

2009



INTERIM REPORT

For the six months ended 30 June 2009



KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code : 683

CORPORATE INFORMATION & 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, MBE, JP⁺
Mr QIAN Shaohua⁺
Mr CHAN Wai Ming, William
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

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

Finance Committee

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

Executive Committee

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

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

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14 Taikoo Wan Road
Taikoo Shing, Hong Kong

Principal Share Registrar and Transfer Office

Butterfield Fulcrum Group (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

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Kerry Properties Limited
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Website

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Key Dates**Closure of Registers of Members**

10 September 2009 and 11 September 2009

Proposed Payment of Interim Dividend

18 September 2009

⁺ *Executive Director*

[#] *Independent Non-executive Director*

[@] *Non-executive Director*

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") report the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2009. 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 2009 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 2009 as shown in the consolidated income statement was HK\$1,880 million, representing a decrease of 24% compared with HK\$2,483 million reported for the same period in 2008. 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\$890 million for the six months ended 30 June 2009 (2008: HK\$948 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded a decrease of 36% in profit attributable to shareholders to HK\$990 million for the six months ended 30 June 2009 (2008: HK\$1,535 million).

Earnings per share for the six months ended 30 June 2009 were HK\$1.32, representing a decrease of 24% compared with HK\$1.74 per share for the same period in 2008. 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		Change
	2009	2008	
	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	990	1,535	-36%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>890</u>	<u>948</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u>1,880</u>	<u>2,483</u>	-24%

The Directors have declared an interim dividend of HK\$0.3 per share for the six months ended 30 June 2009 (2008: HK\$0.3), which is payable on Friday, 18 September 2009 to shareholders whose names appear on the Registers of Members of the Company on Friday, 11 September 2009.

At the Company's Annual General Meeting held on 8 May 2009, shareholders approved the final dividend of HK\$0.4 per share for the year ended 31 December 2008 which amounted to a total of approximately HK\$571 million and was paid on 15 May 2009.

CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	2009	2008
		HK\$'000	HK\$'000
			(Restated)
Turnover	2	5,404,729	6,977,052
Cost of sales		(491,886)	(731,093)
Direct operating expenses		(3,081,671)	(3,958,073)
Gross profit		1,831,172	2,287,886
Other income and net gains		229,011	506,644
Administrative expenses		(514,970)	(478,670)
Increase in fair value of investment properties		1,545,213	2,315,860
		881,896	1,173,194
Operating profit before finance costs		2,427,109	3,489,054
Finance costs		(42,096)	(104,939)
Operating profit	2,3	2,385,013	3,384,115
Share of results of associated companies		594,097	180,529
Profit before taxation		2,979,110	3,564,644
Taxation	4	(726,632)	(846,013)
Profit for the period		2,252,478	2,718,631
Profit attributable to:			
Company's shareholders		1,879,558	2,482,888
Minority interests		372,920	235,743
		2,252,478	2,718,631
Interim dividend		428,310	428,051
Interim dividend per share		HK\$0.30	HK\$0.30
Earnings per share	5		
– Basic		HK\$1.32	HK\$1.74
– Diluted		HK\$1.31	HK\$1.71

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Profit for the period	2,252,478	2,718,631
Other comprehensive income		
Deferred tax charged to reserves	(2,168)	(14,191)
Fair value gain/(loss) on available-for-sale investments	80,233	(151,514)
Fair value gain on derivative financial instruments		
– cash flow hedge of an associated company	1,881	9,924
Reversal of reserves on disposal of a subsidiary	–	(19,457)
Exchange differences arising on translation of the financial statements of the PRC and overseas subsidiaries and associated companies	27,594	1,248,329
Other comprehensive income for the period (net of tax)	107,540	1,073,091
Total comprehensive income for the period	2,360,018	3,791,722
Total comprehensive income attributable to:		
Company's shareholders	1,977,808	3,190,875
Minority interests	382,210	600,847
	2,360,018	3,791,722

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2009	2008
	Note	HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		3,056,821	3,036,006
Investment properties		33,338,277	29,709,611
Leasehold land and land use rights		567,716	520,176
Properties under development		11,542,417	20,206,602
Land deposits		3,960,347	3,113,939
Associated companies		6,891,894	6,100,933
Available-for-sale investments		1,342,598	1,265,693
Long-term receivables		28,211	26,711
Goodwill		515,924	508,749
		61,244,205	64,488,420
Current assets			
Properties under development		12,133,045	5,933,005
Completed properties held for sale		935,909	819,132
Accounts receivable, prepayments and deposits	6	2,608,963	3,772,279
Tax recoverable		65,008	107,966
Tax reserve certificates		39,826	21,790
Listed securities at fair value through profit or loss		124,884	102,284
Derivative financial instruments		–	4,884
Pledged bank deposits		2,786	1,235
Cash and bank balances		4,873,225	4,081,611
		20,783,646	14,844,186
Current liabilities			
Accounts payable, deposits received and accrued charges	7	3,746,102	3,533,779
Taxation		907,118	676,332
Short-term bank loans and current portion of long-term bank loans	8	514,080	1,907,948
Convertible bonds	9	138,995	–
Derivative financial instruments		1,755	–
Secured bank overdrafts		4,480	3,713
Unsecured bank overdrafts		9,355	11,472
		5,321,885	6,133,244
Net current assets		15,461,761	8,710,942
Total assets less current liabilities		76,705,966	73,199,362

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		Unaudited	Audited
		As at	As at
		30 June	31 December
		2009	2008
	Note	HK\$'000	HK\$'000
Non-current liabilities			
Long-term bank loans	8	9,611,851	8,495,475
Convertible bonds	9	2,398,302	2,472,202
Fixed rate bonds		3,237,864	3,236,664
Amounts due to minority shareholders		2,594,342	2,646,477
Derivative financial instruments		115,457	143,652
Deferred taxation		3,918,780	3,661,109
		21,876,596	20,655,579
ASSETS LESS LIABILITIES			
		54,829,370	52,543,783
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		1,427,700	1,427,190
Share premium		11,903,804	11,899,348
Other reserves		12,153,583	11,998,505
Retained profits		22,093,706	20,642,488
Proposed dividend		428,310	570,876
		48,007,103	46,538,407
Minority interests		6,822,267	6,005,376
TOTAL EQUITY			
		54,829,370	52,543,783

FINANCIAL HIGHLIGHTS

	30 June	31 December
	2009	2008
Equity attributable to the Company's shareholders (<i>HK\$ million</i>)	48,007	46,538
Net borrowings (including bonds) (<i>HK\$ million</i>)	11,039	12,045
Net asset value (attributable to the Company's shareholders) per share	HK\$33.63	HK\$32.61
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	23.0%	25.9%

CONSOLIDATED STATEMENT OF CASH FLOWS

	Unaudited	
	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	2,102,692	1,099,254
Interest paid	(222,065)	(305,728)
Income tax paid	(218,924)	(225,169)
Net cash generated from operating activities	1,661,703	568,357
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	(667,888)	(722,124)
Purchase of leasehold land and land use rights	(32,131)	–
Increase in land deposits	(844,838)	(4,259,846)
Acquisition of subsidiaries (net of cash and cash equivalents acquired)	(5,906)	(895,973)
Acquisition of additional interest in subsidiaries	–	(130,684)
Disposal of partial interest in subsidiaries	–	2,000,154
Increase in investments in associated companies	(52,000)	(1,451)
(Additional loans to)/repayment of loans from associated companies	(224,246)	40,910
Additions of available-for-sale investments	–	(78,472)
Proceeds from sale of available-for-sale investments	2,847	–
(Increase)/decrease in long-term receivables	(1,547)	8,367
Interest received	33,906	44,684
Increase in pledged bank deposits	(1,550)	–
Dividends received from associated companies	44,768	25,868
Dividends received from listed and unlisted investments	28,164	33,351
Proceeds from sale of property, plant and equipment and investment properties	1,325,549	68,024
Net cash used in investing activities	(394,872)	(3,867,192)
Financing activities		
Proceeds from issue of shares	4,440	17,743
Repayment of bank loans	(4,405,594)	(2,426,183)
Drawdown of bank loans	4,111,049	5,601,856
Dividends paid	(570,906)	(859,226)
Capital injection from minority shareholders	438,497	515,606
Dividends paid to minority shareholders in subsidiaries	(12,066)	(14,131)
Return of capital to minority shareholders	(366)	(20)
(Decrease)/increase in loans from minority shareholders	(52,136)	54,812
Net cash (used in)/generated from financing activities	(487,082)	2,890,457
Increase/(decrease) in cash and cash equivalents	779,749	(408,378)
Effect of exchange rate changes	13,215	130,363
Cash and cash equivalents at 1 January	4,066,426	4,205,886
Cash and cash equivalents at 30 June	4,859,390	3,927,871
Analysis of balances of cash and cash equivalents		
Cash and bank balances	4,873,225	3,942,835
Secured bank overdrafts	(4,480)	(12,448)
Unsecured bank overdrafts	(9,355)	(2,516)
	4,859,390	3,927,871

