



INTERIM REPORT

For the six months ended 30 June 2005



KERRY PROPERTIES LIMITED
(Incorporated in Bermuda with limited liability)

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

Mr ANG Keng Lam

Chairman

Mr WONG Siu Kong

Deputy Chairman and Managing Director

Mr HO Shut Kan

Mr MA Wing Kai, William

Independent Non-executive Directors

Mr William Winship FLANZ

Mr LAU Ling Fai, Herald

Mr Christopher Roger MOSS, O.B.E.

Non-executive Director

Mr TSE Kai Chi

Audit Committee

Mr Christopher Roger MOSS, O.B.E.

Chairman

Mr LAU Ling Fai, Herald

Mr TSE Kai Chi

Finance Committee

Mr ANG Keng Lam

Mr WONG Siu Kong

Mr HO Shut Kan

Remuneration Committee

Mr ANG Keng Lam

Chairman

Mr WONG Siu Kong

Mr William Winship FLANZ

Mr LAU Ling Fai, Herald

Mr Christopher Roger MOSS, O.B.E.

Qualified Accountant

Ms CHANG Yin Wa

Company Secretary

Ms CHOW Yin Ping, Anita

Auditors

PricewaterhouseCoopers

Certified Public Accountants

Registered Office

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

Head Office and Principal Place of Business

13/F & 14/F

Cityplaza 3

14 Taikoo Wan Road

Taikoo Shing

Hong Kong

Branch Office

21/F, CITIC Tower

No 1 Tim Mei Avenue

Central

Hong Kong

Websitewww.kerryprops.com**Principal Share Registrar and Transfer Office**

Butterfield Fund Services (Bermuda) Limited

Rosebank Centre

11 Bermudiana Road

Pembroke

Bermuda

Hong Kong Branch Registrar and Transfer Office

Abacus Share Registrars Limited

G/F, Bank of East Asia Harbour View Centre

56 Gloucester Road

Wanchai

Hong Kong

Contact

Corporate Communications Department

Kerry Properties Limited

13/F & 14/F

Cityplaza 3

14 Taikoo Wan Road

Taikoo Shing

Hong Kong

Tel: (852) 2967 2200

Fax: (852) 2967 9480

Key Dates

Closure of Registers of Members:

12 October 2005 to 14 October 2005

(both dates inclusive)

Payment of Interim Dividend/Despatch of Share Certificates
in respect of Scrip Dividend:

30 November 2005

INTERIM REPORT FOR THE SIX MONTHS ENDED 30 JUNE 2005

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") are pleased to report the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2005. The Audit Committee of the Board, comprising two Independent Non-Executive Directors and one Non-Executive Director of the Company, has met to review the results and the financial statements of the Group for the six months ended 30 June 2005 prior to recommending them to the Board for approval.

Shareholders should note that these results are the first to be published by the Company following the adoption of a number of new or revised Hong Kong accounting standards with effect from 1 January 2005, details of which are included in note 2 to the accounts. Adjustments were made accordingly to restate the Group's consolidated profit and loss account for the corresponding six months ended 30 June 2004 and the Group's consolidated balance sheet as at 31 December 2004. This facilitates an evaluation of the Group's financial performance for the first six months of 2005 against those for the first six months of 2004.

The Group's consolidated net profit attributable to shareholders for the six months ended 30 June 2005 amounted to HK\$1,602 million (2004: HK\$694 million). Earnings per share for the six months ended 30 June 2005 were HK132.14 cents (2004: HK58.09 cents). In this regard, shareholders should note that in preparing the Group's interim financial statements for the six months ended 30 June 2005 under the new and revised Hong Kong accounting standards, the fair value model for the Group's investment properties has been adopted. Under this model, the Group conducted an internal assessment of the fair value of its investment properties as at 30 June 2005. The fair value changes and related deferred tax arising thereon are recognised through the Group's profit and loss account for the six months ended 30 June 2005. Furthermore, certain owner-occupied properties have been reclassified from investment properties to property, plant and equipment. Fair value changes on owner-occupied properties and related deferred tax arising thereon are recognised in equity.

As a result, set out below are the effects on the Group's net profit attributable to shareholders for the six months ended 30 June 2005, by adopting the fair value model in relation to the Group's investment properties:

	Six months ended 30 June		
	2005	2004	Increase
	HK\$ million	HK\$ million	
Profit attributable to the Company's shareholders	1,602	694	131%
Less:			
Increase in fair value of investment properties	804	–	
Increase in deferred tax liabilities in relation to fair value gains of investment properties	(43)	–	
Net increase in fair value of investment properties	761	–	
Profit attributable to the Company's shareholders before taking into account the net increase in fair value of investment properties	<u>841</u>	<u>694</u>	21%

The Directors have declared an interim dividend of HK20 cents per share for the six months ended 30 June 2005 (2004: HK20 cents), which is payable on Wednesday, 30 November 2005 to shareholders whose names appear on the registers of members of the Company on Friday, 14 October 2005, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2005 Interim Scrip Dividend Scheme").

The 2005 Interim Scrip Dividend Scheme is conditional upon (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto. In the unlikely event that any of the aforementioned conditions are not satisfied, shareholders will receive the interim dividend for the six months ended 30 June 2005 wholly in cash. The issue price of the new shares to be issued under the 2005 Interim Scrip Dividend Scheme will be fixed with reference to the average closing price of the shares of the Company quoted on the Stock Exchange for five consecutive trading days to be determined by the Directors. A circular containing details of the 2005 Interim Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Monday, 31 October 2005.

At the Company's Annual General Meeting held on 26 April 2005, shareholders approved the final dividend of HK40 cents per share for the year ended 31 December 2004 which amounted to a total of approximately HK\$484.8 million. Shareholders were given a scrip alternative to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. As a result, a total of 832,689 shares were issued on 8 June 2005 at a price of HK\$17.35 per share, which was equivalent to a total value of approximately HK\$14.4 million pursuant to the aforesaid scrip dividend scheme and a total amount of HK\$470.4 million was paid in cash on 8 June 2005.

CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Unaudited	
		Six months ended 30 June	
		2005	2004
		HK\$'000	HK\$'000
			(Restated)
Turnover	4	3,845,593	2,631,849
Cost of sales		(167,362)	(747,491)
Direct operating expenses		(2,627,486)	(1,017,465)
		<hr/>	<hr/>
Gross profit		1,050,745	866,893
Other revenues		40,585	16,846
Other income		11,488	2,695
Administrative expenses		(274,439)	(142,132)
		<hr/>	<hr/>
		828,379	744,302
Change in fair value of investment properties		803,121	–
		<hr/>	<hr/>
Operating profit before finance costs		1,631,500	744,302
Finance costs		(45,227)	(61,642)
		<hr/>	<hr/>
Operating profit	4, 5	1,586,273	682,660
Share of results of associated companies		276,526	195,371
		<hr/>	<hr/>
Profit before taxation		1,862,799	878,031
Taxation	6	(194,552)	(119,015)
		<hr/>	<hr/>
Profit for the period		1,668,247	759,016
		<hr/>	<hr/>
Profit attributable to:			
Company's shareholders		1,601,559	693,839
Minority interests		66,688	65,177
		<hr/>	<hr/>
		1,668,247	759,016
		<hr/>	<hr/>
Interim dividend		242,657	239,031
		<hr/>	<hr/>
Interim dividend per share		HK20 cents	HK20 cents
		<hr/>	<hr/>
Earnings per share	7		
Basic		HK132.14 cents	HK58.09 cents
		<hr/>	<hr/>
Diluted		HK128.95 cents	HK57.91 cents
		<hr/>	<hr/>

CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2005 HK\$'000	Restated 31 December 2004 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		2,029,551	2,074,901
Investment properties		19,864,320	19,105,540
Leasehold land and land use rights		389,754	392,215
Properties under development		2,988,253	2,804,657
Associated companies		4,366,661	4,521,287
Available-for-sale investments		1,252,684	–
Long-term investments		–	1,249,480
Long-term receivables		127,834	167,098
Goodwill		216,932	99,242
		31,235,989	30,414,420
Current assets			
Stock of completed properties held for sale		395,628	518,225
Properties under development for sale		320,771	297,553
Accounts receivable, prepayments and deposits	8	1,634,398	1,668,775
Tax recoverable		38,217	47,461
Tax reserve certificates		12,188	19,926
Listed securities at fair value through profit or loss		3,213	–
Trading securities		–	3,679
Pledged bank deposits		59,394	73,636
Cash and bank balances		4,919,945	2,161,234
		7,383,754	4,790,489
Current liabilities			
Accounts payable, deposits received and accrued charges	9	1,896,898	2,147,976
Taxation		169,356	150,372
Short-term bank loans and current portion of long-term bank loans	10	988,791	680,428
Derivative financial instruments		6,859	–
Unsecured bank overdrafts		3,078	1,113
		3,064,982	2,979,889
Net current assets		4,318,772	1,810,600
Total assets less current liabilities		35,554,761	32,225,020
Non-current liabilities			
Convertible bonds	11	2,353,599	–
Long-term bank loans	10	5,067,420	5,476,382
Amounts due to minority shareholders		1,786,573	1,727,537
Derivative financial instruments		997	–
Deferred taxation		1,838,858	1,746,997
		11,047,447	8,950,916
TOTAL ASSETS LESS LIABILITIES		24,507,314	23,274,104

CONSOLIDATED BALANCE SHEET (continued)

	Unaudited 30 June 2005 HK\$'000	Restated 31 December 2004 HK\$'000
Equity attributable to the Company's shareholders		
Share capital	1,213,286	1,211,116
Share premium	3,882,276	3,857,220
Other reserves	9,375,632	9,961,089
Retained profits	8,920,683	6,815,112
Proposed dividend	242,657	484,447
	23,634,534	22,328,984
Minority interests	872,780	945,120
TOTAL EQUITY	<u>24,507,314</u>	<u>23,274,104</u>

FINANCIAL HIGHLIGHTS

	30 June 2005	31 December 2004
Equity attributable to the Company's shareholders (<i>HK\$ million</i>)	23,635	22,329
Net borrowings (including convertible bonds) (<i>HK\$ million</i>)	3,434	3,923
Net asset value (attributable to the Company's shareholders) per share	HK\$19.48	HK\$18.44
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	15%	18%

CONSOLIDATED CASH FLOW STATEMENT

	Unaudited	
	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Operating activities		
Net cash generated from operations	733,843	939,695
Interest paid	(111,232)	(111,194)
Profits tax paid	(69,072)	(36,312)
Net cash from operating activities	553,539	792,189
Investing activities		
Additions of property, plant and equipment, investment properties and properties under development	(226,247)	(223,256)
Purchase of a subsidiary (net of cash and cash equivalents acquired)	(8,174)	(106,656)
Purchase of additional interest in subsidiaries	(89,403)	–
Additional investments in associated companies	–	(34,401)
Repayment of loans from associated companies	272,148	460,867
Purchase of available-for-sale investments	(206)	–
Repayment of loans from investee companies	–	364
Decrease in long-term receivables	51,274	57,835
Interest received	31,329	12,934
Dividends received from associated companies	170,495	15,018
Dividends received from listed and unlisted investments	9,259	3,925
Proceeds from sale of property, plant and equipment and investment properties	62,773	54,827
Proceeds from sale of an associated company	–	4,336
Proceeds from sale of available-for-sale investments	2,090	–
Net cash from investing activities	275,338	245,793
Net cash inflow before financing	828,877	1,037,982
Financing activities		
Proceeds from issue of shares	12,778	26,355
Proceeds from issue of convertible bonds, net of direct issue costs	2,469,895	–
Repayment of bank loans	(282,619)	(2,499,356)
Drawdown of bank loans	192,917	2,486,789
Capital contribution from minority shareholders	12,565	1,941
Dividends paid	(470,386)	(175,418)
Dividends paid to minority shareholders in subsidiaries	(17,567)	(1,368)
Decrease in loans from minority shareholders	(3,956)	(161,919)
Net cash generated from/ (used in) financing	1,913,627	(322,976)
Increase in cash and cash equivalents	2,742,504	715,006
Cash and cash equivalents at 1 January	2,233,757	1,592,141
Cash and cash equivalents at 30 June	4,976,261	2,307,147
Analysis of balances of cash and cash equivalents		
Pledged bank deposits	59,394	47,058
Cash and bank balances	4,919,945	2,260,089
Unsecured bank overdrafts	(3,078)	–
	4,976,261	2,307,147

