

# 2011



## INTERIM REPORT

For the six months ended 30 June 2011



**KERRY PROPERTIES LIMITED**

*(Incorporated in Bermuda with limited liability)*

Stock Code : 683

**CORPORATE INFORMATION & KEY DATES****BOARD OF DIRECTORS****Executive Directors**

Mr KUOK Khoon Chen,  
*Chairman*  
Mr WONG Siu Kong,  
*President & Chief Executive Officer*  
Mr HO Shut Kan  
Mr MA Wing Kai, William  
Mr QIAN Shaohua  
Mr CHAN Wai Ming, William

**Independent Non-executive Directors**

Mr KU Moon Lun  
Mr LAU Ling Fai, Herald  
Ms WONG Yu Pok, Marina, JP

**Non-executive Director**

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 QIAN Shaohua  
Mr CHAN Wai Ming, William

**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**

25/F, Kerry Centre  
683 King's Road  
Quarry Bay, 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

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**WEBSITE**

www.kerryprops.com

**KEY DATES****Closure of Registers of Members**

8 September 2011 and 9 September 2011

**Proposed Payment of Interim Dividend**

16 September 2011

## INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2011

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") report the unaudited interim results of the Company, its subsidiaries and associates (the "Group") for the six months ended 30 June 2011. 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 2011 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 2011 was HK\$3,071 million, representing an increase of 12% compared with HK\$2,743 million reported for the same period in 2010. 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\$306 million for the six months ended 30 June 2011 (2010: HK\$924 million). Before taking into account the effects of the aforementioned increase in fair value, the Group recorded an increase of 52% in profit attributable to shareholders to HK\$2,765 million for the six months ended 30 June 2011 (2010: HK\$1,819 million).

Earnings per share for the six months ended 30 June 2011 were HK\$2.14, representing an increase of 11% compared with HK\$1.92 per share for the same period in 2010. 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:

	<b>Six months ended 30 June</b>		Change
	<b>2011</b>	2010	
	<b>HK\$ million</b>	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	<b>2,765</b>	1,819	+52%
Add:			
Net increase in fair value of investment properties and related tax effects	<u>306</u>	<u>924</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u><b>3,071</b></u>	<u>2,743</u>	+12%

The Directors have declared an interim dividend of HK\$0.4 per share for the six months ended 30 June 2011 (2010: HK\$0.35), which is payable on Friday, 16 September 2011 to shareholders whose names appear on the Registers of Members of the Company on Friday, 9 September 2011.

At the Company's Annual General Meeting held on 5 May 2011, shareholders approved the final dividend of HK\$0.52 per share for the year ended 31 December 2010 which amounted to a total of approximately HK\$747 million and was paid on 12 May 2011.

## CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
	Note	2011	2010
		HK\$'000	HK\$'000
			(Restated)
Turnover	2	<b>9,317,892</b>	11,697,610
Cost of sales		<b>(638,507)</b>	(4,268,350)
Direct operating expenses		<b>(6,373,666)</b>	(4,472,516)
Gross profit		<b>2,305,719</b>	2,956,744
Other income and net gains		<b>341,471</b>	79,609
Administrative expenses		<b>(857,870)</b>	(549,636)
Increase in fair value of investment properties		<b>324,335</b>	943,654
Operating profit before finance costs		<b>2,113,655</b>	3,430,371
Finance costs		<b>(115,654)</b>	(20,670)
Operating profit	2,3	<b>1,998,001</b>	3,409,701
Share of results of associates		<b>1,972,310</b>	431,219
Profit before taxation		<b>3,970,311</b>	3,840,920
Taxation	4	<b>(665,715)</b>	(826,684)
Profit for the period		<b>3,304,596</b>	3,014,236
Profit attributable to:			
Company's shareholders		<b>3,070,825</b>	2,742,529
Non-controlling interests		<b>233,771</b>	271,707
		<b>3,304,596</b>	3,014,236
Interim dividend		<b>575,311</b>	502,100
Interim dividend per share		<b>HK\$0.40</b>	HK\$0.35
Earnings per share	5		
– Basic		<b>HK\$2.14</b>	HK\$1.92
– Diluted		<b>HK\$2.10</b>	HK\$1.89

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
		(Restated)
Profit for the period	<b>3,304,596</b>	3,014,236
Other comprehensive income		
Fair value change on available-for-sale investments	<b>(16,990)</b>	73,542
Cash flow hedges	<b>(16,051)</b>	–
Share of fair value gain on cash flow hedge of an associate	<b>1,952</b>	262
Share of exchange reserve of an associate	<b>1,151</b>	429
Net translation differences on foreign operations	<b>916,370</b>	333,081
Other comprehensive income for the period (net of tax)	<b>886,432</b>	407,314
Total comprehensive income for the period	<b>4,191,028</b>	3,421,550
Total comprehensive income attributable to:		
Company's shareholders	<b>3,724,880</b>	3,069,457
Non-controlling interests	<b>466,148</b>	352,093
	<b>4,191,028</b>	3,421,550

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Unaudited As at 30 June 2011 <i>HK\$'000</i>	Restated As at 31 December 2010 <i>HK\$'000</i>
	Note	
ASSETS AND LIABILITIES		
Non-current assets		
Property, plant and equipment	<b>5,656,181</b>	5,329,003
Investment properties	<b>39,583,810</b>	38,848,997
Leasehold land and land use rights	<b>520,024</b>	422,447
Properties under development	<b>17,620,953</b>	16,982,385
Land deposits	<b>1,942,462</b>	3,664,308
Associates	<b>8,654,448</b>	8,722,508
Derivative financial instruments	<b>94,146</b>	80,609
Available-for-sale investments	<b>1,850,333</b>	1,865,742
Long-term receivables	<b>10,364</b>	15,426
Intangible assets	<b>1,143,536</b>	957,949
	<b>77,076,257</b>	76,889,374
Current assets		
Properties under development	<b>10,963,569</b>	10,100,859
Completed properties held for sale	<b>1,062,380</b>	1,742,691
Accounts receivable, prepayments and deposits	<b>5,833,092</b>	3,663,016
Tax recoverable	<b>253,940</b>	231,725
Tax reserve certificates	<b>92,231</b>	86,103
Listed securities at fair value through profit or loss	<b>214,836</b>	225,673
Restricted and pledged bank deposits	<b>30,972</b>	135,040
Cash and bank balances	<b>18,488,396</b>	10,464,216
	<b>36,939,416</b>	26,649,323
Current liabilities		
Accounts payable, deposits received and accrued charges	<b>7,486,423</b>	6,173,228
Taxation	<b>2,001,797</b>	2,050,698
Short-term bank loans and current portion of long-term bank loans	<b>3,924,148</b>	7,931,160
Convertible bonds	<b>2,663,155</b>	–
Unsecured bank overdrafts	<b>18,680</b>	20,701
	<b>16,094,203</b>	16,175,787
Net current assets	<b>20,845,213</b>	10,473,536
Total assets less current liabilities	<b>97,921,470</b>	87,362,910

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (continued)

		<b>Unaudited As at 30 June 2011 HK\$'000</b>	Restated As at 31 December 2010 HK\$'000
Non-current liabilities			
Long-term bank loans	8	<b>14,148,003</b>	6,877,791
Convertible bonds		–	2,594,635
Fixed rate bonds	9	<b>5,570,314</b>	3,251,082
Amounts due to non-controlling interests		<b>2,882,298</b>	2,854,685
Derivative financial instruments		<b>13,008</b>	–
Deferred taxation		<b>3,682,863</b>	3,547,989
		<b>26,296,486</b>	19,126,182
<b>ASSETS LESS LIABILITIES</b>		<b>71,624,984</b>	68,236,728
<b>EQUITY</b>			
Capital and reserves attributable to the Company's shareholders			
Share capital		<b>1,438,278</b>	1,436,031
Share premium		<b>12,185,621</b>	12,127,520
Other reserves		<b>13,943,819</b>	13,437,839
Retained profits		<b>33,420,191</b>	30,925,806
Proposed dividend		<b>575,311</b>	746,736
		<b>61,563,220</b>	58,673,932
Non-controlling interests		<b>10,061,764</b>	9,562,796
<b>TOTAL EQUITY</b>		<b>71,624,984</b>	68,236,728

## FINANCIAL HIGHLIGHTS

	<b>30 June 2011</b>	31 December 2010
Equity attributable to the Company's shareholders ( <i>HK\$ million</i> )	<b>61,563</b>	58,674
Net borrowings (including bonds) ( <i>HK\$ million</i> )	<b>7,805</b>	10,076
Net asset value (attributable to the Company's shareholders) per share	<b>HK\$42.80</b>	HK\$40.86
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	<b>12.7%</b>	17.2%

**CONSOLIDATED STATEMENT OF CASH FLOWS**

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>HK\$'000</b>	<b>HK\$'000</b>
<b>Operating activities</b>		
Net cash generated from operations	<b>1,130,303</b>	986,165
Interest paid	<b>(257,568)</b>	(252,762)
Income tax paid	<b>(701,322)</b>	(520,538)
Net cash generated from operating activities	<b>171,413</b>	212,865
<b>Investing activities</b>		
Additions of property, plant and equipment, investment properties and properties under development	<b>(1,409,423)</b>	(1,282,745)
Purchase of leasehold land and land use rights	<b>(5,161)</b>	–
Increase in land deposits	<b>(284,078)</b>	(5,790)
Acquisition of subsidiaries	<b>(251,108)</b>	(59,129)
Acquisition of additional interest in subsidiaries	<b>(463,267)</b>	(1,567)
Disposal of subsidiaries	<b>974,405</b>	–
Increase in investments in associates	<b>(569,893)</b>	(43,472)
Repayment of loans from/(additional loans to) associates	<b>1,869,267</b>	(327,643)
Purchase of available-for-sale investments	<b>(1,445)</b>	–
Decrease in long-term receivables	<b>5,217</b>	3,058
Interest received	<b>78,875</b>	25,270
Decrease/(increase) in restricted and pledged bank deposits	<b>105,313</b>	(47,023)
Increase in short-term bank deposits maturing after more than 3 months	<b>(870,270)</b>	–
Dividends received from associates	<b>1,867,770</b>	31,379
Dividends received from listed and unlisted investments	<b>34,288</b>	44,740
Proceeds from sale of property, plant and equipment and investment properties	<b>493,774</b>	30,843
Net cash generated from/(used in) investing activities	<b>1,574,264</b>	(1,632,079)
<b>Financing activities</b>		
Proceeds from issue of shares	<b>40,477</b>	16,472
Proceeds from issue of fixed rate bonds, net of direct issue costs	<b>2,314,654</b>	–
Repayment of bank loans	<b>(7,477,017)</b>	(2,260,251)
Drawdown of bank loans	<b>10,805,563</b>	6,400,468
Dividends paid	<b>(747,450)</b>	(573,774)
Capital injection from non-controlling interests	<b>365,538</b>	100,097
Dividends paid to non-controlling interests	<b>(68,411)</b>	(94,699)
Increase in loans from non-controlling interests	<b>27,614</b>	30,415
Net cash generated from financing activities	<b>5,260,968</b>	3,618,728
<b>Increase in cash and cash equivalents</b>	<b>7,006,645</b>	2,199,514
<b>Effect of exchange rate changes</b>	<b>149,286</b>	26,482
<b>Cash and cash equivalents at 1 January</b>	<b>10,443,515</b>	6,654,052
<b>Cash and cash equivalents at 30 June</b>	<b>17,599,446</b>	8,880,048
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances (excluding bank deposits maturing after more than 3 months)	<b>17,618,126</b>	8,883,063
Secured bank overdrafts	–	(1,339)
Unsecured bank overdrafts	<b>(18,680)</b>	(1,676)
	<b>17,599,446</b>	8,880,048