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company						Minority interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance as at 1 January 2008	1,424,278	11,804,186	11,263,616	18,592,906	925,781	44,010,767	2,767,698	46,778,465
Profit for the period	–	–	–	2,482,888	–	2,482,888	235,743	2,718,631
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 – cash flow hedge of an associated company	–	–	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
Total comprehensive income 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

	Attributable to shareholders of the Company							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	Minority interests HK\$'000	
Balance as at 1 January 2009	1,427,190	11,899,348	11,998,505	20,642,488	570,876	46,538,407	6,005,376	52,543,783
Profit for the period	-	-	-	1,879,558	-	1,879,558	372,920	2,252,478
Deferred tax charged to reserves	-	-	(1,545)	-	-	(1,545)	(623)	(2,168)
Fair value gain on available-for-sale investments	-	-	80,233	-	-	80,233	-	80,233
Fair value gain on derivative financial instruments – cash flow hedge of an associated company	-	-	1,881	-	-	1,881	-	1,881
Exchange differences arising on translation of the financial statements of the PRC and overseas subsidiaries and associated companies	-	-	17,681	-	-	17,681	9,913	27,594
Total comprehensive income for the six months ended 30 June 2009	-	-	98,250	1,879,558	-	1,977,808	382,210	2,360,018
Issue of share capital – exercise of share options	510	4,456	(526)	-	-	4,440	-	4,440
Provision for share option expense	-	-	57,354	-	-	57,354	-	57,354
Dividends paid	-	-	-	(30)	(570,876)	(570,906)	(12,066)	(582,972)
2009 proposed interim dividend	-	-	-	(428,310)	428,310	-	-	-
Acquisition of subsidiaries	-	-	-	-	-	-	8,616	8,616
Capital injection from minority shareholders	-	-	-	-	-	-	438,497	438,497
Return of capital to minority shareholders	-	-	-	-	-	-	(366)	(366)
	<u>510</u>	<u>4,456</u>	<u>56,828</u>	<u>(428,340)</u>	<u>(142,566)</u>	<u>(509,112)</u>	<u>434,681</u>	<u>(74,431)</u>
Balance as at 30 June 2009	<u>1,427,700</u>	<u>11,903,804</u>	<u>12,153,583</u>	<u>22,093,706</u>	<u>428,310</u>	<u>48,007,103</u>	<u>6,822,267</u>	<u>54,829,370</u>

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 2008 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 2008.

A number of new or revised standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009. The details can be found in the annual financial statements for the year ended 31 December 2008. Major new or revised standards affecting the Group include:

HKAS 1 (Revised), 'Presentation of financial statements'. The revised standard has introduced a number of terminology changes (including revised titles for the condensed consolidated financial statements) and has resulted in a number of changes in presentation and disclosure. In particular, the Group presents all items of income and expense recognised in the period in two statements: (i) the consolidated income statement showing components of profit or loss, and (ii) the consolidated statement of comprehensive income beginning with profit or loss and showing components of other comprehensive income. However, HKAS 1 (Revised) has had no impact on the reported results or financial position of the Group.

HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. HKFRS 8 does not affect the Group's reportable segments.

'Improvements to HKFRSs' (issued in October 2008). The improvements include 35 amendments across 20 different standards that largely clarify the required accounting treatment where previous practice had varied, and have resulted in a number of changes in the Group's accounting policies. The only amendment included in 'Improvements to HKFRSs' that has had a material impact on the Group's accounting policies is the amendment to HKAS 40, 'Investment property' (and consequential amendments to HKAS 16, 'Property, plant and equipment').

After the amendment, investment property under construction is now within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where the fair value of investment property under construction is not reliably determinable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably determinable. For the six months ended 30 June 2009, the Group's share of the increase in fair value of investment property under construction (net of deferred taxation) amounted to HK\$758,955,000 (2008: nil).

The following new or revised standards and interpretations have been issued, but not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- HKFRS 3 (Revised), 'Business combinations'
- HKAS 27 (Revised), 'Consolidated and separate financial statements'
- HKAS 39 (Amendment), 'Financial instruments: recognition and measurement' – 'Eligible hedged items'
- HK(IFRIC) – Int 17, 'Distributions of non-cash assets to owners'
- HK(IFRIC) – Int 18, 'Transfers of assets from customers' (effective for transfer of assets received on or after 1 July 2009)
- Improvements to HKFRSs 2009

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

2. Principal activities and segmental analysis of operations

(a) An analysis of the Group's turnover and contribution to operating profit for the six months ended 30 June 2009 by principal activities and markets is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2009 HK\$'000	2008 HK\$'000 (Restated)	Six months ended 30 June 2009 HK\$'000	2008 HK\$'000 (Restated)
Principal activities:				
Property rental				
– People's Republic of China ("PRC")	416,465	369,523	298,630	312,946
– Hong Kong	269,953	298,554	168,685	122,780
	686,418	668,077	467,315	435,726
Property sales (Note)				
– PRC	762,941	1,486,445	389,096	1,112,667
– Hong Kong	497,570	453,408	332,892	345,456
	1,260,511	1,939,853	721,988	1,458,123
Hotel operations	109,441	208,906	10,005	87,884
Logistics and warehouse operations				
– warehouse	210,619	220,585	134,813	127,991
– logistics	3,074,060	3,866,582	135,386	140,515
	3,284,679	4,087,167	270,199	268,506
Infrastructure	–	–	(225)	(368)
Project, property management and others	63,680	73,049	33,835	(38,950)
	5,404,729	6,977,052	1,503,117	2,210,921
Increase in fair value of investment properties	–	–	881,896	1,173,194
	5,404,729	6,977,052	2,385,013	3,384,115
Principal markets:				
PRC	2,826,421	3,817,493	1,443,962	2,707,414
Hong Kong	1,659,827	1,744,776	920,962	636,920
United Kingdom	290,890	560,648	13,756	23,340
Others	627,591	854,135	6,333	16,441
	5,404,729	6,977,052	2,385,013	3,384,115

Note: Analysis of proceeds from sale of properties

	Six months ended 30 June	
	2009 HK\$'000	2008 HK\$'000
Property sales proceeds (as above)		
– PRC	762,941	1,486,445
– Hong Kong	497,570	453,408
	1,260,511	1,939,853
Sales proceeds from investment properties		
– PRC	–	–
– Hong Kong	614,451	250,880
	614,451	250,880
Total property sales proceeds		
– PRC	762,941	1,486,445
– Hong Kong	1,112,021	704,288
	1,874,962	2,190,733

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

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

- (b) An analysis of the Group's revenue and results for the six months ended 30 June 2009 by operating segments is as follows:

	Six months ended 30 June 2009							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
Revenue								
Turnover	1,288,847	767,523	-	3,284,679	-	63,680	-	5,404,729
Inter-segment revenue	-	-	-	-	-	34,078	(34,078)	-
Inter-segment interest income	-	-	-	-	-	248,748	(248,748)	-
	<u>1,288,847</u>	<u>767,523</u>	<u>-</u>	<u>3,284,679</u>	<u>-</u>	<u>346,506</u>	<u>(282,826)</u>	<u>5,404,729</u>
Results								
Segment results before increase in fair value of investment properties	647,924	573,745	(1,063)	285,080	(210)	226,415	(248,748)	1,483,143
Increase in fair value of investment properties	698,086	183,810	-	-	-	-	-	881,896
Segment results	1,346,010	757,555	(1,063)	285,080	(210)	226,415	(248,748)	2,365,039
Dividend income	-	21,180	6,984	-	-	-	-	28,164
Interest income	13,684	5,584	1,275	3,269	777	9,317	-	33,906
Interest expenses	(8,858)	(45,768)	-	(18,150)	(792)	(217,276)	248,748	(42,096)
Operating profit/(loss)	1,350,836	738,551	7,196	270,199	(225)	18,456	-	2,385,013
Share of results of associated companies	450,424	6,920	36,148	71,834	31,054	(2,283)	-	594,097
Profit before taxation	1,801,260	745,471	43,344	342,033	30,829	16,173	-	2,979,110
Taxation	(566,084)	(88,251)	(5,570)	(60,389)	-	(6,338)	-	(726,632)
Profit for the period	<u>1,235,176</u>	<u>657,220</u>	<u>37,774</u>	<u>281,644</u>	<u>30,829</u>	<u>9,835</u>	<u>-</u>	<u>2,252,478</u>
Profit attributable to:								
Company's shareholders	897,616	654,026	37,774	249,469	30,838	9,835	-	1,879,558
Minority interests	337,560	3,194	-	32,175	(9)	-	-	372,920
	<u>1,235,176</u>	<u>657,220</u>	<u>37,774</u>	<u>281,644</u>	<u>30,829</u>	<u>9,835</u>	<u>-</u>	<u>2,252,478</u>

Six months ended 30 June 2008 (Restated)

	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue								
Turnover	2,064,874	751,962	-	4,087,167	-	73,049	-	6,977,052
Inter-segment revenue	1,668	-	-	-	-	15,237	(16,905)	-
Inter-segment interest income	-	-	-	-	-	320,037	(320,037)	-
	<u>2,066,542</u>	<u>751,962</u>	<u>-</u>	<u>4,087,167</u>	<u>-</u>	<u>408,323</u>	<u>(336,942)</u>	<u>6,977,052</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>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