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY – UNAUDITED

	Attributable to shareholders of the Company						Minority interests	Total equity
	Share capital	Share premium	Other reserves	Retained profits	Proposed dividend	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000		
Balance as at 1 January 2004, as previously reported as equity	1,191,527	3,628,591	9,209,944	5,673,768	178,729	19,882,559	–	19,882,559
Balance as at 1 January 2004, as previously separately reported as minority interests	–	–	–	–	–	–	419,609	419,609
Deferred tax arising from the revaluation of investment properties	–	–	(60,165)	(342,958)	–	(403,123)	–	(403,123)
Depreciation adjustment for land and buildings	–	–	(57,868)	(19,515)	–	(77,383)	–	(77,383)
Hotel adjustment resulting from adoption of HK Interpretation 2	–	–	29,464	(42,628)	–	(13,164)	(5,312)	(18,476)
Balance as at 1 January 2004, as restated	<u>1,191,527</u>	<u>3,628,591</u>	<u>9,121,375</u>	<u>5,268,667</u>	<u>178,729</u>	<u>19,388,889</u>	<u>414,297</u>	<u>19,803,186</u>
Deferred tax charged to revaluation reserves	–	–	(6,206)	–	–	(6,206)	–	(6,206)
Fair value loss on non-trading securities	–	–	(5,326)	–	–	(5,326)	–	(5,326)
Exchange differences arising on translation of the accounts of the PRC and overseas subsidiaries and associated companies	–	–	(6,510)	–	–	(6,510)	–	(6,510)
Net loss recognised directly in equity	–	–	(18,042)	–	–	(18,042)	–	(18,042)
Profit for the period	–	–	–	693,839	–	693,839	65,177	759,016
Total recognised (loss)/profit for the six months ended 30 June 2004	<u>–</u>	<u>–</u>	<u>(18,042)</u>	<u>693,839</u>	<u>–</u>	<u>675,797</u>	<u>65,177</u>	<u>740,974</u>
Issue of share capital	3,630	26,487	–	–	–	30,117	–	30,117
Dividends paid	–	–	–	(450)	(178,729)	(179,179)	(1,368)	(180,547)
2004 proposed interim dividend	–	–	–	(239,031)	239,031	–	–	–
Transfer	–	–	80	(80)	–	–	–	–
Share of deferred tax	–	–	–	–	–	–	(7,476)	(7,476)
Purchase of subsidiaries	–	–	–	–	–	–	65,366	65,366
Purchase of additional interest in subsidiaries	–	–	–	–	–	–	(4,618)	(4,618)
Capital injection from minority shareholders	–	–	–	–	–	–	1,941	1,941
Exchange adjustments	–	–	–	–	–	–	(232)	(232)
	<u>3,630</u>	<u>26,487</u>	<u>80</u>	<u>(239,561)</u>	<u>60,302</u>	<u>(149,062)</u>	<u>53,613</u>	<u>(95,449)</u>
Balance as at 30 June 2004	<u>1,195,157</u>	<u>3,655,078</u>	<u>9,103,413</u>	<u>5,722,945</u>	<u>239,031</u>	<u>19,915,624</u>	<u>533,087</u>	<u>20,448,711</u>

	Attributable to shareholders of the Company						Minority interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000		
Balance as at 31 December 2004, as previously reported as equity	1,211,116	3,857,220	10,567,892	6,904,640	484,447	23,025,315	-	23,025,315
Balance as at 31 December 2004, as previously separately reported as minority interests	-	-	-	-	-	-	951,022	951,022
Deferred tax arising from the revaluation of investment properties	-	-	(592,126)	(10,283)	-	(602,409)	-	(602,409)
Depreciation adjustment for land and buildings	-	-	(57,868)	(21,428)	-	(79,296)	-	(79,296)
Hotel adjustment resulting from adoption of HK Interpretation 2	-	-	43,191	(57,817)	-	(14,626)	(5,902)	(20,528)
Balance as at 31 December 2004, as restated	1,211,116	3,857,220	9,961,089	6,815,112	484,447	22,328,984	945,120	23,274,104
Opening adjustment for the adoption of HKAS 39	-	-	(11,244)	(81,881)	-	(93,125)	-	(93,125)
Opening adjustment for the adoption of HKAS 40	-	-	(721,804)	721,804	-	-	-	-
Opening adjustment for the adoption of HKFRS 3	-	-	-	107,954	-	107,954	-	107,954
Balance as at 1 January 2005	1,211,116	3,857,220	9,228,041	7,562,989	484,447	22,343,813	945,120	23,288,933
Deferred tax charged to revaluation reserves	-	-	(1,910)	-	-	(1,910)	-	(1,910)
Fair value gain on available-for-sale investments	-	-	3,418	-	-	3,418	-	3,418
Fair value gain on derivative financial instruments	-	-	9,525	-	-	9,525	-	9,525
Exchange differences arising on translation of the accounts of the PRC and overseas subsidiaries and associated companies	-	-	(17,866)	-	-	(17,866)	-	(17,866)
Net loss recognised directly in equity	-	-	(6,833)	-	-	(6,833)	-	(6,833)
Profit for the period	-	-	-	1,601,559	-	1,601,559	66,688	1,668,247
Total recognised (loss)/profit for the six months ended 30 June 2005	-	-	(6,833)	1,601,559	-	1,594,726	66,688	1,661,414
Issue of share capital	2,170	25,056	-	-	-	27,226	-	27,226
Issue of convertible bonds	-	-	143,501	-	-	143,501	-	143,501
Issue of share options	-	-	10,101	-	-	10,101	-	10,101
Dividends paid	-	-	-	(386)	(484,447)	(484,833)	(80,560)	(565,393)
2005 proposed interim dividend	-	-	-	(242,657)	242,657	-	-	-
Transfer	-	-	822	(822)	-	-	-	-
Share of deferred tax	-	-	-	-	-	-	(770)	(770)
Purchase of subsidiaries	-	-	-	-	-	-	3,399	3,399
Purchase of additional interest in subsidiaries	-	-	-	-	-	-	(67,217)	(67,217)
Capital injection from minority shareholders	-	-	-	-	-	-	12,565	12,565
Exchange adjustments	-	-	-	-	-	-	(6,445)	(6,445)
	2,170	25,056	154,424	(243,865)	(241,790)	(304,005)	(139,028)	(443,033)
Balance as at 30 June 2005	1,213,286	3,882,276	9,375,632	8,920,683	242,657	23,634,534	872,780	24,507,314

NOTES TO THE ACCOUNTS

1. Basis of preparation and accounting policies

These unaudited condensed consolidated interim accounts are prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants and 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 accounts should be read in conjunction with the 2004 annual financial statements. The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new/revised Hong Kong Financial Reporting Standards ("HKFRSs") and Hong Kong Accounting Standards ("HKASs") which are effective for accounting periods commencing on or after 1 January 2005.

2. Changes in accounting policies

In 2005, the Group adopted the new/revised HKFRSs and HKASs which are relevant to its operations. The application of the new/revised HKFRSs and HKASs has resulted in a change in the presentation of the profit and loss account, balance sheet and statement of changes in equity. In particular, the presentation of minority interests and the Group's share of taxation attributable to associated companies have been changed. The 2004 comparatives have been amended as required in accordance with the relevant requirements. The major changes in the Group's accounting policies are detailed below.

(i) *Investment properties*

The adoption of the revised HKAS 40 "Investment Property" has resulted in a change in the accounting policy of which the changes in fair values are recorded in the profit and loss account.

In prior years, the changes in fair value were dealt with in the investment properties revaluation reserve. If the total of this reserve was insufficient to cover a deficit on revaluation on a portfolio basis, the excess of the deficit was charged to the profit and loss account. Any subsequent revaluation surplus was credited to the profit and loss account to the extent of the deficit previously charged.

In accordance with the transitional provisions of HKAS 40, the amount held in investment properties revaluation reserve as at 1 January 2005 has been reclassified to the Group's retained profits.

(ii) *Deferred taxation*

The adoption of the revised HKAS-Int 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets" of the Hong Kong (SIC) Interpretations has resulted in a change in the accounting policy relating to the measurement of deferred taxation arising from the revaluation of investment properties. Such deferred taxation is measured on the basis of tax consequences that would follow from recovery of the carrying amount of that asset through use and is calculated at the profits tax rate.

In prior years, the carrying amount of the asset was expected to be recovered through sale. No provision for deferred taxation on revaluation of investment properties in Hong Kong was made as the deferred taxation was calculated at the tax rate applicable on eventual sale, which in Hong Kong is nil.

In the absence of any transitional provisions for HKAS-Int 21, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

(iii) *Leasehold land and land use rights*

The adoption of the revised HKAS 17 "Leases" has resulted in a change in the accounting policy relating to the reclassification of land and land use rights held under operating leases from property, plant and equipment to leasehold land and land use rights.

The up-front prepayments made for the leasehold land and land use rights are expensed in the profit and loss account on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the profit and loss account.

In prior years, the leasehold land was accounted for at fair value less accumulated depreciation and accumulated impairment.

In the absence of any transitional provisions for HKAS 17, this change in accounting policy has been applied retrospectively. Comparative figures for 2004 have been restated.

(iv) *Hotel property*

The adoption of HK Interpretation 2 "The Appropriate Policies for Hotel Properties" has resulted in a change in the accounting policy of which an owner-operated hotel property would be accounted for as property, plant and equipment. The depreciable amount of the hotel building would be depreciated over its remaining useful economic life and the carrying amount of the leasehold land would be amortised over the remaining term of the lease.

In prior years, the Group's hotel property was accounted for as an investment property. No depreciation or amortization was required.

The application of HK Interpretation 2 constitutes a change in accounting policy. This change has been applied retrospectively. Comparative figures for 2004 have been restated.

(v) *Financial instruments*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" results in a change in accounting policy for recognition, measurement and disclosure of financial instruments.

Prior to 1 January 2005, derivatives of the Group were not recorded on the balance sheet based on the then prevailing accounting standards. From 1 January 2005 onwards, all derivatives that are within the scope of HKAS 39 are required to be carried at fair value at each balance sheet date. Depending on the type of hedging relationship, subsequent changes in the fair value of derivatives and hedged items are to be charged to the profit and loss account or directly transferred to hedging reserve.

The Group has also reclassified its long-term investments as available-for-sale investments, and its trading securities as listed securities at fair value through profit or loss on 1 January 2005. The changes in fair values for available-for-sale investments are recognised in equity. Loans and receivables are measured at amortised cost using the effective interest method.

NOTES TO THE ACCOUNTS (continued)

2. Changes in accounting policies (continued)

(vi) *Goodwill*

The adoption of HKFRS 3 "Business Combinations", HKAS 36 "Impairment of Assets" and HKAS 38 "Intangible Assets" results in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill was amortised using the straight line method over its estimated useful life of not more than twenty years and was assessed for impairment whenever there was an indication of impairment.

In accordance with HKFRS 3, the Group ceased to amortise goodwill with effect from 1 January 2005. The accumulated amortisation as at 31 December 2004 had been eliminated with a corresponding decrease in the cost of goodwill. The carrying amount of negative goodwill on 1 January 2005 was de-recognized with a corresponding adjustment to the opening balance of retained earnings. Commencing from the year ending 31 December 2005, goodwill is tested annually for impairment and when there are occasions indicating the requirement for impairment.

(vii) *Share-based payment*

The adoption of HKFRS 2 "Share-based Payment" has resulted in a change in the accounting policy for share-based payments. Until 31 December 2004, the provision of share options to directors and employees did not result in an expense in the profit and loss account.

In accordance with HKFRS 2, the fair value of share options at grant date are amortised over the relevant vesting periods to the profit and loss account. Based on the transitional provision in HKFRS 2, this also applies to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. The Group did not have such share options.

