,172)
Net cash generated from/(used in) operating activities	568,357	(58,839)
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	(722,124)	(1,100,807)
Increase in land deposits	(4,259,846)	–
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(895,973)	(14,025)
Acquisition of additional interest in subsidiaries	(130,684)	–
Disposal of subsidiaries	–	23,403
Disposal of partial interest in subsidiaries	2,000,154	–
Additional investments in associated companies	(1,451)	(484,256)
Disposal of associated companies	–	33,065
Repayment of loans from associated companies	40,910	445,616
Additions of available-for-sale investments	(78,472)	–
Decrease in long-term receivables	8,367	13,341
Acquisition of business	–	(30,000)
Interest received	44,684	40,212
Dividends received from associated companies	25,868	26,419
Dividends received from listed and unlisted investments	33,351	20,768
Repayment of loans from investee companies	–	288
Proceeds from sale of property, plant and equipment and investment properties	68,024	674,990
Proceeds from sale of listed investments	–	14,164
Net cash used in investing activities	(3,867,192)	(336,822)
Financing activities		
Proceeds from issue of shares	17,743	46,406
Proceed from issue of convertible bonds, net of direct issue costs	–	2,325,258
Repayment of bank loans	(2,426,183)	(4,436,582)
Drawdown of bank loans	5,601,856	3,529,882
Dividends paid	(859,226)	(218,241)
Capital injection from minority shareholders	515,606	47,276
Dividends paid to minority shareholders in subsidiaries	(14,131)	(25,048)
Capital reduction to minority shareholders	(20)	(2,980)
Increase in loans from minority shareholders	54,812	88,857
Net cash generated from financing activities	2,890,457	1,354,828
(Decrease)/increase in cash and cash equivalents	(408,378)	959,167
Effect of exchange rate changes	130,363	–
Cash and cash equivalents at 1 January	4,205,886	2,731,931
Cash and cash equivalents at 30 June	3,927,871	3,691,098
Analysis of balances of cash and cash equivalents		
Pledged bank deposits	–	24,552
Cash and bank balances	3,942,835	3,682,272
Secured bank overdrafts	(12,448)	(1,039)
Unsecured bank overdrafts	(2,516)	(14,687)
	3,927,871	3,691,098

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Balance as at 1 January 2007	1,238,289	4,315,270	9,548,836	13,417,641	804,888	29,324,924	2,132,156	31,457,080	
Deferred tax charged to reserves	–	–	(35,314)	–	–	(35,314)	(11,974)	(47,288)	
Fair value gain on available-for-sale investments	–	–	136,609	–	–	136,609	–	136,609	
Fair value gain on derivative financial instruments	–	–	1,030	–	–	1,030	–	1,030	
Exchange differences arising on translation of the financial statements of the PRC and overseas subsidiaries and associated companies	–	–	458,621	–	–	458,621	122,647	581,268	
Net income recognised directly in equity	–	–	560,946	–	–	560,946	110,673	671,619	
Profit for the period	–	–	–	2,470,343	–	2,470,343	87,746	2,558,089	
Total recognised income and expense for the six months ended 30 June 2007	–	–	560,946	2,470,343	–	3,031,289	198,419	3,229,708	
Issue of share capital									
– scrip dividend	14,338	609,778	–	–	–	624,116	–	624,116	
– exercise of share options	3,350	49,094	(6,038)	–	–	46,406	–	46,406	
– conversion of convertible bonds	66,962	1,813,982	(99,762)	–	–	1,781,182	–	1,781,182	
Issue of convertible bonds	–	–	205,553	–	–	205,553	–	205,553	
Provision for share option expense	–	–	2,350	–	–	2,350	–	2,350	
Dividends paid	–	–	–	(37,469)	(804,888)	(842,357)	(25,048)	(867,405)	
2007 proposed interim dividend	–	–	–	(396,882)	396,882	–	–	–	
Transfer	–	–	752	(752)	–	–	–	–	
Acquisition of a subsidiary	–	–	–	–	–	–	5,877	5,877	
Disposal of a subsidiary	–	–	–	–	–	–	(291)	(291)	
Capital injection from minority shareholders	–	–	–	–	–	–	47,276	47,276	
Return of capital to minority shareholders	–	–	–	–	–	–	(2,980)	(2,980)	
	84,650	2,472,854	102,855	(435,103)	(408,006)	1,817,250	24,834	1,842,084	
Balance as at 30 June 2007	<u>1,322,939</u>	<u>6,788,124</u>	<u>10,212,637</u>	<u>15,452,881</u>	<u>396,882</u>	<u>34,173,463</u>	<u>2,355,409</u>	<u>36,528,872</u>	

	Attributable to shareholders of the Company							Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000			
	Balance as at 1 January 2008	1,424,278	11,804,186	11,263,616	18,592,906	925,781	44,010,767		
Deferred tax charged to reserves	-	-	(9,029)	-	-	(9,029)	(5,162)	(14,191)	
Fair value loss on available-for-sale investments	-	-	(151,514)	-	-	(151,514)	-	(151,514)	
Fair value gain on derivative financial instruments	-	-	9,924	-	-	9,924	-	9,924	
Reversal of reserves on disposal of a subsidiary	-	-	(19,457)	-	-	(19,457)	-	(19,457)	
Exchange differences arising on translation of the financial statements of the PRC and overseas subsidiaries and associated companies	-	-	878,063	-	-	878,063	370,266	1,248,329	
Net income recognised directly in equity	-	-	707,987	-	-	707,987	365,104	1,073,091	
Profit for the period	-	-	-	2,482,888	-	2,482,888	235,743	2,718,631	
Total recognised income and expense for the six months ended 30 June 2008	-	-	707,987	2,482,888	-	3,190,875	600,847	3,791,722	
Issue of share capital									
– scrip dividend	1,229	65,701	-	-	-	66,930	-	66,930	
– exercise of share options	1,329	20,480	(4,066)	-	-	17,743	-	17,743	
Provision for share option expense	-	-	27,034	-	-	27,034	-	27,034	
Dividends paid	-	-	-	(375)	(925,781)	(926,156)	(14,131)	(940,287)	
2008 proposed interim dividend	-	-	-	(428,051)	428,051	-	-	-	
Transfer	-	-	1,535	(1,535)	-	-	-	-	
Acquisition of subsidiaries	-	-	-	-	-	-	131,997	131,997	
Acquisition of additional interest in subsidiaries	-	-	-	-	-	-	(155,916)	(155,916)	
Disposal of partial interest in subsidiaries	-	-	-	-	-	-	1,784,141	1,784,141	
Capital injection from minority shareholders	-	-	-	-	-	-	515,606	515,606	
Return of capital to minority shareholders	-	-	-	-	-	-	(20)	(20)	
	2,558	86,181	24,503	(429,961)	(497,730)	(814,449)	2,261,677	1,447,228	
Balance as at 30 June 2008	1,426,836	11,890,367	11,996,106	20,645,833	428,051	46,387,193	5,630,222	52,017,415	

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

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

These condensed consolidated interim financial statements should be read in conjunction with the 2007 annual financial statements. Except as described below, the accounting policies used in the preparation of these condensed interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007.

The following interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2008:

- HK(IFRIC) – Int 11, “HKFRS 2 – Group and Treasury Share Transactions”
- HK(IFRIC) – Int 12, “Service Concession Arrangements”
- HK(IFRIC) – Int 14, “HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction”

The adoption of these interpretations does not have any significant effect on the results and financial position of the Group.