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company						Non-controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000		
Balance as at 1 January 2011, as previously reported	1,436,031	12,127,520	14,668,378	28,735,971	746,736	57,714,636	9,767,254	67,481,890
Adjustments for change in accounting policies for								
– property, plant and equipment	-	-	(1,230,539)	460,992	-	(769,547)	(204,458)	(974,005)
– adopting amendments to HKAS 12	-	-	-	1,728,843	-	1,728,843	-	1,728,843
Balance as at 1 January 2011, as restated	1,436,031	12,127,520	13,437,839	30,925,806	746,736	58,673,932	9,562,796	68,236,728
Profit for the period	-	-	-	3,070,825	-	3,070,825	233,771	3,304,596
Fair value loss on available-for-sale investments	-	-	(16,990)	-	-	(16,990)	-	(16,990)
Cash flow hedges	-	-	(16,051)	-	-	(16,051)	-	(16,051)
Share of fair value gain on cash flow hedge of an associate	-	-	1,952	-	-	1,952	-	1,952
Share of exchange reserve of an associate	-	-	1,151	-	-	1,151	-	1,151
Net translation differences on foreign operations	-	-	683,993	-	-	683,993	232,377	916,370
Total comprehensive income for the six months ended 30 June 2011	-	-	654,055	3,070,825	-	3,724,880	466,148	4,191,028
Issue of share capital								
– exercise of share options	2,247	58,101	(19,871)	-	-	40,477	-	40,477
Employee share option scheme								
– value of employee services	-	-	10,296	-	-	10,296	-	10,296
Dividends paid	-	-	-	(714)	(746,736)	(747,450)	(68,411)	(815,861)
2011 proposed interim dividend	-	-	-	(575,311)	575,311	-	-	-
Transfer	-	-	415	(415)	-	-	-	-
Acquisition of subsidiaries and businesses	-	-	-	-	-	-	63,929	63,929
Acquisition of additional interest in subsidiaries	-	-	(138,915)	-	-	(138,915)	(331,300)	(470,215)
Disposal of subsidiaries	-	-	-	-	-	-	3,064	3,064
Capital injection from non-controlling interests	-	-	-	-	-	-	365,538	365,538
	2,247	58,101	(148,075)	(576,440)	(171,425)	(835,592)	32,820	(802,772)
Balance as at 30 June 2011	1,438,278	12,185,621	13,943,819	33,420,191	575,311	61,563,220	10,061,764	71,624,984

	Attributable to shareholders of the Company						Non-controlling 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 2010, as previously reported	1,428,953	11,926,986	13,063,618	23,677,716	571,581	50,668,854	7,169,306	57,838,160
Adjustments for change in accounting policies for								
– property, plant and equipment	–	–	(1,054,624)	447,304	–	(607,320)	(85,551)	(692,871)
– adopting amendments to HKAS 12	–	–	–	1,350,208	–	1,350,208	–	1,350,208
Balance as at 1 January 2010, as restated	1,428,953	11,926,986	12,008,994	25,475,228	571,581	51,411,742	7,083,755	58,495,497
Profit for the period	–	–	–	2,742,529	–	2,742,529	271,707	3,014,236
Fair value gain on available-for-sale investments	–	–	73,542	–	–	73,542	–	73,542
Share of fair value gain on cash flow hedge of an associate	–	–	262	–	–	262	–	262
Share of exchange reserve of an associate	–	–	429	–	–	429	–	429
Net translation differences on foreign operations	–	–	252,695	–	–	252,695	80,386	333,081
Total comprehensive income for the six months ended 30 June 2010	–	–	326,928	2,742,529	–	3,069,457	352,093	3,421,550
Issue of share capital								
– exercise of share options	956	21,128	(5,612)	–	–	16,472	–	16,472
– conversion of convertible bonds	4,662	146,566	(6,946)	–	–	144,282	–	144,282
Employee share option scheme								
– value of employee services	–	–	33,096	–	–	33,096	–	33,096
Dividends paid	–	–	–	(2,193)	(571,581)	(573,774)	(94,699)	(668,473)
2010 proposed interim dividend	–	–	–	(502,100)	502,100	–	–	–
Transfer	–	–	536	(536)	–	–	–	–
Acquisition of additional interest in subsidiaries	–	–	(40)	–	–	(40)	(1,527)	(1,567)
Capital injection from non-controlling interests	–	–	–	–	–	–	100,097	100,097
	5,618	167,694	21,034	(504,829)	(69,481)	(379,964)	3,871	(376,093)
Balance as at 30 June 2010	<u>1,434,571</u>	<u>12,094,680</u>	<u>12,356,956</u>	<u>27,712,928</u>	<u>502,100</u>	<u>54,101,235</u>	<u>7,439,719</u>	<u>61,540,954</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 2010 annual financial statements. Except as described below, the accounting policies and bases of accounting estimates 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 2010.

Previously, the Group’s hotel property, warehouses and logistics centres (including leasehold land classified as finance lease), freehold land and buildings and port facilities were stated at fair value, based on periodic, but at least annual, valuations by external independent valuers, less subsequent depreciation. Any accumulated depreciation at the date of revaluation was eliminated against the gross carrying amount of the asset and the net amount was restated to the revalued amount of the asset. Increases in carrying amount arising on revaluation of properties were credited to properties revaluation reserve in equity. Decreases that offset previous increases of the same asset were charged against properties revaluation reserve, all other decreases were expensed in the consolidated income statement.

With effect from 1 January 2011, the Group revised its accounting policy in respect of hotel property, warehouses and logistics centres, freehold land and buildings and port facilities to the cost model under HKAS 16, under which these assets are carried at historical cost less aggregate depreciation and accumulated impairment losses. The change was made to increase the relevancy of financial data to the users of the financial statements by taking into consideration of the future business development of logistics and hotel operations. It aligns the Group’s accounting policy with industry practice, enhancing the comparability of the Group’s financial statements with those of its international peers.

This change in accounting policy has been accounted for retrospectively, and certain comparative figures have been restated. The effect of the adoption of this change in accounting policy is as below:

#### Effect on Consolidated Income Statement

	Six months ended 30 June	
	2011 HK\$’000	2010 HK\$’000
Decrease in direct operating expenses	8,630	7,163
Decrease in taxation	1,048	806
Increase in non-controlling interests	1,008	772
Increase in basic earnings per share	HK\$0.01	HK\$0.01

**Effect on Consolidated Statement of Financial Position**

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Decrease in property, plant and equipment	<b>1,219,538</b>	1,220,533
Decrease in deferred taxation	<b>247,822</b>	246,528
Decrease in other reserves	<b>1,235,804</b>	1,230,539
Increase in retained profits	<b>469,662</b>	460,992
Decrease in non-controlling interests	<b>205,574</b>	204,458

In December 2010, the HKICPA amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The presumption of recovery entirely by sale is rebutted if the investment property is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted. The Group has early adopted this amendment retrospectively for the financial year ending 31 December 2011.

As at 30 June 2011, the Group had investment properties amounting to HK\$39,583,810,000 (31 December 2010: HK\$38,848,997,000). The investment properties held by the Group are located in Hong Kong, the People's Republic of China ("PRC") and Vietnam. As required by the amendment, the Group re-measured the deferred tax relating to investment properties located in Hong Kong according to the tax consequence on the presumption that they are recovered entirely by sale retrospectively. For the investment properties located in PRC and Vietnam, the Group's business model is that the entity owning the investment property will recover the value through use and on this basis the presumption of sale has been rebutted. Consequently, the Group has continued to recognise deferred tax on the basis that the values of these investment properties are recovered through use.

As a result of the early adoption of amendments to HKAS 12, certain comparative figures have been restated to reflect the change in accounting policy, as summarised below.

**Effect on Consolidated Income Statement**

	<b>Six months ended 30 June</b>	
	<b>2011 HK\$'000</b>	2010 HK\$'000
Increase in share of results of associates	–	20,829
Decrease in taxation	–	61,875
Increase in basic earnings per share	–	HK\$0.06
Increase in diluted earnings per share	–	HK\$0.06

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

### 1. Basis of preparation and accounting policies (continued)

#### Effect on Consolidated Statement of Financial Position

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Increase in associates	<b>96,803</b>	96,803
Decrease in deferred taxation	<b>1,632,040</b>	1,632,040
Increase in retained profits	<b>1,728,843</b>	1,728,843

The following amendments and interpretations to existing standards are mandatory for the first time for the financial year beginning 1 January 2011:

- HKAS 24 (revised), 'Related party disclosures'
- HKAS 32 (amendment), 'Classification of right issues'
- HK(IFRIC) – Int 14 (amendment), 'Prepayments of a minimum funding requirement'
- HK(IFRIC) – Int 19, 'Extinguishing financial liabilities with equity instruments'
- Improvements to HKFRSs 2010

The adoption of the above amendments and interpretations to existing standards had no material financial impact on the consolidated financial statements of the Group.

