KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 00683)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2007

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") is pleased to announce the consolidated final results of the Company, its subsidiaries and associated companies (the "Group") for the year ended 31 December 2007. The Audit Committee of the Board has met to review the results and the financial statements of the Group for the year ended 31 December 2007 prior to recommending them to the Board for approval.

OVERALL RESULTS

The Group's consolidated net profit attributable to shareholders for the year ended 31 December 2007 was HK$6,563 million, representing an increase of 40% compared with HK$4,689 million reported for 2006. In accordance with Hong Kong Accounting Standard 40 "Investment Property", the Group measured its investment property portfolio on a fair value basis and recorded an increase in fair values of investment properties (net of deferred taxation) of HK$3,973 million for the year ended 31 December 2007 (2006: HK$1,745 million). Profit attributable to shareholders for the year ended 31 December 2007 before taking into account the effects of the aforementioned increase in fair values is HK$2,590 million (2006: HK$2,944 million after or HK$1,784 million before the profit of HK$1,160 million arising from the Group's disposal of its 10.16% minority interest in Citibank Plaza), representing a decrease of 12% or an increase of 45% over the year respectively with or without the effect of the said disposal.

Earnings per share for the year ended 31 December 2007 were HK$4.95, representing an increase of 29% compared with HK$3.83 per share in 2006.

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

	Year ended 31 December		
	2007	2006	
	HK$ million	HK$ million	Change
Profit attributable to shareholders before taking into account the net increase in fair values of investment properties and related tax effects	**2,590**	2,944	-12%
Add:			
Net increase in fair values of investment properties and related tax effects	**3,973**	1,745	
Profit attributable to shareholders after taking into account the net increase in fair values of investment properties and related tax effects	**6,563**	4,689	40%

The Board has recommended the payment of a final dividend of HK$0.65 per share for the year, with a scrip dividend alternative. Together with the interim dividend of HK$0.30 per share, the total dividend for the year ended 31 December 2007 will be HK$0.95 per share, representing an increase of 11.8% compared with HK$0.85 per share in 2006.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2007 HK$'000	2006 HK$'000
Turnover	2	**12,496,004**	10,193,117
Cost of sales		**(1,356,529)**	(1,716,054)
Direct operating expenses		**(7,404,308)**	(5,685,063)
Gross profit		**3,735,167**	2,792,000
Other income and net gains		**342,340**	144,983
Administrative expenses		**(806,594)**	(647,020)
Increase in fair value of investment properties		**4,493,935**	2,318,701
Dividend income from an available-for-sale investment		**-**	1,357,884
Impairment loss on available-for-sale investments		**-**	(197,941)
Profit arising from the disposal of property interest held by an available-for-sale investment		**-**	1,159,943
Operating profit before finance costs		**7,764,848**	5,768,607
Finance costs		**(300,907)**	(380,663)
Operating profit	2,3	**7,463,941**	5,387,944
Share of results of associated companies		**431,976**	450,917
Profit before taxation		**7,895,917**	5,838,861
Taxation	4	**(1,014,564)**	(889,531)
Profit for the year		**6,881,353**	4,949,330
Profit attributable to :			
Company's shareholders		**6,563,092**	4,688,950
Minority interests		**318,261**	260,380
		6,881,353	4,949,330
Dividends		**1,386,741**	1,053,462
Earnings per share	5		
- Basic		**HK$4.95**	HK$3.83
- Diluted		**HK$4.74**	HK$3.60

CONSOLIDATED BALANCE SHEET

	Note	**31 December 2007 HK$'000**	31 December 2006 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**3,102,485**	2,441,200
Investment properties		**28,324,740**	21,642,166
Leasehold land and land use rights		**402,478**	338,409
Properties under development		**14,138,189**	12,400,243
Land deposits		**3,525,737**	863,940
Associated companies		**5,686,005**	5,992,070
Derivative financial instruments		**18,684**	2,687
Available-for-sale investments		**1,789,752**	1,388,508
Long-term receivables		**36,748**	63,588
Goodwill		**306,149**	266,645
		57,330,967	45,399,456
Current assets			
Properties under development		**5,408,011**	-
Completed properties held for sale		**579,784**	1,188,101
Accounts receivable, prepayments and deposits	6	**2,731,716**	2,734,265
Tax recoverable		**102,248**	125,707
Tax reserve certificates		**21,790**	21,790
Listed securities at fair value through profit or loss		**224,743**	198,318
Pledged bank deposits		**64,234**	47,263
Cash and bank balances		**4,236,714**	2,691,358
		13,369,240	7,006,802
Current liabilities			
Accounts payable, deposits received and accrued charges	7	**4,330,440**	2,557,769
Taxation		**587,346**	302,397
Short-term bank loans and current portion of long-term bank loans	8	**649,555**	803,428
Derivative financial instruments		**32,888**	-
Secured bank overdrafts		**4,624**	-
Unsecured bank overdrafts		**26,204**	6,690
		5,631,057	3,670,284
Net current assets		**7,738,183**	3,336,518
Total assets less current liabilities		**65,069,150**	48,735,974
Non-current liabilities			
Long-term bank loans	8	**6,953,242**	6,351,145
Convertible bonds	9	**2,346,387**	2,536,256
Fixed rate bonds		**3,254,340**	3,243,330
Amounts due to minority shareholders		**2,378,154**	2,336,341
Derivative financial instruments		**63,410**	107,005
Deferred taxation		**3,295,152**	2,704,817
		18,290,685	17,278,894
ASSETS LESS LIABILITIES		**46,778,465**	31,457,080
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		**1,424,278**	1,238,289
Share premium		**11,804,186**	4,315,270
Other reserves		**11,263,616**	9,548,836
Retained profits		**18,592,906**	13,417,641
Proposed final dividend		**925,781**	804,888
		44,010,767	29,324,924
Minority interests		**2,767,698**	2,132,156
TOTAL EQUITY		**46,778,465**	31,457,080

FINANCIAL HIGHLIGHTS

	31 December 2007	31 December 2006
Equity attributable to the Company's shareholders *(HK$ million)*	**44,011**	29,325
Net borrowings (including bonds) *(HK$ million)*	**8,933**	10,202
Net asset value (attributable to the Company's shareholders) per share	**HK$30.90**	HK$23.68
Gearing (Net borrowings / Equity attributable to the Company's shareholders)	**20.3%**	34.8%

NOTES TO THE FINANCIAL STATEMENTS

1. Basis of preparation and accounting policies

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. In addition, these financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accounting policies are consistent with those as described in the Group's financial statements for the year ended 31 December 2006, except that the Group has adopted the following new standard, amendment and interpretations which are relevant to the Group's operations and are mandatory for the financial year ended 31 December 2007:

HKFRS 7	'Financial Instruments: Disclosures'
HKAS 1 (Amendment)	'Presentation of Financial Statements - Capital Disclosures'
HK(IFRIC) – Int 8	'Scope of HKFRS 2'
HK(IFRIC) – Int 9	'Reassessment of Embedded Derivatives'
HK(IFRIC) – Int 10	'Interim Financial Reporting and Impairment'

The adoption of these new standard, amendment and interpretations does not have any significant impact on the results, financial position and accounting policies of the Group. However, the adoption of HKFRS 7 and HKAS 1 (Amendment) requires additional disclosures in the financial statements.

Certain comparative figures have been reclassified to conform with current year's presentation.