- (viii) The effect of the changes in the accounting policies on the profits for the six months ended 30 June 2005 and 30 June 2004 is as follows:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Gain arising from fair value change of investment properties held by:		
– subsidiaries	803,121	–
– associated companies	1,000	–
	804,121	–
Increase in deferred tax liabilities in relation to fair value gain of investment properties held by:		
– subsidiaries	(43,212)	–
– associated companies	(175)	–
	(43,387)	–
Gain arising from fair value change of interest rate swap contracts	74,025	–
Increase in depreciation arising from reclassification of hotel properties from investment properties to property, plant and equipment	(10,897)	(10,743)
Decrease in deferred tax charged to profit and loss account as a result of reclassification of hotel properties from investment properties to property, plant and equipment	–	4,479
Increase in depreciation arising from splitting of leasehold land and buildings	(956)	(956)
Decrease in amortisation of goodwill	2,684	–
Increase in expenses in relation to share option scheme	(10,101)	–
Increase in finance costs of convertible bonds	(5,040)	–
	810,449	(7,220)
Increase/(decrease) in profit for the period		
Attributable to:		
Company's shareholders	813,582	(4,131)
Minority interests	(3,133)	(3,089)
	810,449	(7,220)
Analysis of the increase/(decrease) in profits for the six months ended 30 June 2005 and 30 June 2004 by line items:		
Change in fair value of investment properties	803,121	–
Increase in share of results of associated companies	825	–
(Increase)/Decrease in taxation	(43,212)	4,479
Decrease in finance costs	68,985	–
(Increase) in direct operating expenses	(11,853)	(11,699)
(Increase) in administrative expenses	(7,417)	–
	810,449	(7,220)

NOTES TO THE ACCOUNTS (continued)

2. Changes in accounting policies (continued)

(ix) The effects of the abovementioned changes in the accounting standards are summarized below:

Effect on net profit attributable to shareholders for the six months ended 30 June 2004:

	<i>HK\$'000</i>
As previously stated in the 2004 interim report	697,970
Adoption of HK Interpretation 2	(3,175)
Adoption of HKAS 17	(956)
	<hr/>
Restated net profit attributable to shareholders	<u>693,839</u>

Effect on net assets attributable to shareholders as at 31 December 2004 and 1 January 2005:

	<i>HK\$'000</i>
As previously stated in the 2004 annual report (as at 31 December 2004)	23,025,315
Adoption of HK Interpretation 2	(14,626)
Adoption of HKAS 17	(79,296)
Adoption of HKAS-Int 21	(602,409)
	<hr/>
Restated net assets attributable to shareholders as at 31 December 2004	22,328,984
Opening adjustment due to adoption of HKAS 39	(93,125)
Opening adjustment due to adoption of HKFRS 3	107,954
	<hr/>
Net assets attributable to shareholders as at 1 January 2005	<u>22,343,813</u>

3. Critical accounting estimates and judgements

Estimates and judgements used in preparing the financial statements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant effect on the carrying amounts of assets and liabilities include those related to investment properties, impairment of assets and income taxes.

4. Principal activities and segmental analysis of operations

An analysis of the Group's turnover and contribution to operating profit for the six months ended 30 June 2005 (with comparative figures for the corresponding six months ended 30 June 2004) by principal activities and markets is as follows:

	Turnover		Operating profit	
	Six months ended 30 June 2005	2004	Six months ended 30 June 2005	2004
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Principal activities:				
Property rental				
– People's Republic of China ("PRC")	265,128	242,895	190,657	180,604
– Hong Kong	170,215	149,943	64,232	54,737
	435,343	392,838	254,889	235,341
Property sales				
– PRC	69,239	422,449	12,871	79,762
– Hong Kong	335,430	590,845	196,142	141,987
	404,669	1,013,294	209,013	221,749
Hotel operations	151,333	124,274	57,920	40,719
Logistics and warehouse operations				
– warehouse	198,503	200,769	108,812	107,326
– logistics	2,635,274	880,195	95,317	49,315
	2,833,777	1,080,964	204,129	156,641
Infrastructure	–	–	(869)	(236)
Project, property management and others	20,471	20,479	58,070	28,446
	3,845,593	2,631,849	783,152	682,660
Change in fair value of investment properties	–	–	803,121	–
	3,845,593	2,631,849	1,586,273	682,660
Principal markets:				
PRC	2,107,163	870,637	302,431	305,654
Hong Kong	1,137,535	1,233,558	1,255,021	359,460
United Kingdom	335,700	330,120	4,836	6,812
Others	265,195	197,534	23,985	10,734
	3,845,593	2,631,849	1,586,273	682,660

NOTES TO THE ACCOUNTS (continued)

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

An analysis of the Group's revenue and results for the six months ended 30 June 2005 (with comparative figures for the corresponding six months ended 30 June 2004) by business segments is as follows:

	Six months ended 30 June 2005							Consolidated
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	
REVENUE								
Turnover	485,700	505,645	-	2,833,777	-	20,471	-	3,845,593
Inter-segment revenue	218	-	-	-	-	15,487	(15,705)	-
Inter-segment interest income	-	-	-	-	-	101,896	(101,896)	-
	<u>485,918</u>	<u>505,645</u>	<u>-</u>	<u>2,833,777</u>	<u>-</u>	<u>137,854</u>	<u>(117,601)</u>	<u>3,845,593</u>
RESULTS								
Segment results before change in fair value of investment properties	275,924	311,609	(1,249)	232,254	(869)	72,021	(101,896)	787,794
Change in fair value of investment properties	-	323,561	-	479,560	-	-	-	803,121
Segment results	275,924	635,170	(1,249)	711,814	(869)	72,021	(101,896)	1,590,915
Dividend income	-	4,672	4,587	-	-	-	-	9,259
Interest income	3,518	7,921	-	1,599	2,439	15,849	-	31,326
Interest expenses	(17,994)	(63,828)	-	(29,724)	(2,439)	(33,138)	101,896	(45,227)
Operating profit/(loss)	261,448	583,935	3,338	683,689	(869)	54,732	-	1,586,273
Share of results of associated companies	6,733	131,890	8,680	110,908	18,315	-	-	276,526
Profit before taxation	268,181	715,825	12,018	794,597	17,446	54,732	-	1,862,799
Taxation	(83,271)	(69,518)	-	(41,357)	-	(406)	-	(194,552)
Profit for the period	<u>184,910</u>	<u>646,307</u>	<u>12,018</u>	<u>753,240</u>	<u>17,446</u>	<u>54,326</u>	<u>-</u>	<u>1,668,247</u>
Profit attributable to:								
Company's shareholders	136,951	645,096	12,018	735,669	17,497	54,328	-	1,601,559
Minority interests	47,959	1,211	-	17,571	(51)	(2)	-	66,688
	<u>184,910</u>	<u>646,307</u>	<u>12,018</u>	<u>753,240</u>	<u>17,446</u>	<u>54,326</u>	<u>-</u>	<u>1,668,247</u>

Six months ended 30 June 2004 (Restated)

HK\$'000

	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	789,618	740,788	-	1,080,964	-	20,479	-	2,631,849
Inter-segment revenue	225	-	-	-	-	107,022	(107,247)	-
Inter-segment interest income	-	-	-	-	-	138,296	(138,296)	-
	<u>789,843</u>	<u>740,788</u>	<u>-</u>	<u>1,080,964</u>	<u>-</u>	<u>265,797</u>	<u>(245,543)</u>	<u>2,631,849</u>
RESULTS								
Segment results	317,091	253,525	(4,465)	178,176	(236)	121,661	(138,296)	727,456
Dividend income	-	892	3,033	-	-	-	-	3,925
Interest income	2,958	4,527	-	458	2,255	2,723	-	12,921
Interest expenses	(18,964)	(62,220)	-	(21,993)	(2,255)	(94,506)	138,296	(61,642)
Operating profit/(loss)	301,085	196,724	(1,432)	156,641	(236)	29,878	-	682,660
Share of results of associated companies	5,534	86,177	12,017	77,705	13,938	-	-	195,371
Profit before taxation	306,619	282,901	10,585	234,346	13,702	29,878	-	878,031
Taxation	(66,867)	(29,419)	-	(22,293)	1	(437)	-	(119,015)
Profit for the period	<u>239,752</u>	<u>253,482</u>	<u>10,585</u>	<u>212,053</u>	<u>13,703</u>	<u>29,441</u>	<u>-</u>	<u>759,016</u>
Profit attributable to:								
Company's shareholders	188,819	247,452	10,585	203,838	13,703	29,442	-	693,839
Minority interests	50,933	6,030	-	8,215	-	(1)	-	65,177
	<u>239,752</u>	<u>253,482</u>	<u>10,585</u>	<u>212,053</u>	<u>13,703</u>	<u>29,441</u>	<u>-</u>	<u>759,016</u>

NOTES TO THE ACCOUNTS (continued)

5. Operating profit

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Operating profit is stated after crediting/charging the following:		
<i>Crediting</i>		
Dividend income from listed and unlisted investments	9,259	3,925
Interest income	31,326	12,921
Gain/(loss) on sale of properties		
– Investment properties	11,871	(3,381)
– Properties under development and completed properties for sale	225,436	269,184
	237,307	265,803
Amortisation of negative goodwill	–	2,270
<i>Charging</i>		
Depreciation and amortisation	71,648	50,412
Amortisation of goodwill	–	1,637
Finance costs		
Total finance costs incurred	138,437	111,194
Less: amount capitalised in properties under development	(19,185)	(49,552)
	119,252	61,642
Fair value (gain) on interest rate swap contracts	(74,025)	–
Total finance costs expensed during the period	45,227	61,642

6. Taxation

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	(55,536)	(49,962)
(Under)/overprovision in prior years	(217)	1,380
Deferred	(32,568)	(18,536)
	(88,321)	(67,118)
Hong Kong profits tax		
Current	(57,343)	(43,038)
Overprovision in prior years	15,876	2,032
Deferred	(56,836)	(7,879)
	(98,303)	(48,885)
Overseas taxation		
Current	(7,928)	(3,899)
Deferred	-	887
	(7,928)	(3,012)
	(194,552)	(119,015)

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the period ended 30 June 2005. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the period ended 30 June 2005 at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

As referred to in note 2 to the accounts, the Group's share of taxation attributable to associated companies for the six months ended 30 June 2005 of HK\$33,306,000 (2004: HK\$28,870,000) are reclassified in the profit and loss account and are included as share of results of associated companies.

NOTES TO THE ACCOUNTS (continued)

7. Earnings per share

Basic

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

	Six months ended 30 June	
	2005	2004
Weighted average number of shares in issue	<u>1,212,029,672</u>	<u>1,194,366,901</u>

Including change in fair value of investment properties after deferred taxation:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>1,601,559</u>	<u>693,839</u>
Basic earnings per share	<u>HK132.14 cents</u>	<u>HK58.09 cents</u>

Excluding change in fair value of investment properties after deferred taxation:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>840,825</u>	<u>693,839</u>
Basic earnings per share	<u>HK69.37 cents</u>	<u>HK58.09 cents</u>

Diluted

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

	Six months ended 30 June	
	2005	2004
Weighted average number of shares in issue	<u>1,212,029,672</u>	1,194,366,901
Adjustment for convertible bonds	<u>44,701,252</u>	–
Adjustment for share options	<u>6,385,826</u>	<u>3,850,583</u>
Weighted average number of shares for calculation of diluted earnings per share	<u>1,263,116,750</u>	<u>1,198,217,484</u>

Including change in fair value of investment properties after deferred taxation:

	<i>HK\$'000</i>	<i>HK\$'000</i>
Profit attributable to shareholders	<u>1,601,559</u>	<u>693,839</u>
Finance cost on convertible bonds	<u>27,205</u>	<u>–</u>
Profit used to determine diluted earnings per share	<u>1,628,764</u>	<u>693,839</u>
Diluted earnings per share	<u>HK128.95 cents</u>	<u>HK57.91 cents</u>

Excluding change in fair value of investment properties after deferred taxation:

	Six months ended 30 June	
	2005	2004
	HK\$'000	HK\$'000
Profit attributable to shareholders	840,825	693,839
Finance cost on convertible bonds	27,205	–
	<hr/>	<hr/>
Profit used to determine diluted earnings per share	868,030	693,839
	<hr/>	<hr/>
Diluted earnings per share	HK68.72 cents	HK57.91 cents
	<hr/>	<hr/>

Basic and diluted earnings per share would have been HK65.01 cents (2004: HK58.44 cents) and HK64.14 cents (2004: HK58.25 cents) respectively, had the effect of all the changes in the accounting policies as referred to in note 2 (viii) to the accounts been excluded in the calculation.