The following new or revised standards and interpretations have been issued but not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- Amendments to HKAS 1 (revised), 'Presentation of financial statements – presentation of items of other comprehensive income'
- HKAS 19 (2011), 'Employee benefits'
- HKAS 27 (2011), 'Separate financial statements'
- HKAS 28 (2011), 'Investments in associates and joint ventures'
- HKFRS 7 (amendment), 'Disclosures – Transfers of financial assets'
- HKFRS 9, 'Financial instruments'
- HKFRS 10, 'Consolidated financial statements'
- HKFRS 11, 'Joint arrangements'
- HKFRS 12, 'Disclosure of interests in other entities'
- HKFRS 13, 'Fair value measurement'

The Group will adopt the above new or revised standards and interpretations as and when they become effective. The Group has already commenced the assessment of the impact to the Group and is not yet in a position to state whether these would have a significant impact on its results of operations 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 period by principal activity and market is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2011	2010	Six months ended 30 June 2011	2010
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Restated)
Principal activities:				
Property rental				
– PRC property	434,261	398,004	300,776	284,439
– Hong Kong property	303,907	282,956	217,670	202,116
	<b>738,168</b>	680,960	<b>518,446</b>	486,555
Property sales (Note)				
– PRC property	424,523	746,464	274,636	456,320
– Hong Kong property	848,297	5,449,929	360,585	1,076,615
	<b>1,272,820</b>	6,196,393	<b>635,221</b>	1,532,935
Hotel operations – PRC property	101,046	138,455	(11,712)	23,090
Logistics operations	7,141,569	4,625,858	583,022	354,777
Project, property management and others	64,289	55,944	(51,311)	68,690
	<b>9,317,892</b>	11,697,610	<b>1,673,666</b>	2,466,047
Increase in fair value of investment properties	–	–	324,335	943,654
	<b>9,317,892</b>	11,697,610	<b>1,998,001</b>	3,409,701
Principal markets:				
PRC	4,212,764	3,450,353	1,033,525	1,401,745
Hong Kong	2,344,758	6,720,618	716,990	1,926,853
Taiwan	928,876	18,417	121,982	(1,777)
United Kingdom	477,759	513,530	23,713	19,343
Others	1,353,735	994,692	101,791	63,537
	<b>9,317,892</b>	11,697,610	<b>1,998,001</b>	3,409,701

Note: Analysis of proceeds from sale of properties

	Six months ended 30 June	
	2011	2010
	HK\$'000	HK\$'000
Property sales proceeds (as above)		
– PRC property	424,523	746,464
– Hong Kong property	848,297	5,449,929
	<b>1,272,820</b>	6,196,393
Sales proceeds from investment properties		
– PRC property	123,421	6,507
– Hong Kong property	782,410	–
	<b>905,831</b>	6,507
Total property sales proceeds		
– PRC property	547,944	752,971
– Hong Kong property	1,630,707	5,449,929
	<b>2,178,651</b>	6,202,900

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

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

(b) An analysis of the Group's financial results by operating segment is as follows:

	Six months ended 30 June 2011							Consolidated HK\$'000
	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Eliminations HK\$'000	
Revenue								
Turnover	959,830	1,152,204	-	7,141,569	9,253,603	64,289	-	9,317,892
Inter-segment revenue	-	-	-	-	-	30,065	(30,065)	-
Inter-segment interest income	-	-	-	-	-	222,851	(222,851)	-
	<u>959,830</u>	<u>1,152,204</u>	<u>-</u>	<u>7,141,569</u>	<u>9,253,603</u>	<u>317,205</u>	<u>(252,916)</u>	<u>9,317,892</u>
Results								
Segment results before increase in fair value of investment properties	534,408	578,424	(750)	593,521	1,705,603	193,405	(222,851)	1,676,157
Increase in fair value of investment properties	324,335	-	-	-	324,335	-	-	324,335
Segment results	858,743	578,424	(750)	593,521	2,029,938	193,405	(222,851)	2,000,492
Dividend income	-	24,105	10,183	-	34,288	-	-	34,288
Interest income	34,666	3,901	107	4,628	43,302	35,573	-	78,875
Interest expenses	(5,057)	(28,833)	-	(15,127)	(49,017)	(289,488)	222,851	(115,654)
Operating profit/(loss)	888,352	577,597	9,540	583,022	2,058,511	(60,510)	-	1,998,001
Share of results of associates	67,009	1,773,325	32,337	65,622	1,938,293	34,017	-	1,972,310
Profit/(loss) before taxation	955,361	2,350,922	41,877	648,644	3,996,804	(26,493)	-	3,970,311
Taxation	(357,858)	(156,448)	(11,550)	(132,128)	(657,984)	(7,731)	-	(665,715)
Profit/(loss) for the period	<u>597,503</u>	<u>2,194,474</u>	<u>30,327</u>	<u>516,516</u>	<u>3,338,820</u>	<u>(34,224)</u>	<u>-</u>	<u>3,304,596</u>
Profit/(loss) attributable to:								
Company's shareholders	491,833	2,194,499	30,327	388,390	3,105,049	(34,224)	-	3,070,825
Non-controlling interests	105,670	(25)	-	128,126	233,771	-	-	233,771
	<u>597,503</u>	<u>2,194,474</u>	<u>30,327</u>	<u>516,516</u>	<u>3,338,820</u>	<u>(34,224)</u>	<u>-</u>	<u>3,304,596</u>
Depreciation and amortisation	21,339	5,064	-	135,567	161,970	4,064	-	166,034

Six months ended 30 June 2010 (Restated)

	PRC Property HK\$'000	Hong Kong Property HK\$'000	Overseas Property HK\$'000	Logistics HK\$'000	Total Operating Segments HK\$'000	Others HK\$'000	Eliminations HK\$'000	Consolidated HK\$'000
Revenue								
Turnover	1,282,923	5,732,885	-	4,625,858	11,641,666	55,944	-	11,697,610
Inter-segment revenue	-	-	-	-	-	50,415	(50,415)	-
Inter-segment interest income	-	-	-	-	-	271,153	(271,153)	-
	<u>1,282,923</u>	<u>5,732,885</u>	<u>-</u>	<u>4,625,858</u>	<u>11,641,666</u>	<u>377,512</u>	<u>(321,568)</u>	<u>11,697,610</u>
Results								
Segment results before increase in fair value of investment properties	709,271	1,380,562	(3,905)	360,784	2,446,712	241,148	(271,153)	2,416,707
Increase in fair value of investment properties	<u>568,654</u>	<u>375,000</u>	<u>-</u>	<u>-</u>	<u>943,654</u>	<u>-</u>	<u>-</u>	<u>943,654</u>
Segment results	1,277,925	1,755,562	(3,905)	360,784	3,390,366	241,148	(271,153)	3,360,361
Dividend income	-	30,759	13,981	-	44,740	-	-	44,740
Interest income	15,066	4,205	-	4,208	23,479	1,791	-	25,270
Interest expenses	<u>(731)</u>	<u>(86,249)</u>	<u>-</u>	<u>(10,215)</u>	<u>(97,195)</u>	<u>(194,628)</u>	<u>271,153</u>	<u>(20,670)</u>
Operating profit	1,292,260	1,704,277	10,076	354,777	3,361,390	48,311	-	3,409,701
Share of results of associates	<u>152,271</u>	<u>131,420</u>	<u>(776)</u>	<u>114,080</u>	<u>396,995</u>	<u>34,224</u>	<u>-</u>	<u>431,219</u>
Profit before taxation	1,444,531	1,835,697	9,300	468,857	3,758,385	82,535	-	3,840,920
Taxation	<u>(530,498)</u>	<u>(210,919)</u>	<u>7,021</u>	<u>(86,239)</u>	<u>(820,635)</u>	<u>(6,049)</u>	<u>-</u>	<u>(826,684)</u>
Profit for the period	<u>914,033</u>	<u>1,624,778</u>	<u>16,321</u>	<u>382,618</u>	<u>2,937,750</u>	<u>76,486</u>	<u>-</u>	<u>3,014,236</u>
Profit/(loss) attributable to:								
Company's shareholders	687,273	1,624,843	16,321	337,606	2,666,043	76,486	-	2,742,529
Non-controlling interests	<u>226,760</u>	<u>(65)</u>	<u>-</u>	<u>45,012</u>	<u>271,707</u>	<u>-</u>	<u>-</u>	<u>271,707</u>
	<u>914,033</u>	<u>1,624,778</u>	<u>16,321</u>	<u>382,618</u>	<u>2,937,750</u>	<u>76,486</u>	<u>-</u>	<u>3,014,236</u>
Depreciation and amortisation	<u>18,037</u>	<u>2,996</u>	<u>-</u>	<u>85,592</u>	<u>106,625</u>	<u>1,358</u>	<u>-</u>	<u>107,983</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 by operating segment is as follows:

	As at 30 June 2011							
	PRC	Hong Kong	Overseas		Total			
	Property	Property	Property	Logistics	Operating	Others	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	
					HK\$'000		Consolidated	
							HK\$'000	
Total assets	<u>48,246,905</u>	<u>35,461,204</u>	<u>2,115,983</u>	<u>18,277,216</u>	<u>104,101,308</u>	<u>47,822,714</u>	<u>(37,908,349)</u>	<u>114,015,673</u>

  

	As at 31 December 2010 (Restated)							
	PRC	Hong Kong	Overseas		Total			
	Property	Property	Property	Logistics	Operating	Others	Eliminations	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	Segments	HK\$'000	HK\$'000	
					HK\$'000		Consolidated	
							HK\$'000	
Total assets	<u>45,624,555</u>	<u>36,664,481</u>	<u>2,159,429</u>	<u>16,480,117</u>	<u>100,928,582</u>	<u>38,472,504</u>	<u>(35,862,389)</u>	<u>103,538,697</u>

### 3. Operating profit

#### Six months ended 30 June

	2011	2010
	HK\$'000	HK\$'000
		(Restated)
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	34,288	44,740
Interest income	78,875	25,270
Gain on sale of completed properties held for sale	473,535	1,533,306
Gain/(loss) on sale of investment properties	161,686	(371)
Gain on sale of subsidiaries	28,808	–
<i>Charging</i>		
Depreciation and amortisation	166,034	107,983
Total finance costs incurred	360,264	321,054
Less: amount capitalised in properties under development	(263,020)	(218,783)
	97,244	102,271
Fair value change on derivative financial instruments	18,410	(81,601)
	<u>115,654</u>	<u>20,670</u>

**4. Taxation****Six months ended 30 June**

	<b>2011</b>	2010
	<b>HK\$'000</b>	HK\$'000
		(Restated)
The taxation (charge)/credit comprises:		
PRC taxation		
Current	<b>(298,003)</b>	(378,955)
Under-provision in prior years	<b>(527)</b>	(284)
Deferred	<b>(97,856)</b>	(178,339)
	<b>(396,386)</b>	(557,578)
Hong Kong profits tax		
Current	<b>(176,811)</b>	(221,963)
(Under)/Over-provision in prior years	<b>(48,946)</b>	9
Deferred	<b>25,497</b>	(28,776)
	<b>(200,260)</b>	(250,730)
Overseas taxation		
Current	<b>(60,906)</b>	(26,209)
(Under)/Over-provision in prior years	<b>(3,996)</b>	10,884
Deferred	<b>(4,167)</b>	(3,051)
	<b>(69,069)</b>	(18,376)
	<b>(665,715)</b>	(826,684)

Hong Kong profits tax has been provided at the rate of 16.5% (2010: 16.5%) on the estimated assessable profit for the six months ended 30 June 2011. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the six months ended 30 June 2011 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.