2. Principal activities and segmental analysis of operations

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

	Turnover		Operating profit	
	Year ended 31 December		Year ended 31 December	
	2007	2006	**2007**	2006
	HK$'000	HK$'000	**HK$'000**	HK$'000
Principal activities:				
Property rental				
- People's Republic of China ("PRC") Property	**613,909**	578,195	**413,220**	403,004
- Hong Kong Property	**492,370**	384,606	**157,968**	85,622
	1,106,279	962,801	**571,188**	488,626
Property sales				
- PRC Property	**172,535**	73,152	**23,589**	2,589
- Hong Kong Property	**3,010,897**	2,442,890	**1,626,739**	1,913,998
- Logistics and warehouse	**790**	345,000	**350**	179,451
	3,184,222	2,861,042	**1,650,678**	2,096,038
Hotel operations - PRC Property	**400,544**	354,915	**151,920**	124,906
Logistics and warehouse operations				
- warehouse	**440,133**	427,772	**247,996**	208,348
- logistics	**7,241,694**	5,543,018	**239,884**	195,317
	7,681,827	5,970,790	**487,880**	403,665
Infrastructure	**-**	-	**(2,630)**	(10,775)
Project, property management and others	**123,132**	43,569	**110,970**	(33,217)
	12,496,004	10,193,117	**2,970,006**	3,069,243
Increase in fair value of investment properties	**-**	-	**4,493,935**	2,318,701
	12,496,004	10,193,117	**7,463,941**	5,387,944
Principal markets:				
PRC	**4,845,012**	4,033,860	**1,288,152**	1,660,521
Hong Kong	**5,297,436**	4,708,333	**6,173,500**	3,685,689
United Kingdom	**1,091,797**	808,668	**31,330**	36,879
Others	**1,261,759**	642,256	**(29,041)**	4,855
	12,496,004	10,193,117	**7,463,941**	5,387,944

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

An analysis of the Group's revenue and results for the year by business segments is as follows:

	Year ended 31 December 2007 HK$'000							
	PRC Property	**Hong Kong Property**	**Overseas Property**	**Logistics and Warehouse**	**Infrastructure**	**Others**	**Eliminations**	**Consolidated**
REVENUE								
Turnover	1,186,988	3,503,267	-	7,682,617	-	123,132	-	12,496,004
Inter-segment revenue	2,686	-	-	-	-	56,785	(59,471)	-
Inter-segment interest income	-	-	-	-	-	576,831	(576,831)	-
	1,189,674	3,503,267	-	7,682,617	-	756,748	(636,302)	12,496,004
RESULTS								
Segment results before increase in fair value of investment properties	623,892	2,007,711	(17,084)	515,424	(2,474)	552,655	(576,831)	3,103,293
Increase in fair value of investment properties	495,542	3,674,202	-	324,191	-	-	-	4,493,935
Segment results	1,119,434	5,681,913	(17,084)	839,615	(2,474)	552,655	(576,831)	7,597,228
Dividend income	-	31,302	14,360	-	-	-	-	45,662
Interest income	26,705	20,044	10	28,543	3,728	42,928	-	121,958
Interest expenses	(61,868)	(234,546)	-	(55,737)	(3,884)	(521,703)	576,831	(300,907)
Operating profit/(loss)	1,084,271	5,498,713	(2,714)	812,421	(2,630)	73,880	-	7,463,941
Share of results of associated companies	2,820	105,166	61,299	220,978	45,244	(3,531)	-	431,976
Profit before taxation	1,087,091	5,603,879	58,585	1,033,399	42,614	70,349	-	7,895,917
Taxation	52,824	(886,489)	-	(158,502)	-	(22,397)	-	(1,014,564)
Profit for the year	1,139,915	4,717,390	58,585	874,897	42,614	47,952	-	6,881,353
Profit attributable to:								
Company's shareholders	884,804	4,716,769	58,585	812,257	42,734	47,943	-	6,563,092
Minority interests	255,111	621	-	62,640	(120)	9	-	318,261
	1,139,915	4,717,390	58,585	874,897	42,614	47,952	-	6,881,353

	Year ended 31 December 2006 HK$'000							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	1,006,262	2,827,496	-	6,315,790	-	43,569	-	10,193,117
Inter-segment revenue	434	-	-	-	-	53,056	(53,490)	-
Inter-segment interest income	-	-	-	-	-	553,115	(553,115)	-
	1,006,696	2,827,496	-	6,315,790	-	649,740	(606,605)	10,193,117
RESULTS								
Segment results before increase in fair value of investment properties	567,337	1,037,060	(7,660)	635,838	(10,411)	529,490	(553,115)	2,198,539
Increase in fair value of investment properties	1,013,654	710,555	-	594,492	-	-	-	2,318,701
Segment results	1,580,991	1,747,615	(7,660)	1,230,330	(10,411)	529,490	(553,115)	4,517,240
Dividend income	-	1,364,736	8,301	-	-	31	-	1,373,068
Interest income	10,092	20,416	1	13,409	7,039	25,283	-	76,240
Interest expenses	(46,930)	(224,651)	-	(66,131)	(7,403)	(588,663)	553,115	(380,663)
Impairment loss on available-for-sale investments	-	(197,941)	-	-	-	-	-	(197,941)
Operating profit/(loss)	1,544,153	2,710,175	642	1,177,608	(10,775)	(33,859)	-	5,387,944
Share of results of associated companies	36,980	114,912	35,585	223,134	40,306	-	-	450,917
Profit/(loss) before taxation	1,581,133	2,825,087	36,227	1,400,742	29,531	(33,859)	-	5,838,861
Taxation	(560,784)	(142,439)	-	(185,726)	-	(582)	-	(889,531)
Profit/(loss) for the year	1,020,349	2,682,648	36,227	1,215,016	29,531	(34,441)	-	4,949,330
Profit/(loss) attributable to:								
Company's shareholders	807,153	2,675,562	36,227	1,173,036	31,420	(34,448)	-	4,688,950
Minority interests	213,196	7,086	-	41,980	(1,889)	7	-	260,380
	1,020,349	2,682,648	36,227	1,215,016	29,531	(34,441)	-	4,949,330

3. Operating profit

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
Operating profit is stated after crediting/charging the following :		
Crediting		
Dividend income from listed and unlisted investments	**45,662**	1,373,068
Interest income	**121,958**	76,240
Gain on sale of properties	**1,827,693**	1,144,988
Charging		
Depreciation of property, plant and equipment and amortisation of leasehold land and land use right	**187,164**	161,037
Impairment loss on available-for-sale investments	**-**	197,941
Total finance costs incurred	**734,881**	621,060
Less: amount capitalised in properties under development	**(407,411)**	(316,558)
	327,470	304,502
Fair value (gain)/loss on derivative financial instruments	**(26,563)**	76,161
Total finance costs expensed during the year	**300,907**	380,663

4. Taxation

	Year ended 31 December	
	2007	2006
	HK$'000	HK$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	**(197,335)**	(217,922)
(Under)/over provision in prior years	**(3,436)**	734
Deferred - arising from temporary differences	**(182,194)**	(363,613)
Deferred - arising from tax rate changes	**397,599**	-
	14,634	(580,801)
Hong Kong profits tax		
Current	**(342,758)**	(81,769)
Overprovision in prior years	**555**	101
Deferred	**(661,842)**	(205,450)
	(1,004,045)	(287,118)
Overseas taxation		
Current	**(19,668)**	(21,160)
Deferred	**(5,485)**	(452)
	(25,153)	(21,612)
	(1,014,564)	(889,531)

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year. Income tax on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the respective rates of taxation prevailing in the PRC and the overseas countries in which the Group operates.

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

On 16 March 2007, the National People’s Congress approved the Corporate Income Tax Law of the People’s Republic of China (the “new CIT Law”), which is effective from 1 January 2008. Under the new CIT Law, for Group’s PRC subsidiaries originally entitling a tax rate of 15%, the tax rate will gradually increase to 25% over the next five years. For Group’s PRC subsidiaries originally entitling a tax rate of 33%, the tax rate will decrease to 25% effective on 1 January 2008. The carrying amount of deferred taxation as at 31 December 2007 has been adjusted accordingly.

The Group’s share of associated companies’ taxation for the year of HK$61,671,000 (2006: HK$57,881,000) is included in the consolidated income statement under share of results of associated companies.