2. Principal activities and segmental analysis of operations

An analysis of the Group's turnover and contribution to operating profit for the six months ended 30 June 2008 by principal activities and markets is as follows:

	Turnover		Operating profit	
	Six months ended 30 June		Six months ended 30 June	
	2008	2007	2008	2007
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental				
– People's Republic of China ("PRC")	369,523	298,565	258,862	200,236
– Hong Kong	298,554	210,535	125,512	36,316
	668,077	509,100	384,374	236,552
Property sales				
– PRC	1,486,445	121,341	1,112,667	31,154
– Hong Kong	704,288	1,567,178	365,249	844,769
	2,190,733	1,688,519	1,477,916	875,923
Hotel operations	208,906	185,383	87,884	83,217
Logistics and warehouse operations				
– warehouse	220,585	212,674	127,991	128,372
– logistics	3,866,582	3,188,161	140,515	114,441
	4,087,167	3,400,835	268,506	242,813
Infrastructure	–	–	(368)	(562)
Project, property management and others	73,049	32,142	(7,391)	152,517
	7,227,932	5,815,979	2,210,921	1,590,460
Increase in fair value of investment properties	–	–	1,173,194	1,331,191
	7,227,932	5,815,979	3,384,115	2,921,651
Principal markets:				
PRC	3,817,493	2,195,004	2,707,414	397,792
Hong Kong	1,995,656	2,614,693	636,920	2,528,768
United Kingdom	560,648	452,549	23,340	7,029
Others	854,135	553,733	16,441	(11,938)
	7,227,932	5,815,979	3,384,115	2,921,651

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

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

An analysis of the Group's revenue and results for the six months ended 30 June 2008 by business segments is as follows:

	Six months ended 30 June 2008							Consolidated
	HK\$'000							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	
REVENUE								
Turnover	2,064,874	1,002,842	-	4,087,167	-	73,049	-	7,227,932
Inter-segment revenue	1,668	-	-	-	-	15,237	(16,905)	-
Inter-segment interest income	-	-	-	-	-	320,037	(320,037)	-
	<u>2,066,542</u>	<u>1,002,842</u>	<u>-</u>	<u>4,087,167</u>	<u>-</u>	<u>408,323</u>	<u>(336,942)</u>	<u>7,227,932</u>
RESULTS								
Segment results before increase in fair value of investment properties	1,470,183	506,221	(2,514)	283,542	(298)	300,728	(320,037)	2,237,825
Increase in fair value of investment properties	<u>1,167,573</u>	<u>5,621</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,173,194</u>
Segment results	2,637,756	511,842	(2,514)	283,542	(298)	300,728	(320,037)	3,411,019
Dividend income	-	22,083	11,268	-	-	-	-	33,351
Interest income	16,356	2,856	8	9,191	1,304	14,969	-	44,684
Interest expenses	<u>(27,126)</u>	<u>(87,573)</u>	<u>-</u>	<u>(24,227)</u>	<u>(1,374)</u>	<u>(284,676)</u>	<u>320,037</u>	<u>(104,939)</u>
Operating profit/(loss)	2,626,986	449,208	8,762	268,506	(368)	31,021	-	3,384,115
Share of results of associated companies	<u>(2,904)</u>	<u>28,297</u>	<u>22,698</u>	<u>106,240</u>	<u>30,298</u>	<u>(4,100)</u>	<u>-</u>	<u>180,529</u>
Profit before taxation	2,624,082	477,505	31,460	374,746	29,930	26,921	-	3,564,644
Taxation	<u>(801,896)</u>	<u>5,492</u>	<u>-</u>	<u>(43,415)</u>	<u>-</u>	<u>(6,194)</u>	<u>-</u>	<u>(846,013)</u>
Profit for the period	<u>1,822,186</u>	<u>482,997</u>	<u>31,460</u>	<u>331,331</u>	<u>29,930</u>	<u>20,727</u>	<u>-</u>	<u>2,718,631</u>
Profit attributable to:								
Company's shareholders	1,619,696	482,737	31,460	298,295	29,974	20,726	-	2,482,888
Minority interests	<u>202,490</u>	<u>260</u>	<u>-</u>	<u>33,036</u>	<u>(44)</u>	<u>1</u>	<u>-</u>	<u>235,743</u>
	<u>1,822,186</u>	<u>482,997</u>	<u>31,460</u>	<u>331,331</u>	<u>29,930</u>	<u>20,727</u>	<u>-</u>	<u>2,718,631</u>

Six months ended 30 June 2007

HK\$'000

	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	605,289	1,777,713	-	3,400,835	-	32,142	-	5,815,979
Inter-segment revenue	296	-	-	-	-	20,057	(20,353)	-
Inter-segment interest income	-	-	-	-	-	252,250	(252,250)	-
	<u>605,585</u>	<u>1,777,713</u>	<u>-</u>	<u>3,400,835</u>	<u>-</u>	<u>304,449</u>	<u>(272,603)</u>	<u>5,815,979</u>
RESULTS								
Segment results before increase in fair value of investment properties	333,323	969,093	(8,437)	258,270	(491)	222,341	(252,250)	1,521,849
Increase in fair value of investment properties	-	1,331,191	-	-	-	-	-	1,331,191
Segment results	333,323	2,300,284	(8,437)	258,270	(491)	222,341	(252,250)	2,853,040
Dividend income	-	13,428	7,340	-	-	-	-	20,768
Interest income	5,082	10,580	-	11,125	2,017	14,529	-	43,333
Interest expenses	(23,798)	(112,016)	-	(26,582)	(2,088)	(83,256)	252,250	4,510
Operating profit/(loss)	314,607	2,212,276	(1,097)	242,813	(562)	153,614	-	2,921,651
Share in results of associated companies	4,856	36,984	23,321	88,155	20,914	-	-	174,230
Profit before taxation	319,463	2,249,260	22,224	330,968	20,352	153,614	-	3,095,881
Taxation	(103,747)	(372,123)	-	(56,023)	-	(5,899)	-	(537,792)
Profit for the period	<u>215,716</u>	<u>1,877,137</u>	<u>22,224</u>	<u>274,945</u>	<u>20,352</u>	<u>147,715</u>	<u>-</u>	<u>2,558,089</u>
Profit attributable to:								
Company's shareholders	162,319	1,877,088	22,224	240,583	20,418	147,711	-	2,470,343
Minority interests	53,397	49	-	34,362	(66)	4	-	87,746
	<u>215,716</u>	<u>1,877,137</u>	<u>22,224</u>	<u>274,945</u>	<u>20,352</u>	<u>147,715</u>	<u>-</u>	<u>2,558,089</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

3. Operating profit

	Six months ended 30 June	
	2008	2007
	<i>HK\$'000</i>	<i>HK\$'000</i>
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	33,351	20,768
Interest income	44,684	43,333
Gain on sale of properties	1,287,580	938,722
Gain on disposal of certain equity interest in certain PRC projects	254,344	–
Gain on disposal of a subsidiary which held 15% effective interest in Beijing COFCO Plaza	124,348	–
<i>Charging</i>		
Depreciation and amortisation	111,481	91,353
Total finance costs incurred	368,710	333,647
Less: amount capitalised in properties under development	(243,726)	(178,486)
	124,984	155,161
Fair value gain on derivative financial instruments	(20,045)	(159,671)
	104,939	(4,510)

4. Taxation

	Six months ended 30 June	
	2008	2007
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(482,082)	(94,565)
Deferred	(335,406)	(22,019)
	(817,488)	(116,584)
Hong Kong profits tax		
Current	(93,992)	(162,026)
Overprovision in prior years	145	–
Deferred	83,803	(249,140)
	(10,044)	(411,166)
Overseas taxation		
Current	(21,496)	(10,042)
Deferred	3,015	–
	(18,481)	(10,042)
	(846,013)	(537,792)

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the six months ended 30 June 2008. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2008 at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

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.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

5. Earnings per share

Basic

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

	Six months ended 30 June	
	2008	2007
Weighted average number of shares in issue	<u>1,424,808,198</u>	<u>1,274,980,525</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>2,482,888</u>	<u>2,470,343</u>
Basic earnings per share	<u>HK\$1.74</u>	<u>HK\$1.94</u>

Diluted

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

	Six months ended 30 June	
	2008	2007
Weighted average number of shares in issue	1,424,808,198	1,274,980,525
Adjustment for convertible bonds	49,296,291	95,094,301
Adjustment for share options	<u>4,727,434</u>	<u>6,340,866</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>1,478,831,923</u>	<u>1,376,415,692</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	2,482,888	2,470,343
Adjustment for finance cost on convertible bonds	<u>51,588</u>	<u>63,843</u>
Profit used to determine diluted earnings per share	<u>2,534,476</u>	<u>2,534,186</u>
Diluted earnings per share	<u>HK\$1.71</u>	<u>HK\$1.84</u>

6. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2008 is as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Below 1 month	1,344,290	1,210,134
Between 1 month and 3 months	476,519	445,193
Over 3 months	<u>255,423</u>	<u>178,410</u>
	<u>2,076,232</u>	<u>1,833,737</u>

7. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 30 June 2008 is as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Below 1 month	462,149	453,120
Between 1 month and 3 months	104,285	166,217
Over 3 months	<u>171,478</u>	<u>93,240</u>
	<u>737,912</u>	<u>712,577</u>

8. Bank loans

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Bank loans – unsecured	10,133,509	6,954,800
Bank loans – secured	626,845	647,997
Total bank loans (<i>note (i)</i>)	10,760,354	7,602,797
Less: Short-term bank loans and current portion of long-term bank loans	<u>(2,221,495)</u>	<u>(649,555)</u>
	<u>8,538,859</u>	<u>6,953,242</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

8. Bank loans (continued)

(i) As at 30 June 2008, the Group's bank loans were repayable as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Within one year	2,221,495	649,555
In the second to fifth year		
– In the second year	258,385	373,850
– In the third year	6,461,344	506,803
– In the fourth year	1,295,783	5,530,930
– In the fifth year	49,139	48,026
	8,064,651	6,459,609
Wholly repayable within five years	10,286,146	7,109,164
Over five years	474,208	493,633
	10,760,354	7,602,797

9. Convertible bonds

During the six months ended 30 June 2008, there had been no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds. Details of the convertible bonds can be found on the annual financial statements for the year ended 31 December 2007.