8. 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 2005 is as follows:

	As at	As at
	30 June	31 December
	2005	2004
	HK\$'000	HK\$'000
Below 1 month	551,108	579,505
Between 1 month and 3 months	294,972	317,642
Over 3 months	116,915	75,661
	<hr/>	<hr/>
	962,995	972,808
	<hr/>	<hr/>

9. 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 2005 is as follows:

	As at	As at
	30 June	31 December
	2005	2004
	HK\$'000	HK\$'000
Below 1 month	296,961	304,995
Between 1 month and 3 months	83,553	114,710
Over 3 months	97,168	107,150
	<hr/>	<hr/>
	477,682	526,855
	<hr/>	<hr/>

NOTES TO THE ACCOUNTS (continued)

10. Bank loans

	As at 30 June 2005 HK\$'000	As at 31 December 2004 HK\$'000
Bank loans – unsecured	5,703,139	5,747,132
Bank loans – secured	353,072	409,678
Total bank loans (note (i))	6,056,211	6,156,810
Less: Short-term bank loans and current portion of long-term bank loans	(988,791)	(680,428)
	<u>5,067,420</u>	<u>5,476,382</u>

(i) As at 30 June 2005, the Group's bank loans were repayable as follows:

	As at 30 June 2005 HK\$'000	As at 31 December 2004 HK\$'000
Within one year	988,791	680,428
In the second to fifth year		
In the second year	4,430,741	764,259
In the third year	352,659	4,136,551
In the fourth year	279,320	362,987
In the fifth year	4,700	212,585
	<u>5,067,420</u>	<u>5,476,382</u>
	<u>6,056,211</u>	<u>6,156,810</u>

11. Convertible bonds

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued an aggregate principal amount of HK\$2,500,000,000 zero-coupon guaranteed convertible bonds which are due in April 2010. The bonds are convertible into ordinary shares of HK\$1 each in the Company.

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

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

The convertible bonds recognized in the balance sheet is calculated as follows:

	As at 30 June 2005 HK\$'000	As at 31 December 2004 HK\$'000
Face value of the convertible bonds issued on 8 April 2005	2,500,000	–
Equity component	(145,250)	–
	<hr/>	<hr/>
Liability component upon initial recognition on 8 April 2005	2,354,750	–
Direct issue costs attributable to liability component	(28,356)	–
	<hr/>	<hr/>
	2,326,394	–
Imputed finance cost during the period from 8 April 2005 to 30 June 2005	27,205	–
	<hr/>	<hr/>
Liability component as at 30 June 2005	<u>2,353,599</u>	<u>–</u>

12. Contingent liabilities

(i) *Guarantees for banking and other facilities*

	As at 30 June 2005 HK\$'000	As at 31 December 2004 HK\$'000
Guarantees for banking and other facilities of certain associated companies, investee companies and the set-up office of a project undertaken by the Group (note (a))	376,536	493,493
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note (b))	60,005	382,234
	<hr/>	<hr/>
	<u>436,541</u>	<u>875,727</u>

NOTES TO THE ACCOUNTS (continued)

12. Contingent liabilities (continued)

(i) Guarantees for banking and other facilities (continued)

- (a) The Group has executed guarantees for banking and other facilities granted to certain associated companies, investee companies and the set-up office of a project undertaken by the Group. 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 2005, amounted to approximately HK\$376,536,000 (31 December 2004: HK\$493,493,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2005 amounted to approximately HK\$543,612,000 (31 December 2004: HK\$676,047,000).
- (b) 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 2005, amounted to approximately HK\$60,005,000 (31 December 2004: HK\$382,234,000). The total amount of such facilities covered by the Group's guarantees as at 30 June 2005 amounted to approximately HK\$353,162,000 (31 December 2004: HK\$903,110,000).

(ii) Other guarantees

Kerry EAS Logistics Limited ("KEAS"), formerly known as EAS International Transportation Ltd., of which the Group had completed the acquisition of 70% interest on 12 January 2005, has provided guarantees for bank loans granted to third parties as at 31 December 2004 amounting to RMB78.7 million. Such guarantees were provided by KEAS before its acquisition by the Group. During the period, KEAS paid RMB65.7 million to the banks to settle part of the loans. The recovery of the remaining loans guaranteed by KEAS of RMB13 million (equivalent to HK\$12.5 million) and the above settlement of RMB65.7 million are covered by an undertaking by the vendor of KEAS to indemnify the Group in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising from guarantees granted by KEAS before the acquisition.

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2004.

13. Pledge of assets

As at 30 June 2005, the Group's total bank loans of HK\$6,056,211,000 (31 December 2004: HK\$6,156,810,000) included an aggregate amount of HK\$5,703,139,000 (31 December 2004: HK\$5,747,132,000) which is unsecured and an aggregate amount of HK\$353,072,000 (31 December 2004: HK\$409,678,000) which is secured by the following:

- (i) legal charges over certain properties and port facilities of the Group with an aggregate net book value of HK\$1,759,086,000 (31 December 2004: HK\$1,770,721,000);
- (ii) charges on all assets, including bank balances amounting to HK\$59,394,000 (31 December 2004: HK\$73,636,000), of certain subsidiaries of the Group; and
- (iii) assignments of insurance proceeds of certain properties of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

(A) Overall Results

The Group continued to demonstrate a strong financial performance during the first six months of 2005. Turnover of the Group for the six months ended 30 June 2005 was HK\$3,846 million, which registered an increase of 46% when compared with the turnover of HK\$2,632 million for the corresponding six months ended 30 June 2004. The Group's turnover mainly comprises proceeds from the continuing sales of properties, rental income as well as revenue from hotel operations, warehouse operations and logistics services. For the first six months of 2005, the increase in turnover was attributable to the growth in rental income, the improved performance of Beijing Kerry Centre Hotel and the revenue contribution from KEAS, which is a company acquired by Kerry Logistics Network Limited ("Kerry Logistics", being a wholly-owned subsidiary of the Company) and in which Kerry Logistics has a 70% beneficial interest since 12 January 2005.

Due to the adoption of the new Hong Kong accounting standard on accounting for investment properties, the Group conducted an internal assessment of the fair value of its investment property portfolio as at 30 June 2005, which has been duly reviewed and endorsed by an independent professional valuer. The increase in fair value of the Group's investment properties, net of deferred taxation, in the aggregate amount of HK\$761 million were recognized in the Company's consolidated profit and loss account for the six months ended 30 June 2005 (2004: Nil).

The effect on the Group's profit attributable to shareholders due to the accounting for the increase in fair value of the Group's investment properties is as follows:

	Six months ended 30 June		Increase
	2005 <i>HK\$ million</i>	2004 <i>HK\$ million</i>	
Profit attributable to the Company's shareholders	1,602	694	131%
Less: Net increase in fair value of investment properties	<u>761</u>	<u>–</u>	
Profit attributable to the Company's shareholders before taking into account the net increase in fair value of investment properties	<u><u>841</u></u>	<u><u>694</u></u>	21%

Excluding the effect of the net increase in fair value of the Group's investment properties during the six months ended 30 June 2005, the 21% year-on-year increase in the profit attributable to shareholders during the first six months of 2005 is mainly attributable to the Hong Kong Property Division and the Logistics Network Division, which generated a year-on-year increase of 45% and 28%, respectively.

(B) PRC Property Division

During the six months ended 30 June 2005, the PRC Property Division reported turnover of HK\$486 million (2004: HK\$789 million) and a net profit attributable to the Group of HK\$137 million (2004: HK\$189 million).

In March 2005, the State Council announced eight directives (“Directives”) to all provincial and municipal governments in the PRC which addressed the policy to control an overheated property market in the PRC. This was endorsed by certain regulations (“Regulations”) promulgated by seven government bureaus and agencies of the State Council in April 2005. As a result, the activity of property transactions in the principal cities of the PRC have generally slackened during the second quarter of 2005.

(i) Investment Properties

During the first six months of 2005, rental income and operating profit generated from the Group’s investment properties in the PRC amounted to HK\$265 million and HK\$191 million, respectively (2004: HK\$243 million and HK\$181 million, respectively).

As at 30 June 2005, the Group has an investment property portfolio in the PRC measuring an aggregate gross floor area (“GFA”) of 3,348,340 square feet which are located in Beijing, Shanghai, Shenzhen and Fuzhou. Set out below is the distribution of the Group’s investment properties in the PRC:

	Beijing (square feet)	Shanghai (square feet)	Shenzhen (square feet)	Fuzhou (square feet)	Total GFA (square feet)
Residential	277,330	148,688	–	–	426,018
Office	814,665	632,259	153,630	–	1,600,554
Commercial	184,998	400,707	107,256	56,830	749,791
Carparks & Others	194,698	235,075	142,204	–	571,977
Total GFA	<u>1,471,691</u>	<u>1,416,729</u>	<u>403,090</u>	<u>56,830</u>	<u>3,348,340</u>

As at 30 June 2005, the occupancy rates of the Group’s investment property portfolio of office, commercial and residential properties in the PRC were 97%, 97% and 80%, respectively (as at 31 December 2004: 97%, 97% and 72%, respectively). The occupancy rates of the Group’s major investment properties in the PRC as at 30 June 2005 were as follows:

Property	Occupancy rate as at 30 June 2005	Occupancy rate as at 31 December 2004
Beijing Kerry Centre	92%	89%
Shanghai Kerry Centre	94%	89%
Shenzhen Kerry Centre	97%	96%
Kerry Everbright City Phase I	98%	98%

(ii) Sales of Completed Properties

Sales of completed properties in the PRC continued during the first six months of 2005, contributing turnover and operating profit of HK\$69 million and HK\$13 million, respectively (2004: HK\$422 million and HK\$80 million, respectively). The aforementioned year-on-year decreases in turnover and operating profit from sales of completed properties are attributable to the slackened activity of property transactions in the principal cities of the PRC, as a result of the Directives and the Regulations which became effective in March and April 2005, respectively. Sales of the remaining units of Central Residences, Fuzhou and Arcadia Court, Shenzhen continued during the first six months of 2005.

Set out below is a summary of the properties sold in the PRC as at 30 June 2005:

Project	Location	Usage	Group's Interest	Percentage GFA	Percentage
				sold as at 30 June 2005	GFA remaining as at 30 June 2005
Arcadia Court	Shenzhen	Residential	100%	98%	2%
Shenzhen Regency Park Phase III B	Shenzhen	Residential	100%	69%	31%
Central Residences	Fuzhou	Residential	100%	98%	2%
Central Residences Phase I	Shanghai	Residential	100%	99.8%	0.2%

(iii) Properties under Development

In May 2004, the Group and Shangri-La Asia Limited ("SA") together announced the joint development of a mixed-use property development project in Jingan District, Shanghai. With a maximum investment amount of US\$700 million, this project comprises the development of residential properties, serviced apartments, office and retail properties and a five-star hotel over an aggregate GFA of approximately 2.6 million square feet. However, due to policy changes promulgated by the State Council at the beginning of 2005 regarding the disposition of state-owned assets in the PRC, the Group reached an agreement with SA regarding an extension of the deadline for the execution of the underlying contracts to 31 December 2005 (or such later date as the Group and SA may agree).

Development of the 642,000 square-foot Central Residences Phase II, a high-end residential property project located in Changning District, Shanghai, is scheduled for completion in the fourth quarter of 2005. Furthermore, development continues with the 1,603,000 square-foot Kerry Everbright City Phase II project in Zhabei District, Shanghai, which comprises office, residential and commercial properties and is scheduled for completion in phases during 2007 and 2008.