5. Earnings per share

Basic

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

	Year ended 31 December	
	2007	2006
Weighted average number of ordinary shares in issue	**1,326,495,902**	1,224,938,512
	HK$'000	HK$'000
Profit attributable to shareholders	**6,563,092**	4,688,950
Basic earnings per share	**HK$4.95**	HK$3.83

Diluted

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

	Year ended 31 December	
	2007	2006
Weighted average number of ordinary shares in issue	**1,326,495,902**	1,224,938,512
Adjustment for convertible bonds	**75,670,116**	96,320,554
Adjustment for share options	**6,117,625**	8,708,293
Weighted average number of ordinary shares for calculation of diluted earnings per share	**1,408,283,643**	1,329,967,359
	HK$'000	HK$'000
Profit attributable to shareholders	**6,563,092**	4,688,950
Adjustment for finance cost on convertible bonds	**116,950**	101,608
Profit used to determine diluted earnings per share	**6,680,042**	4,790,558
Diluted earnings per share	**HK$4.74**	HK$3.60

6. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 31 December 2007 is as follows:

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Below 1 month	**1,210,134**	1,636,354
Between 1 month and 3 months	**445,193**	274,310
Over 3 months	**178,410**	191,397
	1,833,737	2,102,061

7. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 31 December 2007 is as follows:

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Below 1 month	**453,120**	404,326
Between 1 month and 3 months	**166,217**	117,889
Over 3 months	**93,240**	91,425
	712,577	613,640

8. Bank loans

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Bank loans - unsecured	**6,954,800**	6,852,888
Bank loans - secured	**647,997**	301,685
Total bank loans (note(i))	**7,602,797**	7,154,573
Less : Short-term bank loans and current portion of long-term bank loans	**(649,555)**	(803,428)
	6,953,242	6,351,145

(i) As at 31 December 2007, the Group's bank loans were repayable as follows:

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Within one year	**649,555**	803,428
In the second to fifth year		
- In the second year	**373,850**	384,535
- In the third year	**506,803**	295,256
- In the fourth year	**5,530,930**	121,761
- In the fifth year	**48,026**	5,075,549
	6,459,609	5,877,101
Wholly repayable within five years	**7,109,164**	6,680,529
Over five years	**493,633**	474,044
	7,602,797	7,154,573

9. Convertible bonds

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

(b) During the year ended 31 December 2007, an aggregate principal amount of HK$2,379,000,000 of convertible bonds issued in 2005 has been converted into an aggregate of 91,658,595 ordinary shares of HK$1 each in the Company, representing approximately 95.2% of the entire amount of the aforementioned convertible bonds of HK$2,500,000,000.

10. Commitments

At 31 December 2007, the Group had capital commitments in respect of interests in leasehold land, properties under development, property, plant and equipment and investment in associated companies, not provided for in these financial statements as follows:

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
Contracted but not provided for	**7,003,344**	4,158,755
Authorised but not contracted for	**59,431**	174,034
	7,062,775	4,332,789

11. Contingent liabilities

(a) Guarantees for banking and other facilities

	As at 31 December 2007 HK$'000	As at 31 December 2006 HK$'000
- Guarantees for banking and other facilities of certain associated companies and investee companies (note (i))	**1,972,866**	1,685,232
- Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC (note(ii))	**96**	445
	1,972,962	1,685,677

(i) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. The utilised amount of such facilities covered by the Group's guarantees, which also represented the financial exposure of the Group as at 31 December 2007, amounted to approximately HK$1,972,866,000 (2006: HK$1,685,232,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2007 amounted to approximately HK$2,657,216,000 (2006: HK$1,714,236,000).

(ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees, which also represented the financial exposure of the Group as at 31 December 2007, amounted to approximately HK$96,000 (2006: HK$445,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2007 amounted to approximately HK$96,000 (2006: HK$445,000).

11. Contingent liabilities (continued)

(b) Other guarantees and undertaking

(i) Pursuant to two deeds of guarantee in relation to the development of two sites in the Olympic Mass Transit Railway Station Development, the Company, among with others, agreed to provide several guarantees in favour of the MTR Corporation Limited in relation to certain obligations of two companies which the Group had interests of 20% and 32.5% respectively. On 21 December 2007, all the relevant parties entered into a further supplemental deed with MTR Corporation Limited whereby the several guarantee obligations of the Company were released.

(ii) The Company entered into a support agreement dated 2 July 2002 (the "Support Agreement"), in relation to the sale of certain mortgage loans to the Hong Kong Mortgage Corporation (the "HKMC") by a company (the "Seller") in which the Group had 38.2% interest and, amongst with others, undertook to HKMC in respect of certain obligations of the Seller. On 21 December 2007, the Support Agreement was terminated with mutual agreement of all relevant parties.

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2006.

12. Pledge of assets

As at 31 December 2007, the Group's total bank loans and overdrafts of HK$7,633,625,000 (2006: HK$7,161,263,000) included an aggregate amount of HK$6,981,004,000 (2006: HK$6,859,578,000) which is unsecured and an aggregate amount of HK$652,621,000 (2006: HK$301,685,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

(i) legal charges over certain properties and port facilities of the Group with an aggregate net book value of HK$942,359,000 (2006: HK$564,116,000);

(ii) charges on bank balances amounting to HK$64,234,000 (2006: HK$47,263,000) of certain subsidiaries of the Group; and

(iii) assignments of insurance proceeds of certain properties of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF PROPERTY BUSINESS

OVERVIEW

The economic momentum in Mainland China, Hong Kong and across various markets in the Asia Pacific region, has been a major driver of property demand and investment activities. Building on its existing portfolio of premier assets and expertise, the Group continued to take forward its new property developments successfully, while maintaining its excellent record in managing high-end investment properties.

As at the year end, the Group maintained a property portfolio with a gross floor area ("GFA") of 45.8 million square feet (2006: 21.2 million square feet) of properties under development, 8.7 million square feet (2006: 7.5 million square feet) of completed investment properties, 0.5 million square feet (2006: 0.5 million square feet) of hotel properties and 0.3 million square feet (2006: 0.6 million square feet) of properties held for sale. Together, they form a portfolio with strong project fundamentals and the longer-term potential to create shareholders' value.

Property Portfolio Composition

	Mainland China	Hong Kong	Macau	Overseas	Total GFA
		('000 square feet)			
Investment Properties	3,731	2,867	-	2,068	8,666
Hotel Properties	500	38	-	-	538
Properties Under Development	39,481	2,618	2,385	1,291	45,775
Properties Held for Sale	175	104	-	-	279
Total GFA	**43,887**	**5,627**	**2,385**	**3,359**	**55,258**

MAINLAND CHINA PROPERTY DIVISION

For the year ended 31 December 2007, the Group continued to enjoy solid progress in property development and sales in Mainland China, and has actively sought to increase its land bank in prime locations in order to sustain growth momentum.

In the year under review, turnover of the Mainland China Property Division increased 18% year-on-year to HK$1,187 million (2006: HK$1,006 million), reflecting increased property sales and leasing activities over the year. Net profit attributable to the Group also rose 10% to HK$885 million (2006: HK$807 million), after incorporating the increase in fair values of investment properties (after deferred taxation) of HK$623 million (2006: HK$594 million). Excluding the effect of the increase in fair values of investment properties (after deferred taxation), net profit attributable to the Group was adjusted to HK$262 million (2006: HK$213 million).

The Division remains extremely selective in its choice of new property developments where prime locations are preferred and in which land supply is relatively restricted, in order to ensure sustainable asset value and strong resilience during periods of market uncertainties. Behind this strategy also lies the Group's objective to build on its expertise and reputation in Mainland China's property market in creating a profile of strategically-located, high-end properties in elite neighbourhoods.

The Group continues to focus on the development of large-scale, mixed-use property projects in key locations. The cross marketing effect between the various categories of a mixed-use property development project will inevitably enhance property values and rental rates.

Investment Properties

During the year, the Group derived rental turnover and operating profit from rental activities of HK$614 million and HK$413 million, respectively (2006: HK$578 million and HK$403 million, respectively) from its portfolio of investment properties in Mainland China.

As at 31 December 2007, the Group held an aggregate GFA of 3.7 million square feet (2006: 3.6 million square feet) in its investment property portfolio in Mainland China, the geographical distribution of which and the occupancy rates of office, commercial and residential properties are set out in the table below:

As at 31 December 2007:

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

As at 31 December 2006:

	Beijing	Shanghai	Shenzhen	Fuzhou	Total GFA	Occupancy rate
			('000 square feet)			
Office	815	632	82	-	1,529	95%
Commercial	185	401	107	64	757	92%
Residential	277	436	-	-	713	67%
	1,277	1,469	189	64	2,999	
Carparks and others	195	290	142	-	627	
Total GFA	1,472	1,759	331	64	3,626	

Comparative occupancy rates of key investment properties are featured below:

Property	**Occupancy rate as at 31 December 2007**	Occupancy rate as at 31 December 2006
Beijing Kerry Centre^	**90%**	90%
Shanghai Kerry Centre	**84%**	86%
Kerry Everbright City Phase I	**74%**	95%

^excluding Beijing Kerry Centre Hotel

Central Residences Phase II in Changning District, Shanghai, was the latest addition to the Group's exclusive portfolio of luxury residences. As at 31 December 2007, 86 units out of the total of 154 units were leased as serviced apartments, representing 55% of the approximately 287,000 square feet GFA of Tower 3 of Central Residences II. For Tower 1 of Central Residences II, another 32 units out of a total of 60 units were leased as serviced apartments as at the year end, representing 58% of its approximately 191,000 square feet GFA.