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

(c) An analysis of the Group's total assets as at 30 June 2009 by operating segments is as follows:

	As at 30 June 2009							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
	Total assets	<u>36,981,058</u>	<u>31,129,111</u>	<u>1,790,031</u>	<u>11,473,139</u>	<u>887,624</u>	<u>33,954,795</u>	
	As at 31 December 2008							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics and Warehouse HK\$'000	Infrastructure HK\$'000	Others HK\$'000	Eliminations HK\$'000	
	Total assets	<u>34,583,827</u>	<u>31,095,091</u>	<u>1,739,343</u>	<u>11,312,197</u>	<u>853,847</u>	<u>32,794,682</u>	

3. Operating profit

Six months ended 30 June

	2009 HK\$'000	2008 HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	28,164	33,351
Interest income	33,906	44,684
Gain on sale of properties	895,846	1,287,580
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	110,331	111,481
Total finance costs incurred	288,361	368,710
Less: amount capitalised in properties under development	(224,709)	(243,726)
	63,652	124,984
Fair value gain on derivative financial instruments	(21,556)	(20,045)
	42,096	104,939

4. Taxation

	Six months ended 30 June	
	2009	2008
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(373,296)	(482,082)
Deferred	(214,992)	(335,406)
	(588,288)	(817,488)
Hong Kong profits tax		
Current	(83,919)	(93,992)
Overprovision in prior years	21	145
Deferred	(38,524)	83,803
	(122,422)	(10,044)
Overseas taxation		
Current	(17,274)	(21,496)
Deferred	1,352	3,015
	(15,922)	(18,481)
	(726,632)	(846,013)

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) on the estimated assessable profit for the six months ended 30 June 2009. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2009 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	
	2009	2008
Weighted average number of shares in issue	<u>1,427,337,842</u>	<u>1,424,808,198</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>1,879,558</u>	<u>2,482,888</u>
Basic earnings per share	<u>HK\$1.32</u>	<u>HK\$1.74</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	
	2009	2008
Weighted average number of shares in issue	1,427,337,842	1,424,808,198
Adjustment for convertible bonds	49,296,291	49,296,291
Adjustment for share options	<u>2,852,372</u>	<u>4,727,434</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>1,479,486,505</u>	<u>1,478,831,923</u>
	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	1,879,558	2,482,888
Adjustment for finance cost on convertible bonds	<u>54,355</u>	<u>51,588</u>
Profit used to determine diluted earnings per share	<u>1,933,913</u>	<u>2,534,476</u>
Diluted earnings per share	<u>HK\$1.31</u>	<u>HK\$1.71</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 2009 is as follows:

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Below 1 month	1,080,364	1,642,879
Between 1 month and 3 months	405,597	504,211
Over 3 months	92,881	149,115
	<u>1,578,842</u>	<u>2,296,205</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 2009 is as follows:

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Below 1 month	480,555	533,349
Between 1 month and 3 months	167,121	182,299
Over 3 months	81,626	105,068
	<u>729,302</u>	<u>820,716</u>

8. Bank loans

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Bank loans – unsecured	9,484,801	9,794,886
Bank loans – secured	641,130	608,537
Total bank loans (note (i))	10,125,931	10,403,423
Less: Short-term bank loans and current portion of long-term bank loans	(514,080)	(1,907,948)
	<u>9,611,851</u>	<u>8,495,475</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

8. Bank loans (continued)

(i) As at 30 June 2009, the Group's bank loans were repayable as follows:

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Within one year	514,080	1,907,948
In the second to fifth year		
– In the second year	5,989,884	623,355
– In the third year	2,739,042	7,017,424
– In the fourth year	58,606	52,559
– In the fifth year	745,044	741,165
	9,532,576	8,434,503
Wholly repayable within five years	10,046,656	10,342,451
Over five years	79,275	60,972
	10,125,931	10,403,423

9. Convertible bonds

During the six months ended 30 June 2009, 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 2008.

10. Commitments

At 30 June 2009, 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 2009 HK\$'000	As at 31 December 2008 HK\$'000
Contracted but not provided for	5,703,575	6,260,863
Authorised but not contracted for	189,258	228,869
	5,892,833	6,489,732

11. Contingent liabilities**(a) Guarantees for banking and other facilities**

	As at 30 June 2009 HK\$'000	As at 31 December 2008 HK\$'000
Guarantees for banking and other facilities of certain associated companies and investee companies (note (i))	2,131,539	2,054,096
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	<u>207,329</u>	<u>–</u>
	<u>2,338,868</u>	<u>2,054,096</u>

(i) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2009 amounted to approximately HK\$2,131,539,000 (31 December 2008: HK\$2,054,096,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2009 amounted to approximately HK\$2,591,406,000 (31 December 2008: HK\$2,570,349,000).

(ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 30 June 2009 amounted to approximately HK\$207,329,000 (31 December 2008: nil). The total amount of such facilities covered by the Group's guarantees as at 30 June 2009 amounted to approximately HK\$1,751,345,000 (31 December 2008: HK\$1,714,054,000).

(b) Other guarantees and undertakings

The deed of guarantee to the Government of the Hong Kong Special Administrative Region in respect of Western Harbour Crossing has been discharged on 5 February 2009.

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2008.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

12. Pledge of assets

As at 30 June 2009, the Group's total bank loans and overdrafts of HK\$10,139,766,000 (31 December 2008: HK\$10,418,608,000) included an aggregate amount of HK\$9,494,156,000 (31 December 2008: HK\$9,806,358,000) which is unsecured and an aggregate amount of HK\$645,610,000 (31 December 2008: HK\$612,250,000) 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\$5,059,264,000 (31 December 2008: HK\$4,047,756,000);
- (ii) charges on bank balances amounting to HK\$2,786,000 (31 December 2008: HK\$1,235,000) of certain subsidiaries of the Group; and
- (iii) assignments of insurance proceeds of certain properties of the Group.

13. Comparative figures

Certain comparative figures have been reclassified to conform to current period presentation. These reclassifications have no effect on the overall results or financial position of the Group.

In previous period, sale proceeds and the related cost of sales of investment properties were presented in the consolidated income statement within turnover, cost of sales and direct operating expenses respectively. The Group has made certain reclassifications so as to conform to current period presentation.

The following is a summary of the effects of comparative figures which have been reclassified in the consolidated income statement:

	Six months ended 30 June 2008 HK\$'000
Decrease in turnover	(250,880)
Decrease in cost of sales	(172,060)
Decrease in direct operating expenses	(7,355)
Increase in other income and net gains	71,465

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

Turnover of the Group for the six months ended 30 June 2009 was HK\$5,405 million, which registered a decrease of 23% when compared with the turnover of HK\$6,977 million for the corresponding six months ended 30 June 2008. The Group's turnover mainly comprises proceeds from the sales of properties, rental income as well as revenue from hotel operations, warehouse operations and logistics services. The decrease in turnover during the period was mainly due to the decrease in property sales in Mainland China and the decrease in logistics revenue.

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 2009 was HK\$990 million (2008: HK\$1,535 million), representing a decrease of 36% over the period.

During the six months ended 30 June 2009, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$890 million (2008: HK\$948 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		Change
	2009 HK\$ million	2008 HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	990	1,535	-36%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>890</u>	<u>948</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u><u>1,880</u></u>	<u><u>2,483</u></u>	-24%

(B) Mainland China Property Division

During the six months ended 30 June 2009, the Group's Mainland China Property Division recorded a turnover of HK\$1,289 million (2008: HK\$2,065 million) and a net profit attributable to the Group of HK\$898 million (2008: HK\$1,620 million), after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$737 million (2008: HK\$862 million).

During the period under review, despite the impact caused by the global financial tsunami on the Chinese economy and its real estate market, the Group has made solid progress in rolling out its property development and sales plans to further build on its premier portfolio of properties.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(i) Investment Properties

During the six months ended 30 June 2009, the Group generated rental income and operating profit of HK\$417 million and HK\$298 million, respectively (2008: HK\$370 million and HK\$313 million, respectively), from its portfolio of investment properties in Mainland China.

As at 30 June 2009, the Group maintained an investment property portfolio of residential, commercial and office properties in Mainland China with an aggregate gross floor area ("GFA") of 3.83 million square feet (as at 31 December 2008: 3.83 million square feet). Their respective composition and occupancy rates were as follows:

As at 30 June 2009:

	Beijing	Shanghai	Shenzhen	Fuzhou	Group's attributable GFA	Occupancy rate
	<i>('000 square feet)</i>					
Office	711	682	815	–	2,208	78%
Commercial	98	443	107	64	712	90%
Residential	277	628	–	–	905	65%
	<u>1,086</u>	<u>1,753</u>	<u>922</u>	<u>64</u>	<u>3,825</u>	

As at 31 December 2008:

	Beijing	Shanghai	Shenzhen	Fuzhou	Group's attributable GFA	Occupancy rate
	<i>('000 square feet)</i>					
Office	711	682	815	–	2,208	79%
Commercial	98	443	107	64	712	91%
Residential	277	628	–	–	905	74%
	<u>1,086</u>	<u>1,753</u>	<u>922</u>	<u>64</u>	<u>3,825</u>	

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

Property	Occupancy rate as at 30 June 2009	Occupancy rate as at 31 December 2008
Beijing Kerry Centre ^	81%	90%
Shanghai Kerry Centre	78%	86%
Kerry Everbright City Phase I	86%	81%
Central Residences Phase II Towers 1 and 3	69%	73%
Shenzhen Kerry Plaza Phase I	63%	60%

^ excluding Shangri-La's Kerry Centre Hotel, Beijing

The Group's new luxury residential project in Shanghai's Changning District, Central Residences Phase II, received a satisfactory market response to the leasing of its units. As at 30 June 2009, 144 units out of the total of 214 units of Towers 1 and 3 of Central Residences II were leased as serviced apartments, representing 69% of its GFA of approximately 478,000 square feet.