In Beijing, discussions with the Beijing Municipal Government over the planning of the Shibidian resettlement project in Chaoyang District remains in progress.

Development of the 807,000 square-foot grade-A office complex in Shenzhen's Futian Central District, and an office property measuring 77,000 square feet in Beihai, Guangxi Province, are in their planning stages and are scheduled for completion in the fourth quarter of 2007 and the fourth quarter of 2006, respectively.

It is the Group's strategy to complement its prominent presence and successful track record in Beijing, Shanghai and Shenzhen by exploring property development opportunities in other strategic locations, such as the major secondary cities in the PRC. With the active commercial and economic developments in the major secondary cities in the PRC, an affluent consumer class with strong demand for high quality properties has emerged offering market potentials for the Group.

(B) PRC Property Division (continued)

(iv) Beijing Kerry Centre Hotel

During the first six months of 2005, turnover and operating profit generated from Beijing Kerry Centre Hotel amounted to HK\$152 million and HK\$58 million, respectively (2004: HK\$124 million and HK\$41 million, respectively). During the six months ended 30 June 2005, Beijing Kerry Centre Hotel achieved an average occupancy rate of 80% (2004: 77%).

(C) Hong Kong Property Division

During the six months ended 30 June 2005, the Hong Kong Property Division reported turnover of HK\$506 million (2004: HK\$741 million) and a net profit attributable to the Group of HK\$645 million (2004: HK\$247 million) after taking into account the increase in fair value of investment properties (net of deferred taxation) of HK\$286 million (2004: Nil).

During the first six months of 2005, rental rates and occupancies for the Group's investment properties in Hong Kong demonstrated a steady performance, and the Group also benefited from healthy profit margin contributions from sales of completed properties during the period under review.

(i) Investment Properties

During the first six months of 2005, rental income and operating profit generated from the Group's investment properties in Hong Kong amounted to HK\$170 million and HK\$388 million after taking into account the increase in fair value of investment properties (before deferred taxation) of HK\$324 million, respectively (2004: HK\$150 million and HK\$55 million, respectively).

As at 30 June 2005, the Group has the following investment property portfolio in Hong Kong measuring an aggregate GFA of 1,904,930 square feet:

	Total GFA <i>(square feet)</i>
Residential	1,167,865
Commercial	391,594
Office	<u>345,471</u>
Total GFA	<u><u>1,904,930</u></u>

As at 30 June 2005, the occupancy rates of the Group's investment property portfolio of residential, commercial and office properties were 96%, 91% and 99%, respectively (as at 31 December 2004: 97%, 89% and 93%, respectively).

The KERRY RESIDENCE™ elite neighbourhood concept has developed further with the introduction of more local and regional lifestyle privileges which are tailored exclusively for tenants of the Group's luxury residential property portfolio.

(ii) Sales of Completed Properties

Sales of completed properties in Hong Kong continued during the first six months of 2005, contributing turnover and operating profit of HK\$336 million and HK\$196 million, respectively (2004: HK\$591 million and HK\$142 million, respectively). During the six months ended 30 June 2005, the Division derived its turnover and operating profit from the continued sales of property units at Constellation Cove and Enterprise Square Three, and the completion in January 2005 of the sale of a unit at Branksome Crest.

During the same six month period, the Group derived its share of profits of HK\$132 million from the continued sales and leasing of property units at The Cliveden, Olympian City and Residence Oasis, being completed properties held for sale and leasing by associated companies of the Group.

Set out below is a summary of the properties sold in Hong Kong as at 30 June 2005:

Project	Location	Usage	Group's Interest	Percentage GFA	Percentage GFA
				sold as at 30 June 2005	remaining as at 30 June 2005
Constellation Cove	Tai Po, New Territories	Residential	75%	97%	3%
The Cliveden	Tsuen Wan, New Territories	Residential	50%	98%	2%
Island Harbourview at Olympian City	MTR Olympic Station, Kowloon	Residential	20%	99.8%	0.2%
Park Avenue at Olympian City	MTR Olympic Station, Kowloon	Residential	32.5%	99%	1%
Central Park at Olympian City	MTR Olympic Station, Kowloon	Residential	32.5%	99%	1%
Residence Oasis	MTR Hang Hau Station, Tseung Kwan O	Residential	40%	99.7%	0.3%
Enterprise Square Three	Kowloon Bay, Kowloon	Office	100%	65%	35%

(iii) Properties under Development

Currently under development is Enterprise Square Five, a grade-A office and commercial complex in Kowloon Bay which measures an aggregate GFA of 1.6 million square feet. The Enterprise Square Five development project comprises a 1 million square-foot retail portion, to be named as "MegaBox", and a 600,000 square-foot office space. With the main contract for the superstructure awarded and construction work having commenced, completion of the retail portion and the office spaces are scheduled for the first quarter of 2007 and the second quarter of 2007, respectively. The completion of Enterprise Square Five will add further value to the Group's existing portfolio of high-quality office and commercial properties in the Kowloon Bay area.

The Group's luxury residential development, 15 Ho Man Tin Hill Road in Kowloon, is scheduled for completion in the first quarter of 2006. This project will add another 155,000 square feet of GFA to the Group's premium residential sales property portfolio in Hong Kong.

With the land premium agreed for the residential development project in Kwok Shui Road, Tsuen Wan, this 395,000 square-foot development is scheduled for completion by the first quarter of 2008.

The land premium in respect of the Ap Lei Chau residential development project has been agreed. The development is scheduled for completion by the first quarter of 2008. This project, in which the Group has a 35% interest, will generate an additional GFA of approximately 320,000 square feet for the Group upon completion.

(C) Hong Kong Property Division (continued)

(iv) Major Acquisitions and Developments

Hong Kong

As at 30 June 2005, the Group held the existing property units at No. 5 and No. 9 Yuk Yat Street in Tokwawan, Kowloon for development purpose. Approval for demolition of the properties located at No. 5 and No. 9 Yuk Yat Street is scheduled for the end of 2005 and redevelopment works are expected to commence in 2006. This project is scheduled for completion by the first quarter of 2008.

In July 2005, the Group acquired a residential development site near the Central Mid-Levels at the junction of Shelley Street and Mosque Junction. With a plot ratio of about 10 times, this site has an aggregate GFA measuring 47,000 square feet and will be developed into a residential tower with commercial facilities.

Also in July 2005, the Urban Renewal Authority awarded the Group with a joint development contract in respect of a site located at First Street/Second Street in Sai Ying Pun, Hong Kong which, upon completion, is expected to deliver an aggregate GFA of approximately 425,000 square feet for residential and commercial uses.

The proposed First Street/Second Street development is strategically located at the Western District of Hong Kong Island, which has a rich heritage and vibrantly embraces educational, social and commercial activities of the community. The First Street/Second Street development project is the Group's first major foothold in the Western District of Hong Kong Island.

Macau

Negotiation with the Macau SAR Government on land acquisition has made progress. The conceptual design for the development has been discussed with the Macau SAR Government, and it is expected that approval will be granted to the Group towards the end of 2005.

The project in Macau will fall in line with the Macau SAR Government's objective to provide low to medium-density and high quality living environment in Macau. The project will also further demonstrate the Group's aspiration to provide premium quality residences and the necessary infrastructure and facilities in the building of elite neighbourhoods in selected locations.

With Macau's growing economy and its progressive integration with the Pearl River Delta Region through infrastructure and economic policies, the Group remains optimistic in the future of the property market in Macau.

(D) Overseas Property Division

The Group's overseas property investments in Australia and the Philippines continued to generate stable earnings to the Group. The Division contributed a net profit after tax of HK\$12 million to the Group during the six months ended 30 June 2005 (2004: HK\$11 million).

(i) Australia

Sales of the Group's 25%-owned Jacksons Landing, a 12-hectare mixed-use residential and commercial development located at the Pyrmont Peninsula in Sydney, continued during the first six months of 2005. As at 30 June 2005, 842 units were sold which represents 82% of a total of 1,021 units which were released for sale. The Group recorded an attributable share of net profit after tax of HK\$1 million (2004: HK\$6 million) from this project.

(ii) The Philippines

The Group's investments in the Philippines are held through its 73.88% aggregate direct and indirect interests in EDSA Properties Holdings Inc. ("EPHI"), a company listed on the Manila Stock Exchange and which owns a 78.72% interest in the Shangri-La Plaza Mall, Manila and indirect interests in The Enterprise Centre, an office and commercial property in Manila.

In August 2005, EPHI reported an interim net profit attributable to shareholders of Peso 139 million for the six months ended 30 June 2005 (2004: Peso 138 million). The Group recorded profits of approximately HK\$11 million (2004: HK\$5 million) from its investments in EPHI during the six months ended 30 June 2005.

As at 30 June 2005, the Shangri-La Plaza Mall achieved an occupancy rate of 96% (as at 31 December 2004: 98%) and The Enterprise Centre achieved an occupancy rate of 91% (as at 31 December 2004: 87%). The Shang Grand Tower in Manila, in which EPHI has a 68% interest, is scheduled for completion by the end of 2005 and approximately 80% of the GFA of this project were sold as at 30 June 2005. Development of The St. Francis Towers project, which comprises two 60-storey residential towers with a total of approximately 1,200 units, commenced in January 2005 with completion scheduled for the end of 2008.

(E) Logistics Network Division

The Logistics Network Division recorded turnover of HK\$2,834 million for the six months ended 30 June 2005 (2004: HK\$1,081 million). The year-on-year increase in turnover by approximately 162% is attributable to the turnover contribution from KEAS, a 70%-owned subsidiary of Kerry Logistics. Net profit attributable to the Group from the Division during the six months ended 30 June 2005 amounted to HK\$736 million (2004: HK\$204 million) after taking into account the increase in fair value (net of deferred taxation) of HK\$475 million (2004: Nil) on warehouse properties held by the Group as investment properties.

(i) Logistics Operations

During the first six months of 2005, the Division's logistics operations generated turnover of HK\$2,635 million (2004: HK\$880 million) and an operating profit of HK\$95 million (2004: HK\$49 million). A total of 56,105 tons of cargo were handled by air and 180,684 TEUs by sea during the first six months of 2005, which represents a growth of 352% and 325%, respectively, when compared with the corresponding first six months of 2004.

(E) Logistics Network Division (continued)

(i) Logistics Operations (continued)

The Division successfully extended its logistics capabilities and operations network to cover all provinces of the PRC through the acquisition of a 70% interest in KEAS, which was completed in January 2005. As at 30 June 2005, the Division has logistics operations in 15 countries worldwide with approximately 5,300 staff.

Hong Kong

Kerry Logistics continues to be one of the leading logistics services providers in Hong Kong, with a customer focus on electronics, healthcare, components, technology, fashion, retailing, chemicals, industrial products, food and beverages and luxury brands. KerryFlex Supply Chain Solutions Limited ("KerryFlex"), the trading arm of the Division, has demonstrated significant growth in its trading and wholesaling businesses during the first six months of 2005. KerryFlex is now the sole distributor for several major brands in Hong Kong and Macau, including Welch's, a major account awarded during the first six months of 2005.

The Division further expanded its exhibition logistics business during the first six months of 2005. A logistics contract was awarded by the Hong Kong Trade Development Council to Kerry Logistics involving the centralisation and consolidation of exhibits moving out from the Hong Kong Convention and Exhibition Centre ("HKCEC"). This exercise has reduced traffic volumes during busy periods in the neighbourhood of the HKCEC by as much as 50%.

Meanwhile, the Division also gradually enhances its communication and coordination with its operations in the PRC, in order to provide quality and "one-stop-shop" services to its customers with pan-China needs. During the first six months of 2005, the Division secured a number of accounts by offering them a "one-stop-shop" solution in both Hong Kong and Shanghai, covering freight forwarding, logistics and distribution services.

China Focus

The first six months of 2005 saw a breakthrough in the Division's operations in the PRC. The acquisition of KEAS, which celebrated its 20th anniversary in June 2005, endows the Division with a leading nationwide logistics operation network serving over 1,100 cities from over 120 offices, covering all provinces of the PRC and most market segments with the full range of supply chain services and logistics infrastructure.