Sales of Completed Properties

Sales of completed properties during the year ended 31 December 2007 contributed turnover and operating profit of HK$172 million and HK$23 million, respectively (2006: HK$73 million and HK$3 million, respectively), reflecting mainly the contribution from the sales of office units in Shenzhen Kerry Centre.

Properties under Development

The Group has actively pursued land acquisitions in major secondary cities in the past year with a view to building and maintaining a balanced portfolio across selected markets in Mainland China. As the Group continues to take forward plans to develop large-scale, mixed-use property projects in prime locations, it is able to leverage its stature as a reputable developer of high-quality properties to sustain growth.

Shanghai

The Kerry Everbright City Phase II project in Zhabei District, a mixed-use development with approximately 1,600,000 square feet of GFA, is scheduled for completion in phases to 2008. The launch of Phase IIa of the project, which comprises an office tower with a two-storey retail podium and four residential towers, has received strong market response. As at the year end, 562 units, or 98%, out of a total of 572 of residential units were pre-sold at an average price of approximately RMB1,780 per square foot. Of the total GFA of approximately 420,000 square feet of office units, approximately 44,000 square feet, or 11% were sold. Phase IIb of the project has already topped off, with external works currently ongoing and upon completion, now scheduled for the second quarter of 2008, will add a further four residential towers to the development.

The Kerry Everbright City Phase III project is currently at the conceptual design stage and the construction works will commence in 2008.

With the completion of preliminary design of the mixed-use development in Jing An District, site works commenced in January 2008 on the south site, to be followed by works on the north site in April 2008. Jing An Kerry Centre, the 51%/49% joint-venture project with Shangri-La Asia Limited is earmarked for the development of two luxury hotels, office and retail properties with a buildable GFA of approximately 2,750,000 square feet. Completion is currently scheduled for 2011.

Kerry Centre, Pudong Shanghai, the 40.8%-held joint-venture mixed-use property project progressed further, with piling works expected to be completed in early 2008. The project blueprint entails the development of a hotel, offices, an apartment-style hotel, commercial properties and related ancillary facilities, all targeted for completion by the second quarter of 2010. It is situated in an up-and-coming location adjacent to the Shanghai New International Expo Centre, a neighbourhood under active development into a new business hub.

Shenzhen

The grade-A office complex project in Futian Central District is expected to complete in the first quarter of 2008. With an aboveground GFA of approximately 807,000 square feet, this premier office tower will be another prominent addition to the Group's premium investment property portfolio in Mainland China.

The Group expanded its portfolio in Shenzhen by acquiring an adjacent site for development into an office property. With a buildable GFA of approximately 850,000 square feet on scheduled completion in 2010, this new project will enable the Group to capitalise on the potential of Futian Central District. The development is currently in the planning phase, with construction works expected to begin in 2008.

Manzhouli

The development of an apartment and commercial property in Manzhouli, Inner Mongolia, continued with Phase I of the project already topped out. External works are currently ongoing with completion targeted to be in phases up to 2011. The development is expected to deliver a buildable GFA of approximately 927,000 square feet.

Hangzhou

The Group's acquisition of two sites in Xiacheng District has provided a foothold for the Group's property development rollouts in Hangzhou. The first site, which lies in the heart of Hangzhou adjacent to Xihu (West Lake), is designated for the development of a mixed-use property incorporating a hotel, offices, apartments and a commercial shopping complex with a total buildable GFA of approximately 2,217,000 square feet. With schematic design currently in progress, piling works are scheduled to begin by the third quarter of 2008. The project is expected to be completed in phases to 2011.

The second site in Xiacheng District is earmarked for residential development and is configured to deliver a GFA of approximately 2,700,000 square feet. Piling works commenced on this site in the last quarter of 2007 and completion is planned to be in phases up to 2010.

Yangzhou

The Group's hotel and apartment project in Yangzhou is currently under development. The residential portion of the works have commenced with piling already completed. Upon completion scheduled for 2010, this development will generate a total buildable GFA of approximately 1,161,000 square feet.

Tianjin

The Group's first venture into this rising municipality was marked by its acquisition of a site in Hedong District in the heart of the city's central business area. The site is planned for a mixed-use property development comprising a hotel, serviced apartments, offices, residences, a shopping mall and related ancillary facilities, with an aggregate GFA of approximately 5,705,000 square feet. With piling works targeted for completion by the end of 2008, construction of this project is expected to be completed in phases between 2010 and 2011. Upon completion, this development will represent a strong addition to the Group's premier investment properties in Mainland China.

Beijing

Construction of the Xinyuanli residential project is expected to complete in October 2008. Upon completion this development will generate an aggregate GFA of approximately 334,000 square feet.

Qinhuangdao

In April 2007, the Group acquired residential sites in prime locations within metropolitan Qinhuangdao in Hebei Province. Overlooking the southern seafront, the sites are ideal for the development of deluxe sea-view residences. This development is currently at the project planning stage and is planned to produce an aggregate GFA of approximately 4,760,000 square feet upon its scheduled completion in phases up to 2012. Qinhuangdao is a major coastal trading port and popular tourist destination, as well as a venue for the 2008 Summer Olympics, and is rapidly emerging as an economic growth engine in northern China.

Chengdu

June 2007 marked the Group's first venture into this municipality with strong growth prospects. This initial land purchase was followed by another acquisition in October 2007 of an adjacent site. All these sites are located in the southern part of the Chengdu High-Tech Industrial Development Zone. Project planning has now been commissioned for these property developments. These sites are designated mainly for residential property development, and are expected to yield a total developable GFA of approximately 6,478,000 square feet. The area where the sites are located has been zoned as Chengdu's future central business district and will incorporate facilities such as convention centres, an embassy zone, five-star hotels, a business area and a technology park. The acquired sites are also in close proximity to the city's main traffic artery and municipal park, placing them in an ideal neighbourhood for the development of luxury residences.

Shenyang

The Group made its debut in Shenyang in June 2007, when it acquired a site located on the east side of Qingnian Street and opposite to Qingnian Park, a famous natural park in the Shenyang. Qingnian Street, also reputed as the "Golden Corridor", is identified by the Shenyang Government as a new focus of development and set to be transformed into a bustling center of business and retail activities in Shenhe District. The developable site area is approximately 1,859,000 square feet with a plot ratio of not exceeding 12, of which 30% is designated for residential use and 70% for commercial properties. The site will be developed into a mixed-use development, consisting of hotels, offices, retail shops, convention centre and apartments. It is expected to be completed in phases up to mid-2016. The development is now in the planning phase and construction is expected to commence in mid-2008.

Changsha

In Changsha, Hunan Province, the Group has engaged in a 61%-held joint-venture residential and commercial property project located in the Tianxin District in December 2007. The project is expected to yield a GFA of approximately 3,295,000 square feet. The share transfer agreement is expected to be completed before June 2008.

Properties under Development in Mainland China

	Beijing	Shanghai	Shenzhen	Tianjin	Hangzhou	Yangzhou	Manzhouli	Shenyang	Qinhuangdao	Chengdu	Total GFA upon completion
						('000 square feet)					
Residential	—	729	—	949	2,565	—	—	3,904	4,749	4,775	17,671
Apartment / serviced apartment	226	154	—	116	431	430	845	2,153	—	—	4,355
Office	—	1,542	1,550	707	215	—	—	4,306	—	—	8,320
Commercial	11	528	108	606	1,238	—	82	1,466	11	512	4,562
Hotel	—	1,216	—	417	431	731	—	1,507	—	—	4,302
Ancillary facilities	—	18	—	—	38	—	—	215	—	—	271
Total GFA upon completion ✧	**237**	**4,187**	**1,658**	**2,795**	**4,918**	**1,161**	**927**	**13,551**	**4,760**	**5,287**	**39,481**

✧ Pursuant to the framework reorganisation agreement dated 6 December 2007 and the amended agreement dated 20 December 2007 (collectively "Amended Framework Reorganisation Agreement") entered into by the Company, Allgreen Properties Limited ("Allgreen") and Kerry Holdings Limited, the Group's attributable interest in Chengdu, Qinhuangdao and Shenyang projects will be reduced to 55%, 60% and 60% respectively. Accordingly, the total GFA of these projects attributable to the Group will be lowered by approximately 9,048,000 square feet. Approvals for the Amended Framework Reorganisation Agreement from independent shareholders of the Company and Allgreen have been obtained as at the date of this announcement.