10. Commitments

At 30 June 2008, the Group had capital commitments in respect of interests in leasehold land, properties under development, property, plant and equipment and investment in associated companies not provided for in these financial statements as follows:

	As at 30 June 2008 HK\$'000	As at 31 December 2007 HK\$'000
Contracted but not provided for	6,389,918	7,003,344
Authorised but not contracted for	9,299	59,431
	6,399,217	7,062,775

11. Contingent liabilities

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 30 June 2008, amounted to approximately HK\$2,114,793,000 (31 December 2007: HK\$1,972,866,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2008 amounted to approximately HK\$2,624,972,000 (31 December 2007: HK\$2,657,216,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2007.

12. Pledge of assets

As at 30 June 2008, the Group's total bank loans and overdrafts of HK\$10,775,318,000 (31 December 2007: HK\$7,633,625,000) included an aggregate amount of HK\$10,136,025,000 (31 December 2007: HK\$6,981,004,000) which is unsecured and an aggregate amount of HK\$639,293,000 (31 December 2007: HK\$652,621,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain properties and port facilities of the Group with an aggregate net book value of HK\$989,491,000 (31 December 2007: HK\$942,359,000);
- (ii) charges on bank balances amounting to HK\$68,414,000 (31 December 2007: HK\$64,234,000) of a subsidiary of the Group; and
- (iii) assignments of insurance proceeds of certain properties of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

The Group continued to demonstrate strong financial performance during the first six months of 2008. Turnover of the Group for the six months ended 30 June 2008 was HK\$7,228 million, which registered an increase of 24% when compared with the turnover of HK\$5,816 million for the corresponding six months ended 30 June 2007. The Group's turnover mainly comprises proceeds from the continuing sales of properties, rental income as well as revenue from hotel operations, warehouse operations and logistics services. The increase in turnover during the period was mainly contributed by the increase in property sales in Mainland China and strong revenue growth in logistics operations.

Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects for the six months ended 30 June 2008 is HK\$1,535 million (2007: HK\$1,372 million), representing an increase of 12% over the period.

During the six months ended 30 June 2008, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$948 million (2007: HK\$1,098 million) was recognised in the Group's consolidated income statement.

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

	Six months ended 30 June		Increase
	2008	2007	
	HK\$ million	<i>HK\$ million</i>	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	1,535	1,372	12%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>948</u>	<u>1,098</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>2,483</u>	<u>2,470</u>	1%

(B) Mainland China Property Division

During the six months ended 30 June 2008, the Group's Mainland China Property Division recorded a turnover of HK\$2,065 million (2007: HK\$605 million) and a net profit attributable to the Group of HK\$1,620 million (2007: HK\$162 million), after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$862 million (2007: Nil).

During the first six months of 2008, the Group has made solid progress in executing its business plans in property development and sales, and site acquisitions.

(i) Investment Properties

During the six months ended 30 June 2008, the Group generated rental income and related operating profit of HK\$370 million and HK\$259 million, respectively (2007: HK\$299 million and HK\$200 million, respectively), from its portfolio of investment properties in Mainland China.

As at 30 June 2008, the Group maintained an investment property portfolio of residential, commercial and office properties in Mainland China with an aggregate gross floor area ("GFA") of 4.65 million square feet (as at 31 December 2007: 3.73 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2008:

	Beijing	Shanghai	Shenzhen	Fuzhou	Total GFA	Occupancy rate
	<i>('000 square feet)</i>					
Office	711	682	815	–	2,208	72%
Commercial	99	442	107	64	712	93%
Residential	277	628	–	–	905	73%
	<u>1,087</u>	<u>1,752</u>	<u>922</u>	<u>64</u>	<u>3,825</u>	
Carparks and others	191	291	344	–	826	
Total GFA	<u>1,278</u>	<u>2,043</u>	<u>1,266</u>	<u>64</u>	<u>4,651</u>	

As at 31 December 2007:

	Beijing	Shanghai	Shenzhen	Fuzhou	Total GFA	Occupancy rate
	<i>('000 square feet)</i>					
Office	815	632	10	–	1,457	83%
Commercial	185	399	107	64	755	93%
Residential	277	627	–	–	904	61%
	<u>1,277</u>	<u>1,658</u>	<u>117</u>	<u>64</u>	<u>3,116</u>	
Carparks and others	195	278	142	–	615	
Total GFA	<u>1,472</u>	<u>1,936</u>	<u>259</u>	<u>64</u>	<u>3,731</u>	

Comparative occupancy rates of key investment properties in Mainland China are set out below:

Property	Occupancy rate as at 30 June 2008	Occupancy rate as at 31 December 2007
Beijing Kerry Centre [^]	92%	90%
Shanghai Kerry Centre	89%	84%
Kerry Everbright City Phase I	80%	74%
Central Residences Phase II Towers 1 and 3	66%	56%

[^] Excluding Beijing Kerry Centre Hotel

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(i) *Investment Properties (continued)*

The Grade-A office complex project in Shenzhen's Central District, Kerry Plaza Phase I, was completed in the first quarter of 2008, delivering an aboveground GFA of approximately 805,000 square feet. The project is advantageously located and sits adjacent to the new Shangri-La Hotel in Futian, which has not yet commenced operation. 50% of the GFA has been leased out with a tenant profile comprising mainly international enterprises.

(ii) *Sales of Completed Properties*

In Mainland China, sales of completed properties during the six months ended 30 June 2008 contributed a turnover of HK\$1,486 million (2007: HK\$121 million) and related operating profit of HK\$858 million (2007: HK\$31 million).

(iii) *Properties under Development*

The first six months of 2008 saw the Group's continued active expansion of its land bank in strategic locations of Mainland China, with a view to further strengthening its presence in this market of tremendous potential.

Shanghai

Located on the south side of Shanghai Railway Station, and close to the Hanzhong Road Station of Metro Line 1 and the South-North Highway, Kerry Everbright City enjoys excellent accessibility with only a few minutes' drive to the People's Square and Nanjing West Road. Phase II of the project is a mixed-use development comprising parts a and b with an aggregate GFA of approximately 1.6 million square feet. The project is scheduled for completion in phases within 2008. The sales launch of Phase IIa of the project, which incorporates an office tower (Enterprise Square) with a two-storey retail podium and four fully furnished residential towers (Le Loft), has received an excellent market response with sales revenue beginning to be booked in the first half of 2008. As at 30 June 2008, 562 units, or 98%, out of a total of 572 residential units were sold at an average price of approximately RMB1,780 per square foot. For the office units, of the total GFA of approximately 420,000 square feet, approximately 151,000 square feet, or 36%, were sold. The four residential towers and office building of Phase IIa were delivered in March and June 2008 respectively. Phase IIb of the development has already been topped out, with electrical and mechanical works, as well as interior decoration, being currently underway. Upon its scheduled completion before the end of 2008, the entire development will have four additional fully furnished residential premises. Pre-sales of the Phase IIb residential units commenced in early August 2008.

The schematic design of Kerry Everbright City Phase III project has now been submitted for approval, with construction works expected to commence within 2008.

On 23 April 2008, the Group completed a connected transaction with COFCO group pursuant to which it increased its effective interest in Kerry Everbright City from 64.35% to 74.25%, and at the same time disposed of the 15% interest it held in Beijing COFCO Plaza. This arrangement will enable the Group to redirect its resources to core property development operations, and the shareholders to enjoy further value from this project of high potential.

Jing An Kerry Centre lies in the heart of Shanghai's business activities. It is located on Nanjing West Road, which is easily accessible by Metro Line 2 at Jing'an Temple Station, with further connectivity to the Changde Road Station of the rapid transit Metro Line 7 which is currently under construction. The Jing An Kerry Centre project occupies a site area of approximately 500,000 square feet and is designated for the development of two luxury hotels, international Grade-A offices and high-end retail properties with a buildable GFA of approximately 2.75 million square feet. Construction of this mixed-use development commenced in early 2008, with completion scheduled for 2012. Jing An Kerry Centre is a joint venture project undertaken by the Group and Shangri-La Asia Limited, with shareholding of 51% and 49% respectively.