KEAS, which markets its business in the PRC under the "Kerry EAS" brandname, continues to provide high-quality logistics services and solutions to customers in three major services: (i) freight forwarding; (ii) express parcel delivery; and (iii) contract logistics and warehousing. In January 2005, the Division commenced a restructuring exercise which is designed to realize the synergies between Kerry Logistics and KEAS, and to leverage on the strengths and competitive advantages of their respective businesses. The first phase of this restructuring exercise, which involves the integration of KEAS's operations with the Division's existing operations in Hong Kong and the PRC, has now been completed. The second phase of the restructuring exercise involves the re-engineering of KEAS's internal control processes and management systems, the tightening of KEAS's credit control, a deeper streamlining of KEAS's operating structure as well as the integration of KEAS's network with Kerry Logistics' other overseas businesses and agency networks. The second phase has already commenced and is now under way, and is expected to be completed by the end of 2006.

The Division currently operates a fleet of over 1,000 trucks and a logistics centre portfolio of over 2 million square feet in the PRC. The latest additions to the Division's portfolio of logistics centres in the PRC are the 170,000 square-foot logistics centre in Tianjin's Free Trade Zone and the 269,000 square-foot logistics centre in Shenzhen's Futian Free Trade Zone, which are scheduled for completion by the third quarter of 2005 and the second quarter of 2006, respectively. Furthermore, the Division plans to build a logistics centre in Pujiang, Shanghai. This 200,000 square-foot logistics centre will provide warehousing, distribution and related value-added services to customers in the Shanghai area outside the free trade zone.

Asia Based

The Division also continuously expanded its logistics operations across Southeast Asia during the first six months of 2005.

In Thailand, the Division completed its construction of a 790,000 square-foot Inland Container Depot ("ICD") in Siam Seaport and the Division obtained the official operating licence in July 2005. The ICD will commence operations in the second half of 2005. Meanwhile, a further port expansion project in Siam Seaport is underway and is scheduled for completion in early 2007. With the completion of two more berths, the expanded Kerry Siam Seaport facility will be adequately equipped to load and discharge both bulk carriers and container vessels. Looking ahead, in view of the rapidly growing Thai economy and the continuous infrastructure improvements in Thailand, the Division will continue to explore opportunities for further expansion in Thailand including the construction of a nationwide distribution network.

During the first six months of 2005, the Division also restructured its freight forwarding operations in Malaysia by integrating with the KEAS operation in the country. The Division currently operates at five locations in Malaysia, namely, Kuala Lumpur International Airport, Johor Bahru, Penang, Petaling Jaya and Port Klang.

The Division currently operates a fleet of over 80 trucks in Malaysia and Thailand.

Global Network

During the first six months of 2005, the Division continued to strengthen its international network and multinational presence through acquisitions, business restructuring, hardware investments and the appointment of reputable and proactive agents in selected countries worldwide.

In April 2005, Kerry Logistics (UK) Limited ("KLUK"), a 91%-owned subsidiary of Kerry Logistics, acquired Marsvale Limited ("Marsvale") which is a company based in the United Kingdom and is engaged in the documentation storage business. Integration of Marsvale's business operations with KLUK's existing warehousing and logistics operations is under progress. Marsvale was subsequently renamed as Kerry Records Management Limited.

Following the Division's market presence in the United Kingdom, the Division's European operations were successfully extended to Spain during the first six months of 2005. This enables the Division to further strengthen its overseas network in logistics and freight forwarding operations, and enables Kerry Logistics to compete with other major logistics and freight forwarding operators worldwide.

(E) Logistics Network Division (continued)

(i) Logistics Operations (continued)

Global Network (continued)

Meanwhile, the Division is in the process of restructuring its sales and marketing network in the United States of America (the "US"). During the first six months of 2005, the Division has confirmed its co-operation with Lynden International ("Lynden"), a US-based company with more than 45 offices in the US, Canada, Mexico and Puerto Rico. Under the agency agreement signed between Kerry Logistics and Lynden in June 2005, both parties would co-operate with each other to develop the trans-Pacific sea and air freight forwarding businesses as well as other associated logistics activities. Furthermore, in Australia, the Division plans to construct a 75,000 square-foot logistics centre for storing wines, food products and other general cargoes. Going forward, the Division plans to explore the Middle East and South American markets as an effort to develop a global presence in the freight forwarding industry.

(ii) Hong Kong Warehouses and Distribution Centres

The Division continues to be the single largest warehouse owner and operator in Hong Kong, with a portfolio of 13 warehouses occupying an aggregate GFA of 6.74 million square feet. Through continuous service innovation and quality maintenance both in terms of service level as well as warehouse environment, the Division achieved an occupancy level of 96% for its entire warehouse portfolio in Hong Kong as at 30 June 2005 (2004: 95%).

During the six months ended 30 June 2005, the Division's Hong Kong warehouse portfolio generated turnover of HK\$199 million (2004: HK\$201 million) and an operating profit of HK\$588 million (2004: HK\$107 million) after taking into account the increase in fair value (before deferred taxation) of HK\$479 million (2004: Nil) on warehouse properties held by the Group as investment properties. With the gradual improvement in the general cargo warehousing market in Hong Kong, the Division expects a continuing moderate growth in its Hong Kong warehousing operation for the second half of 2005, especially with the renewal of the existing tenancies of the Hong Kong warehouse portfolio.

(iii) Information Technology

To cope with rapid expansion, the Division continues to invest in information technology. Development of the Division's third-generation '**Kerrier**' system is progressing satisfactorily in line with the Division's technology road-map. An embryonic software development centre was established in the southern part of the PRC to facilitate the increasing demand for research and development. The Division also continues to deploy new technologies to its business operations, such as the pilot run of the first Radio Frequency Identification ("RFID") project in early 2005 and other various wireless initiatives with the aim to better equip the management and staff of Kerry Logistics in advancing service levels and efficiency. Internally, the '**KerrierConnections**' intranet portal, which is scheduled to be rolled-out in autumn 2005, will enable the Division's worldwide employees to operate in a seamless collaboration environment.

(iv) Prospects

Going forward, in order to strengthen and consolidate the competitive advantages of Kerry Logistics in the markets in which it operates, the Division will continue to capitalise on the fast-expanding trade between the PRC and the rest of the world. Driven by the opening up of the PRC's logistics market to foreign ownership by the end of 2005 and by improving efficiencies in the PRC's logistics infrastructure, it is expected that the logistics market in the PRC will experience rapid changes and increasing competition in the coming years. This would in turn create both opportunities and challenges for foreign logistics services providers, including Kerry Logistics. Accordingly, the Division will continue to focus on its core activities in the PRC through KEAS, and to develop its information technology system and operational expertise in order to cope with the increasing challenges of the logistics markets both in the PRC and elsewhere in the world.

(F) Infrastructure Division

The Division invests in various infrastructure projects in Hong Kong and the PRC with a view to securing a steady stream of recurrent income for the Group. Net profit attributable to the Group from this Division during the six months ended 30 June 2005 amounted to approximately HK\$17 million (2004: HK\$14 million).

Hong Kong

In Hong Kong, the Group has a 15% interest in the Western Harbour Crossing and a 15% interest in the Cross Harbour Tunnel management contract. The Group's share of net profit from these investments amounted to HK\$18 million during the six months ended 30 June 2005 (2004: HK\$14 million).

The PRC

In the PRC, the Group plans to participate in energy recovery and environmental protection utilities projects as the industry opens up in response to the country's growing concerns about health and quality of life. On 28 February 2005, the Standing Committee of the National People's Congress endorsed the Renewable Energy Law. The new law also sets the platform for an extensive development of renewable energy projects, particularly for commercial uses and facilities. Taking into account the market environment and capitalizing on the benefits of new policy incentives, the Division will focus on three areas of infrastructure projects: water treatment, sewage treatment and municipal solid-waste treatment (including waste-to-energy facilities).

In December 2004, the Group announced its investment in a water treatment project in Hohhot Municipality in the PRC's Inner Mongolia Autonomous Region. The Group and Chemquest (Overseas) Limited ("Chemquest"), a Kuok Group company with strong and proven background of operating environmental engineering projects across Asia, entered into a 50/50 joint venture in the establishment of Kerry CQ JV Environmental Engineering Limited which is engaged in the investment in a project in relation to the ownership, operation and maintenance of certain water treatment facilities in Hohhot Municipality. The maximum total commitment by Kerry CQ JV Environmental Engineering Limited in this project is RMB143 million (equivalent to approximately HK\$138 million), of which the Group's share is RMB71.5 million (equivalent to approximately HK\$69 million). Since the project has not yet commenced commercial operation, the Group has not derived any share of profit from this project during the first six months of 2005.

(F) Infrastructure Division (continued)

The PRC (continued)

In February 2005, the Group tendered for a greenfield project to build and operate the first solid waste management facilities in Changzhou, Jiangsu Province. The Group and Chemquest entered into a 51/49 joint venture in the establishment of Kerry CQ Waste Incineration Limited, which in turn has a 45% interest in a project company with the remaining 55% interest being held by Golden State Holding Group Corporation and Beijing Golden State Engineering Co., Ltd. as project partners. The project will be undertaken by the project company on a build-operate-transfer (“BOT”) basis, which comprises the building and operation of one of the most advanced incinerator systems in the PRC. By means of imported technology, the incinerator system in Changzhou will comply with all current emission standards of the PRC and will significantly reduce the city’s landfill burden, whilst the output will take the form of electricity for sale to the local power grid. The maximum contribution to be made by the Group and Chemquest in this project is RMB164 million (equivalent to approximately HK\$158 million), of which the Group’s share is approximately RMB84 million (equivalent to approximately HK\$80 million).

With regard to the Group’s proposed participation in a joint venture power plant project in Yugan County, Jiangxi Province which was previously announced by the Group in October 2004, the Group entered into a termination agreement on 28 June 2005 which ceased the establishment of the joint venture company. The decision came after the Group’s re-evaluation of the investment and risk profiles of the proposed power plant project, in view of the higher fuel prices and increasing production cost of electricity output as a result of which the financial returns to the Group would be lower than originally anticipated.

(G) Financial Review

The Group has centralized funding for all its operations at the Group level where foreign exchange exposure is also reviewed and monitored. This policy also achieves better control of treasury operations and lower average cost of funds.

Foreign exchange exposure for the Group is small relative to its total asset base. As at 30 June 2005, total foreign currency borrowings (excluding Renminbi (RMB) borrowings) amounted to the equivalence of HK\$745 million and RMB loans amounted to the equivalence of HK\$202 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 9% and 2% of the Group’s total borrowings of HK\$8,410 million as at 30 June 2005. Out of the Group’s total borrowings as at 30 June 2005, HK\$989 million (representing approximately 12%) was repayable within one year and HK\$4,431 million (representing approximately 53%) and HK\$2,990 million (representing approximately 35%) were repayable within two years and between three to five years, respectively. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 96% of total borrowings as at 30 June 2005. 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. The Group will also continue its policy of maintaining a prudent gearing ratio, which stood at 15% as at 30 June 2005.

The majority of the Group’s borrowings bear interest costs which are based on floating interest rates. As at 30 June 2005, the Group had outstanding interest rate swap contracts which totally amounted to HK\$2.26 billion.

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate principal amount of HK\$2,500,000,000 (the "Convertible Bonds"). The Convertible Bonds are zero coupon-based, have a maturity term of 5 years and are convertible into the Company's ordinary shares at a conversion price of HK\$25.955 per share (subject to adjustments). The Directors consider that in view of the Company's existing capital structure, the issue of the Convertible Bonds provides a flexible and cost-efficient funding opportunity which is in the best interest of the Group. Upon conversion of the Convertible Bonds, the capital base of the Company will be enlarged and strengthened which will benefit the Group's future growth and developments. The net proceeds from the issue of the Convertible Bonds are intended for the Group's general corporate purposes. On 8 April 2005, Standard & Poor's awarded the Convertible Bonds with a "BBB-" credit rating.