Beijing Kerry Centre Hotel

In the year to 31 December 2007, Beijing Kerry Centre Hotel recorded turnover and operating profit of HK$401 million and HK$152 million, respectively (2006: HK$355 million and HK$125 million, respectively), and achieved an average occupancy rate of 75% (2006: 77%), with average room tariff growing 3% year on year.

HONG KONG PROPERTY DIVISION

In the year to 31 December 2007, increased demand coupled with supply restrictions continued to underpin the rapid development of the Hong Kong Property Division, driving turnover up by 24% to HK$3,503 million (2006: HK$2,827 million). Net profit attributable to the Group also advanced 76% year on year to HK$4,716 million (2006: HK$2,676 million which includes HK$1,160 million profit arising from the Group's disposal of its 10.16% minority interest in Citibank Plaza by way of participation in the global offering of the Champion Real Estate Investment Trust), after taking into account the increase in fair values of investment properties (net of deferred taxation) of HK$3,076 million (2006: HK$653 million).

The Division's turnover mainly included sales of 15 Homantin Hill, which enjoyed a successful launch during the year, as well as units at Tregunter Towers and Enterprise Square Three.

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

Investment Properties

The Group's premium portfolio of investment properties in Hong Kong is a major component of its earnings base. During the year, the local investment property portfolio contributed rental turnover of HK$492 million (2006: HK$384 million) and an operating profit of HK$158 million (2006: HK$86 million), representing year-on-year increases of 28% and 84%, respectively.

As at 31 December 2007, the Group held an investment property portfolio in Hong Kong with an aggregate GFA of 2.9 million square feet (2006: 1.5 million square feet). The breakdown of GFA and the respective occupancy rates of residential, commercial and office properties, together with comparative figures, were as follows:

	As at 31 December 2007		As at 31 December 2006	
	Total GFA ('000 square feet)	**Occupancy rate**	Total GFA ('000 square feet)	Occupancy rate
Residential	**649**※	**98%**	738※	97%
Commercial	**1,345**	**92%**	387	91%
Office	**646**	**92%**	153	83%
	2,640		1,278	

※ Excluding Tavistock and Belgravia, with a total GFA of approximately 227,000 square feet, which are currently under refurbishment and are not offered for lease.

Recognising the overriding importance of maintaining the quality of investment properties, and in a move to add further value to its exclusive residential portfolio in Hong Kong, the Group undertook an extensive refurbishment programme for Tavistock in Mid-Levels and Belgravia in Island South during 2007.

Enterprise Square Five / "MegaBox"

The Group's proprietary retail and entertainment project, "MegaBox", has been successfully established as a destination for both local shoppers and overseas visitors since its opening in June 2007. This retail landmark profiles as an innovative architectural marvel, forming a key part of the 1.6 million square feet Enterprise Square Five development in Kowloon Bay. Encompassing 1.1 million square feet of shopping space, "MegaBox" accommodates the territory's first cluster of big-box retailers and dynamic entertainment venues. As the largest lifestyle hotspot in East Kowloon, it embraces a unique tenant mix including Hong Kong's largest world-standard ice rink, new-to-Hong-Kong home improvement retailers, an IMAX cinema and Hong Kong's largest electrical and electronics centre, complemented by the city's largest sports city, largest single-storey book city and a select assortment of fashion, sports and lifestyle retailers and gourmet restaurants. In November 2007, "MegaBox" announced the addition of Asia's largest sports club and an outdoor swimming pool to its existing cutting-edge facilities. As at the year end, "MegaBox" was 91% leased. The Group will remain abreast of consumer trends to continually shape and advance the retail and entertainment landscape of "MegaBox".

The two grade-A office towers of the Enterprise Square Five project were completed in the third quarter of 2007, adding a GFA of approximately 519,000 square feet to the Group's portfolio of prime office and commercial space in Kowloon Bay. This area is poised to mature into the territory's new business and tourist centre as the Hong Kong SAR Government unfolds its plans to re-develop and revitalise the old Kai Tak site. The Government blueprint envisages the development of Kowloon Bay into a fully commercialised area featuring an upscale cluster of tourist, commercial and office properties.

With robust ongoing Grade-A office leasing as businesses seek space for expansion and upgrading, as well as a wave of office relocations from Central to new business areas, this office property is expected to enjoy strong rentals and occupancies, providing further growth upside for the Group. With the sustained economic rebound driving demand for high quality office space, the office portion of Enterprise Square Five was 92% leased as at year end as new tenants continued to move in.

Sales of Completed Properties

During the year ended 31 December 2007, turnover achieved from sales of completed properties in Hong Kong increased 23% to HK$3,011 million (2006: HK$2,443 million), which were contributed mainly by the sales of units in 15 Homantin Hill, Tregunter Towers and Enterprise Square Three. An operating profit of HK$1,627 million (2006: HK$1,914 million after or HK$754 million before the profit of HK$1,160 million arising from the Group's disposal of its 10.16% minority interest in Citibank Plaza) was posted from property sales during the year, representing a decrease of 15% or an increase of 116% over the year respectively with or without the effect of the said disposal.

The launch of 15 Homantin Hill during the year generated a strong market response as the property meets the current keen demand for supply-constrained luxury residences. The success of 15 Homantin Hill validates the Group's ongoing commitment to developing superb quality properties in exclusive neighbourhoods.

Properties under Development

SOHO 38, Central Mid-Levels

Construction of the fashionable residential development, SOHO 38, at No. 38 Shelley Street in Central Mid-Levels is aimed to be completed by first quarter of 2008. This residential tower with commercial facilities will bring to the Group a developable GFA of approximately 50,000 square feet. SOHO 38 translates the metropolitan lifestyle into 79 voguish residential units which are expected to be launched on the market in the second quarter of 2008.

First Street/Second Street, Mid-Levels West

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

Tsuen Wan

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

Ap Lei Chau

Site formation and foundation works progressed as scheduled for this 35%-held joint venture residential project, in which the Group has an attributable GFA share of approximately 320,000 square feet. The project is planned for completion in 2010 and will bring to the market approximately 700 residential units.

863-865 King's Road, North Point

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

Shan Kwong Road/Village Terrace, Happy Valley

Demolition works on the two adjacent sites at No. 20 Shan Kwong Road and No. 1-5 Village Terrace have been completed. With a developable GFA of approximately 220,000 square feet, the sites are earmarked for redevelopment into luxury residential properties. Completion is scheduled for the second quarter of 2011.

Chun Yan Street, Wong Tai Sin

The Group further increased its land bank in Hong Kong through the acquisition of a site at Chun Yan Street, Wong Tai Sin, at a public land auction held in July 2007. The site enjoys excellent public transport connectivity and well-developed infrastructure in a tranquil neighbourhood, making it an ideal location for the development of premier residential and commercial properties. This site is expected to deliver a buildable GFA of approximately 767,000 square feet of residential properties and approximately 153,000 square feet for commercial use. The Group aims to extend its premium brand to this residential project by maintaining its excellent record in property development and management excellence. The project is also expected to benefit from the keen demand for urban core properties in prime locations. This project is planned to be completed in the third quarter of 2011.

Yuk Yat Street, To Kwa Wan

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

Properties under Development in Hong Kong

	Total GFA upon completion ('000 square feet)
Residential	2,184
Commercial	229
Office	205
Total GFA upon completion	**2,618**

Macau

In July 2007, the Group secured an approximately 40,000 square feet site in Nam Van Lake for the development of a luxury residential apartment building. The site is situated in a prime location enjoying a full unobstructed view of the Nam Van Lake and Macau peninsula. This residential project will yield a developable GFA of approximately 400,000 square feet upon its scheduled completion in the second quarter of 2011.