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
Weighted average number of shares in issue	<b><u>1,437,136,880</u></b>	<u>1,431,488,482</u>
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i> (Restated)
Profit attributable to shareholders	<b><u>3,070,825</u></b>	<u>2,742,529</u>
Basic earnings per share	<b><u>HK\$2.14</u></b>	<u>HK\$1.92</u>

#### *Diluted*

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

	<b>Six months ended 30 June</b>	
	<b>2011</b>	2010
Weighted average number of shares in issue	<b>1,437,136,880</b>	1,431,488,482
Adjustment for convertible bonds	<b>44,634,377</b>	46,728,311
Adjustment for share options	<b><u>4,320,888</u></b>	<u>5,650,949</u>
Weighted average number of shares for the purpose of calculating diluted earnings per share	<b><u>1,486,092,145</u></b>	<u>1,483,867,742</u>
	<b><i>HK\$'000</i></b>	<i>HK\$'000</i> (Restated)
Profit attributable to shareholders	<b>3,070,825</b>	2,742,529
Adjustment for finance cost on convertible bonds	<b><u>57,214</u></b>	<u>55,760</u>
Profit used to determine diluted earnings per share	<b><u>3,128,039</u></b>	<u>2,798,289</u>
Diluted earnings per share	<b><u>HK\$2.10</u></b>	<u>HK\$1.89</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 2011 is as follows:

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Below 1 month	2,177,071	1,547,057
Between 1 month and 3 months	847,509	691,780
Over 3 months	216,759	184,708
	<u>3,241,339</u>	<u>2,423,545</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 2011 is as follows:

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Below 1 month	755,288	774,451
Between 1 month and 3 months	301,424	136,717
Over 3 months	278,714	81,471
	<u>1,335,426</u>	<u>992,639</u>

**8. Bank loans**

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Bank loans – unsecured	<b>16,553,548</b>	13,812,306
Bank loans – secured	<b>1,518,603</b>	996,645
Total bank loans (note (i))	<b>18,072,151</b>	14,808,951
Less: Short-term bank loans and current portion of long-term bank loans	<b>(3,924,148)</b>	(7,931,160)
	<u>14,148,003</u>	<u>6,877,791</u>

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

### 8. Bank loans (continued)

(i) As at 30 June 2011, the Group's bank loans were repayable as follows:

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Within one year	<b>3,924,148</b>	7,931,160
In the second to fifth year		
– In the second year	<b>3,722,541</b>	4,337,988
– In the third year	<b>1,664,269</b>	1,721,519
– In the fourth year	<b>599,494</b>	177,490
– In the fifth year	<b>7,374,171</b>	126,591
	<b>13,360,475</b>	6,363,588
Repayable within five years	<b>17,284,623</b>	14,294,748
Over five years	<b>787,528</b>	514,203
	<b>18,072,151</b>	14,808,951

### 9. Fixed rate bonds

On 6 April 2011, Wiseyear Holdings Limited, a wholly-owned subsidiary of the Company, issued fixed rate bonds in the aggregate principal amount of US\$300,000,000. These fixed rate bonds are listed on the Singapore Exchange Securities Trading Limited, carry a coupon rate of 5.875% per annum and have a maturity term of 10 years.

### 10. Business combinations

(i) In January 2011, the Group acquired 91% effective interest of Bergen Freight Forwarding Limited, which is engaging in international freight forwarding business in the United Kingdom.

	<i>HK\$'000</i>
Cash consideration paid	7,883
Consideration to be paid	4,244
Total	<u>12,127</u>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Accounts receivable, prepayments and deposits	7,770
Cash and bank balances	237
Accounts payable, deposits received and accrued charges	(6,702)
Taxation	(547)
	<hr/>
Total identifiable net assets	758
Goodwill	11,369
	<hr/>
Total	<u>12,127</u>

The acquired business contributed revenues of HK\$15,302,000 and net profit of HK\$1,493,000 to the Group for the period from acquisition up to 30 June 2011.

- (ii) In January 2011, the Group acquired 70% interest of Kunshan Wisdom Logistics Co., Ltd. ("Wisdom"), which is a non-vessel operating common carrier and operates one of the major sea freight consolidation platforms in Shanghai serving mainly the Japan and Southeast Asia trade routes.

	<i>HK\$'000</i>
Cash consideration paid	100,522
Consideration to be paid	105,009
	<hr/>
Total	<u>205,531</u>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	72,748
Leasehold land and land use rights	73,775
Intangible assets	14,007
Accounts receivable, prepayments and deposits	230,985
Cash and bank balances	41,410
Accounts payable, deposits received and accrued charges	(249,829)
Secured bank loans	(17,628)
Taxation	(2,836)
Deferred taxation	226
	<hr/>
Total identifiable net assets	162,858
Goodwill	95,373
Non-controlling interests	(52,700)
	<hr/>
Total	<u>205,531</u>

The acquired business contributed revenues of HK\$723,586,000 and net profit of HK\$6,247,000 to the Group for the period from acquisition up to 30 June 2011. The contingent consideration arrangement required the Group to pay the former owner of Wisdom up to a maximum amount of RMB124,740,000, of which HK\$105,009,000 (equivalent to approximately RMB89,355,000) has been provided in the consolidated financial statements of the Group.

## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

### 10. Business combinations (continued)

- (iii) In January 2011, the Group acquired 70% interest of Shanghai Hui Cheng Investment Consultancy Co., Ltd. ("HCL"), which is a third-party logistics provider, specializing in integrated logistics in chemicals, with a special focus on dangerous goods, fast-moving consumer goods, electromechanical and automotive industries.

	<i>HK\$'000</i>
Cash consideration paid	35,256
Consideration to be paid	<u>48,279</u>
Total	<u><u>83,535</u></u>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	8,647
Intangible assets	16,227
Accounts receivable, prepayments and deposits	56,045
Cash and bank balances	40,367
Accounts payable, deposits received and accrued charges	(60,242)
Unsecured bank loans	(9,049)
Taxation	<u>(512)</u>
Total identifiable net assets	51,483
Goodwill	47,497
Non-controlling interests	<u>(15,445)</u>
Total	<u><u>83,535</u></u>

The acquired business contributed revenues of HK\$178,746,000 and net profit of HK\$3,787,000 to the Group for the period from acquisition up to 30 June 2011. The contingent consideration arrangement required the Group to pay the former owner of HCL up to a maximum amount of RMB54,000,000, of which HK\$48,279,000 (equivalent to approximately RMB41,082,000) has been provided in the consolidated financial statements of the Group.

- (iv) In January 2011, the Group acquired 100% interest of Nine To Five Limited, which is an established food processing and meal provider in Hong Kong. The acquisition includes an 18,500-square-foot food production centre in Tai Po.

	<i>HK\$'000</i>
Cash consideration paid	<u><u>5,650</u></u>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Property, plant and equipment	5,278
Accounts receivable, prepayments and deposits	2,423
Tax recoverable	106
Cash and bank balances	13
Accounts payable, deposits received and accrued charges	(2,429)
Deferred taxation	(167)
	<hr/>
Total identifiable net assets	5,224
Goodwill	426
	<hr/>
Total	<u>5,650</u>

The acquired business contributed revenues of HK\$17,451,000 and net loss of HK\$1,062,000 to the Group for the period from acquisition up to 30 June 2011.

- (v) In April 2011, the Group acquired 100% of the share capital of All First Investments Limited which owned a public carpark located at Kwai Sing Lane, Hong Kong.

	<i>HK\$'000</i>
Cash consideration paid	168,816
	<hr/> <hr/>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	<i>HK\$'000</i>
Investment properties	170,000
Accounts receivable, prepayments and deposits	68
Accounts payable, deposits received and accrued charges	(55)
Taxation	(1,197)
	<hr/>
Total identifiable net assets	<u>168,816</u>

The acquired subsidiary did not contribute any significant results to the Group from acquisition up to 30 June 2011.



## NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS (continued)

### 11. Commitments

At 30 June 2011, the Group had capital commitments in respect of interests in leasehold land, properties under development, property, plant and equipment and investment in associates not provided for in these financial statements as follows:

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Contracted but not provided for	<b>6,591,282</b>	6,651,347
Authorised but not contracted for	<b>769,329</b>	263,662
	<b><u>7,360,611</u></b>	<u>6,915,009</u>

### 12. Contingent liabilities

#### Guarantees for banking and other facilities

	<b>As at 30 June 2011 HK\$'000</b>	As at 31 December 2010 HK\$'000
Guarantees for banking and other facilities of a subsidiary and certain associates (note (i))	<b>1,936,084</b>	1,393,702
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (ii))	<b>751,580</b>	755,081
	<b><u>2,687,664</u></b>	<u>2,148,783</u>

(i) The Group has executed guarantees for banking and other facilities granted to a subsidiary and certain associates. 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 2011 amounted to approximately HK\$1,936,084,000 (31 December 2010: HK\$1,393,702,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2011 amounted to approximately HK\$3,864,461,000 (31 December 2010: HK\$2,473,752,000).

(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 2011 amounted to approximately HK\$751,580,000 (31 December 2010: HK\$755,081,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2011 amounted to approximately HK\$8,671,145,000 (31 December 2010: HK\$4,825,058,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2010.

**13. Pledge of assets**

As at 30 June 2011, the Group's total bank loans and overdrafts of HK\$18,090,831,000 (31 December 2010: HK\$14,829,652,000) included an aggregate amount of HK\$16,572,228,000 (31 December 2010: HK\$13,833,007,000) which is unsecured and an aggregate amount of HK\$1,518,603,000 (31 December 2010: HK\$996,645,000) 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\$8,243,751,000 (31 December 2010: HK\$7,351,609,000); and
- (ii) assignments of insurance proceeds of certain properties of the Group.

## MANAGEMENT DISCUSSION AND ANALYSIS

### (A) Overall Results

Turnover of the Group for the six months ended 30 June 2011 was HK\$9,318 million, which registered a decrease of 20% when compared with the turnover of HK\$11,698 million for the corresponding six months ended 30 June 2010. 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 Hong Kong.

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 2011 was HK\$2,765 million (2010: HK\$1,819 million), representing an increase of 52% over the period.

During the six months ended 30 June 2011, the net increase in fair value of the Group's investment properties and related tax effects in the aggregate amount of HK\$306 million (2010: HK\$924 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:

	<b>Six months ended 30 June</b>		Change
	<b>2011</b>	2010	
	<b>HK\$ million</b>	HK\$ million	
Profit attributable to shareholders before taking into account the net increase in fair value of investment properties and related tax effects	<b>2,765</b>	1,819	+52%
Add:			
Net increase in fair value of investment properties and related tax effects	<u><b>306</b></u>	<u>924</u>	
Profit attributable to shareholders after taking into account the net increase in fair value of investment properties and related tax effects	<u><b>3,071</b></u>	<u>2,743</u>	+12%

### (B) Mainland China Property Division

During the six months ended 30 June 2011, the Group's Mainland China Property Division recorded a turnover of HK\$960 million (2010: HK\$1,283 million), producing a net profit attributable to the Group of HK\$492 million (2010: HK\$687 million) after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$306 million (2010: HK\$424 million).

During the period under review, the Central Government has implemented measures to stem capital flows and tame inflation by raising interest rates and bank reserve requirements. It has also restricted property purchases and tightened mortgage lending to contend rising property prices. However, China's rapid urbanization, coupled with properties being seen as an ideal safe-haven investment vehicle to counter surging inflation, is resulting in continued strong market demand. Therefore, instead of a downward trend in property prices, the only effect has been a decrease in transaction volume. The continued strength of the Renminbi has also increased the attractiveness of Mainland assets, prompting more foreign enterprises to enter the market. The Group's property portfolio in Mainland China consists of premium residential units, serviced apartments, hotels, offices, and retail shops as well as large-scale shopping centres. Despite the pressure of China's macroeconomic control measures, the Group's performance remained stable owing to this balanced mix of rental properties and assets held for sale. In the first half of 2011, the Group proceeded as planned in pushing ahead with various property development and sales projects.

**(i) Investment Properties**

During the six months ended 30 June 2011, the Group's completed investment property portfolio in Mainland China delivered rental income and operating profit of HK\$434 million and HK\$301 million, respectively (2010: HK\$398 million and HK\$285 million, respectively).