Therefore, in terms of the Group's available financial resources as at 30 June 2005, the Group had total undrawn bank loan and overdraft facilities of HK\$7,148 million, net proceeds arising from the issuance of the Convertible Bonds of HK\$2,470 million and net cash on hand of HK\$2,506 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operation, and logistics, freight forwarding and warehousing businesses provide the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

The Directors consider that the Group's property investments in the PRC would benefit from the recent upward valuation of the RMB by 2%, which was announced by the People's Bank of China in July 2005. Furthermore, the upward revaluation of the RMB has a negligible impact on the Group's RMB loans, which only represent a small proportion relative to the Group's total borrowings.

On 27 June 2005, Standard and Poor's reaffirmed a "BBB-" credit rating for Kerry Properties Limited with a stable outlook.

(H) Investor Relations

The Group actively participates in meetings and conferences to maintain regular communications with financial analysts, fund managers and the investor community. Set out below are the investors' conferences in which the Group had participated during the six months ended 30 June 2005:

Date	Event	Organiser	Venue
January 2005	Asian Company Conference	ABN Amro	London/Boston/ New York
March 2005	Asian Investment Conference	Credit Suisse First Boston	Hong Kong

(I) Directors and Staff

As at 30 June 2005, the executive Directors of the Company comprised Messrs Ang Keng Lam (Chairman), Wong Siu Kong (Deputy Chairman and Managing Director), Ho Shut Kan and Ma Wing Kai, William, and the independent non-executive Directors of the Company comprised Messrs William Winship Flanz, Lau Ling Fai, Herald and Christopher Roger Moss o.B.E.. On 1 September 2005, Mr Tse Kai Chi was appointed as a non-executive Director of the Company.

As at 30 June 2005, the Company and its subsidiaries had altogether 7,408 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidized educational and training programs as well as a share option scheme.

Share Option Scheme

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group to optimize their future contributions, and to enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions. On 17 March 2005, a total of 8,540,000 option shares were granted under the 2002 Share Option Scheme.

As at 30 June 2005, options to subscribe for a total of 28,238,491 option shares were still outstanding which comprised 19,698,491 options shares and 8,540,000 option shares granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

(J) Outlook

PRC Property Division

The Directives and the Regulations will have the effect of stabilizing the PRC's property market. A gradual equilibrium in the supply and demand of land, and an improvement in the transparency level of land and property transactions, are expected to arise which offer a healthy development of the PRC's real estate sector in the long run.

In the PRC, the Group places strategic focus on Shanghai and Beijing where the Group is able to capitalize on its proven track record and successful history in the development of high-end quality properties. Meanwhile, the Group will explore development opportunities in high-end premium properties in certain cities which have demonstrated active economic growth, where an affluent consumer class with strong demand for high quality properties has emerged and which offer market potentials for the Group. The continuing development of the PRC economy will further bolster the prospects of the property market in the PRC.

Hong Kong Property Division

As the property market in Hong Kong continues to revive on the back of a stronger economy and improved household incomes, the Group remains cautiously optimistic as to the pent-up demand for quality developments in the office and residential sectors. Although the local interest rates in Hong Kong had risen following the regulatory measures taken in May 2005 by the Hong Kong Monetary Authority regarding the exchange rate peg between the Hong Kong dollar and the US dollar, this has cleared the uncertainties over the issue of the interest rate disparity for the benefit of local property buyers in the long term. Therefore, the Group will continue to identify property projects with favourable development potentials in Hong Kong in order to sustain the Group's future growth. In addition, there is plenty of room for the development of the Group's KERRY RESIDENCE™ elite neighbourhood concept which will further enhance and add value to the Group's luxury residential property portfolio.

Logistics Network Division

KEAS was a breakthrough development in expanding the Division's logistics capabilities and operating network in the PRC. The ongoing challenge is to optimize the synergy between Kerry Logistics and KEAS through rationalising and streamlining their respective operations and networks, and to capitalise on their respective strengths and competitive advantages. The successful restructuring of KEAS will generate a properly aligned operation for Kerry Logistics, which will therefore place the Division at a stronger and more competitive position for its future growth and development.

Infrastructure Division

The Division will continue to study and, where appropriate, pursue investment opportunities in other commercially viable infrastructure projects which are capable of generating attractive financial returns to the Group.

Overall

Property, logistics and infrastructure will continue to be the Group's core business activities and are poised for future growth and development. The Group will continue to maintain a well-balanced portfolio of assets and earnings base which is attuned to market environment and development. The Group will also continue to monitor its recurrent income base and financial performances with a view to maximize returns to the Company's shareholders.

CORPORATE GOVERNANCE

Compliance with the provisions of the Code on Corporate Governance Practices under Appendix 14 of the Listing Rules

During the six months ended 30 June 2005, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules, except for certain deviations as follows:

1. There is no separation between the roles of chairman and chief executive officer. After due consideration, the Board proposed not to comply with this Code Provision for reason that each executive Director of the Company is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The Company's Chairman also ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. In addition, the Company's Independent Non-executive Directors bring along strong independence element to the Board's deliberation.

Accordingly, the Board operates in a functional manner with clearly defined objectives, strategies and responsibilities. Therefore, the Board is of the view that the separate appointment of chairman and chief executive officer for the Company is not necessary.

2. The existing terms of reference of the Remuneration Committee are currently being reviewed and revised to accommodate for the requirements of Appendix 14 of the Listing Rules, where appropriate. The revised terms of reference of the Remuneration Committee will then be made available in the Company's website.
3. Appointment letters will be executed between the Company and each Non-executive Director for a period of three years from the date of his last appointment/re-appointment/re-election.

During the six months ended 30 June 2005, the Company has also performed the following in furtherance to those corporate governance principles and practices as set out in the "Corporate Governance Report" section of the Company's 2004 Annual Report:

1. The Board reviewed the terms of reference of the Audit Committee and have made relevant amendments to accommodate for certain Code Provisions of Appendix 14 of the Listing Rules. The existing terms of reference of the Audit Committee are available in the Company's website, www.kerryprops.com.
2. At the Annual General Meeting of the Company held on 26 April 2005, amendments to the Company's bye-laws were approved by the Company's shareholders pursuant to which every Director shall retire from office no later than the third annual general meeting of the Company after he was last elected or re-elected (i.e. the term of appointment of each Director is effectively three years).
3. Written guidelines were established on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules. Such written guidelines will be issued to the relevant employees and officers of the members of the Group when occasion warrants.

Audit Committee

The Audit Committee has reviewed the financial statements of the Group for the six months ended 30 June 2005 prior to recommending them to the Board for approval. In reviewing these financial statements, the Audit Committee has discussed with the external auditors regarding the accounting policies adopted and, in particular, the impact of the new HKASs and HKFRSs on the financial statements of the Group for the six months ended 30 June 2005.

Remuneration Committee

During the six months ended 30 June 2005, the Remuneration Committee has reviewed the remuneration package of the executive Directors for the year ending 31 December 2005 prior to recommending them to the Board for approval. The Remuneration Committee has recommended to the Board to approve the salaries, housing allowances and pension contributions of the executive Directors of the Company for the year ending 31 December 2005, the payment of bonuses amounting to HK\$15,815,000 to the executive Directors of the Company as at 31 December 2004 and the grant of 4,600,000 share options to the executive Directors of the Company under the 2002 Share Option Scheme.

SHARE OPTIONS

Movements of the option shares, which were granted under the 1997 Share Option Scheme, during the six months ended 30 June 2005 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period (Note 1)	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2005	Exercise price HK\$	Exercise period
1. Directors												
Mr ANG Keng Lam	11/04/1997	N/A	1,759,380	-	-	-	-	-	-	1,759,380	14.92	11/04/1999-26/03/2007
	27/11/1999	I	428,630	-	-	-	-	-	-	428,630	9.64	27/05/2000-26/03/2007
	27/11/1999	II	428,629	-	-	-	-	-	-	428,629	9.64	27/05/2001-26/03/2007
										857,259		
	01/06/2000	I	350,000	-	-	-	-	-	-	350,000	6.70	01/06/2001-31/05/2010
	01/06/2000	II	350,000	-	-	-	-	-	-	350,000	6.70	01/06/2002-31/05/2010
	01/06/2000	III	348,743	-	-	-	-	-	-	348,743	6.70	01/06/2003-31/05/2010
										1,048,743		
	16/04/2002	I	518,248	-	-	-	-	-	-	518,248	6.85	16/04/2003-15/04/2012
	16/04/2002	II	518,247	-	-	-	-	-	-	518,247	6.85	16/04/2004-15/04/2012
									1,036,495			
									4,701,877			
Mr WONG Siu Kong	11/04/1997	N/A	1,172,919	-	-	-	-	-	-	1,172,919	14.92	11/04/1999-26/03/2007
	27/11/1999	I	214,314	-	-	-	-	-	-	214,314	9.64	27/05/2000-26/03/2007
	27/11/1999	II	214,314	-	-	-	-	-	-	214,314	9.64	27/05/2001-26/03/2007
										428,628		
	16/04/2002	I	-	-	-	-	-	-	-	-	6.85	16/04/2003-15/04/2012
	16/04/2002	II	518,247	-	-	-	-	-	-	518,247	6.85	16/04/2004-15/04/2012
									518,247			
									2,119,794			

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period (Note 1)	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2005	Exercise price HK\$	Exercise period	
1. Directors (continued)													
Mr HO Shut Kan	11/04/1997	N/A	821,044	-	-	-	-	-	-	821,044	14.92	11/04/1999-26/03/2007	
	02/03/2001	I	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2002-01/03/2011	
	02/03/2001	II	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2003-01/03/2011	
	02/03/2001	III	33,520	-	-	-	-	-	-	33,520	11.59	02/03/2004-01/03/2011	
										105,520			
	16/04/2002	I	-	-	-	-	-	-	-	-	6.85	16/04/2003-15/04/2012	
	16/04/2002	II	77,736	-	-	-	-	(77,736)	-	-	6.85	16/04/2004-15/04/2012	
										-			
										926,564			
Mr MA Wing Kai, William	11/04/1997	N/A	234,582	-	-	-	-	-	-	234,582	14.92	11/04/1999-26/03/2007	
	27/11/1999	I	133,946	-	-	-	-	-	-	133,946	9.64	27/05/2000-26/03/2007	
	27/11/1999	II	133,945	-	-	-	-	-	-	133,945	9.64	27/05/2001-26/03/2007	
										267,891			
	01/06/2000	I	-	-	-	-	-	-	-	-	6.70	01/06/2001-31/05/2010	
	01/06/2000	II	119,585	-	-	-	-	(119,585)	-	-	6.70	01/06/2002-31/05/2010	
	01/06/2000	III	135,055	-	-	-	-	(135,055)	-	-	6.70	01/06/2003-31/05/2010	
										-			
	02/03/2001	I	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2002-01/03/2011	
	02/03/2001	II	36,000	-	-	-	-	-	-	36,000	11.59	02/03/2003-01/03/2011	
02/03/2001	III	33,520	-	-	-	-	-	-	33,520	11.59	02/03/2004-01/03/2011		
									105,520				
16/04/2002	I	62,189	-	-	-	-	-	-	62,189	6.85	16/04/2003-15/04/2012		
16/04/2002	II	62,189	-	-	-	-	-	-	62,189	6.85	16/04/2004-15/04/2012		
									124,378				
									732,371				

SHARE OPTIONS (continued)