As for the reclamation project in Macau, the Central Government's approval on the proposed reclamation scheme is expected to come through in the first half of 2008. The finalisation of the land exchange contract with the Macau SAR Government will immediately follow to allow planning and design of the project to commence in the second half of 2008.

OVERSEAS PROPERTY DIVISION

The Group maintains an overseas property portfolio in Australia and the Philippines. During the year to 31 December 2007, this Division reported a net profit after tax of HK$59 million (2006: HK$36 million), a 64% increase year on year.

Overseas Property Portfolio

	Australia	The Philippines ('000 square feet)	Total GFA
Investment Properties			
Hotel lease	-	170	170
Shopping centre lease	-	213	213
Carpark lease	-	187	187
Shopping centre	-	1,054	1,054
Commercial	-	10	10
Office	-	147	147
Carparks and others	-	287	287
Sub-total	**-**	**2,068**	**2,068**
Properties under Development			
Residential	141	1,109	1,250
Commercial	41	-	41
Sub-total	**182**	**1,109**	**1,291**
Total GFA	**182**	**3,177**	**3,359**

Australia

As at the year end, 1,017 units (2006: 922 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 96% of the total of 1,064 units offered for sale. The project is located at the Pyrmont Peninsula in Sydney and covers a site of 12 hectares designated for residential and commercial property development.

The Philippines

In the Philippines, the Group's property investments were held through direct and indirect interests in EDSA Properties Holdings, Inc. ("EPHI"). Subsequent to a merger of EPHI with its listed affiliate Kuok Philippine Properties, Inc., as approved by the Securities and Exchange Commission on 25 July 2007, the corporate name of EPHI was changed to Shang Properties, Inc. ("SPI"). With the merger, the Group now maintains an aggregate 65.36% direct and indirect interest in SPI. The merger is expected to bring greater financial strength, a more diversified and stable capital base, increased competitiveness and improved profitability for the new operating entity.

Currently included in the SPI's portfolio are (i) a 78.72% interest in the Shangri-La Plaza Mall, Manila and (ii) indirect interests in The Enterprise Centre, an office and commercial property in Makati, Manila's financial district. The occupancy rates of Shangri-La Plaza Mall and The Enterprise Centre as at the year end were 99% and 99%, respectively (2006: 99% and 97%, respectively).

The sustained strong performance of Shangri-La Plaza Mall has enabled the Division to embark on an extension programme to develop an approximately 105,000 square feet adjacent site into an extension of the mall and residential units. This proposed development will yield a total GFA of approximately 1,668,000 square feet, of which approximately 301,000 square feet will be designated as retail space, and approximately 1,367,000 square feet for residential development. Construction works will commence in June 2008 and completion is currently planned for the fourth quarter of 2011.

Also in the SPI development pipeline are (i) The Shang Grand Tower, a residential property project in Makati, Manila, and (ii) The St. Francis Shangri-La Place, also residential development project, in Mandaluyong City, Manila. As at 31 December 2007, all units of The Shang Grand Tower had been sold, while 787 units (2006: 501 units) out of the total of 1,152 residential units at The St. Francis Shangri-La Place were sold ahead of its targeted completion in the first quarter of 2009 for Tower 1 and fourth quarter of 2008 for Tower 2.

OUTLOOK

Mainland China

Mainland China's Government further enhanced its efforts in 2007 to structure the regulated, healthy and sustainable growth of the real estate market. A number of austerity measures were introduced for the control of the property sector, in a move to rein in speculation in the real estate market and irrational property price hikes. The Group maintains its optimistic outlook for continued economic growth for Mainland China, in particular in the fast-expanding municipalities in developing areas. Factors such as the appreciation of Renminbi, the vast demand within the domestic market, the resultant urban population expansion as urbanisation gathers pace, the scarcity of land, and the rising costs of land and construction will continue to underpin the robust demand in the real estate market.

Meanwhile, the Group is bolstering its land bank in cities with strong economic fundamentals and geographical advantages, such as Hangzhou, Shenyang, Tianjin, Chengdu and Changsha etc. The Group's ongoing policy is to develop mixed-use property projects, a policy which has yielded a portfolio with a considerable proportion of leased properties. The Group maintains the view that such short-term macro-economic control measures as the tightening of monetary and credit controls, primarily targeting the residential sector, are unlikely to have a significant impact on the Group. On the contrary, it is expected that the Group will be able to identify appropriate development opportunities in the consolidation process under the austerity measures.

The Group is committed to sustaining its development of premium-quality mixed-use projects and luxury residences in central locations in major cities of Mainland China. In maintaining a balanced property portfolio, the Group will, after prudent consideration, continue to seek new land acquisitions in prime locations in Beijing, Shanghai, provincial capital cities and locations with unique characteristics, which offer tremendous growth potential. The Group intends to leverage its long history of experience, expertise and brand equity in property development in Mainland China in order to participate in the evolution of the industry towards higher quality and environmental compatibility. Efforts will also be pledged to further its excellence in project management and quality control, with a view to sustaining its lead in quality property developments.

Hong Kong

The Hong Kong property market saw 2007 as one of its best years in a decade. It is expected that the local market will head into the second phase of a bullish cycle in 2008, as the improved economy and low lending rates encourage both investors and end-users into the property market. At the same time, supply is expected to tighten even further in coming years due to limited land supply.

With home completions and new constructions in 2007 touching a ten-year low, Hong Kong residential property prices are likely to continue their upturn as strong demand accentuates limited supply, and negative interest rates provide a favourable environment for the Hong Kong housing market. Factoring in the anticipated market boom, the Group projects healthy property sales in the years ahead.

The Group also maintains a positive outlook for the grade-A office market, supported by the strength of both the local and the Mainland economies and by growing cross-boundary business activities. Across the board, strong demand from corporate tenants as well as investment activities will fuel the continuing upward trend in office rentals.

Vibrant job growth, an expanding middle class, increasing retail sales and tourism, and heightened interest from cross-boundary retailers have all converged to result in a continuing uptrend in retail space rentals and high occupancy rates. The Group believes the local retail sector will see continued growth on the strength of favourable economic fundamentals.

REVIEW OF LOGISTICS BUSINESS

OVERVIEW

The Logistics Network Division continues to build on its network of logistics hardware and core competences, and is successfully developing its logistics operations in terms of both new business initiatives and on the geographical front. While focusing on the developments in China and the vibrant Asia Pacific region, the Division also provides customers with enhanced regional connections as well as intercontinental links to Europe.

The Division achieved a 22% turnover growth to HK$7,683 million (2006: HK$6,316 million) in the year to 31 December 2007. Net profit attributable to the Group for the year dropped 31% to HK$812 million (2006: HK$1,173 million). The decrease in net profit is due to the inclusion of the gain on disposal of two warehouse properties in Hong Kong in 2006 of HK$169 million and a comparatively mild fair value adjustment on the warehouse properties, logistics centres and buildings this year of HK$260 million (2006: HK$500 million). Excluding the effects of these two, profit for the year attributable to operations increased by 9% to HK$552 million (2006: HK$504 million), made up of (i) HK$218 million (2006: HK$174 million) contributed by warehousing operations in Hong Kong; (ii) HK$113 million (2006: HK$107 million) by logistics operations; and (iii) HK$221 million (2006: HK$223 million) by the Division's logistics investments.

As at the year end, the Division operated a portfolio of warehouses, logistics centres and port facilities with a total GFA of more than 16 million square feet, served by a truck fleet of about 3,500 vehicles, with a range of operations reaching across over 180 cities in 25 countries and supported by a staff strength of over 6,200.

WAREHOUSING OPERATIONS IN HONG KONG

The Division continues to be the market leader in the local warehousing sector, operating a portfolio of 11 warehouses with an aggregate GFA of 6.28 million square feet. Benefiting from a sustained economic rebound as well as the inflationary spiral which have spurred increased stock holdings by vendors and hence demand for storage space, the warehousing operation achieved both higher tariffs and utilisation rates. As at the year end, the Division maintained an overall occupancy rate of 96% (2006: 96%) for its warehouse portfolio in Hong Kong.

During the year under review, the Division recorded a continuous increase in warehouse revenue and profitability. The increase in profit reflected improved rental rates upon renewal of major leasing contracts, and also benefited from reduced interest expenses following the disposal of two non-core warehouses in November 2006.