The Group's 40.8%-held Kerry Centre, Pudong Shanghai, has progressed further with piling works completed and excavation works in progress. The project is located in Shanghai's Huamu city sub-centre (with the other three sub-centres being Xujiahui, Wujuechang and Zhenru) in the centre of international residential communities. Facing the Century Park, the project is in an up-and-coming location adjacent to the Shanghai New International Expo Centre, in a neighbourhood being actively developed into a new business hub. It will be connected to Metro Line 7 with the convenience of transferring to Metro Line 2 and Maglev just one station away. This joint venture project entails the development of a hotel, offices, an apartment-style hotel, commercial properties and related ancillary facilities, all targeted for completion by the second or third quarter of 2010.

Shenzhen

Kerry Plaza Phase II is also earmarked for the development of an office property with a buildable GFA of approximately 850,000 square feet scheduled for completion in 2011. Construction works commenced in the second quarter of 2008. With a height of more than 650 feet, this new project will represent another landmark of the Group to further its position in the Grade-A office sector in Shenzhen.

Manzhouli

Development of the apartment and commercial property project in Manzhouli, Inner Mongolia, continued smoothly with Phase I already topped out. External works are currently ongoing with completion targeted in phases up to 2011. The project is expected to deliver a buildable GFA of approximately 927,000 square feet. Manzhouli is a major trading land port for the Sino-Russian trade, enjoying unique geographical advantages.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(iii) Properties under Development (continued)

Hangzhou

The Group has acquired two sites in Xiacheng District, Hangzhou. The first site is located at the busy junction of Yan'an Road and Qingchun Road and in close proximity to the future interchange station of Metro Lines 1 and 2. Commanding a prime location in the heart of Hangzhou and adjacent to Xihu (West Lake), the site is designated for the development of a mixed-use property incorporating a hotel, offices, apartments and a large-scale commercial complex with an expected total buildable GFA of approximately 2,217,000 square feet. With schematic design currently in progress, piling works are scheduled to begin by the fourth quarter of 2008. The project is scheduled to complete in phases by 2011 and is expected to be a new landmark property in Hangzhou city.

The second site in Xiacheng District is earmarked for the development of a high-end residential property. Configured to deliver a GFA of approximately 2.7 million square feet, the project is designed to be one the largest and emblematic communities in the city's northern old town. The city centre is only about 12 kilometers from the site, with connectivity to be further enhanced upon the completion of two expressways by the end of 2008. Piling works of Phase I are completed and the project is scheduled to come on stream in phases up to 2011.

Yangzhou

The Group's hotel and luxury residential project in Xincheng West District, Yangzhou is progressing smoothly. Construction works on the residential portion of the project have just commenced with piling works already completed. Upon scheduled completion in 2010, this development will generate a total buildable GFA of approximately 971,000 square feet.

Tianjin

The Group has commenced the development of a mixed-use property in Hedong District in the heart of Tianjin's central business district. The site of the project is a prime location fronting onto Haihe to the east and is bounded by Hebei, Heping and Hexi Districts, with close proximity to the Tianjin Railway Station, the extended Metro Line 5, Tianjin Binhai International Airport and the city's port. The project under planning includes a hotel, serviced apartments, offices, residences, a shopping mall and related ancillary facilities, with an aggregate GFA of approximately 5,705,000 square feet. The Group holds 49% interest in the project. Piling works are scheduled to be completed before the end of 2008, to be followed by construction works which are expected to complete in phases between 2010 and 2011. Leveraging the combined experience, standing and expertise of the joint venture parties in hotel-related, commercial and residential projects, the Group aims to build an exclusive landmark property in the city centre.

Beijing

The Group has unveiled its first property sale in Beijing. Construction of the luxury residential project in Xinyuanli, Gemini Grove, has progressed well and is scheduled for completion in the fourth quarter of 2008. The Group holds a 71% interest in the project. Pre-sales of the property were launched in July 2008. The project, delivering an aggregate GFA of approximately 334,000 square feet, will also provide one-stop asset management services including leasing services to investor-owners.

Qinhuangdao

The Group's deluxe residential development on the southern seafront of metropolitan Qinhuangdao in Hebei Province progressed as scheduled and is currently at the project planning stage. This development is designed to produce an aggregate GFA of approximately 4,760,000 square feet with phased completion by 2012. Qinhuangdao is a major coastal trading port and popular tourist destination in northern China. Being selected as a host city for the 2008 Summer Olympics, Qinhuangdao is expected to enjoy good development prospects.

Chengdu

In 2007, the Group acquired three sites in Chengdu for property development, which are located in the southern part of the Chengdu High-Tech Industrial Development Zone. The project is currently at project design stage and is designated mainly for residential property development, yielding an estimated total developable GFA of approximately 6,962,000 square feet. The area where the sites are located is zoned as Chengdu's future central business district and will incorporate facilities such as convention centres, a consular zone, five-star hotels, a business area and a technology park. The acquired sites also lie in close proximity to the city's main traffic artery and municipal park, placing them in an ideal neighbourhood for the development of luxury residences. Piling works are scheduled to commence in the fourth quarter of 2008, with construction works expected to be completed between 2010 and 2011.

Shenyang

In June 2007, the Group acquired a site on the east side of Qingnian Street, opposite Qingnian Park. Shenyang is not only a core city designated by the state to revive the industrial sector of northeastern China, but also an important base for financial, trade, service and tourism activities. The landmark development of Qingnian Street, dubbed "the Golden Corridor", is crucial to the city's development as a new regional centre in northeastern China. Its expedited construction will also enhance the city's profile and its development of service industries. The project is located in the core area of the Golden Corridor. The site has an area of approximately 1,859,000 square feet, of which 30% is designated for residential use and 70% for commercial properties, with a plot ratio not exceeding 12. It will be developed into a mixed-use development, consisting of hotels, offices, retail shops, a convention centre and apartments, all expected to be completed in phases by mid-2016. The development is now in the planning phase, and piling works are expected to commence in early 2009.

Changsha

In December 2007, the Group engaged in an approximately 61%-held residential and commercial property joint venture project located in the Tianxin District, Changsha, Hunan Province. The site is on the western front of the provincial government offices, commanding panoramic river views of the Xiang Jiang. The project is expected to yield a GFA of approximately 3.3 million square feet. Project planning is currently underway with piling works due to begin by the end of 2008 and completion scheduled to take place in phases up to 2012.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(iv) Major Acquisitions and Developments

Qufu

In February 2008, the Group purchased a site in the centre of the city of Qufu, Shandong Province, to be developed as a hotel-centric mixed-use property project. The site lies in the new city centre along the central axle, and only 1 kilometer away from the Confucius Mansions. The first phase of the hotel is now under planning and will yield a GFA of approximately 658,000 square feet. Piling works are scheduled to commence during the fourth quarter of 2008, with phased completion by 2011. The project will yield a maximum GFA of approximately 1,363,000 square feet. As an important national and tourism site, Qufu is the renowned birthplace of Confucius and Confucian doctrine, a sacred site in Chinese culture where the Temple of Confucius, the Confucius Mansions and the Confucius Forest have been declared UNESCO World Heritage Sites. Receiving 6.6 million overseas visitors and tourists in 2007, the city is geared to further bolstering tourist arrivals as it rolls out the development of a national cultural relics model zone.

Nanchang

In March 2008, the Group won a bid to acquire a prime piece of land in Honggutan Central District, Nanchang, Jiangxi Province, through a consortium arrangement with Shangri-La. The site has a gross area of approximately 514,000 square feet, suitable for development into a mixed-use complex comprising hotel, offices, commercial and high-end apartments, all yielding a GFA of approximately 2,569,000 square feet. Planning for this 80%-held joint venture project is in progress with construction works to be rolled out in 2009. Nanchang is a city in Central China with tremendous growth prospects. The project site is located next to the government offices in the heart of Honggutan New District, which has been earmarked as the new administrative centre of Nanchang, and offers impressive river views.

Beidaihe

At the end of June 2008, the Group obtained formal approval to set up a new joint venture company to develop a low density luxury residential project in the Beidaihe District of Qinhuangdao, Hebei Province. The Group holds 91% interest in this project. The project occupies an area of approximately 3.9 million square feet, yielding developable GFA of approximately 1,743,000 square feet of residences and approximately 356,000 square feet of commercial space. The project is targeted to complete in phases by 2015. Beidaihe has a long heritage as the favourite vacation spot for royalty, top government officials and the privileged. The site located by the seaside also sits adjacent to a Central Government healthcare centre.

(v) Beijing Kerry Centre Hotel

During the six months ended 30 June 2008, Beijing Kerry Centre Hotel contributed turnover and related operating profit of HK\$209 million and HK\$88 million, respectively (2007: HK\$185 million and HK\$83 million, respectively), and achieved an average occupancy rate of 73% (2007: 72%).