As at 30 June 2011, the Group held a completed investment property portfolio of residential, commercial and office properties in Mainland China with an aggregate gross floor area ("GFA") of 3.71 million square feet (as at 31 December 2010: 3.75 million square feet). Their respective composition and occupancy rates were as follows:

**As at 30 June 2011:**

	Group's attributable GFA				Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Fuzhou		
	('000 square feet)					
Office	711	582	806	–	2,099	92%
Commercial	98	438	108	64	708	93%
Residential	277	628	–	–	905	79% <sup>(2)</sup>
	<b>1,086</b>	<b>1,648</b>	<b>914</b>	<b>64</b>	<b>3,712</b>	

**As at 31 December 2010:**

	Group's attributable GFA				Total	Occupancy rate
	Beijing	Shanghai	Shenzhen	Fuzhou		
	('000 square feet)					
Office	711	612	813	–	2,136	84%
Commercial	98	437	108	64	707	92%
Residential	277	628	–	–	905	75% <sup>(2)</sup>
	<b>1,086</b>	<b>1,677</b>	<b>921</b>	<b>64</b>	<b>3,748</b>	

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (i) Investment Properties (continued)

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

Property	Occupancy rate as at 30 June 2011	Occupancy rate as at 31 December 2010
Beijing Kerry Centre <sup>(1)</sup>	92%	83%
Shanghai Kerry Centre <sup>(2)</sup>	91%	86%
Kerry Everbright City Phase I	84%	82%
Central Residences Phase II Towers 1 & 3	75%	71%
Shenzhen Kerry Plaza Phase I	97%	91%

Notes:

(1) Excluding Shangri-La's Kerry Centre Hotel, Beijing

(2) Excluding serviced apartments which are undergoing renovation project

#### (ii) Sales of Properties

During the six months ended 30 June 2011, turnover of HK\$425 million (2010: HK\$746 million) was achieved from the sales of completed properties in Mainland China. Sales of completed investment properties generated revenue of HK\$123 million (2010: HK\$7 million). An operating profit of HK\$275 million (2010: HK\$456 million) was derived during the period from the recognized sales of Kerry Everbright City Phases I and II in Shanghai (including residential property Le Loft and the Enterprise Square office tower), Central Residences Phase II Tower 2, also in Shanghai, Gemini Grove in Beijing and Parkview Residence in Hangzhou.

Kerry Everbright City Phase II in Zhabei District, Shanghai, is a mixed-use development with an aggregate GFA of approximately 1.6 million square feet. As at 30 June 2011, 99.7% or 1,163 units out of the total of 1,166 Le Loft residential units had been sold. Enterprise Square, which offers 436 saleable office units, recorded sales of 280 units, representing 64% of the total.

Nestling in the upscale Huashan Road residential neighbourhood in Shanghai, Central Residences Phase II has earmarked 60 units from Tower 2 for sale. Up to 30 June 2011, 87% of the lot or 52 units had been sold.

Gemini Grove is a boutique-style apartment project in Xinyuanli, Beijing. Consisting of the East and West Towers, the development provides 317 apartments with a total GFA of approximately 330,000 square feet as well as 13,000 square feet of commercial space. 306 apartment units or 97% of the total had been sold up to 30 June 2011. The Group holds a 71% interest in the project.

**(iii) Properties under Development**

Control measures under the Central Government's policy to regulate the property market intensified in the first half of 2011. However, the Group has maintained its resilience to the adverse impacts of an increasingly cautious and subdued investment environment by leveraging its balanced and long-term development portfolio. During the period under review, all construction projects underway and pre-sale activities progressed according to schedule. The Group will continue to source high-quality land with long-term growth value in cities with development potential.

*Shanghai*

The mixed-use development, Jing An Kerry Centre, is being jointly developed by the Group and Shangri-La Asia Limited ("Shangri-La") with respective shareholdings being 51% and 49%. Lying in the heart of Shanghai's business area, Jing An District, the 2.74 million square-foot project comprises of a deluxe hotel, an international Grade-A office tower and an upscale shopping mall. The project is on schedule for completion in 2012.

The mixed-use property project, Kerry Parkside, is situated next to the Shanghai New International Expo Centre and adjacent to Century Park in Huamu District, Pudong. The development includes a hotel, offices, serviced apartments, shopping malls and related ancillary facilities. Following the soft opening of the hotel and serviced apartments in the first quarter of 2011, the leasing of the office and retail space has also commenced.

*Shenzhen*

Kerry Plaza Phase II is a Grade-A office project located in the core of Futian Central District in Shenzhen. Conveniently connected to the Futian station on the future Guangzhou-Shenzhen-Hong Kong Express Rail Link, the Phase II project offers a GFA of approximately 850,000 square feet. Upon completion in the fourth quarter of 2011, the project will become a major landmark in Futian Central District. Preliminary rental enquiries have been positive, with active negotiations underway with a number of multinational corporations as potential anchor tenants for an entire floor or for multi-floor occupation.

*Tianjin*

The Group's mixed-use property project in Hedong District, Tianjin, is located in the heart of the Tianjin South Railway Station CBD, adjacent to the Tianjin Financial Street neighbourhood and overlooking the Haihe River. Connected to Metro Line 9 and the Inner Ring, the development benefits from a convenient transport network. The development is planned to include a hotel, Grade-A offices, upscale residential accommodation, a shopping mall and serviced apartments, with a GFA of approximately 5.55 million square feet. Construction work on this 49%-held project is currently in progress and scheduled for completion by 2013.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (iii) Properties under Development (continued)

##### *Hangzhou*

Of the two sites that the Group owns in the Xiacheng District of Hangzhou, the first is located at the busy intersection of Yan'an Road and Qingchun Road in the flourishing city centre. Close to the future interchange station for Metro Lines 1 and 2, and adjacent to the Xihu (West Lake), the site will be developed into a mixed-use property, comprising a hotel, offices, apartments, and a large-scale retail mall complex, with a total GFA of approximately 2.33 million square feet. Piling work is scheduled to commence in the fourth quarter of 2011, and the entire development is targeted for completion in phases by 2015. The Group has transferred its 25% of the equity interest held in this project to Shangri-La. Upon completion of the transfer procedures, the Group will hold a 75% stake in the project.

The second site in Xiacheng District is designated for the development of Parkview Residence. This residential project will yield a GFA of approximately 2.63 million square feet and is scheduled for completion in phases before 2013. The first phase of Parkview Residence has been completed and delivered for occupation, while sales of three additional residential blocks from Phase II are currently ongoing. As at 30 June 2011, approximately 83% of the 276 additional units were sold.

##### *Nanjing*

The Group and Shangri-La are co-developing a premier site at Zhong Yang Road in Gu Lou District, Nanjing. Lying at the heart of Nanjing, the site is designated for the development of a mixed-use project including hotel and commercial properties with a total GFA of approximately 925,000 square feet. The Group holds a 45% interest in this project. Construction works have already commenced.

##### *Chengdu*

The Metropolis-Arcadia Court, the Group's residential development in Chengdu, the provincial capital of Sichuan Province, is located in the southern part of the High-Tech Industrial Development Zone, close to the city's main traffic artery and the municipal park. The project, in which the Group holds a 55% interest, is expected to generate a developable GFA of approximately 6.8 million square feet. Chengdu has rolled out breakthrough plans to build the zone into the city's future commercial centre, incorporating facilities such as convention centres, a consular quarter, five-star hotels, a business district and a technology park. Construction works on Phase I of the project are ongoing and are expected to be completed by 2012, with Phases II and III due for completion in several stages from 2013 onwards. Phase I of The Metropolis-Arcadia Court has eight towers of luxury homes. Up to 30 June 2011, a total of 900 units from four towers had been launched with 559 units pre-sold, representing 62% of the total number of flats on sale.

### *Nanchang*

In Nanchang, the provincial capital of Jiangxi Province, the Group is developing a mixed-use property through a joint venture with Shangri-La. The Group holds an 80% interest in the project. Lying on the west bank of the Ganjiang River at the heart of Honggutan Central District, the development blueprint includes hotel, office, commercial and high-end apartment properties, with a developable GFA of approximately 2.5 million square feet. The project site commands a premium location adjacent to the government offices. Planning is underway for Phase I of the project, with phased completion expected by 2014.

### *Changsha*

The residential and commercial property project in Changsha, the provincial capital of Hunan Province, is now wholly owned by the Group. The site is located in the Tianxin District to the west of the provincial government offices, and enjoys exquisite river vistas of the Xiangjiang. The project is expected to deliver a GFA of approximately 3.21 million square feet. Construction works are currently underway, and the project is scheduled to be completed in phases between 2012 and 2014. Pre-sales of the project are expected to be launched in the second half of 2011.

### *Shenyang*

The Group's 60%-owned Shenyang Kerry Centre project in Shenyang, the capital of Liaoning Province, is located on the east side of Qingnian Street, to the south of Qingnian Park, and lies at the core of the city's landmark Golden Corridor development. The site yields a GFA of approximately 14.7 million square feet, and is designated for the development of a mixed-use project, including a hotel, offices, shopping mall, residences and apartments. Phase I of the residential, hotel and office development is at the construction stage, and the entire project is targeted for completion in phases between 2013 and 2022.

### *Qinhuangdao*

Construction works are ongoing for the Group's 60%-owned deluxe residential project adjacent to Beidaihe in Qinhuangdao, Hebei Province. This development is expected to generate a GFA of approximately 4.76 million square feet, and is planned to be completed in phases up to 2014. Qinhuangdao is a major export trading port and key tourist destination in Northern China, with excellent economic advantages and growth potential to be leveraged as the Beijing–Tianjin–Hebei metropolitan conurbation continues to take shape.

### *Manzhouli*

The Group's wholly-owned project in Manzhouli, Inner Mongolia, is a residential and commercial property project. Phase I of the project, the Watch Lake residential properties, has been completed and delivered, while the development plan for Phase II is currently under consideration. Manzhouli is a major land-transport trading depot for Sino-Russian trade and enjoys unique geographical advantages. After the development of Phase I, the site has remaining area of approximately 209,000 square feet.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (iii) Properties under Development (continued)

##### *Tangshan*

The Group, through a joint venture with subsidiaries of Shangri-La and Allgreen Properties Limited, is developing a mixed-use project located at Da Li Road in Fenghuang Xincheng, Tangshan. The project comprises the development of a hotel and residential and complementary commercial properties, with a developable GFA of about 3.26 million square feet. The Group holds a 40% interest in this joint-venture project. Tangshan is an important coastal city in Northern China, lying in proximity to Beijing and Tianjin, and holds promising prospects for development. The project is scheduled to be completed in phases between 2012 and 2013, with pre-sales to be rolled out in the latter part of 2011.

##### *Ningbo*

The Group's Ningbo site is located in the Eastern New Town Core Region and is earmarked for the development of high-end residences with a developable GFA of approximately 1.05 million square feet. The Group holds a 50% interest in the project, which is currently at the planning stage.