LOGISTICS OPERATIONS

The Division's business focus for its logistics operations is in two strategic disciplines: integrated logistics ("IL") and international freight forwarding ("IFF"). Efforts have been directed towards these two core business components in different markets, albeit on varying scales and to different extents, to leverage local expertise, market conditions and infrastructure.

The Division's initiatives to mount a China-focused, Asia-based network were taken forward in 2007. The Division aims to build on and exploit its skills, brand equity and network established over the years across Asia Pacific to actively participate in the economic growth of the region.

During the reporting year, the Division's logistics operations generated turnover of HK$7,243 million (2006: HK$5,543 million) and profit attributable to the Group of HK$137 million (2006: HK$116 million), which represent an increase of 31% and 18% respectively. The turnover growth is mainly due to the increase in business generated in the Division's operation in Mainland China as well as its active geographical expansion and enhancing sales and marketing capabilities in the European market in 2007. The relatively slight growth in profit when compared with turnover is mainly attributable to the cost incurred in the setting up of new freight forwarding offices in Europe since late 2006.

Hong Kong

2007 saw the continued growth of the Division's logistics operations in Hong Kong. Revenue generated from the Division's IL and IFF businesses in Hong Kong during the year grew 19% when compared with 2006. During the year, the Division strengthened its leadership in the local logistics market by continuing to work with global clients on a local level with a number of additional major IL contracts secured.

Activities over the year included the incorporation of Kerry FSDA Limited ("KFSDA") in the second half of 2007 to strengthen the Division's existing trading and merchandising capabilities and expand its food supply network beyond Hong Kong. KFSDA will provide a complete supply chain service of food and non-food grocery items to customers from manufacture to final delivery into customers' designated distribution centres for food service and retail sectors.

China Focus

Kerry EAS Logistics Limited ("KEAS") achieved a 19% turnover growth to HK$3,573 million (2006: HK$3,011 million) for the year ended 31 December 2007. Net profit attributable to the Division before fair value adjustment on properties also increased to HK$71 million (2006: HK$47 million). Included in the net profit of 2007 was a gain on disposal of the non-core shipping business operating under a wholly-owned subsidiary, Eas International Shipping Co., Limited amounting to HK$18 million. Looking into the future, Mainland China is geared to become the biggest revenue contributor for the Division's logistics operations.

To expand the breadth and depth of its pan-China distribution network and capability, the Division has continued to pursue further penetration into towns and counties. During the year, offices were established in Lianyungang, Jiangsu Province and Leshan, Sichuan Province.

At the same time, the Division continues to derive steady recurrent income from its hardware investments in Mainland China. The Division maintains nationwide coverage of Mainland China with the operation of a logistics centre portfolio of approximately 3.5 million square feet, of which 1.4 million square feet consist of wholly owned facilities located in Shenzhen Yantian, Shenzhen Futian, Tianjin, Shanghai Waigaoqiao and Beijing. The Division will proceed prudently and with flexibility in the pace of its development of new logistics facilities in Mainland China.

Ongoing efforts have focused on expanding its service scope, exploring new import and export markets, strengthening infrastructure, and honing its information technology ("IT") edge and operational expertise. As China continues to lead the world in terms of trade volume and the cargo movements, the Division has renewed its competitiveness to serve growing demand for pan-China and/or pan-Asia solutions.

Asia Based

During the year, the Division continued to move forward with its active business rollouts in the region. In Southern Asia, the development of the pan-Asia highway and railway that link Southwest China and Southeast Asia is opening up new opportunities for trade among members of the Association of Southeast Asian Nations ("ASEAN"). In response to this development, since late 2006 the Division has been developing road transport routes connecting China with Laos, Thailand, Malaysia and Singapore. In its next move, the Division established an office in Guangxi to open up another land transport route to tap the border trade between Southwest China and Vietnam. These business initiatives were crystallised in August 2007 when the Division set up Kerry Asia Road Transport Limited ("KART") as the vehicle for future participation in the new ASEAN logistics market. Based in Thailand, KART will actively drive this new business effort as the Division fulfils its goal of becoming the leading ASEAN road transport service provider in the region within a period of two years.

With the completion of the berth expansion project at Kerry Siam Seaport, the Division has greatly strengthened its container handling capabilities in Thailand, adding significant value to its existing bulk cargo services. The first container vessel called on Kerry Siam Seaport on 15 September 2007. Ongoing business enhancement efforts have also led to ongoing works to convert two conventional warehouses into modernised distribution centres.

Meanwhile, Vietnam is another growth engine for the Division's regional operations. The Division is operating a warehouse facility of 267,000 square feet at Binh Duong Province at Southern Vietnam near Hochiminh City at the moment and has planned an active programme of business developments over the next few years.

The Division's development in India is spearheaded by its 51%-held Kerry Reliable Logistics Private Limited ("KRL"). KRL engages in IFF business with nationwide coverage supported by seven offices across the Indian sub-continent. The Division is currently consolidating KRL into its overseas agency network, and is further empowering it by integrating its operations with the Division's IT platform.

As Asia Pacific remains the world's strongest economic performer, the Division is confident of continued strong performance in this region which will continue to be driven by developments in Thailand, Vietnam and India, and by its new road transport business initiative through KART.

Global Network

On the European continent, the Division continues to make the necessary investments in order to maintain and enhance service reliability and capability. 2007 saw the successful completion of the Division's efforts to build a logistics network in Central and Western Europe, with offices being opened in the Czech Republic and France. Going forward, the Division will focus on unleashing the network's sales capability on the continent.

The Division's investments in Europe were centred on opening offices and the IT platform. As regard the former, the establishment of direct representation has led to some discontinuity of businesses previously routed through agents, but this was a necessary move to bolster the sales and marketing capabilities of the European operation. As regard the latter, IT investments have also given the operation a competitive edge and a means of increasing efficiency. In addition, management resources were also put and time spent on the securing of various operating licenses with local authorities. With all these set-up's now in place, the losses incurred by this operation are expected to decline significantly in 2008. The Division will also continue to rationalise the operating structure in various markets.

LOGISTICS INVESTMENTS

The Division's logistics investments include a 15% interest in Asia Airfreight Terminal ("AAT") and a 25% interest in Chiwan Container Terminal ("CCT"). They continue to contribute steady recurrent earnings to the Group. During the year ended 31 December 2007, the Division's equity share of profits after tax from AAT, CCT and other associated companies remained stable at HK$221 million (2006: HK$223 million).

AAT had additional cargo handling capacity coming on stream with the opening of Terminal 2 at the Hong Kong International Airport in 2007. It announced a tonnage throughput for the year 2007 of 656,463 tonnes, an increase of 5.2% compared with 2006.

CCT also retained rapid growth in container handling in 2007, setting monthly throughput records for four years. During the year it handled 5.73 million TEU, an increase of 14.4% year on year.

INFORMATION TECHNOLOGY

The Division has continued the development and deployment of the KerrierVISION Supply Chain Visibility product suite since its official launch in April 2007. While new projects were gradually added to the platform, the Division was honoured with the 'Logistics Award Hong Kong 2007 - Service and Technology Innovation Award' from the Hong Kong Trade Development Council in September 2007.

Locally, the Electronic Proof of Delivery ("EPOD") solution went live in Hong Kong. EPOD is an advanced distribution information solution with capabilities including global positioning identification, on-the-spot scanning plus verification, and real-time status update through a general packet radio service ("GPRS") or Wi-Fi network. Through the web-based EPOD virtual console, customers and internal operations can get the benefit of first-hand delivery status and service-level information for more proactive management.

From the global perspective, the Division initiated the Kerrier Integration Platform ("KIP") in June 2007 following the division's direction of global integration set last year. KIP is a centralised data integration and consolidation platform for both internal and external information exchange. It aims to improve operation efficiency through more effective data collaboration between regions, facilitate the information feed to KerrierVISION, enable more electronic commerce with customers, and also support the back-end data warehouse with business intelligence features. At the end of the year, a majority of the regional Freight Management Systems had already been connected to the platform.

In the coming year, supply chain visibility and global integration will continuously be the focus of the Division's technology development.

OUTLOOK

Looking ahead, the Division is committed to continuous investments in advanced IT that lends visibility to where products are at any time as they move through the supply chain. It also takes innovative thinking to constantly reshape business models and operations in many ways, thriving on the growing demand for supply chain management services brought by the irreversible trend in globalisation.