Kerry Plaza Phase I, a Grade-A office complex project in Shenzhen's central district, generates a GFA of approximately 805,000 square feet. About 63% of the GFA was leased out as at 30 June 2009, with a tenant profile comprising mainly large international enterprises, information technology companies and multinational banks.

(ii) Sales of Properties

In Mainland China, sales of properties during the six months ended 30 June 2009 contributed turnover and operating profit of HK\$763 million and HK\$389 million, respectively (2008: HK\$1,486 million and HK\$1,113 million, respectively), driven mainly by the contribution from Kerry Everbright City Phase II in Shanghai, including sales of residential units at Le Loft and office units at Enterprise Square office tower. During the period, properties introduced for pre-sale include Parkview Residence in Hangzhou, Gemini Grove in Beijing and Lakeview in Yangzhou, all of which have received a positive market response.

Located in Zhabei District, Kerry Everbright City enjoys excellent location advantage and accessibility. Phase II of the project is a mixed-use development comprising Phases A and B with an aggregate GFA of approximately 1.6 million square feet. As at 30 June 2009, out of a total of 1,167 Le Loft residential units, 1,009 units, or 86%, were sold. Some 50%, or 216 units out of a total of 435 office units, of Enterprise Square was also sold. Sale of Le Loft benefited from Kerry Properties' established reputation for excellent quality and received a satisfactory market response to its phased launches.

(iii) Properties under Development

While the real estate market in China moved into a correction phase in the first half of 2009, the Group's premier property projects across various provinces and cities progressed as planned. With abundant funds in the market and low interest rates, the Group is able to enjoy more favourable financing terms for project development.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(iii) Properties under Development (continued)

Shanghai

A mixed-use development lying in the heart of Shanghai's business area, Jing An District, Jing An Kerry Centre continued on schedule with construction work. Jing An Kerry Centre project is being co-developed by the Group and Shangri-La Asia Limited ("Shangri-La"), with respective shareholdings of 51% and 49%. This joint venture project includes the development of a deluxe hotel, a Grade-A office tower up to international standards and upscale shopping mall properties, with an aggregate GFA of approximately 2.75 million square feet, all scheduled to complete in 2012.

The Group also holds a 40.8% interest in Kerry Parkside, Pudong District, a mixed-use property project now at the superstructure construction stage. Situated close to the Shanghai New International Expo Centre, the joint venture project is located at the core of Huamu District in Pudong New Area, and includes a hotel, offices, an apartment-style hotel, commercial properties and related ancillary facilities, targeted for completion by the third quarter of 2010.

The construction of Phase III of the Kerry Everbright City project is expected to commence by the end of 2009. Development of Phase III will include a hotel, retails and offices with a GFA of approximately 1.09 million square feet. The Group holds a 74.25% interest in the project and it is expected to be completed in 2012.

Beijing

In Beijing, the Group has unveiled its first property project designated for sale. Gemini Grove is an upscale residential property project in Xinyuanli, delivering a GFA of approximately 500,000 square feet (inclusive of commercial and underground area), of which the apartments yield a total GFA of approximately 331,000 square feet. The 71%-owned Gemini Grove is located in Yansha District, a neighbourhood offering an array of upscale lifestyle facilities, as well as the luxury of lush greenery and woods being conserved in the area. Yansha is well regarded as the most livable internationalized community in the centre of the capital. The project comprises two towers (East and West Towers) where 317 units will become available upon completion of the construction work in August 2009. As at 30 June 2009, 123 units were sold.

Shenzhen

Kerry Plaza Phase II offers Grade-A office space with a GFA of approximately 850,000 square feet. Construction works are now in progress and are scheduled for completion in 2011. This new project will represent another major landmark by the Group, strengthening its position in the Grade-A office sector in Shenzhen.

Tianjin

The Group's mixed-use property project in Hedong District, Tianjin, lies at the Tianjin South Railway Station CBD. The project is adjacent to the Tianjin Financial Street neighbourhood overlooking the Haihe, and enjoys a convenient transportation network. The development blueprint includes a hotel, Grade-A offices, upscale residential accommodation, shopping mall and serviced apartments, with a total GFA of approximately 5.67 million square feet. The project leverages the combined experience of the respective joint venture parties in hotel, commercial and residential developments. The Group holds a 49% interest in this project, which is now in the construction phase, with completion scheduled in phases between 2011 and 2013. Upon completion, the project is poised to add another iconic landmark to the city skyline of Tianjin.

Hangzhou

The Group continues to roll out its planned development for the two sites in Xiacheng District, Hangzhou. The first site is located at the busy junction of Yan'an Road and Qingchun Road, close to the future interchange station for Metro Lines 1 and 2. Commanding a prime location in the heart of Hangzhou and adjacent to the 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 name-brand complex with a GFA of approximately 2.2 million square feet. With the project's schematic design about to complete, piling works are scheduled to commence by the first quarter of 2010. On expected completion by 2012 in phases, the project will become a major new landmark in Hangzhou.

The second site in Xiacheng District is earmarked for residential development and is designed to become one of the largest and most emblematic communities in the city's northern old town. Configured to deliver a GFA of approximately 2.7 million square feet, the Parkview Residence is positioned as a stylish luxury residence. Situated at the city's public transport hub and with the city centre itself only about 12 kilometres away, the development promises convenient access. The project is expected to be completed in phases by 2012. The pre-sales for Parkview Residence in December 2008 have met with an overwhelming market response, validating the competitiveness of the project.

Nanjing

The Group and Shangri-La are jointly developing a prime site at Zhong Yang Road in Gu Lou District, Nanjing. Located at the heart of Nanjing, the site has an area of 183,000 square feet, and is designated for the development of a mixed-use project comprising hotel and commercial properties with a total GFA of approximately 915,000 square feet. The Group holds a 45% interest in this project, which is now in the planning phase with construction works to be rolled out in early 2010. As the provincial capital of Jiangsu, Nanjing is endowed with rich tourism resources, including the heritage sites of the shipyards which built the treasure ships, a National 3A tourist spot.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(iii) Properties under Development (continued)

Chengdu

The Group's site for a residential property development in Chengdu, the provincial capital of Sichuan Province, is situated in the southern part of the Chengdu High-Tech Industrial Development Zone. The site is expected to yield a total developable GFA of approximately 6.9 million square feet. The area has been zoned as Chengdu's future central business district, and will incorporate facilities such as convention centres, an embassy zone, five-star hotels, a business area and a technology park. The project also lies close to the city's main traffic artery and municipal park, placing it in the ideal neighbourhood for the development of luxury residences. Foundation excavation works on Phase I of the project are currently in progress, with construction works scheduled for completion in phases between 2011 and 2012.

Nanchang

The Group, through a joint venture with Shangri-La, has rolled out a mixed-use property development in Nanchang, the provincial capital of Jiangxi Province. The project site is located next to the government offices in the heart of Honggutan central district, and has an area of approximately 514,000 square feet suitable for development into a mixed-use complex comprising hotel, offices, commercial and high-end apartments, yielding a GFA of approximately 2.57 million square feet. The Group holds an 80% interest in the project. Nanchang is a city in Central China with tremendous growth prospects. The project site is located in an area earmarked as the new administrative centre of Nanchang and offers impressive river views. With the project's schematic design currently in progress, construction works will commence in early 2010 and the project is expected to be completed in phases between 2012 and 2015.

Changsha

In Changsha, the provincial capital of Hunan Province, the Group is engaged in the development of a 61%-held joint venture residential and commercial property project located in the Tianxin District. The site lies to the west of provincial government offices and offers exquisite river vista of the Xiang Jiang. The project is expected to yield a GFA of approximately 3.3 million square feet. Piling works are due to begin in the fourth quarter of 2009 and project completion is scheduled to take place in phases between 2011 and 2013.

Shenyang

The Group's site in Shenyang, the capital of Liaoning Province, is located on the eastern side of Qingnian Street and to the south of Qingnian Park. Shenyang is not only the largest industrial municipality in Northeastern China, but also an important city with rich tourism resources. Shenyang Kerry Centre is located in the core area of the city's landmark zone, the Golden Corridor (Qingnian Street), and stretches across an area of approximately 1.86 million square feet, delivering a GFA of approximately 14 million square feet. The site will be developed into a mixed-use project consisting of a hotel, offices, shopping mall, residences and apartments. The development is now in the conceptual design phase. The residential construction work of Phase I is expected to commence in early 2010. The project is expected to be completed in phases between 2013 and 2021. The Group holds a 60% interest in the project.