(C) Hong Kong Property Division

During the six months ended 30 June 2008, the Hong Kong Property Division recorded a turnover of HK\$1,003 million (2007: HK\$1,778 million) and a net profit attributable to the Group of HK\$483 million (2007: HK\$1,877 million), after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$75 million (2007: HK\$1,098 million).

With a balanced inventory of completed assets for sale, investment properties and a pipeline of projects under development, the Division continues to achieve healthy profit margins from property sales, as well as a steady stream of recurrent income from its local investment property portfolio, which continues to command steady rental levels and occupancy rates on the back of strong economic fundamentals.

(i) Investment Properties

During the first six months of 2008, rental turnover and related operating profit generated from the Group's premier portfolio of investment properties in Hong Kong were HK\$299 million and HK\$126 million, respectively (2007: HK\$211 million and HK\$37 million, respectively).

As at 30 June 2008, the Group's investment property portfolio of residential, commercial and office properties in Hong Kong totalled an aggregate GFA of 2.82 million square feet (as at 31 December 2007: 2.87 million square feet). Their respective occupancy rates were as follows:

	As at 30 June 2008		As at 31 December 2007	
	Total GFA (<i>'000 square feet</i>)	Occupancy rate	Total GFA (<i>'000 square feet</i>)	Occupancy rate
Residential	643 *	99%	649 *	98%
Commercial	1,301	92%	1,345	92%
Office	645	98%	646	92%
Total GFA	<u>2,589</u>		<u>2,640</u>	

* Excluding Tavistock and Belgravia, with a total GFA of approximately 227,000 square feet, which are currently being refurbished and are not offered for lease.

The Group continues with its extensive refurbishment programmes for Tavistock in Mid-Levels and Belgravia in Island South, both of which are expected to be completed by the end of 2008 to early 2009.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(i) *Investment Properties (continued)*

Enterprise Square Five/"MegaBox"

"MegaBox", the Group's proprietary retail and entertainment project, is now successfully established as a shopping, dining and entertainment hotspot for both local shoppers and overseas visitors, and continues to maintain its strong appeal to new tenants. With 1.1 million square feet of shopping space, "MegaBox" offers a unique tenant mix to deliver the ultimate retail, entertainment and dining experience. As at 30 June 2008, "MegaBox" was 91% (as at 31 December 2007: 91%) leased. The innovative "MegaBox" concept will continue to shape and advance the consumption landscape of Hong Kong and raise the customer experience to levels beyond expectation.

The two grade-A office towers of the Enterprise Square Five comprises an aggregate GFA of approximately 519,000 square feet of prime office space. Kowloon Bay is poised to mature into the territory's new business and tourist centre as the Hong Kong SAR Government unfolds its plan to re-develop and revitalise the old Kai Tak site. The Group remains confident of the development in Kowloon Bay, as well as in East Kowloon.

With ongoing robust Grade-A office leasing, the office portion of the Enterprise Square Five property is expected to benefit and enjoy strong rentals and occupancies, providing a healthy recurrent-income stream for the Group. With the hitherto sustained economic rebound driving demand for high-quality office space, Enterprise Square Five offices were 99% leased as at 30 June 2008 (as at 31 December 2007: 92%).

(ii) *Sales of Completed Properties*

During the six months ended 30 June 2008, turnover amounted to HK\$704 million (2007: HK\$1,567 million), primarily derived from the continuing sales of property units at 15 Homantin Hill, Enterprise Square Three and the retail space at Enterprise Square. An operating profit of HK\$365 million (2007: HK\$845 million) was recorded from property sales during the first six months of 2008.

The market response to 15 Homantin Hill validates sustained keen demand for supply-constrained luxury residences. The success of this project also stands testimony to the Group's ongoing commitment to developing superb quality properties in exclusive neighbourhoods.

(iii) *Properties under Development*

SOHO 38, Central Mid-Levels

Construction of the fashionable residential development, SOHO 38, at No. 38 Shelley Street in Central Mid-Levels is nearing completion. This residential tower with commercial facilities will bring to the Group a total GFA of approximately 50,000 square feet. SOHO 38 lends the essence of the metropolitan lifestyle to 76 vogueish residential units for smart living. The project is scheduled for launch in the third quarter of 2008.

First Street/Second Street, Mid-Levels West

Superstructure construction works continue on the site at First Street/Second Street in Mid-Levels West, which is designated as a joint development residential project with the Urban Renewal Authority. The project will yield 496 residential units and commercial space rendering a total GFA of approximately 410,000 square feet, and is slated for completion by the fourth quarter of 2009.

Tsuen Wan

Construction of the residential and commercial property project at Kwok Shui Road, Tsuen Wan proceeded further. A total of 548 units with an aggregate GFA of approximately 400,000 square feet are planned for this development, which is scheduled to be completed in the third quarter of 2009.

Ap Lei Chau

Site formation was completed with foundation work and substructure works in progress for this 35%-held joint venture residential project. The Group will share an attributable GFA of approximately 320,000 square feet from this development upon its planned completion in the fourth quarter of 2010. The project will yield approximately 700 residential units.

Shan Kwong Road/Village Terrace, Happy Valley

Foundation works are ongoing at the two adjacent sites at No. 20 Shan Kwong Road and No. 1-5 Village Terrace, Happy Valley. The sites are expected to generate a developable GFA of approximately 220,000 square feet, for redevelopment into luxury residential properties. The Group holds 71% interest in this project and completion is scheduled for the second quarter of 2011.

863-865 King's Road, North Point

Foundation works are ongoing for this 40%-held joint venture grade-A office tower with a developable GFA of approximately 511,000 square feet. This project is planned to be completed in the fourth quarter of 2010.

Chun Yan Street, Wong Tai Sin

The Group will leverage its excellent record in property development and management excellence to create another premium living space, the site at Chun Yan Street, Wong Tai Sin, being an ideal location for the development of premier residential and commercial properties. This project is expected to deliver a buildable GFA of approximately 767,000 square feet of residences and approximately 153,000 square feet of commercial properties. The project is also expected to benefit from the keen demand for urban core properties in prime locations. It is planned to be completed in the third quarter of 2011.

Yuk Yat Street, To Kwa Wan

The redevelopment of No. 5 and No. 9 Yuk Yat Street into residential and commercial properties is in the planning phase. The project is expected to deliver a GFA of approximately 163,000 square feet.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(iii) *Properties under Development (continued)*

Macau

The Group acquired a site in Nam Van Lake for the development of a luxury residential apartment building. The site is situated in a prime location enjoying a full unobstructed view of the Nam Van Lake and Macau Peninsula. The residential project will yield a developable GFA of approximately 400,000 square feet upon its scheduled completion in the second quarter of 2011.

As regard the reclamation project in Macau, upon approval by the Central Government of the proposed reclamation scheme, finalisation of the land exchange procedure by the Macau SAR Government is expected to follow immediately.

(iv) *Major Acquisition and Development*

Wilmer Street, Sheung Wan

On 30 May 2008, the Group established a joint venture project for the redevelopment of several properties located in Wilmer Street, Sheung Wan, into premier residences and retail units. Demolition works are currently ongoing. The Group holds a 71% stake in this redevelopment project. The Central and Western districts present considerable constraints in terms of developable land supply. The Group is confident of deriving satisfactory return from this investment by leveraging its experience and brand advantage in boutique-style luxury residential developments.

(D) Overseas Property Division

The Group's Overseas Property Division maintains property portfolio in Australia and the Philippines. In the first six months of 2008, the Division contributed a net profit after tax of HK\$31 million (2007: HK\$22 million) to the Group.

(i) *Australia*

As at 30 June 2008, 1,059 units (as at 31 December 2007: 1,017 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 89% of the total of 1,196 units offered for sale. This mixed-use residential and commercial development is situated on a 12-hectare site on the Pymont Peninsula in Sydney.

(ii) *The Philippines*

In the Philippines, the Group's property investments were held through interests in Shang Properties, Inc. ("SPI") of 65.36%. Currently included in SPI's portfolio are (i) a 78.72% interest in the Shangri-La Plaza Mall, Manila and (ii) indirect interests in The Enterprise Centre, an office and commercial property in Makati, Manila's financial district. As at 30 June 2008, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Centre were 99% and 98%, respectively (as at 31 December 2007: 99% and 99%, respectively).