Demand for distribution and logistics is expected to be strong throughout Asia Pacific. Leveraging its extensive presence in Asia, the Division will continue to strengthen its IL capabilities in strategic markets across Asia Pacific. Growth in the region will also be supported by the Division's enhanced business portfolio and the performance of KEAS in Mainland China, as well as strengthened logistics capabilities through the KART initiative to fulfil new China-ASEAN demand. To strengthen its infrastructure network in strategic locations, new logistics facilities in Hanoi, Chengdu and Nanjing will be built with total GFA of around 700,000 square feet. The enhanced IL capabilities and competitiveness in the Asian Pacific will serve as a base for the Division to further developing its IFF business on a global scale. Our vision remains "Asia Based, China Focus, Global Network".

REVIEW OF INFRASTRUCTURE BUSINESS

OVERVIEW

The Infrastructure Division is the Group's investment vehicle for a range of infrastructure, environmental protection and utilities-related businesses in Hong Kong and Mainland China. The Division continues to provide a healthy base of recurrent income for the Group. Net profit attributable to the Group from this Division during the year ended 31 December 2007 was approximately HK$43 million (2006: HK$31 million).

HONG KONG

The Division has a 15% interest in the Western Harbour Crossing and a 15% interest in the Cross Harbour Tunnel management contract. These investments contributed shared aggregate net profits of HK$41 million during the year (2006: HK$43 million).

MAINLAND CHINA

During the year, the Group's 13%-held water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region provided a shared net profit of HK$4.6 million (2006: HK$0.1 million).

The reporting period witnessed positive development of the Group's 25%-owned REDtone Telecommunications (China) Limited ("REDtone"), which provides discounted international call packages to mobile phone and fixed line subscribers in Shanghai. In addition to its existing discount calls service that caters to the mass market, REDtone has extended its service offerings to upmarket customers through a number of premium service initiatives.

OUTLOOK

The Division will continue to provide a steady source of recurrent income for the Group, and will stay alert to new business opportunities that show viability.

FINANCIAL REVIEW

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

The Group closely reviews and monitors its foreign exchange exposure. As at 31 December 2007, total foreign currency borrowings (excluding Renminbi ("RMB") borrowings) amounted to the equivalence of HK$4,179 million and RMB loans amounted to the equivalence of HK$347 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 32% and 3% respectively, of the Group's total borrowings of HK$13,203 million as at 31 December 2007. The Directors consider that the Group's property investments in the PRC would benefit from the recent upward appreciation of the RMB. Furthermore, the upward revaluation of the RMB has a negligible impact on the Group's RMB loans, which only represent a small proportion relative to the Group's total borrowings.

The non-RMB total foreign currency borrowings of HK$4,179 million mainly include the Fixed Rate Bonds amounting to US$420 million (approximately HK$3,254 million (net of direct issue costs)). The Group has arranged cross currency swap contracts amounting to US$417 million to hedge the exchange rate exposure between Hong Kong dollars and United States dollars.

Out of the Group's total borrowings as at 31 December 2007, HK$650 million (representing approximately 5%) was repayable within one year, HK$373 million (representing approximately 3%) was repayable in the second year, HK$8,432 million (representing approximately 64%) was repayable in the third to fifth years and HK$3,748 million (representing approximately 28%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 95% of total borrowings as at 31 December 2007. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 31 December 2007, the gearing ratio for the Group was 20.3% (2006: 34.8%), calculated based on net debt of HK$8,933 million and shareholders' equity of HK$44,011 million.

As at 31 December 2007, the Group had outstanding interest rate swap contracts which amounted to HK$5.8 billion in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile in the next few years.

In terms of the Group's available financial resources as at 31 December 2007, the Group had total undrawn bank loan and overdraft facilities of HK$9,949 million and net cash on hand of HK$4,270 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operations and logistics, freight forwarding and warehousing businesses provide the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 22 February 2007, Gainlead International Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate amount of HK$2,350,000,000 (the "Convertible Bonds"). The Convertible Bonds are zero coupon-based, have a maturity term of five years until 22 February 2012 and are convertible into the Company's ordinary shares at a conversion price of HK$52.65 per share (subject to adjustments). The issuance of the Convertible Bonds provides a flexible and cost-efficient funding opportunity which is in the best interest of the Group. Standard & Poor's awarded the Convertible Bonds with a "BBB-" credit rating.

During the year ended 31 December 2007, an aggregate principal amount of HK$2,379,000,000 of the convertible bonds issued in 2005 has been converted into an aggregate of 91,658,595 ordinary shares of HK$1 each in the Company. The conversion represents 95.2% of the entire issued principal of HK$2,500,000,000.

SCRIP DIVIDEND ALTERNATIVE

The Directors of the Company recommend a final dividend of HK$0.65 per share for the year ended 31 December 2007 (2006: HK$0.65) payable to shareholders whose names appear on the Registers of Members of the Company on Tuesday, 6 May 2008, with a scrip alternative to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2007 Final Scrip Dividend Scheme"). The final dividend is expected to be paid on Tuesday, 17 June 2008.

The 2007 Final Scrip Dividend Scheme is conditional upon (i) the approval of the proposed final dividend at the Company's annual general meeting to be held on Tuesday, 6 May 2008; (ii) 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 (iii) 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 conditions are not satisfied, shareholders will receive the final dividend for the year ended 31 December 2007 wholly in cash. The issue price of the new shares to be issued under the 2007 Final Scrip Dividend Scheme will be equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange for the five consecutive trading days immediately after the Company's annual general meeting. A circular containing details of the 2007 Final Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Thursday, 22 May 2008.

The Company will make enquiries with legal counsels where its overseas shareholders, if any, are based regarding legal and regulatory restrictions in allowing such overseas shareholders to participate in the 2007 Final Scrip Dividend Scheme as required by rule 13.36(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and may only exclude such overseas shareholders on the basis that, having made such enquiries, it would be necessary or expedient to do so.

STAFF

As at 31 December 2007, the Company and its subsidiaries had 8,814 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidised educational and training programs as well as share option schemes.

Share Option Schemes

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

As at 31 December 2007, a total of 6,789,534 share options (the "Options") were outstanding which comprised 1,772,534 and 5,017,000 Options granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

CORPORATE GOVERNANCE

Compliance with Code Provisions under Appendix 14 of the Listing Rules

During the year ended 31 December 2007, 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 the deviation that there is no separation between the roles of chairman and chief executive officer.

On 19 March 2008, the Company has announced that Mr. Wong Siu Kong, Deputy Chairman and Managing Director of the Company, has been redesignated as President & Chief Executive Officer of the Company with effect from 19 March 2008. The purpose of such re-designation of position is to separate the roles of Chairman and President & Chief Executive Officer of the Company by clearly dividing the responsibilities, thus enhancing good corporate governance for the Company. The existing Chairman, Mr. Ang Keng Lam, will be responsible for the management of the Board while the President & Chief Executive Officer, Mr. Wong Siu Kong, will be responsible for the day-to-day management of the Company's business. Therefore, the Company will be in full compliance with the Code Provisions with effect from 19 March 2008.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed from Friday, 2 May 2008 to Tuesday, 6 May 2008, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Abacus Limited at 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Wednesday, 30 April 2008. Subject to shareholders' approval of the payment of the final dividend with a scrip alternative at the annual general meeting of the Company, the dividend warrants and share certificates for the new shares to be issued pursuant to the 2007 Final Scrip Dividend Scheme will be distributed on or about Tuesday, 17 June 2008.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 2:30 p.m. on Tuesday, 6 May 2008 at Island Ballroom, Level 5, Island Shangri-La Hotel, Pacific Place, Supreme Court Road, Central, Hong Kong.

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 year ended 31 December 2007.

GENERAL INFORMATION

As at the date of this announcement, the Directors of the Company are Messrs. Ang Keng Lam+, Wong Siu Kong+, Ho Shut Kan+, Ma Wing Kai, William+, Chan Wai Ming, William, Qian Shaohua, William Winship Flanz#, Ku Moon Lun#, Lau Ling Fai, Herald# and Tse Kai Chi@.

By Order of the Board
Ang Keng Lam
Chairman

Hong Kong, 19 March 2008

+ *Executive Director*
# *Independent Non-executive Director*
@ *Non-executive Director*
* *for identification purpose only*