Yangzhou

The residential portion of the Group's hotel and luxury residential project in Xincheng West District, Yangzhou, is expected to complete at the end of the year. Pre-sales of 58 selected units of one of the residential towers have taken place of which, as at 30 June 2009, 55 units were sold (sold ratio being approximately 95%), reflecting a satisfactory market response. Upon completion of the entire project by 2011, the development will generate a GFA of approximately 937,000 square feet.

Qinhuangdao

The Group's seafront deluxe residential project in Qinhuangdao, Hebei Province, is currently in the planning stage. This development is designed to produce a GFA of approximately 4.76 million square feet, with phased completion by 2013. Qinhuangdao is a major external trading port and famous tourist destination in Northern China with excellent economic advantages and development potential.

Manzhouli

Development of the residential and commercial property project in Manzhouli, Inner Mongolia, is expected to complete in phases up to 2012. Manzhouli is a major border city in terms of road transport links for the Sino-Russian trade, enjoying unique geographical advantages. The project is expected to deliver a developable GFA of approximately 927,000 square feet, the Phase I residential portion of which is scheduled for pre-sale in the second quarter of 2010. Occupation of the first batch of residential units is expected to take place in the third quarter of 2010.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(B) Mainland China Property Division (continued)

(iii) *Properties under Development (continued)*

Tangshan

The Group's project in Tangshan is located on Da Li Road in Feng Huang Xin Cheng and has a total site area of approximately 1.02 million square feet. The Group has formed a joint venture with subsidiaries of Shangri-La and Allgreen Properties Limited in respect of the development of the project. The site will be developed into hotel, residential and complementary commercial properties with a total GFA of about 2.99 million square feet. The Group holds a 40% interest in the joint venture project. Tangshan is an important coastal city of Northern China. Lying in close proximity to Beijing and Tianjin, Tangshan has promising prospects for development. The Group believes the joint venture project will in the long term contribute considerable and sustainable earnings. Construction works are expected to commence during the year and scheduled to complete in 2012.

Qufu

The Group's hotel development in Qufu, Shandong Province, lies in the new business centre along the city's central axis, and yields a GFA of approximately 658,000 square feet. The project was sold to Shangri-La in July 2009 at a profit.

(iv) *Shangri-La's Kerry Centre Hotel, Beijing*

During the six months ended 30 June 2009, Shangri-La's Kerry Centre Hotel, Beijing contributed turnover and related operating profit of HK\$109 million and HK\$10 million, respectively (2008: HK\$209 million and HK\$88 million, respectively), and achieved an average occupancy rate of 42% (2008: 73%).

(C) Hong Kong Property Division

During the six months ended 30 June 2009, the Hong Kong Property Division reported a turnover of HK\$768 million (2008: HK\$752 million) and a net profit attributable to the Group of HK\$654 million (2008: HK\$483 million), after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$153 million (2008: HK\$75 million).

The main contributions to the Division's turnover were made by sales of 15 Homantin Hill and SOHO 38. The disposal of certain units in Belgravia also made contribution to profit of the Group.

The Division commands a balanced portfolio of premier assets, in particular in the exclusive locales on the Island side where supply is highly restricted, providing the basis for the development of projects to help the Division maintain its strong growth momentum. Such portfolio comprises completed projects available for sale, investment properties and a number of properties under development or land bank to be developed, which helps secure satisfactory returns from property sales and a stable stream of recurrent income from investment premises.

(i) Investment Properties

In the first six months of 2009, rental turnover and operating profit derived from the Group's investment property portfolio in Hong Kong were HK\$270 million and HK\$169 million, respectively (2008: HK\$299 million and HK\$123 million, respectively).

As at 30 June 2009, the Group held an investment property portfolio of residential, commercial and office properties in Hong Kong with an aggregate GFA of 2.60 million square feet (as at 31 December 2008: 2.64 million square feet). The breakdown of GFA and the respective occupancy rates were as follows:

	As at 30 June 2009		As at 31 December 2008	
	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate	Group's attributable GFA (<i>'000 square feet</i>)	Occupancy rate
Residential	723 *	92%	618 **	93%
Commercial	1,194	94%	1,194	96%
Office	645	96%	645	98%
	<u>2,562</u>		<u>2,457</u>	

* excluding Belgravia

** excluding Belgravia and Tavistock

Enterprise Square Five/“MegaBox”

The Group's retail and leisure flagship, “MegaBox” in East Kowloon, reported a leased rate of 96% as at 30 June 2009 (as at 31 December 2008: 97%) for its 1.1 million square feet of space. The mall will continue to optimize its tenant mix, leading the way for local consumers and tourists to a top-class retail environment and the foremost entertainment and dining experiences.

The two Grade-A Enterprise Square Five office towers have an aggregate GFA of approximately 519,000 square feet. Kowloon Bay has put on a new face consistent with East Kowloon's transformation into a new business and tourism centre, which is attracting new tenants in particular an increasing number of large enterprises. As at 30 June 2009, the Enterprise Square Five office towers were 99% (as at 31 December 2008: 99%) leased.

(ii) Sales of Properties

During the six months ended 30 June 2009, turnover from sales of completed properties of HK\$498 million (2008: HK\$453 million) and proceeds from sales of investment properties of HK\$614 million (2008: HK\$251 million) delivered an operating profit of HK\$333 million (2008: HK\$345 million). These were primarily derived from sales of completed properties of 15 Homantin Hill and SOHO 38, as well as investment property of Belgravia.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(C) Hong Kong Property Division (continued)

(ii) Sales of Properties (continued)

Despite the impact of the global financial crisis on the local economy, Hong Kong enjoys the support of China as well as abundant sources of funding from a market which, coupled with the low prevailing interest rates, has the capability to drive demand by investors and home owners for premier properties demonstrating good potential. Building on its expertise in designing and conceiving prime-quality deluxe residential projects, the Group achieved satisfactory sales results during the period under review. The pre-sale of Primrose Hill residential units in Tsuen Wan in June 2009 also received strong buyer support.

(iii) Properties under Development

First Street/Second Street, Mid-Levels West

Construction of the residential project on First Street/Second Street in Mid-Levels West is drawing close to completion. This residential and commercial project, co-developed with the Urban Renewal Authority, will yield 488 residential units with incorporated commercial space rendering a total GFA of approximately 410,000 square feet, and is slated for launch by the end of 2009. Located in Island West, the project is situated in an exclusive and prestigious locale with an excellent school network. The project has already generated strong market interest, and is expected to become a market hotspot on its official launch.

Primrose Hill, Tsuen Wan

The Group's pre-sale of its landscaped garden luxury residence, Primrose Hill, on Kwok Shui Road, Tsuen Wan, starting in June 2009 was a resounding success and received an overwhelming market response. Primrose Hill enjoys unobstructed views and benefits from the greenery of the Tai Mo Shan Country Park. Designed around an In-and-Out architectural concept, the residences and clubhouse are laid out to leverage the outdoor natural vista which creates a natural backdrop for the interior. A total of 548 units across a saleable area of approximately 450,000 square feet are on offer, of which 342 units, or 62% of the total, have been sold. The remaining units are expected to be put up for sale on the official completion of the project in the first quarter of 2010.

Ap Lei Chau

Construction works are underway at the Group's 35%-held joint venture residential project in Ap Lei Chau. The Group will share an attributable GFA of approximately 320,000 square feet from this development on its anticipated completion in the first quarter of 2011. The project offers 715 residential units for launch on the market in the first half of 2010.

Shan Kwong Road/Village Terrace, Happy Valley

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

King's Road, North Point

Construction works are in progress on this 40%-held joint venture Grade-A office tower with a developable GFA of approximately 511,000 square feet at Nos. 863-865 King's Road, North Point. This project is planned to be completed in the fourth quarter of 2010.

Chun Yan Street, Wong Tai Sin

The Group has set out to establish another premium residential and commercial development in Wong Tai Sin, with a site at Chun Yan Street. The residential portion of the project will have a developable GFA of approximately 767,000 square feet, while the commercial portion will constitute a GFA of approximately 153,000 square feet. The project represents a major effort by the Group to develop another unique city-boutique residence. Construction of the project is planned to be completed in the third quarter of 2011.

Wilmer Street, Sheung Wan

The properties acquired by the Group in Wilmer Street, Sheung Wan, are designated for redevelopment into premier residences and retail space. Construction works for this 71%-held project commenced in the first half of 2009. The Central and Western Districts present considerable constraints in terms of developable land supply. The Group is therefore confident of deriving a satisfactory return from this investment by leveraging its experience and brand advantage in boutique-style luxury residential developments. This project is poised to become another market hotspot.

Yuk Yat Street, To Kwa Wan

The redevelopment of No. 5 and No. 9 Yuk Yat Street into residential and commercial properties is now in the planning phase. The project is expected to deliver a GFA of approximately 150,000 square feet.

Macau

The Group's acquired site in Nam Van Lake is currently under development into a luxury residential apartment building. The site is situated in a prime location enjoying a full unobstructed view of the Nam Van Lake and the Macau peninsula. The residential project will yield a developable GFA of approximately 400,000 square feet upon its scheduled completion in the fourth quarter of 2012.