##### *Yingkou*

The Group has won joint bids with Shangri-La and Wilmar International Limited to acquire the land use rights to various sites in Bayuquan and Laobian Districts in Yingkou City, Liaoning Province. The sites are designated for residential, commercial and hotel uses. The Group holds a 40% equity interest in these projects. Yingkou falls within a strategic development zone under the government's "Five Points, One Line" policy to develop the coastline of Liaoning Province, as well as being a part of the Shenyang Economic Zone. Yingkou is one of the major port cities of Northeastern China and has tremendous growth potential.

##### *Jinan*

The Group and a subsidiary of Shangri-La made a successful bid in May 2011 for the land use rights to certain project sites located in Lixia District, Jinan City, for a consideration of approximately RMB291 million. The Group holds a 55% stake in this project. With a total site area of approximately 240,000 square feet, the project will incorporate the development of a hotel and apartments.

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

During the six months ended 30 June 2011, Shangri-La's Kerry Centre Hotel, Beijing, generated turnover and operating loss of HK\$101 million and HK\$12 million, respectively (2010: HK\$139 million and profit of HK\$23 million, respectively). Renovation works for the hotel are ongoing and are expected to be completed by early 2012. An average occupancy rate of 45% (2010: 67%) was achieved during the first half of 2011. The average room tariff increased 13% year on year. The Group holds a 71.25% interest in the hotel.

**(C) Hong Kong Property Division**

The Hong Kong Property Division recorded a turnover of HK\$1,152 million during the six months ended 30 June 2011 (2010: HK\$5,733 million), with a net profit attributable to the Group of HK\$2,194 million (2010: HK\$1,625 million) after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$ nil (2010: HK\$501 million).

The Division's turnover was mainly derived from the recognized sales of Primrose Hill and Island Crest. Sales of Lions Rise were also launched during the period.

As part of its proactive business strategy, the Division maintains and manages a balanced portfolio of high-quality assets, with a focus on prestigious property developments in the city's most exclusive neighbourhoods. To sustain growth momentum, the Division continues to expand its land bank through active acquisitions and bids for land on Hong Kong Island and at premium locations elsewhere in the territory. It also aims to derive satisfactory returns from property sales while earning a stable stream of recurrent income from its investment properties.

**(i) Investment Properties**

During the six months ended 30 June 2011, the Group generated rental turnover and operating profit of HK\$304 million and HK\$217 million, respectively (2010: HK\$283 million and HK\$202 million, respectively) from its completed investment property portfolio in Hong Kong.

As at 30 June 2011, the Group held a completed property portfolio comprising residential, commercial and office assets in Hong Kong with an aggregate GFA of 2.77 million square feet (as at 31 December 2010: 2.79 million square feet). The GFA breakdown and the respective occupancy rates were as follows:

	<b>As at 30 June 2011</b>		<b>As at 31 December 2010</b>	
	<b>Group's attributable GFA (<i>'000 square feet</i>)</b>	<b>Occupancy rate</b>	<b>Group's attributable GFA (<i>'000 square feet</i>)</b>	<b>Occupancy rate</b>
Residential <sup>(3)</sup>	<b>722</b>	<b>99%</b>	722	99%
Commercial	<b>1,205</b>	<b>98%</b>	1,205	95%
Office	<b>839</b>	<b>87%</b>	839	81%
	<b><u>2,766</u></b>		<u>2,766</u>	

Note:

(3) Excluding Belgravia

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (i) *Investment Properties (continued)*

##### *Enterprise Square Five/MegaBox*

MegaBox is the Group's retail and leisure flagship located in East Kowloon. This property has helped drive the transformation of the district into a new hub for shopping and lifestyle-related diversions. As the mall continues to optimize its tenant mix across its 1.1 million square feet of GFA, it has successfully evolved into a one-stop shopping and entertainment destination and is now home to a variety of world-renowned lifestyle brands. As at 30 June 2011, the occupancy rate of MegaBox stood at 98% (as at 31 December 2010: 98%).

As at 30 June 2011, the two Grade-A towers at Enterprise Square Five were 97% occupied (as at 31 December 2010: 95%).

##### *Kerry Centre, Quarry Bay*

Kerry Centre at 683 King's Road, Quarry Bay, is the Group's 40%-held flagship office tower in Hong Kong. This new Grade-A office tower has 32 floors and a GFA of approximately 511,000 square feet. The property has received an HK-BEAM Society Platinum Rating for the incorporation of intelligent and environmentally sustainable design concepts. As at 30 June 2011, 58% (as at 31 December 2010: 52%) of the project was leased.

#### (ii) *Sales of Properties*

During the six months ended 30 June 2011, turnover of HK\$848 million (2010: HK\$5,450 million) was achieved from the sales of completed properties in Hong Kong. Sales of completed investment properties generated revenue of HK\$782 million (2010: HK\$ nil). An operating profit of HK\$361 million (2010: HK\$1,077 million) was derived during the period from the recognised sales of completed properties of Island Crest and Primrose Hill and the completed investment property Belgravia. Profit from sale of Larvotto was included as part of share of results of associates.

In early 2011, in order to stabilize the local property market and avoid overheating, the Hong Kong SAR Government announced various measures to boost land supply for new housing, especially the provision of smaller residential units. Other measures included further tightening of mortgage requirements. These actions are expected to restrain speculative activity to a certain extent. However, as the Hong Kong currency is pegged to the US dollar, coupled with soaring inflation and sustained low interest rates, there is still strong demand in the property market as people seek investment protection. Properties remain in high demand as they are considered to be the best and most practical way of buffering against the increasingly volatile investment market. The Group thus focuses on developing and supplying the market with high-end properties with greater intrinsic value, thus making it more resilient to market fluctuations.

*Island Crest, First Street, Hong Kong*

Island Crest is an urban renewal project in Western District offering 488 residential units and approximately 16,000 square feet of shop units, aggregating to a total GFA of approximately 440,000 square feet. The property is situated in a neighbourhood of several prestigious colleges and international schools. Up to 30 June 2011, 470 units had been sold, accounting for 96% of the total.

*Primrose Hill, Tsuen Wan*

The Group's landscaped-garden luxury residence, Primrose Hill in Tsuen Wan, offers 548 units with a total GFA of approximately 450,000 square feet. As at 30 June 2011, 536 units had been sold, representing 98% of the total.

**(iii) Properties under Development**

*Lions Rise, Wong Tai Sin*

Situated in Wong Tai Sin and fronting Muk Lun Street, Lions Rise, with a developable GFA of approximately 767,000 square feet, consists of five contemporary-design residential blocks offering a total of 968 units, all spaciouly and ergonomically laid out, with comprehensive luxury club facilities of more than 35,000 square feet, 100,000 square feet of landscaped garden, and a lifestyle mall of over 120,000 square feet. The project is scheduled for completion within the next few months. As at 30 June 2011, 439 units, representing 45% of the total, had been pre-sold.

*SOHO 189, Sheung Wan*

Located in No. 189 Queen's Road West, Sheung Wan, SOHO 189 is a redevelopment project commanding an exclusive location and enjoying convenient proximity to the Central business district. It stands just a short walk from the new Sai Ying Pun station on the MTR West Island Line, slated to enter service in the near future. The project will consist of deluxe residences and retail units, with an expected developable GFA of approximately 142,000 square feet. Construction works are ongoing and the project is scheduled to complete in the second quarter of 2012. The Group holds a 71% interest in this prominent project.

*Shan Kwong Road/Village Terrace, Happy Valley*

Construction works have progressed smoothly at the two adjacent sites at No. 20 Shan Kwong Road and Nos. 1-5 Village Terrace, Happy Valley. The site will generate a developable GFA of approximately 220,000 square feet. The Group holds a 71% interest in this luxury residential project, the occupation permit for which will be issued in July 2011.

*Yuk Yat Street, To Kwa Wan*

The redevelopment of No. 5 and No. 9 Yuk Yat Street, To Kwa Wan, into residential and commercial properties is planned to be completed by the third quarter of 2012. Construction works are in progress, and the project is expected to deliver a GFA of approximately 155,000 square feet.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

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

##### *Hing Hon Road, Mid-Levels West*

The 71%-owned joint venture project at Nos. 18-27 Hing Hon Road, Mid-Levels West, is situated in an exclusive locale adjacent to the University of Hong Kong. The neighbourhood is also home to some of the territory's finest schools. The project will yield luxury residences with a GFA of approximately 178,000 square feet. Construction works are in progress, with completion expected in the second quarter of 2013.

##### *Ede Road, Kowloon Tong*

The site at No. 1 Ede Road, Kowloon Tong occupies an area of about 25,823 square feet, and will be used for the development of another luxury residential project with a buildable GFA of approximately 77,000 square feet. Its tranquil and prestigious location makes it an ideal site for the development of an upscale living environment that matches the Group's luxury brand promise. Project completion is expected in the first quarter of 2014.

##### *Macau*

The Group's luxury residential apartment project at Nam Van Lake has a developable GFA of approximately 400,000 square feet, with completion scheduled for the fourth quarter of 2014. The project commands a prime city location graced with panoramic unobstructed views of the Nam Van Lake and Macau Peninsula.

The exchange procedure in respect of another residential site owned by the Group in Macau is in progress. The proposed new site is expected to be within a zone under Macau's new land reclamation projects, with the exact location to be finalized pending the confirmation of the New City Master Plan by the Macau SAR Government. It is expected that the plot of land will be secured in 2012.

### (D) Overseas Property Division

The Group's Overseas Property Division holds a portfolio of properties in Australia and the Philippines.

#### (i) *Australia*

As at 30 June 2011, 1,318 units (as at 31 December 2010: 1,289 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 98% of the total of 1,339 units offered for sale. The project includes a commercial development with a GFA of approximately 167,000 square feet, which is currently under planning. This 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 and a 30.75% interest in its depository receipts. SPI holds (i) a 100% 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 2011, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center were 99% and 86%, respectively (as at 31 December 2010: 98% and 81%, respectively).

The performance of Shangri-La Plaza Mall remained satisfactory. Expansion works are ongoing on an adjacent site to build an extension for the mall and additional residential units. This project will yield an additional GFA of approximately 2.06 million square feet, of which approximately 428,000 square feet are designated as retail space and approximately 1.63 million square feet for residential development. Pre-sales of the residential units were launched in March 2010 to an encouraging response. Some 556 units were sold as at 30 June 2011, accounting for 41% of the total.

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 2011, 1,137 units (as at 31 December 2010: 1,132 units) out of the total of 1,152 residential units at Towers 1 and 2 of The St. Francis Shangri-La Place were sold. In addition, SPI has a share 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 46,000 square feet of retail premises. SPI holds a 40% interest in this project.

**(E) Logistics Network Division**

The Division is delighted to report that each of its major business segments continued to perform strongly during the first half of 2011. This reflects the Division's ongoing capability to create value through constant process and business model innovation in response to trends in the global economy. With this, the Division will continue to build and sustain a modernized, professional and energetic company to drive the business further forward.

With the contribution from Kerry TJ Logistics Company Limited (formerly known as T. Join Transportation Co.,Ltd) ("Kerry TJ"), which has been reclassified as a subsidiary of the Division starting from July 2010, the Division recorded an increase in turnover of 54% to HK\$7,142 million for the first half of 2011 (2010: HK\$4,626 million). Excluding the contribution from Kerry TJ, turnover increased by 35% when compared with the same period last year.