A sustained strong performance by Shangri-La Plaza Mall has ushered in an expansion programme to develop an adjacent site of approximately 105,000 square feet into an extension of the mall and additional residential units. This proposed development will yield a GFA of approximately 1,668,000 square feet, of which approximately 301,000 square feet will be designated as retail space, and approximately 1,367,000 square feet for residential development. Construction works commenced in July 2008 and completion is currently planned for the fourth quarter of 2011.

Also in the SPI development blueprint is The St. Francis Shangri-La Place, a residential development located in Mandaluyong City, Manila. As at 30 June 2008, 893 units (as at 31 December 2007: 787 units) out of the total of 1,152 residential units at The St. Francis Shangri-La Place were sold ahead of its targeted completion in the first quarter of 2009 for Tower 1 and fourth quarter of 2008 for Tower 2.

(E) Logistics Network Division

The Logistics Network Division is delighted to report strong resilience across its spread of operations amidst global challenges during the period under review. For the six months ended 30 June 2008, the Division recorded a 20% increase in turnover to HK\$4,087 million (2007: HK\$3,401 million). Net profit attributable to the Group from the Division in the first half of 2008 also edged up by 24% to HK\$298 million (2007: HK\$241 million).

(i) Logistics Operations

In the first six months of 2008, the Division's expanding logistics operations generated turnover and net profit of HK\$3,866 million and HK\$68 million, respectively (2007: HK\$3,188 million and HK\$50 million, respectively), representing an increase of 21% and 36% respectively compared with the corresponding period in 2007. The increase in net earnings was derived from efficiencies as a result of the Division's longstanding investments in its global supply chain management system and expertise.

During the six months ended 30 June 2008, a total of 80,215 tons (2007: 68,406 tons) of cargo was handled by air and 185,493 TEUs (2007: 168,408 TEUs) by sea, up 17% and 10% respectively period on period.

Hong Kong

During the period, the Division's logistics operations in Hong Kong experienced a slight profit drop of 15% period on period. The drop is mainly attributable to the overall increase in operating costs including labour cost, warehouse rental and fuel cost, as well as the gradual increase in cargoes being shipped directly through China nowadays. The Division will take these changes into account when re-negotiating the terms of the existing logistics contracts upon their expiry.

During the period, the Division was granted the lease of a site in Tai Po Industrial Estate by the Hong Kong Science and Technology Parks Corporation to develop a 230,000 square feet product customisation and consolidation centre. The facility, upon completion of construction in 2010, shall be the first facility of this type in Hong Kong, and shall support the growing integrated logistics ("IL") business of the Division in Hong Kong.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Logistics Network Division (continued)

(i) Logistics Operations (continued)

China Focus

The underlying economics of the Division's Mainland business operation Kerry EAS Logistics Limited ("KEAS") remains strong despite of the various challenges posed to the country's economic development in the first half of 2008, including domestic inflation, appreciation of Renminbi, implementation of new Labour Law, as well as the aftermath of the snow disaster and Sichuan earthquake, etc. The Division continues to derive a steady and robust stream of recurrent income from its China business arm, which is also geared to becoming the biggest revenue contributor for the Division.

To support its pan-China logistics business, the Division also operates a portfolio of logistics facilities in Mainland China. During the first half of 2008, the Division acquired the remaining 49% stake in the 270,000 square feet logistics centre located in Futian, Shenzhen. The construction of another 130,000 square feet logistics centre will commence in Chengdu in late 2008. Net profit generated from the Division's logistics operation in Mainland China during the period amounted to HK\$56 million (2007: HK\$51 million).

Asia Based

Leveraging its strong Asian roots, the Division has undergone rapid expansion throughout the region in recent years. The first half of 2008 saw further positive developments in key markets and business arenas.

The setting up of new venture Kerry Asia Road Transport Limited ("KART") in 2007 spearheaded the Division's bid to seize emerging business opportunities in member countries of the Association of Southeast Asian Nations ("ASEAN"). Developments in ASEAN in the first half included the acquisition of EAE Logistics Sdn. Bhd. ("EAE"), one of the largest Malaysia-based cross-border trucking operators specialising in the trans-Thailand and Malaysia routes. The acquisition of EAE will help KART strengthen its road transport fleet and networking capabilities.

Some ten shipping lines called at Kerry Siam Seaport in Thailand during the first six months of 2008, following its berth expansion and strengthening of container handling capabilities. Works are also ongoing to transform two conventional warehouses into modernised distribution centres.

During the period, growth momentum in Vietnam and India also remains strong. Vietnam continues to witness new business rollouts, while in India, the Division's 51%-held Kerry Reliable Logistics Private Limited has achieved encouraging progress in the development of its international freight forwarding business.

Asia is a manufacturing powerhouse and major emerging consumer marketplace. The region is a centre for growth in trade, finance and logistics. The Division is glad to report that it is well on its way to achieving its goal of becoming the leading third-party logistics service provider in this hub of activities.

Global Network

The Division has been shielded from the negative impact of the United States' credit crisis and weakening economy during the period as its operations are strategically situated in Asia and Europe.

The establishment of direct representation on the European continent since late 2006 has helped bolster the sales and marketing capabilities of the Division's European operation. During the period, the Division has undergone an extensive restructuring exercise over its operations in the region. As of now, the Division has operations in 9 countries and 27 cities in Europe, including the United Kingdom, Spain, Germany, Austria, the Czech Republic, Switzerland, France, Belgium and the Netherlands. The Division's trade development focus in Europe is mainly on import and export of cargoes between European countries and Asia, in particular Mainland China.

With its Asia-based advantage, the Division is uniquely positioned to deliver competitive solutions to its customers on the European continent.

(ii) *Hong Kong Warehouses and Distribution Centres*

The Division maintains its market leadership in the local warehousing sector, operating a portfolio of 11 warehouses with an aggregate GFA of 6.28 million square feet. With accelerating global inflationary trends prompting vendors to increase stock holdings, the demand for storage space has continued to surge. The Division achieved higher tariffs and utilisation rates during the period, registering an overall occupancy rate of 97% as at 30 June 2008 (as at 31 December 2007: 96%) for its warehouse portfolio in Hong Kong.

During the six months ended 30 June 2008, the Division's warehouse portfolio in Hong Kong generated turnover of HK\$221 million (2007: HK\$213 million), with profit attributable to the Division of HK\$125 million (2007: HK\$103 million), on the back of improved rental and utilisation rates.

(iii) *Information Technology*

Technology development within the Division continues in terms of enabling supply-chain visibility and global data integration. After a year of continuous development and deployment, the Kerrier Integration Platform ("KIP") intranet now links most of the Division's global operations. It will act as a comprehensive central data warehouse for the Division after the fine-tuning process scheduled for the second half of this year. KIP will become the Division's key enabling tool for global track and trace, and will equip management with comprehensive real-time analytical information. In view of this, the Division is also enhancing the Business Intelligence Platform for on-line analytical process with the data warehouse. This will represent another major initiative to complement the ongoing development of KerrierVISION supply-chain visibility and Electronic Proof of Delivery ("EPOD").

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Logistics Network Division (continued)

(iv) Awards and Achievements

Award	Issuing authority	Achieved by
The 8th CAPITAL Outstanding Enterprise Awards	Capital Magazine	Kerry Logistics
Hong Kong Leaders' Choice Brand Award	Metro Finance	Kerry Logistics
The 3rd CAPITAL Outstanding China Enterprise Awards	Capital Magazine	KEAS
5A Logistics Enterprise	China Federation of Logistics & Purchasing	KEAS
Ranked 8th in Top 100 China International Freight Forwarding Logistics Enterprises 2007	China International Freight Forwarders Association	KEAS
Ranked 5th in Top 50 China International Freight Forwarding Logistics Air Freight Enterprises 2007	China International Freight Forwarders Association	KEAS

(F) Infrastructure Division

The Infrastructure Division brings to the Group a steady stream of recurrent income through its investments in a range of infrastructure, environmental protection and utilities-related businesses in Hong Kong and Mainland China. During the six months ended 30 June 2008, net profit attributable to the Group from this Division amounted to HK\$30 million (2007: HK\$20 million).

(i) Hong Kong

The Group holds a 15% stake in the Western Harbour Crossing and a 15% interest in the management contract for the Cross Harbour Tunnel. The Group's share of aggregate net profits from these investments was HK\$28 million (2007: HK\$18 million) during the first six months of 2008.

(ii) Mainland China

The Group maintains a 13% effective interest in a water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region. Its share of net profit from this investment during the six months ended 30 June 2008 amounted to HK\$2 million (2007: HK\$3 million).

Positive developments have also been reported at the Group's 25%-owned REDtone Telecommunications (China) Limited, which is mainly engaged in the provision of discounted international call packages to mobile phone and fixed-line subscribers in Shanghai.