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period (Note 1)	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2005	Exercise price HK\$	Exercise period
2. Continuous Contract Employees	11/04/1997	N/A	2,963,696	-	-	-	-	(301,202)	-	2,662,494	14.92	11/04/1999-26/03/2007
	27/11/1999	I	604,194	-	-	-	-	(76,480)	-	527,714	9.64	27/05/2000-26/03/2007
	27/11/1999	II	652,854	-	-	-	-	(56,480)	-	596,374	9.64	27/05/2001-26/03/2007
										1,124,088		
	01/06/2000	I	133,000	-	-	-	-	(11,000)	-	122,000	6.70	01/06/2001-31/05/2010
	01/06/2000	II	175,564	-	-	-	-	(11,000)	-	164,564	6.70	01/06/2002-31/05/2010
	01/06/2000	III	196,248	-	-	-	-	(10,101)	-	186,147	6.70	01/06/2003-31/05/2010
										472,711		
	02/03/2001	I	234,000	-	-	-	-	(64,000)	-	170,000	11.59	02/03/2002-01/03/2011
	02/03/2001	II	234,000	-	-	-	-	(64,000)	-	170,000	11.59	02/03/2003-01/03/2011
	02/03/2001	III	198,884	-	-	-	-	(53,497)	-	145,387	11.59	02/03/2004-01/03/2011
										485,387		
	16/04/2002	I	332,125	-	-	-	-	(28,502)	-	303,623	6.85	16/04/2003-15/04/2012
	16/04/2002	II	332,124	-	-	-	-	(28,502)	-	303,622	6.85	16/04/2004-15/04/2012
										607,245		
										5,351,925		
3. Others	11/04/1997	N/A	3,753,341	-	-	-	-	-	-	3,753,341	14.92	11/04/1999-26/03/2007
	27/11/1999	I	589,363	-	-	-	-	-	-	589,363	9.64	27/05/2000-26/03/2007
	27/11/1999	II	589,362	-	-	-	-	-	-	589,362	9.64	27/05/2001-26/03/2007
										1,178,725		
	01/06/2000	I	45,000	-	-	-	-	-	-	45,000	6.70	01/06/2001-31/05/2010
	01/06/2000	II	45,000	-	-	-	-	-	-	45,000	6.70	01/06/2002-31/05/2010
	01/06/2000	III	44,088	-	-	-	-	-	-	44,088	6.70	01/06/2003-31/05/2010
										134,088		
	02/03/2001	I	22,000	-	-	-	-	-	-	22,000	11.59	02/03/2002-01/03/2011
	02/03/2001	II	22,000	-	-	-	-	-	-	22,000	11.59	02/03/2003-01/03/2011
	02/03/2001	III	19,311	-	-	-	-	-	-	19,311	11.59	02/03/2004-01/03/2011
										63,311		
	16/04/2002	I	518,248	-	-	-	-	(300,000)	-	218,248	6.85	16/04/2003-15/04/2012
	16/04/2002	II	518,247	-	-	-	-	-	-	518,247	6.85	16/04/2004-15/04/2012
										736,495		
										5,865,960		
Total			21,035,631	-	-	-	-	(1,337,140)	-	19,698,491		

Movements of the option shares, which were granted under the 2002 Share Option Scheme, during the six months ended 30 June 2005 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of option shares held as at 01/01/2005	Transfer from other category during the period	Transfer to other category during the period	Number of option shares granted during the period	Number of option shares granted for adjustment	Number of option shares exercised during the period (Note 1)	Number of option shares lapsed during the period	Number of option shares held as at 30/06/2005	Exercise price HK\$	Exercise period
1. Directors												
Mr ANG Keng Lam	17/03/2005	I	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2006-16/03/2015
	17/03/2005	II	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2007-16/03/2015
										<u>1,500,000</u>		
Mr WONG Siu Kong	17/03/2005	I	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2006-16/03/2015
	17/03/2005	II	-	-	-	750,000	-	-	-	750,000	18.74	17/03/2007-16/03/2015
										<u>1,500,000</u>		
Mr HO Shut Kan	17/03/2005	I	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2006-16/03/2015
	17/03/2005	II	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2007-16/03/2015
										<u>800,000</u>		
Mr MA Wing Kai, William	17/03/2005	I	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2006-16/03/2015
	17/03/2005	II	-	-	-	400,000	-	-	-	400,000	18.74	17/03/2007-16/03/2015
										<u>800,000</u>		
2. Continuous Contract Employees	17/03/2005	I	-	-	-	1,970,000	-	-	-	1,970,000	18.74	17/03/2006-16/03/2015
	17/03/2005	II	-	-	-	1,970,000	-	-	-	1,970,000	18.74	17/03/2007-16/03/2015
										<u>3,940,000</u>		
Total			<u>-</u>	<u>-</u>	<u>-</u>	<u>8,540,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,540,000</u>		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the options were exercised was HK\$17.39.
- No option was cancelled during the period.

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2005, 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 were as follows:

(i) The Company

Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to the total number of ordinary shares in issue *
	Personal interests	Family interests	Corporate interests	Other interests			
Mr ANG Keng Lam	2,621 ¹	-	-	466,386 ²	6,201,877 ³	6,670,884	0.55
Mr WONG Siu Kong	-	-	-	-	3,619,794 ³	3,619,794	0.30
Mr HO Shut Kan	-	-	-	-	1,726,564 ³	1,726,564	0.14
Mr MA Wing Kai, William	7,309 ¹	-	-	-	1,532,371 ³	1,539,680	0.13
Mr William Winship FLANZ	-	-	-	-	-	-	-
Mr LAU Ling Fai, Herald	-	-	-	-	-	-	-
Mr Christopher Roger MOSS, O.B.E.	-	-	-	-	-	-	-

(ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to the total number of ordinary shares in issue %
		Personal interests	Family interests	Corporate interests	Other interests			
EDSA Properties Holdings Inc.	Mr HO Shut Kan	1,570 ¹	-	-	-	-	1,570 [#]	0.00
Kerry Group Limited	Mr ANG Keng Lam	-	7,050,000 ⁴	-	8,000,000 ²	5,566,221 ⁵	20,616,221	1.44 [@]
	Mr WONG Siu Kong	-	-	6,254,300 ⁶	-	4,638,517 ⁵	10,892,817	0.76 [@]
	Mr HO Shut Kan	765,000 ¹	-	-	-	927,703 ⁵	1,692,703	0.12 [@]
	Mr MA Wing Kai, William	1,010,620 ¹	-	-	-	-	1,010,620	0.07 [@]
Kerry Siam Seaport Limited	Mr ANG Keng Lam	1 ¹	-	-	-	-	1	0.00
	Mr MA Wing Kai, William	1 ¹	-	-	-	-	1	0.00

Notes:

1. This represents interests held by the relevant director as beneficial owner.
 2. This represents interests held by the relevant director through a discretionary trust of which the relevant director is a contingent beneficiary.
 3. This represents interests in options held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by the Company under the 1997 and 2002 Share Option Schemes, details of which are set out in the section headed "Share Options" of this report.
 4. This represents interests held by the relevant director's spouse through a discretionary trust of which the relevant director's spouse is a contingent beneficiary.
 5. This represents interests in options held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option shares granted by Kerry Group Limited, details of which are set out in the section headed "Directors' Rights to Acquire Shares or Debentures" below.
 6. This represents interests held by the relevant director through his controlled corporations.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2005 (i.e. 1,213,286,159 ordinary shares).
- # The relevant notification was filed under the repealed Securities (Disclosure of Interests) Ordinance.
- @ The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited in issue as at 30 June 2005 (i.e. 1,429,863,460 ordinary shares).

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

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 2005, none of the Directors had any other interests or short positions in the shares, underlying shares or debentures of the Company or any of its Associated Corporations which had been entered in the register kept by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

(i) The Company

As at 30 June 2005, the number of outstanding option shares granted by the Company under the 1997 and 2002 Share Option Schemes to the Directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code is set out under the section headed "Share Options" of this report.

(ii) Associated Corporations

Pursuant to a share option scheme adopted by Kerry Group Limited ("KGL"), the ultimate holding company of the Company, on 17 November 1999, the directors of KGL granted option shares in favour of the following Directors to subscribe for shares in KGL, with respective exercise price per option share of the unexercised options and the respective number of option shares exercisable adjusted with effect from 26 May 2005, as follows:

Name of Director	Date of grant	Exercise period	Exercise price before adjustment	Exercise price after adjustment	Number of option shares of KGL before adjustment	Reduced number of option	Number of option shares of KGL after adjustment
						shares of KGL granted to the Directors for the adjustment	
Mr ANG Keng Lam	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	6,000,000	433,779	5,566,221
Mr WONG Siu Kong	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	5,000,000	361,483	4,638,517
Mr HO Shut Kan	04/05/2000	04/11/2000-03/05/2007	4.20	4.52	1,000,000	72,297	927,703

Apart from the aforesaid, at no time during the six months ended 30 June 2005 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 30 June 2005, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Percentage of ordinary shares to the total number of ordinary shares in issue *
			%
Kerry Group Limited	Interest of controlled corporations	752,972,645 <i>(Notes 1, 2, 3 & 4)</i>	62.06
Kerry Holdings Limited	Interest of controlled corporations	752,972,645 <i>(Notes 1, 2, 3 & 4)</i>	62.06
Caninco Investments Limited	Beneficial owner	303,891,879 <i>(Note 2)</i>	25.05
Darmex Holdings Limited	Beneficial owner	250,024,187 <i>(Note 2)</i>	20.61
Moslane Limited	Beneficial owner	86,150,350 <i>(Note 2)</i>	7.10
Kerry 1989 (C.I.) Limited	Interest of controlled corporations	81,708,438 <i>(Notes 2 & 3)</i>	6.73
Desert Grove Limited	Beneficial owner	80,877,390 <i>(Note 3)</i>	6.67

Notes:

1. Kerry Properties Limited is a subsidiary of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of Kerry Group Limited ("KGL") and, accordingly, the shares in which KHL is shown to be interested are also included in the shares in which KGL is shown to be interested.
 2. Caninco Investments Limited ("Caninco"), Darmex Holdings Limited ("Darmex"), Moslane Limited ("Moslane") and Kerry 1989 (C.I.) Limited ("Kerry 1989 CI") are wholly-owned subsidiaries of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex, Moslane and Kerry 1989 CI are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
 3. Desert Grove Limited ("Desert") is a wholly-owned subsidiary of Kerry 1989 CI which in turn is a wholly-owned subsidiary of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Desert are shown to be interested are also included in the shares in which Kerry 1989 CI, KHL and KGL are shown to be interested.
 4. The Company has been notified that, as at 30 June 2005, each of KGL and KHL was interested in 753,572,645 ordinary shares of the Company (representing approximately 62.11% of the Company's issued share capital) and this increase in shareholding was not required to be disclosed under Part XV of the SFO.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 30 June 2005 (i.e. 1,213,286,159 ordinary shares).

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

Apart from the aforesaid, as at 30 June 2005, 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.

CONTINUING DISCLOSURE REQUIREMENTS UNDER RULE 13.22 OF THE LISTING RULES

Financial Assistance and Guarantees to Affiliated Companies

As at 30 June 2005, the financial assistance given to, and guarantees given for facilities granted to, affiliated companies (as defined in the Listing Rules) together in aggregate continue to exceed the relevant percentage ratios of 8% under the Listing Rules. In accordance with rule 13.22 of the Listing Rules, the proforma combined balance sheet of and the Group's attributable interest in these affiliated companies as at 30 June 2005 are set out as follows:

	Proforma combined <i>HK\$ million</i>	The Group's attributable interest <i>HK\$ million</i>
Non-current assets	19,332	4,802
Current assets	4,080	1,196
Current liabilities (<i>Note</i>)	(2,469)	(711)
Net current assets	1,611	485
Total assets less current liabilities	20,943	5,287
Non-current liabilities (<i>Note</i>)	(14,731)	(3,748)
Net assets	6,212	1,539

Note:

The liabilities above include borrowings from the Group. As at 30 June 2005, such borrowings amounted to approximately HK\$3,080 million, including an amount of HK\$1,967 million due from Benefit Bright (B.V.I.) Limited which (i) was given for the purpose of financing a joint venture development at the MTR Olympic Station; (ii) up to June 1998 carried interest at prevailing market rates; (iii) was unsecured; and (iv) had no fixed terms of repayment.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board has adopted the Model Code as the Code for Securities Transactions by Directors of the Company (the "Securities Dealing Code"). The Directors have confirmed their compliance with the required standards set out in the Securities Dealing Code during the six months ended 30 June 2005.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from Wednesday, 12 October 2005 to Friday, 14 October 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the interim dividend for the six months ended 30 June 2005, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Abacus Share Registrars Limited of G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 pm on Monday, 10 October 2005. The cheques and certificates for the new shares to be issued pursuant to the 2005 Interim Scrip Dividend Scheme will be distributed on or about Wednesday, 30 November 2005.

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 2005.

By Order of the Board
Ang Keng Lam
Chairman

Hong Kong SAR, 23 September 2005