Net profit attributable to the Group increasing 15% year on year to HK\$388 million (2010: HK\$337 million), of which the contribution from the Division's direct operating business units increased by 43%, and the contribution from associates dropped by 40%.

**(i) Integrated Logistics ("IL")**

As a specialist IL provider in Asia, the Division combines a strategically deployed logistics infrastructure with a highly skilled operations team to provide shipment and distribution services designed for end-user segments ranging from electronics, fashion, and fast-moving consumer goods to perishable commodities.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (i) Integrated Logistics ("IL") (continued)

During the first half of 2011, IL services growth in Hong Kong and Southeast Asia has driven segment turnover up by 86% year on year to HK\$3,388 million (2010: HK\$1,820 million). Excluding the contribution from Kerry TJ, turnover also increased by 37% when compared with the same period last year. The IL business was also helped by continued robust domestic demand in China and a recovery of Taiwan's economy, coupled with growth in manufacturing activities across Asia.

#### *Hong Kong*

Capitalizing on the economic recovery trend and continuing to deliver excellent results, the local business unit has progressed further to enhance and maximize the value of its asset portfolio in Hong Kong.

The Hong Kong unit's performance reflected higher volumes driven by the addition of new customers. The commencement of full operation of the new 270,000 square feet Product Customization and Consolidation Centre, or PC<sup>3</sup>, in Tai Po Industrial Estate also boosted the unit's market presence in the fashion-chain client sector. Now having the largest garment-on-hanger centre in Hong Kong, PC<sup>3</sup> is equipped to meet the sophisticated logistical requirements of the world's leading fashion-retail customers. The Division has also revamped and converted some of its warehouse space in Hong Kong into data centres with a view to improving its yield.

#### *China Focus*

China's logistics industry continued to witness tremendous growth over the past two quarters, on the back of increasing domestic consumption and the overall expansion of the economy. At the same time, the general inflation in Mainland China has led to the increase in labour and operating cost and thus the deterioration of profit margin. Leveraging on its sound business coverage in Greater China, the Division has been taking proactive steps to meet this anticipated market development through strategic business restructuring in these two years. The first half of 2011 witnessed the Division's solid long-range plans for this focus market, via new facilities and new business initiatives.

Operating as Kerry EAS Logistics Limited, the Division is the leading operator in China, with a portfolio of over 6 million square feet of logistics facilities supported by a network of 130 branches serving 1,800 destinations. A new logistics hub in Kunshan with total GFA of approximately 200,000 square feet has commenced operation during the period. The facility serves as a hub to support and uplift the Division's nationwide distribution capability.

In Shanghai, the Division has acquired 70% interest of Shanghai Hui Cheng Investment Consultancy Co., Ltd. (“HCL”) with a view to expanding on new business fronts. HCL is a third-party logistics provider specializing in chemicals, with a special focus on dangerous goods, fast-moving consumer goods, electro-mechanical and automotive logistics services. The acquisition of HCL will enable the Division to participate in the niche business of dangerous goods transportation.

Across the strait, Kerry TJ forms another crucial component of the Division’s three-links cargo transportation network with profit contribution increasing by over 75% when compared with the same period last year. Following its rebranding to “Kerry” and a series of management re-engineering exercises, Kerry TJ has taken a major step towards its vision of becoming a first-class provider of consolidated logistics services in Taiwan.

#### *Asia Specialist*

Southeast Asia remained a high-performing market for the Division, with aggressive business developments throughout the first half of 2011. Member countries of the Association of Southeast Asian Nations (“ASEAN”) has been developed into a major global production base as manufacturing activities have begun to return from the increasingly expensive Mainland China since the past two years.

Growth has accelerated in Thailand with cargo throughput increasing robustly in Kerry Siam Seaport, generating profit growth of more than 60% year on year. The Division plans to develop additional berths to upgrade its cargo handling and ship turnaround capabilities, and is confident that this market will remain a growth engine for the Division in the years to come.

KART, the Division’s business arm for building and operating a land transport network connecting ASEAN and connecting them with China, also reported strong performance. KART now provides road services on five key routes between ASEAN and Mainland China, offering a range of flexible land transport solutions for customers. Growth was particularly notable in the China–Vietnam and Malaysia-bound routes. EAE Logistics Sdn. Bhd., the Division’s KART operating company in Malaysia, is expanding its headquarter by constructing another 220,000 square feet of warehouse facility adjacent to its existing facilities. The construction shall complete in the fourth quarter of 2011.

In Vietnam, a new logistics facility in Hung Yen with total GFA of 115,000 square feet was just completed. Together with another logistics centre of 90,000 more square feet in Da Nang of which the construction is underway, the Division will be offering a comprehensive network of distribution centres and IL facilities in Vietnam within 2011.



## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

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

#### (ii) *International Freight Forwarding (“IFF”)*

The IFF segment continued to deliver strong gains in its performance as it leveraged increasing economies of scale and a growing capability in intra-Asia and Asia–Europe trade lanes. During the period under review, the segment’s turnover was up 34% year on year to HK\$3,754 million (2010: HK\$2,806 million). Amongst the operating profit of the Division’s IFF operation, over 60% was generated from China, which are mainly contributed by the import business as a result of the continued increase in domestic consumption in Mainland China.

In China, the acquisition of 70% interest of the Kunshan Wisdom Logistics Co., Ltd (“Wisdom”) in the first quarter of 2011 has enabled the Division to strengthen its IFF capability in that market. Wisdom is a non-vessel operating common carrier operating one of the major sea freight consolidation platforms in Shanghai serving mainly the Japan and Southeast Asia trade routes.

The key objectives of the segment for the remainder of 2011 will be the successful integration of new acquisitions into its existing business platform. A business re-organization took place during the period to better position the segment to leverage these newly acquired IFF operations in Europe and Asia. On the other hand, the Division will continue to look for expansion opportunities in Americas and Europe.

#### (iii) *Logistics Investments*

The Division’s logistics investments mainly include a 15% interest in Asia Airfreight Terminal and another 25% interest in Chiwan Container Terminal (“CCT”). Due to the continuing drop in export volume in Mainland China, profit contributed from CCT dropped by 36% in the first six months of 2011 compared with last year.

#### (iv) *Information Technology (“IT”)*

There are two major IT development centers established in China by the middle of the year. The first one in Shanghai is called the “IT Center-of-Excellence of Integrated Logistics”. It is a replication of the Hong Kong professional IT team to address the rapidly expanding Integrated Logistics demands in domestic China with increasing high-end technology sophistication. The other one is an “International Freight Forwarding Application Development Center” in Xiamen. This Center is going to provide adequate development resources to enhance and expand the Division’s flagship “KerrierVISION Supply Chain Visibility” platform from the current scope of Logistics Track & Trace to a whole new concept of Virtual Buying Office in the coming twenty four months.

**(F) 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 2011, total foreign currency borrowings (excluding Renminbi (“RMB”) borrowings) amounted to the equivalence of HK\$6,617 million and RMB loans amounted to the equivalence of HK\$1,962 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 25% and 8% respectively, of the Group’s total borrowings of HK\$26,306 million as at 30 June 2011.

The non-RMB total foreign currency borrowings of HK\$6,617 million mainly include the Fixed Rate Bonds amounting to US\$720 million (approximately HK\$5,570 million (net of direct issue costs)). The Group has arranged cross currency swap contracts amounting to US\$607 million and NZD51 million, respectively, to hedge the exchange rate exposure of United States dollars and New Zealand dollars to Hong Kong dollars.

Out of the Group’s total borrowings as at 30 June 2011, HK\$6,587 million (representing approximately 25%) was repayable within one year, HK\$3,723 million (representing approximately 14%) was repayable in the second year, HK\$9,638 million (representing approximately 37%) was repayable in the third to fifth years and HK\$6,358 million (representing approximately 24%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 94% of total borrowings as at 30 June 2011. 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 2011, the gearing ratio for the Group was 12.7% (as at 31 December 2010: 17.2%), calculated based on net debt of HK\$7,805 million and shareholders’ equity of HK\$61,563 million.

In terms of the Group’s available financial resources as at 30 June 2011, the Group had total undrawn bank loan and overdraft facilities of HK\$10,944 million and net cash on hand of HK\$18,501 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 provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 31 January 2011, the Group signed a loan agreement for an unsecured HK\$8.45 billion term and revolving loan facility with 17 reputable international and local banks and financial institutions. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK\$6 billion syndicated loan facility obtained in February 2006.

On 6 April 2011, Wiseyear Holdings Limited, a wholly-owned subsidiary of the Company, issued US\$300 million fixed rate bonds under the US\$1,000 million Medium Term Note Programme set up in 2010. These fixed rate bonds are listed on the Singapore Exchange Securities Trading Limited, carry a coupon rate of 5.875% per annum and have a maturity term of 10 years.

On 13 June 2011, Standard & Poor’s affirmed a “BBB-” credit rating for Kerry Properties Limited with a stable outlook.

## MANAGEMENT DISCUSSION AND ANALYSIS (continued)

### (G) Outlook

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

Despite the sovereign debt crises in Europe and the United States, Mainland China has managed to stay relatively unscathed without a direct impact on its economy and is maintaining a fast rate of growth. However, as China is confronted by intense inflationary pressure, the Central Government has increased interest rates two times in the first half of 2011 and raised the bank reserve requirements six times in a bid to control money supply more stringently. Furthermore, Shanghai, Beijing and other first-tier Mainland cities have imposed restrictions on property purchase. Shanghai has imposed further restrictions on purchases made by non-residents circumventing the government requirement for tax payment proof by back payments. The Central Government is gradually extending similar purchase restrictions to second- and third-tier cities.

These measures have had a cooling effect on property prices on the Mainland. The rising interest rates and tightening of mortgage lending have effectively increased the financial burden on the home buyers and forced them to take a more cautious and circumspect approach. The number of transactions has declined, but there has not been a significant drop in prices. This is mainly attributable to the intrinsic safe-haven qualities of real estate investments in countering inflation. China's rapid urbanization has also greatly increased the demand for commercial and residential space. Some Hong Kong and foreign enterprises have chosen to purchase properties on the Mainland to counter rising rental prices, and to increase their RMB-denominated fixed asset investments.

The Group has been focusing on developing top-end premium properties in exclusive locations in China. As a significant portion of the Group's projects is still under development, the impact of the various restrictive measures has not been felt so severely by the Group. Newly launched projects such as Kerry Parkside in Pudong and The Metropolis-Arcadia Court in Chengdu all achieved good results despite adverse market environment, which is a testament to the Group's premium brand.

Looking ahead to the second half of this year, the market predicts that further tightening of the money supply may be suspended for the time being. But the Central Government is expected to maintain its tight macro-control policy stance. Nevertheless, the Group will proceed as planned with various development projects. Any easing of the property market is expected to lead to corresponding adjustments in land prices. The Group will closely monitor this development and take advantage of any timely opportunity to secure new sites offering excellent development potential so as to increase its land bank in Mainland China.