(G) Financial Review

The Group has centralised funding for all its operations. This policy achieves better control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 30 June 2008, total foreign currency borrowings (excluding Renminbi ("RMB") borrowings) amounted to the equivalence of HK\$4,120 million and RMB loans amounted to the equivalence of HK\$379 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 25% and 2% respectively, of the Group's total borrowings of HK\$16,424 million as at 30 June 2008. The Directors consider that the Group's property investments in the PRC would benefit from the recent upward appreciation of the RMB. Furthermore, the upward revaluation of the RMB has a negligible impact on the Group's RMB loans, which only represent a small proportion relative to the Group's total borrowings.

The non-RMB total foreign currency borrowings of HK\$4,120 million mainly include the Fixed Rate Bonds amounting to US\$420 million (approximately HK\$3,256 million (net of direct issue costs)). The Group has arranged cross currency swap contracts amounting to US\$417 million to hedge the exchange rate exposure between Hong Kong dollars and United States dollars.

Out of the Group's total borrowings as at 30 June 2008, HK\$2,221 million (representing approximately 14%) was repayable within one year, HK\$391 million (representing approximately 2%) was repayable in the second year, HK\$10,082 million (representing approximately 61%) was repayable in the third to fifth years and HK\$3,730 million (representing approximately 23%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 96% of total borrowings as at 30 June 2008. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 30 June 2008, the gearing ratio for the Group was 26.8% (as at 31 December 2007: 20.3%), calculated based on net debt of HK\$12,428 million and shareholders' equity of HK\$46,387 million.

As at 30 June 2008, the Group had outstanding interest rate swap contracts which amounted to HK\$5,100 million in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile in the next few years.

In terms of the Group's available financial resources as at 30 June 2008, the Group had total undrawn bank loan and overdraft facilities of HK\$6,889 million and net cash on hand of HK\$3,996 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operations and logistics, freight forwarding and warehousing businesses provide the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(H) Investor Relations

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. Set out below are the investors' conferences in which the Group had participated during the six months ended 30 June 2008:

Date	Event	Organiser	Venue
January 2008	HK/China Property Developers Corporate Access Week	Goldman Sachs	London/ New York
April 2008	Asian Investment Conference 2008	Credit Suisse	Hong Kong
May 2008	Asian & Australian Property Conference	Deutsche Bank	Hong Kong
May 2008	Macquarie Capital China Property Conference	Macquarie Capital Securities	Guangzhou

(I) Directors and Staff

As at 30 June 2008, the Directors of the Company are Messrs Kuok Khoon Chen⁺, Wong Siu Kong⁺, Ho Shut Kan⁺, Ma Wing Kai, William⁺, So Hing Woh, Victor, MBE, JP⁺, Chan Wai Ming, William, Qian Shaohua, Ku Moon Lun[#], Lau Ling Fai, Herald[#], Ms Wong Yu Pok, Marina, JP[#] and Mr Tse Kai Chi[@].

As at 30 June 2008, the Company and its subsidiaries had 9,377 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programs as well as share option schemes.

Share Option Schemes

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

On 2 April 2008, a total of 12,400,000 share options (the "Options") were granted under the 2002 Share Option Scheme.

As at 30 June 2008, a total of 17,860,433 Options were outstanding which comprised 1,138,433 and 16,722,000 Options granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme respectively.

+ *Executive Director*

Independent Non-executive Director

@ *Non-executive Director*

(J) Outlook**(i) Mainland China Property Division**

During the period under review, China economy continues to aim at using macro-economic controls to rein in the rapid inflationary pressure experienced by the country. The tightening of credit has had a direct impact on investment sentiment and consumers' propensity to spend in the real estate market. However, the Group is of the view that given the strong underlying economic fundamentals and continued growth trends in China, the continual demand for real estate properties remains robust, particularly in provincial capital cities and cities with unique characteristics which offer attractive growth potential.

The Group's ongoing focus is to develop premium-quality mixed-use property projects, which is in relative short supply, so as to expand the proportion of leased properties under its portfolio. Recent additions to the Group's land bank are concentrated in cities with strong economic fundamentals and geographical advantages and are funded primarily through internal resources. The credit tightening measures in Mainland China will not have a significant impact on the Group. Conversely, more opportunities have been afforded to the Group to actively and prudently seek out acquisitions of premium land in a timely manner.

The Group continues to take active measures to optimise its internal resources and management structure with a view to expediting construction and development of the existing projects. The Group believes that the investments in and profit contributions from Mainland China properties will increase in a steady manner.

(ii) Hong Kong Property Division

Following a bullish 2007, the Hong Kong property market has eased mildly in the second quarter of 2008. However, continued constraints in the local land supply in the years ahead, in particular in prime locations, are expected to underpin the long-term increase in property values in Hong Kong.

Leveraging its healthy financial position and strong capital base, the Group is able to time its property sales in order to optimize return on investment. Management expects to record promising results from property sales in its Hong Kong portfolio in the years ahead.

Sustained strong demand from corporate tenants as well as investment activities are also expected to fuel the continuing upward trend in office rentals.

The commercial property market, on the other hand, finds support from the continued economic rebound and a healthy tourist sector, resulting in a steady uptrend in retail space rentals and high occupancy rates.

As Asia's world city, the local property market is not only supported by strong domestic demand, but also by interest from multinational corporations and overseas investors. This will continue to underpin the long-term investment value of Hong Kong properties. Management maintains its confidence in the long-term development of the Hong Kong property market, which continues to command a unique and unparalleled advantage. The Group is committed to offering its tenants and residents premier environments, facilities and services.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(J) Outlook (continued)

(iii) Logistics Network Division

Faced with challenges from unprecedented cost inflation, including energy and labour costs, as well as signs of slowing growth in export activities in Mainland China, management expects to see gradual consolidation in China's logistics sector over the next few years, with less efficient and less competitive logistics companies gradually being edged out. However, by leveraging its solid infrastructure base as well as diversified industry expertise, the Division is confident it will be able to maintain its competitiveness while at the same time benefiting from this anticipated wave of consolidations.

With its strategic base in the heart of Asia, the Division has developed a comprehensive logistics network in Mainland China, leveraging local knowledge to provide world-class solutions across the whole supply chain. It maintains its vision of being the leading third-party logistics service provider based in Asia, with a unique China focus and an expanding footprint on the European continent.

(iv) Infrastructure Division

The Division will maintain stable development and remain a Group vehicle for sustaining a steady recurrent source of income.

(v) Overall

In summary, the Group continues to operate a healthy and sustainable portfolio of property, logistics and infrastructure businesses. These businesses have grown to represent a well-balanced asset and earnings base, which generates a strong recurrent income stream that underpins the Group's performance in the face of today's constantly changing macro-economic environment. The Group will continue on its course of proactively identifying and pursuing new investment opportunities which will contribute further to growth momentum and maximise shareholder return.

CORPORATE GOVERNANCE

Compliance with Code Provisions under Appendix 14 of the Listing Rules

During the six months ended 30 June 2008, the Company has complied with the provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"), except for (a) the separation of roles of chairman and chief executive officer which has been complied with since 19 March 2008; and (b) the minimum number of Independent Non-executive Directors falls below three for a short period from 6 May 2008 to 19 May 2008.

Audit Committee

The Audit Committee of the Board has met to review the results and the financial statements of the Group for the six months ended 30 June 2008 with no disagreement prior to recommending them to the Board for approval. In reviewing these financial statements, the Audit Committee has discussed with the external auditor regarding the accounting policies adopted and, in particular, the impact of the new HKASs and HKFRSs on the financial statements of the Group for the six months ended 30 June 2008.

Remuneration Committee

During the six months ended 30 June 2008, the Remuneration Committee of the Board has reviewed the remuneration package of the Executive Directors for the year ending 31 December 2008 prior to recommending them to the Board for approval. The Remuneration Committee has recommended to the Board to approve the salaries, housing allowances and pension contributions of the Executive Directors of the Company for the year ending 31 December 2008 and the payment of bonuses to the Executive Directors of the Company for the year ended 31 December 2007.