The proposed reclamation scheme in Macau is awaiting approval by the Central Government, upon which the Macau SAR Government will proceed with the land exchange procedure.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(D) Overseas Property Division

The Group's Overseas Property Division holds a portfolio of properties in Australia and the Philippines. In the first six months of 2009, the Division contributed a net profit after tax of HK\$38 million (2008: HK\$31 million) to the Group.

(i) *Australia*

As at 30 June 2009, 1,115 units (as at 31 December 2008: 1,104 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 93% 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*

The Group's property investments in the Philippines are held through Shang Properties, Inc. ("SPI") in which it maintains a 34.61% equity interest directly and a 30.75% interest in its depository receipts. SPI holds (i) a 78.72% interest in the Shangri-La Plaza Mall, Manila and (ii) indirect interests in The Enterprise Center, an office and commercial property in Makati, Manila's financial district. As at 30 June 2009, the occupancy rates of the Shangri-La Plaza Mall and The Enterprise Center were 99% and 94%, respectively (as at 31 December 2008: 99% and 96%, respectively).

Shangri-La Plaza Mall continues to post a healthy performance, and its expansion programme on an adjacent site continues to move ahead with planning now underway. The plans include the extension of the mall and building of residential units on the site of approximately 105,000 square feet. This development plan will yield a GFA of approximately 1.84 million square feet, of which approximately 401,000 square feet is designated as retail space, and approximately 1.44 million square feet is for residential purposes.

SPI also participates in the development of The St. Francis Shangri-La Place, a residential project located in Mandaluyong City, Manila. As at 30 June 2009, 1,013 units (as at 31 December 2008: 952 units) out of the total of 1,152 residential units at The St. Francis Shangri-La Place were sold. Towers 1 and 2 of The St. Francis Shangri-La Place are targeted for completion in the third quarter of 2009.

In addition, SPI has taken part in a hotel and luxury residential development in Fort Bonifacio, Taguig, Manila. The project incorporates the building of a six-star resort hotel and luxury residences, as well as approximately 8,500 square feet of retail premises. SPI holds a 40% interest in this project, the construction of which is ongoing with completion expected to take place by the end of 2012.

(E) Logistics Network Division

With the depth and reach of the global financial crisis casting a dark economic shadow over most industrialized countries, world trade has slowed sharply, with a substantial negative impact on the logistics sector. Import and export volume of most products in Mainland China recorded a drop of 25% to 30% during the first half of 2009. This situation was exacerbated by the H1N1 flu pandemic which disrupted sourcing activities and came right on top of the previous boom which saw many countries and sectors building up excess capacity and inventories.

The Division's financial performance remained resilient despite the adverse economic environment. In the first six months of 2009, the Division recorded a turnover of HK\$3,285 million (2008: HK\$4,087 million), a decline of 20% year on year. Net profit attributable to the Group fell 16% to HK\$249 million (2008: HK\$298 million). The drop is mainly attributable to the drastic 37% decrease in profit contributed by the Division's logistics investments due to the continuous drop in cargo volume in both sea and airport terminals. Excluding the profit contributed by the Division's logistics investments, net profit for the first half of 2009 dropped slightly by 5% when compared with the same period last year.

(i) Warehousing Operations in Hong Kong

The Division is Hong Kong's leading warehousing operator, with a network of 11 warehouses of an aggregate 5.56 million square feet GFA in its portfolio. The destocking underway at manufacturers and retailers since the end of 2008 has exerted considerable downward pressure on tariffs and utilization for the warehousing industry, resulting in a mild drop in the overall occupancy rate for the Division's portfolio to 93% as at 30 June 2009 (as at 31 December 2008: 97%).

During the six months ended 30 June 2009, the Division's warehouse portfolio in Hong Kong contributed turnover of HK\$211 million (2008: HK\$221 million), yielding profit attributable to the Division of HK\$113 million (2008: HK\$125 million).

(ii) Logistics Operations

During the first half of 2009, the Division's logistics operations generated turnover and net profit of HK\$3,074 million and HK\$70 million, respectively (2008: HK\$3,866 million and HK\$68 million, respectively). The results achieved incorporate growth in earnings derived from the Division's integrated logistics ("IL") business, but are offset in part by the international freight forwarding ("IFF") business which was hard hit by depressed global trade flows.

The Division continues its focus on long-term value creation through executing its growth strategy, controlling costs, and strategically managing its portfolio of businesses that is China-focused and Asia-based with a global network at its disposal.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Logistics Network Division (continued)

(ii) Logistics Operations (continued)

Hong Kong

The performance of the logistics operations in Hong Kong remained at a healthy level during the first six months of 2009. The IL business component was the revenue driver for this segment. During the period, the Division further strengthened its leadership in the local logistics market, in particular in several niche markets including the fashion, consumer electronics and retail sectors.

To keep itself on top of the latest supply-chain requirements, the Division is moving ahead with the construction of a 270,000 square feet Product Customization and Consolidation Centre in Tai Po Industrial Estate with high security, intelligent and green building design specifications. The facility, upon completion of construction in late 2010, will support the growing IL business of the Division in Hong Kong.

A joint venture was formed in July 2009 between Kerry FSDA Limited, the trading arm of the Division, and Brunei government to develop an international brand "Brunei Halal" for the halal food market. The joint venture is called Ghanim International Food Corporation Sdn Bhd and will be responsible for the sourcing, distribution and marketing of the Brunei Halal brand to global consumers.

China Focus

The Division remains the largest investor-operator in Mainland China's logistics sector, with logistics operations in the country posting a net profit, before sharing of headquarters' expenses, of HK\$58 million for the first half of 2009 (2008: HK\$56 million), an increase of 4% year on year.

During the period, the Division's IL business in Mainland China proved to be powerfully resilient to the weakened global market conditions, yielding 18% growth in overall performance compared with last year. Healthy domestic consumption and government stimulus intervention have generated timely niche growth opportunities for the Division in developing its businesses in new sectors and with domestic brands and companies.

The drastic drop in import and export volume for both sea and air freight since late 2008 has resulted in a sharp slowdown in IFF business volume worldwide. During the period, the Division managed to secure a number of ad-hoc project cargoes. By this means, together with stringent cost control and effective restructuring of operations, the Division's IFF business in China was managed to deliver a drop in profit of 14% in the first half of 2009.

With Mainland China's economic growth continuing to stay on track to meet government targets, the Division is pushing ahead with its well-thought-out expansion of logistics facilities. During the first half, the Division completed the acquisition of a logistics centre in Fuzhou of 108,000 square feet, as well as the purchase of land in Kunshan for the building of logistics facilities. Construction of facilities of 269,000 square feet in Chengdu is also nearing completion, adding to the Division's growing IL operating platform in the Mainland. On the other hand, efforts will be put into enhancing the Division's nationwide distribution network in the Mainland.

Asia Based

The Division's business in Asia was also affected by the slowdown of international trade which resulted in a drastic drop in import and export volume in the first half of 2009. Overall tonnage and freight rates declined in this challenging landscape but, across the region, Vietnam and India were the best performing markets for the Division. In India, the Division increased its stake in Kerry Reliable Logistics Private Limited from 51% to 90% in June 2009 with a view to further leveraging the market's healthy growth. Expansion in Vietnam also continued. Another 260,000 square feet of logistics facilities will be added to the operating base in Song Than, Ho Chi Minh City. The plan to build facilities of 120,000 square feet in Hanoi also moved forward smoothly.

The Division's road transport network business KART Logistics (Thailand) Limited ("KART"), a new company formed after the amalgamation of Kerry Asia Road Transport Limited and E.A.E. Logistics Co., Ltd. with effect from January 2009, continues to serve member countries of the Association of Southeast Asian Nations ("ASEAN"). KART has completed two major cross-border routes for the trucking of goods, one from Yunnan down to Thailand or Vietnam via Laos; another one from Guangxi to Vietnam. These newly incubated business lines have already posted profitability despite their short operational history.

In March 2009, the Division acquired a 60% interest in Kerry-ITS Holdings Pte. Ltd., which is based in Singapore and engaged in the cleaning and repair of ISO tanks. This ISO tank cleaning operation is fitted with advanced equipment to ensure rapid turnaround of tanks and the highest environmental standards. The Division aims to leverage its regional exposure to build this new operation into the only region-wide ISO tank servicing network in Asia.

Global Network

The leading European economies suffered a sharper slowdown than those in Asia which has directly affected trade flows between Asia and Europe. At the same time, significant new capacity which has been deployed within the trade lane, together with the collapse in demand, has put considerable pressure on freight rates and margins. As a result, the Division's European segment recorded a decline in IFF revenues and earnings contribution during the period. To combat this, stringent cost control measures have been put in place together with operational efficiencies and a focus on increasing business with both existing and new customers. The Division has recorded a rise in demand from European companies which, faced with falling demand in their home markets, are seeking to make use of the Division's expertise, network and facilities in China to expand their sales and footprint there.

(iii) Logistics Investments

The global economic downturn since late 2008 and the drastic decline in cargo volume have put enormous strains on the Division's logistics investments, in particular its investment in a 15% interest in Asia Airfreight Terminal and a 25% interest in Chiwan Container Terminal. During the first half of 2009, the Division's equity share of profit from its logistics investments declined by 37% to HK\$66 million (2008: HK\$105 million).