**(ii) Hong Kong Property Division**

The quantitative easing monetary policy in the United States and the sovereign debt crisis in Europe have increased global liquidity, resulting in surging inflation. The depreciation of the Hong Kong dollar, high inflation and the underlying currents affecting the US and European financial systems will create uncertainties for the local economy in the latter part of the year. As a result, both investors and end users will take a cautious approach when it comes to purchasing properties. The further tightening of mortgage lending and raising of mortgage rates by banks have also prompted an overall slowdown in property transactions. However, since properties remain appealing as a safe-haven investment option to counter soaring inflation, property prices have not seen a significant drop.

The Group will proceed as planned with the continued sales of its Lions Rise residential units over the latter part of this year. The Group will also launch the pre-sale of SOHO 189 in Sheung Wan. The Lions Rise project managed to achieve satisfactory results despite an unstable property market in the early part of this year. It also set a new benchmark in prices for residential properties in the same district. This all goes to validate the credibility of the Group in developing premium properties. The Group will continue to create more classic properties in rare and sought-after locations and explore further opportunities to build up its land bank.

The Group is optimistic about the leasing business on the commercial front. The rental performance of office and retail properties is expected to remain relatively stable in the second half of this year. Furthermore, the success of MegaBox has created a positive reputation and brand advantage, giving the Group a strong competitive edge in the development of future residential projects with retail components.

**(iii) Logistics Network Division**

While the Division has designed its strategic objectives in preparation for the future through and beyond 2011, it is fully alert to the potential challenges ahead. In China, albeit the unfavourable environment as a result of global stagflation and the continued decrease of China export and increase in operating cost, the Division will continue to ride on the increasing domestic consumptions and growing import business by reviewing its operation focus in order to sustain and enhance its development and influence in the market.

On a macro view, the emergence of ASEAN countries to challenge the market dominance of the advanced economies and the return of global manufacturing activities to this region will become the new status quo and will continue to change the face of the world trade. The Division will continue to expand its market presence and service offerings; and to augment its growth through selective acquisitions in order to benefit from the growth being channeled along the new trade corridors between Asia and the rest of the world.

Besides maintaining the positive growth momentum of the IL business, in the IFF segment, the Division's re-organized IFF business lineup underlines its strong commitment to the intra-Asia, Asia-Europe and Asia-USA trades, and fits well with its mission and expectations for the future international expansion of the IFF business. The segment is expected to contribute more significantly to the Division's earnings while it increases its coverage and capability.

## INVESTOR RELATIONS

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. The Group had participated a number of roadshows and investors' conferences during the six months ended 30 June 2011 and some of them are set out below:

Event	Venue
Nomura Bento Box Lunch	Hong Kong
Deutsche Bank Access China Conference	Beijing
Credit Suisse Asian Investment Conference	Hong Kong
DBS Vickers Pulse of Asia Conference	Hong Kong
Mirae Asset Hong Kong/China Property Access Day	Hong Kong
Singapore Non-deal roadshow	Singapore
US Non-deal roadshow	New York, Boston, San Francisco
Fixed income investor roadshow	Hong Kong, Singapore, London

## STAFF

As at 30 June 2011, the Company and its subsidiaries had approximately 19,000 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.

## SHARE OPTIONS

The shareholders of the Company approved the termination (to the effect that no further options shall be offered) of an executive share option scheme adopted in 1997 (the "1997 Share Option Scheme") and a share option scheme adopted in 2002 (the "2002 Share Option Scheme") on 17 April 2002 and 5 May 2011 respectively. On 5 May 2011, the shareholders of the Company approved the adoption of a new share option scheme (the "2011 Share Option Scheme"). The 2011 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 30 June 2011, a total of 18,714,740 share options (the "Options") were outstanding which comprised 134,740 and 18,580,000 Options granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme respectively.

Movement of the Options, which were granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, during the six months ended 30 June 2011 are listed below in accordance with Rule 17.07 of the Rules (the "Listing Rules") Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"):

Category	Date of grant	Tranche	Number of Options				Exercise price HK\$	Exercise Period
			As at 01/01/2011	Exercised (Notes 1 & 2)	Lapsed	As at 30/06/2011		
<b>(i) 1997 Share Option Scheme:</b>								
<b>Continuous Contract Employees</b>	02/03/2001	I	15,000	(15,000)	-	-	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	15,000	(15,000)	-	-	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	12,208	(12,208)	-	-	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	67,370	-	-	67,370	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	67,370	-	-	67,370	6.85	16/04/2004 – 15/04/2012
<b>Total:</b>			<b>176,948</b>	<b>(42,208)</b>	<b>-</b>	<b>134,740</b>		

Category	Date of grant	Tranche	Number of Options			Exercise price HK\$	Exercise Period	
			As at 01/01/2011	Exercised (Notes 1 & 2)	Lapsed			As at 30/06/2011
<b>(ii) 2002 Share Option Scheme:</b>								
<b>1. Directors</b>								
KUOK Khoon Chen	06/02/2009	II	250,000	(250,000)	-	-	17.58	06/02/2011 – 05/02/2019
WONG Siu Kong	17/03/2005	II	650,000	(650,000)	-	-	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
	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	II	380,000	(180,000)	-	200,000	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
	06/02/2009	II	100,000	-	-	100,000	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	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	50,000	-	-	50,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	250,000	-	-	250,000	17.58	06/02/2011 – 05/02/2019
<b>2. Continuous Contract Employees</b>	17/03/2005	I	362,500	(105,000)	-	257,500	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	612,500	(120,000)	-	492,500	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	1,212,500	-	-	1,212,500	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	1,212,500	-	-	1,212,500	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	2,425,000	-	-	2,425,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	910,000	(10,000)	-	900,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	1,645,000	(415,000)	-	1,230,000	17.58	06/02/2011 – 05/02/2019
<b>3. Others</b>	17/03/2005	II	700,000	-	-	700,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	237,500	-	(87,500)	150,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	237,500	-	(87,500)	150,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	475,000	-	(175,000)	300,000	47.70	02/04/2011 – 01/04/2018
	06/02/2009	I	350,000	-	-	350,000	17.58	06/02/2010 – 05/02/2019
	06/02/2009	II	625,000	(225,000)	-	400,000	17.58	06/02/2011 – 05/02/2019
<b>Total:</b>			<b>21,135,000</b>	<b>(2,205,000)</b>	<b>(350,000)</b>	<b>18,580,000</b>		

## Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the Options were exercised was HK\$39.05.
- During the period, no Options were granted/granted for adjustment, transferred from/to other category or cancelled under both the 1997 Share Option Scheme and the 2002 Share Option Scheme.

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

As at 30 June 2011, 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 <sup>5</sup>
	Personal interests <sup>1</sup>	Other interests <sup>3</sup>	Total	
KUOK Khoon Chen	501,004	6,961,707	7,462,711	0.52
WONG Siu Kong	750,000	50,000	800,000	0.06
HO Shut Kan	–	50,000	50,000	0.00
MA Wing Kai, William	181,020	50,000	231,020	0.02
QIAN Shaohua	350,000	50,000	400,000	0.03
CHAN Wai Ming, William	–	50,000	50,000	0.00

### (ii) Associated Corporations

Associated Corporations	Directors	Number of ordinary shares			Number of underlying ordinary shares held under equity derivatives <sup>4</sup>	Total	Approximate % of shareholding
		Personal interests <sup>1</sup>	Corporate interests <sup>2</sup>	Other interests <sup>3</sup>			
Kerry Group Limited	KUOK Khoon Chen	1,651,791	6,500,000	228,453,625	8,000,000	244,605,416	15.94 <sup>6</sup>
	WONG Siu Kong	4,617,263	8,504,300	–	3,000,000	16,121,563	1.05 <sup>6</sup>
	HO Shut Kan	1,388,452	–	–	1,000,000	2,388,452	0.16 <sup>6</sup>
	MA Wing Kai, William	1,010,620	–	–	500,000	1,510,620	0.10 <sup>6</sup>
	QIAN Shaohua	500,000	500,000	–	1,000,000	2,000,000	0.13 <sup>6</sup>
	CHAN Wai Ming, William	100,000	–	–	300,000	400,000	0.03 <sup>6</sup>
	TSE Kai Chi	600,000	–	–	1,500,000	2,100,000	0.14 <sup>6</sup>
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 <sup>7</sup>
Shang Properties, Inc.	HO Shut Kan	1,570	–	–	–	1,570	0.00

#### Notes:

- This represents interests held by the relevant Director as beneficial owner.
- This represents interests held by the relevant Director through his controlled corporation(s).
- This represents interests held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
- This represents interests in options held by the relevant Director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited ("KGL").
- The percentage has been compiled based on the total number of ordinary shares of the Company in issue as at 30 June 2011 (i.e. 1,438,278,488 ordinary shares).
- The percentage has been compiled based on the total number of ordinary shares of KGL in issue as at 30 June 2011 (i.e. 1,534,784,913 ordinary shares).
- The percentage has been compiled based on the total number of ordinary shares of SCMP Group Limited in issue as at 30 June 2011 (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 2011, 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 2011, 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:

<b>Name</b>	<b>Capacity in which ordinary shares were held</b>	<b>Number of ordinary shares<sup>1</sup></b>	<b>Long position/ Short position/ Lending pool</b>	<b>Approximate % of shareholding<sup>2</sup></b>
Kerry Group Limited	Interest of controlled corporations	791,546,435	Long position	55.03
Kerry Holdings Limited	Interest of controlled corporations	750,020,276	Long position	52.15
Caninco Investments Limited	Beneficial owner	312,248,193	Long position	21.71
Darmex Holdings Limited	Beneficial owner	256,899,261	Long position	17.86
Moslane Limited	Beneficial owner	73,821,498	Long position	5.13
JPMorgan Chase & Co.	Interest of controlled corporations	100,080,804	Long position	6.96
		1,700,000	Short position	0.12
		65,710,134	Lending pool	4.57

**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 2011 (i.e. 1,438,278,488 ordinary shares).

Apart from the aforesaid, as at 30 June 2011, 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 2011.



## **CORPORATE GOVERNANCE**

During the six months ended 30 June 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

## **CHANGE IN THE INFORMATION OF A DIRECTOR SINCE LAST ANNUAL REPORT**

Pursuant to Rule 13.51B(1) of the Listing Rules, Mr Ho Shut Kan, a Director of the Company, disclosed that he was appointed as a director of Shang Properties, Inc. (a listed company in the Philippines) on 22 June 2011.

## **CLOSURE OF REGISTERS OF MEMBERS**

The registers of members of the Company will be closed on Thursday, 8 September 2011 and Friday, 9 September 2011 for the purpose of determining shareholders' entitlement to the interim dividend for the six months ended 30 June 2011 and during such period no transfer of shares will be effected. In order to qualify for the interim dividend, 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 p.m. on Wednesday, 7 September 2011. The interim dividend is payable on Friday, 16 September 2011 to shareholders whose names appear on the registers of members of the Company on Friday, 9 September 2011.

## **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 2011.

## **DIRECTORS**

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

By Order of the Board  
**Kuok Khoon Chen**  
*Chairman*

Hong Kong, 24 August 2011

- <sup>+</sup> Executive Director
- <sup>#</sup> Independent Non-executive Director
- <sup>@</sup> Non-executive Director