SHARE OPTIONS

Movements of the Options, which were granted under the 1997 Share Option Scheme, during the six months ended 30 June 2008 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2008	Transfer from other category during the period	Transfer to other category during the period	Number of Options exercised during the period (Notes 1 & 2)	Number of Options held as at 30/06/2008	Exercise price HK\$	Exercise period
1. Director									
Mr ANG Keng Lam	16/04/2002	I	518,248	-	(518,248)	-	-	6.85	16/04/2003 – 15/04/2012
(resigned on 3 June 2008)	16/04/2002	II	518,247	-	(518,247)	-	-	6.85	16/04/2004 – 15/04/2012
2. Continuous Contract Employees	01/06/2000	I	30,000	-	-	-	30,000	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	72,564	-	-	-	72,564	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	96,616	-	-	-	96,616	6.70	01/06/2003 – 31/05/2010
	02/03/2001	I	37,000	-	-	-	37,000	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	45,000	-	-	(8,000)	37,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	44,038	-	-	(12,208)	31,830	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	101,711	-	-	(3,247)	98,464	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	111,711	-	-	(13,247)	98,464	6.85	16/04/2004 – 15/04/2012
3. Others	01/06/2000	I	45,000	-	-	(45,000)	-	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	45,000	-	-	(45,000)	-	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	44,088	-	-	(44,088)	-	6.70	01/06/2003 – 31/05/2010
	02/03/2001	I	22,000	-	-	(22,000)	-	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	22,000	-	-	(22,000)	-	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	19,311	-	-	(19,311)	-	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	-	518,248	-	(400,000)	118,248	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	-	518,247	-	-	518,247	6.85	16/04/2004 – 15/04/2012
Total:			1,772,534	1,036,495	(1,036,495)	(634,101)	1,138,433		

Movements of the Options, which were granted under the 2002 Share Option Scheme, during the six months ended 30 June 2008 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2008	Number of Options granted during the period	Transfer from other category during the period	Transfer to other category during the period	Number of Options exercised during the period (Notes 1 & 3)	Number of Options held as at 30/06/2008	Exercise price HK\$	Exercise period
1. Directors										
Mr ANG Keng Lam <i>(resigned on 3 June 2008)</i>	17/03/2005	I	750,000	-	-	(750,000)	-	-	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	750,000	-	-	(750,000)	-	-	18.74	17/03/2007 – 16/03/2015
Mr WONG Siu Kong	17/03/2005	I	162,000	-	-	-	-	162,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	750,000	-	-	-	-	750,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	750,000	-	-	-	750,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	750,000	-	-	-	750,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	1,500,000	-	-	-	1,500,000	47.70	02/04/2011 – 01/04/2018
Mr HO Shut Kan	02/04/2008	I	-	300,000	-	-	-	300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	300,000	-	-	-	300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	600,000	-	-	-	600,000	47.70	02/04/2011 – 01/04/2018
Mr MA Wing Kai, William	17/03/2005	I	320,000	-	-	-	(240,000)	80,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	400,000	-	-	-	-	400,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
Mr CHAN Wai Ming, William	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
Mr QIAN Shaohua	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
2. Continuous Contract Employees	17/03/2005	I	667,500	-	-	(37,500)	630,000	18.74	17/03/2006 – 16/03/2015	
17/03/2005	II	1,197,500	-	-	-	(417,500)	780,000	18.74	17/03/2007 – 16/03/2015	
02/04/2008	I	-	1,300,000	-	-	-	1,300,000	47.70	02/04/2009 – 01/04/2018	
02/04/2008	II	-	1,300,000	-	-	-	1,300,000	47.70	02/04/2010 – 01/04/2018	
02/04/2008	III	-	2,600,000	-	-	-	2,600,000	47.70	02/04/2011 – 01/04/2018	
3. Others	17/03/2005	I	-	-	750,000	-	-	750,000	18.74	17/03/2006 – 16/03/2015
17/03/2005	II	20,000	-	750,000	-	-	-	770,000	18.74	17/03/2007 – 16/03/2015
02/04/2008	I	-	150,000	-	-	-	-	150,000	47.70	02/04/2009 – 01/04/2018
02/04/2008	II	-	150,000	-	-	-	-	150,000	47.70	02/04/2010 – 01/04/2018
02/04/2008	III	-	300,000	-	-	-	-	300,000	47.70	02/04/2011 – 01/04/2018
Total:			5,017,000	12,400,000	1,500,000	(1,500,000)	(695,000)	16,722,000		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the Options were exercised was HK\$50.51.
- During the period, no Options were granted/granted for adjustment, cancelled or lapsed under the 1997 Share Option Scheme.
- During the period, no Options were granted for adjustment, cancelled or lapsed under the 2002 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2008, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

(i) Company

Name of Director	Number of ordinary shares		Number of underlying ordinary shares held under equity derivatives ²	Total	Approximate % of shareholding ⁵
	Personal interests ¹	Other interests ⁴			
Mr KUOK Khoon Chen	1,004	6,090,762	–	6,091,766	0.43
Mr WONG Siu Kong	–	50,000	3,912,000	3,962,000	0.28
Mr HO Shut Kan	–	50,000	1,200,000	1,250,000	0.09
Mr MA Wing Kai, William	81,020	50,000	1,280,000	1,411,020	0.10
Mr SO Hing Woh, MBE, JP	–	50,000	–	50,000	0.00
Mr CHAN Wai Ming, William	4,000	50,000	800,000	854,000	0.06
Mr QIAN Shaohua	–	50,000	800,000	850,000	0.06

(ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares			Total	Approximate % of shareholding
		Personal interests ¹	Corporate interests ³	Other interests ⁴		
Kerry Group Limited	Mr KUOK Khoon Chen	7,651,791	6,500,000	280,286,813	294,438,604	19.27 ⁶
	Mr WONG Siu Kong	4,617,263	8,504,300	–	13,121,563	0.86 ⁶
	Mr HO Shut Kan	1,388,452	–	–	1,388,452	0.09 ⁶
	Mr MA Wing Kai, William	1,010,620	–	–	1,010,620	0.07 ⁶
	Mr CHAN Wai Ming, William	100,000	–	–	100,000	0.01 ⁶
	Mr QIAN Shaohua	500,000	–	–	500,000	0.03 ⁶
	Mr TSE Kai Chi	600,000	–	–	600,000	0.04 ⁶
Kerry Siam Seaport Limited	Mr MA Wing Kai, William	1	–	–	–	0.00
SCMP Group Limited	Mr KUOK Khoon Chen	8,000	–	20,000	28,000	0.00 ⁷
Shang Properties, Inc.	Mr HO Shut Kan	1,570	–	–	1,570	0.00

Notes:

1. This represents interests held by the relevant Director as beneficial owner.
2. This represents interests in the Options held by the relevant Director as a beneficial owner of such Options, which were granted by the Company to subscribe for the relevant underlying ordinary shares pursuant to the share option schemes. Details of which are set out in the section headed "Share Options" of this report.
3. This represents interests held by the relevant Director through his controlled corporation(s).
4. This represents interests held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
5. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2008 (i.e. 1,426,835,887 ordinary shares).
6. The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited in issue as at 30 June 2008 (i.e. 1,527,684,428 ordinary shares).
7. The percentage has been adjusted based on the total number of ordinary shares of SCMP Group Limited in issue as at 30 June 2008 (i.e. 1,560,945,596 ordinary shares).

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

Save as aforesaid, as at 30 June 2008, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2008, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Long position/ Short position/ Lending pool	Approximate% of shareholding²
Kerry Group Limited	Interest of controlled corporations	757,398,587 ¹	Long position	53.08
Kerry Holdings Limited	Interest of controlled corporations	757,398,587 ¹	Long position	53.08
Caninco Investments Limited	Beneficial owner	310,718,565 ¹	Long position	21.78
Darmex Holdings Limited	Beneficial owner	255,640,776 ¹	Long position	17.92
Moslane Limited	Beneficial owner	88,085,647 ¹	Long position	6.17
JPMorgan Chase & Co.	Interest of controlled corporations	112,090,421	Long position	7.86
		9,103,901	Short position	0.64
		45,724,455	Lending pool	3.20

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY (continued)

Notes:

1. Caninco Investments Limited (“Caninco”), Darmex Holdings Limited (“Darmex”) and Moslane Limited (“Moslane”) are wholly-owned subsidiaries of Kerry Holdings Limited (“KHL”). KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex and Moslane are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
2. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2008 (i.e. 1,426,835,887 ordinary shares).

Apart from the aforesaid, as at 30 June 2008, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code and that the Directors have confirmed their compliance with the required standards set out in the Model Code during the six months ended 30 June 2008.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed on Wednesday, 3 September 2008 and Thursday, 4 September 2008, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2008, all share transfers accompanied by the relevant share certificates must be lodged with the Company’s branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26/F, Tesbury Centre, 28 Queen’s Road East, Wanchai, Hong Kong, for registration not later than 4:00 pm on Tuesday, 2 September 2008. The dividend warrants and share certificates for the new shares to be issued pursuant to the 2008 Interim Scrip Dividend Scheme will be distributed on or about Friday, 17 October 2008.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2008.

By Order of the Board
Kuok Khoon Chen
Chairman

Hong Kong, 19 August 2008