Through a joint venture which is holding a 27.6% interest in T.Join Transportation Co.,Ltd ("T.Join"), the Division has become the only logistics company which has a prominent presence in Mainland China, Hong Kong and Taiwan, enabling it to capture the benefits arising from the opening up of cross-strait traffic. T.Join is a major logistics operator with an extensive network in Taiwan. Its capacity to handle over 200,000 pieces daily is supported by a sophisticated distribution network with a fleet of over 2,500 trucks.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(E) Logistics Network Division (continued)

(iv) Information Technology

During the first half of the year, the Division followed its road map to put web 2.0 technology into practice. Two B2B (business-to-business) web portals have been launched with this new technology, one for online merchandise ordering and another for exhibition logistics services. This will be a brand new experience for the customers of the Division in collaborating with its various business units.

EPOD (electronic proof of delivery) meanwhile continues to be a major focus within the KerrierVISION supply-chain visibility suite. Following its successful deployment in various Hong Kong projects, the application will be given wider scope when the China Express fleet is equipped with its real-time tracking capability covering every delivery end-point. The first phase of deployment will be in the second half of this year.

Information technology infrastructure is also a critical success factor for the Division. Pursuing the same direction as the green data centre initiative, the Division had already virtualized over 70 servers in its Hong Kong, Beijing, and United Kingdom data centres by mid-2009. The Division will continue with this direction and explore the possibility of desktop virtualization and more “cloud” computing options.

(F) Infrastructure Division

Through investments in the infrastructure, environmental and utilities-related sectors in Hong Kong and Mainland China, the Infrastructure Division continues to serve as a stable recurrent income source for the Group. During the six months ended 30 June 2009, the Division generated net profit attributable to the Group of approximately HK\$31 million (2008: HK\$30 million).

(i) Hong Kong

The Group holds a 15% interest in the Western Harbour Crossing and a 15% stake in the Cross Harbour Tunnel management contract. During the first six months of 2009, the Group's share of aggregate net profits from these investments amounted to HK\$29 million (2008: HK\$28 million).

(ii) Mainland China

The Group maintains a 13% beneficial interest in a water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region. During the six months ended 30 June 2009, the Group's share of net profit from this project was HK\$2 million (2008: HK\$2 million).

The Group's 25%-held REDtone Telecommunications (China) Limited (“REDtone”) experienced positive business growth. REDtone is primarily 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 2009, total foreign currency borrowings (excluding Renminbi (“RMB”) borrowings) amounted to the equivalence of HK\$3,834 million and RMB loans amounted to the equivalence of HK\$480 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 24% and 3% respectively, of the Group’s total borrowings of HK\$15,901 million as at 30 June 2009.

The non-RMB total foreign currency borrowings of HK\$3,834 million mainly include the Fixed Rate Bonds amounting to US\$420 million (approximately HK\$3,238 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 2009, HK\$653 million (representing approximately 4%) was repayable within one year, HK\$5,990 million (representing approximately 38%) was repayable in the second year, HK\$5,941 million (representing approximately 37%) was repayable in the third to fifth years and HK\$3,317 million (representing approximately 21%) 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 2009. 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 2009, the gearing ratio for the Group was 23.0% (as at 31 December 2008: 25.9%), calculated based on net debt of HK\$11,039 million and shareholders’ equity of HK\$48,007 million.

As at 30 June 2009, the Group had outstanding interest rate swap contracts which amounted to HK\$2,300 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 2009, the Group had total undrawn bank loan and overdraft facilities of HK\$10,938 million and net cash on hand of HK\$4,862 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.

On 11 May 2009, Standard & Poor’s affirmed a “BBB-” credit rating for Kerry Properties Limited with a stable outlook.

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 2009:

Month	Event	Organiser	Venue
January	(1) Deutsche Bank Access China Conference 2009	Deutsche Bank	Beijing
February	(2) Citi Asia Pacific Fixed Income Investor Conference 2009	Citi	Hong Kong
	(3) Goldman Sachs Conviction Buy Corporate Day	Goldman Sachs	Hong Kong
March	(4) Credit Suisse Asian Investment Conference 2009	Credit Suisse	Hong Kong
May	(5) Citi Asian Market Gainers Mini Conference 2009	Citi	Hong Kong
	(6) Deutsche Bank Access Asian Property Corporate Day	Deutsche Bank	Hong Kong
	(7) Macquarie China Conference	Macquarie	Hong Kong
	(8) Goldman Sachs Hong Kong Realty Check Property Day	Goldman Sachs	Hong Kong
June	(9) DBS Vickers Pulse of Asia Conference	DBS Vickers	Singapore

(I) Directors and Staff

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

As at 30 June 2009, the Company and its subsidiaries had approximately 9,600 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 programmes as well as share option schemes.

⁺ Executive Director

[#] Independent Non-executive Director

[@] Non-executive Director

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 6 February 2009, a total of 7,830,000 share options (the "Options") were granted under the 2002 Share Option Scheme.

As at 30 June 2009, a total of 25,001,555 Options were outstanding which comprised 629,555 and 24,372,000 Options granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme respectively.

(J) Outlook

(i) Mainland China Property Division

With the global financial tsunami affecting manufacturing and export activities in China, the Mainland government has taken decisive action to introduce a series of economic stimulus measures to strengthen domestic demand, helping to produce signs of a turnaround in the market. According to the latest data from the National Bureau of Statistics, the country's GDP growth accelerated to 7.9% in the second quarter, following a gain of 6.9% in the first quarter of 2009. However, ongoing economic development will still be plagued by difficulties and challenges, with the foundations for a sustainable recovery yet to be properly laid. Looking to the second half of 2009, management believes the Mainland economy will remain in a correction phase, seeing a certain amount of fluctuation, but the trend of rebound in the real estate market has substantially taken shape. The Group has confidence in the long term economic development and prospects of the real estate market.

The development of in-demand premium-quality properties has been the Group's focus for many years, and the Group is able to maintain its resilience during periods of market adjustments as most of its projects are in the construction phase. New additions to the land bank are primarily focused in premier locales with sound economic fundamentals and geographical advantages. The positive momentum gained in the property market is consistent with the abundant funding in the market. As a leading enterprise enjoying a strong credit and business profile, the Group is thus able to secure the best financing terms for its projects.

The Group will continue to develop and maintain a premium property portfolio and land bank in Beijing, Shanghai as well as prosperous large and mid-tier cities that demonstrate strong demand. Kerry Properties continues to underpin its strong brand position in the Mainland by developing projects of only the best quality. This strategy will help to strengthen the Group's competitive position in the midst of adversity, ensuring it is among the first to gain further growth as the macro-economy stages a gradual recovery, and as the Mainland market picks up steadily.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

(J) Outlook (continued)

(ii) Hong Kong Property Division

The economic rescue packages introduced by various governments have driven interest rates to low levels. This, allied with the abundant funds in the Hong Kong money market, has prompted investors to actively pursue investment tools that promise value conservation and mitigate the anticipated inflation. These are all favourable parameters for the recovery of the real estate market. In the first half, the Group's continued sales of 15 Homantin Hill, SOHO 38 and Belgravia have registered satisfactory prices. Such positive results validate the success of the Group's strategy of focusing on properties in prime locales.

The Group's pre-sale of selected units at Primrose Hill, its deluxe residential development in Tsuen Wan, starting in June 2009, has seen an excellent response. Next in the pipeline is the First Street/Second Street project in Mid-Levels West. Management has full confidence in the sales of its prime-quality properties, and expects healthy growth in property sales volume and income over the next few years.

Demand from corporate tenants remains solid. The Group's office and retail properties, located in neighbourhoods with good prospects, are poised to sustain steady levels of rentals and occupancy.

The Hong Kong Property Division aspires to fulfil the Group's focused strategy of developing premier properties, and is committed to providing the ultimate in environment, facilities and service for its occupants and tenants.

(iii) Logistics Network Division

What started in 2008 as a financial crisis, has continued into 2009 and escalated to affect an ever-increasing number of sectors and markets. Turbulence and unpredictability will be the inevitable realities for the remainder of this year, but the Division's overriding task continues to be the further enhancement of our network capability, information technology edge and service quality.

A major focus will continue to be the strengthening of the Division's IL business component, in particular in Greater China and the ASEAN countries. Further efforts will be employed to enhance its existing distribution and logistics centre network in the Mainland China, as well as to develop the cross-strait platform with Taiwan. The Division will also continue its cross-border distribution business rollout in Mainland China and the ASEAN countries through the KART's network.

In India and Vietnam, the Division aims at further enhancing both its IL and IFF capabilities. Despite the current weak market situation for IFF services, the Division expects to capture niche growth and acquisition opportunities during the industry downturn.

The world has undergone momentous changes in the past year, but the Division is confident that its fundamentals-driven and market-driving operations will help it accomplish its goal of establishing a China-focused, Asia-based global logistics network.

(iv) Infrastructure Division

The Division will continue to optimize operations and maintain its investment portfolio in order to contribute a steady source of recurrent income for the Group.

CORPORATE GOVERNANCE

Compliance with Code Provisions

During the six months ended 30 June 2009, 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 of Hong Kong Limited.

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 2009 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 2009.

SHARE OPTIONS

Valuation of Options Granted During the Six Months Ended 30 June 2009

The fair value of the employee services received in exchange for the grant of the Options is recognised as an expense. The total amount to be expensed over the vesting period is determined by reference to the fair value of the Options granted. The weighted average fair value of the Options granted on 6 February 2009 is HK\$6.45. The valuation was based on a Binomial Model with the following assumptions:

Expected volatility ¹ :	50% per annum
Average expected life ² :	5.2 years
Average risk-free interest rate ³ :	1.36% per annum
Expected dividend yield:	2.5% per annum

Notes:

1. It was determined based on the movement of share prices during the period from June 2003 to February 2009.
2. It has taken into account the assumed rate of leaving service of 13% per annum and the assumption of early exercise of the Options by the optionholders when the share price is at least 200% of the exercise price.
3. It is taken to be the linearly interpolated yields using Hong Kong Exchange Fund Notes as at the grant date conducted separately for each tranche of the grant.

The value of the Options varies with different values of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value of the Options.

Movement of Options

Movement of the Options, which were granted under the 1997 Share Option Scheme, during the six months ended 30 June 2009 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2009	Number of Options exercised during the period (Notes 1 & 2)	Number of Options held as at 30/06/2009	Exercise price HK\$	Exercise period
1. Continuous Contract Employees	01/06/2000	I	3,000	(3,000)	–	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	45,564	(27,000)	18,564	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	71,738	–	71,738	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	37,000	–	37,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	31,830	–	31,830	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	98,464	–	98,464	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	98,464	–	98,464	6.85	16/04/2004 – 15/04/2012
2. Others	16/04/2002	I	118,248	(118,248)	–	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	518,247	(281,752)	236,495	6.85	16/04/2004 – 15/04/2012
Total:			1,059,555	(430,000)	629,555		

Movement of the Options, which were granted under the 2002 Share Option Scheme, during the six months ended 30 June 2009 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2009	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 lapsed during the period	Number of Options held as at 30/06/2009	Exercise price HK\$	Exercise period	
1. Directors												
KUOK Khoon Chen	06/02/2009	I	-	250,000	-	-	-	-	250,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	250,000	-	-	-	-	250,000	17.58	06/02/2011 - 05/02/2019	
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	
	06/02/2009	I	-	500,000	-	-	-	-	500,000	17.58	06/02/2010 - 05/02/2019	
HO Shut Kan	06/02/2009	II	-	500,000	-	-	-	-	500,000	17.58	06/02/2011 - 05/02/2019	
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	
	06/02/2009	I	-	250,000	-	-	-	-	250,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	250,000	-	-	-	-	250,000	17.58	06/02/2011 - 05/02/2019	
MA Wing Kai, William	17/03/2005	I	80,000	-	-	-	-	-	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	
	06/02/2009	I	-	100,000	-	-	-	-	100,000	17.58	06/02/2010 - 05/02/2019	
SO Hing Woh	06/02/2009	II	-	100,000	-	-	-	-	100,000	17.58	06/02/2011 - 05/02/2019	
SO Hing Woh	06/02/2009	I	-	125,000	-	-	-	-	125,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	125,000	-	-	-	-	125,000	17.58	06/02/2011 - 05/02/2019	
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	
	06/02/2009	I	-	250,000	-	-	-	-	250,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	250,000	-	-	-	-	250,000	17.58	06/02/2011 - 05/02/2019	
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	
	06/02/2009	I	-	250,000	-	-	-	-	250,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	250,000	-	-	-	-	250,000	17.58	06/02/2011 - 05/02/2019	
2. Continuous Contract Employees	17/03/2005	I	630,000	-	-	-	(37,500)	-	592,500	18.74	17/03/2006 - 16/03/2015	
	17/03/2005	II	740,000	-	-	-	(42,500)	(10,000)	687,500	18.74	17/03/2007 - 16/03/2015	
	02/04/2008	I	1,300,000	-	-	(87,500)	-	-	1,212,500	47.70	02/04/2009 - 01/04/2018	
	02/04/2008	II	1,300,000	-	-	(87,500)	-	-	1,212,500	47.70	02/04/2010 - 01/04/2018	
	02/04/2008	III	2,600,000	-	-	(175,000)	-	-	2,425,000	47.70	02/04/2011 - 01/04/2018	
	06/02/2009	I	-	1,790,000	-	(100,000)	-	(25,000)	1,665,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	1,790,000	-	(100,000)	-	(25,000)	1,665,000	17.58	06/02/2011 - 05/02/2019	
3. Others	17/03/2005	I	750,000	-	-	-	-	-	750,000	18.74	17/03/2006 - 16/03/2015	
	17/03/2005	II	770,000	-	-	-	-	-	770,000	18.74	17/03/2007 - 16/03/2015	
	02/04/2008	I	150,000	-	87,500	-	-	-	237,500	47.70	02/04/2009 - 01/04/2018	
	02/04/2008	II	150,000	-	87,500	-	-	-	237,500	47.70	02/04/2010 - 01/04/2018	
	02/04/2008	III	300,000	-	175,000	-	-	-	475,000	47.70	02/04/2011 - 01/04/2018	
	06/02/2009	I	-	400,000	100,000	-	-	-	500,000	17.58	06/02/2010 - 05/02/2019	
	06/02/2009	II	-	400,000	100,000	-	-	-	500,000	17.58	06/02/2011 - 05/02/2019	
	Total:			16,682,000	7,830,000	550,000	(550,000)	(80,000)	(60,000)	24,372,000		

SHARE OPTIONS (continued)

Movement of Options (continued)

Notes:

1. The weighted average closing price of the Shares immediately before the dates on which the Options were exercised was HK\$27.17.
2. During the period, no Options were granted/granted for adjustment, transferred from/to other category, cancelled or lapsed under the 1997 Share Option Scheme.
3. During the period, no Options were granted for adjustment or cancelled under the 2002 Share Option Scheme.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2009, 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

Directors	Number of ordinary shares			Approximate % of shareholding ⁴
	Personal interests ¹	Other interests ³	Total	
KUOK Khoon Chen	1,004	6,111,707	6,112,711	0.43
WONG Siu Kong	–	50,000	50,000	0.00
HO Shut Kan	–	50,000	50,000	0.00
MA Wing Kai, William	81,020	50,000	131,020	0.01
SO Hing Woh	–	50,000	50,000	0.00
QIAN Shaohua	–	50,000	50,000	0.00
CHAN Wai Ming, William	4,000	50,000	54,000	0.00

(ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares			Approximate % of shareholding	
		Personal interests ¹	Corporate interests ²	Other interests ³		
Kerry Group Limited	KUOK Khoon Chen	1,651,791	6,500,000	286,286,813	294,438,604	19.27 ⁵
	WONG Siu Kong	4,617,263	8,504,300	–	13,121,563	0.86 ⁵
	HO Shut Kan	1,388,452	–	–	1,388,452	0.09 ⁵
	MA Wing Kai, William	1,010,620	–	–	1,010,620	0.07 ⁵
	QIAN Shaohua	500,000	–	–	500,000	0.03 ⁵
	CHAN Wai Ming, William	100,000	–	–	100,000	0.01 ⁵
	TSE Kai Chi	600,000	–	–	600,000	0.04 ⁵
Kerry Siam Seaport Limited	MA Wing Kai, William	1	–	–	1	0.00
SCMP Group Limited	KUOK Khoon Chen	8,000	–	20,000	28,000	0.00 ⁶
Shang Properties, Inc.	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 held by the relevant Director through his controlled corporation(s).
3. This represents interests held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
4. The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2009 (i.e. 1,427,699,759 ordinary shares).
5. The percentage has been compiled based on the total number of ordinary shares of Kerry Group Limited ("KGL") in issue as at 30 June 2009 (i.e. 1,527,684,428 ordinary shares).
6. The percentage has been compiled based on the total number of ordinary shares of SCMP Group Limited in issue as at 30 June 2009 (i.e. 1,560,945,596 ordinary shares).

Details of the Options, duly granted to the Directors pursuant to the share options schemes, which constitute interests in underlying ordinary shares of equity derivatives of the Company under the SFO are set out in the section headed "Share Options" of this report.

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 2009, 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 2009, 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 shares¹	Approximate % of shareholding²
Kerry Group Limited	Interest of controlled corporations	756,779,446	53.01
Kerry Holdings Limited	Interest of controlled corporations	749,122,686	52.47
Caninco Investments Limited	Beneficial owner	312,248,193	21.87
Darmex Holdings Limited	Beneficial owner	256,899,261	17.99
Moslane Limited	Beneficial owner	74,628,498	5.23

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 compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2009 (i.e. 1,427,699,759 ordinary shares).

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

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

Apart from the aforesaid, as at 30 June 2009, 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 2009.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed on Thursday, 10 September 2009 and Friday, 11 September 2009, 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 2009, 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 Wednesday, 9 September 2009. The dividend warrants will be distributed on or about Friday, 18 September 2009.

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 2009.

By Order of the Board
Kuok Khoon Chen
Chairman

Hong Kong, 26 August 2009