

# REPORT OF DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2007.

## **PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS**

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries and associated companies comprise the following:

1. property development, investment and management in Hong Kong, the People's Republic of China (the "PRC") and the Asia Pacific region;
2. logistics, freight and warehouse ownership and operations;
3. infrastructure-related investments in Hong Kong and the PRC; and
4. hotel ownership in Hong Kong, and hotel ownership and operations in the PRC.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is set out in note 5 to the financial statements.

## **RESULTS AND APPROPRIATIONS**

The results of the Group for the year are set out in the consolidated income statement on page 98.

Particulars of dividends proposed and paid during the year are set out in note 11 to the financial statements.

## **RESERVES**

The movements in reserves of the Group and the Company during the year are set out in notes 35 and 36 to the financial statements.

## **DONATIONS**

Charitable donations made by the Group during the year amounted to HK\$1,053,000.

## **PROPERTY, PLANT AND EQUIPMENT**

Particulars of the movements in property, plant and equipment of the Group and the Company during the year are set out in note 14 to the financial statements.

## **INVESTMENT, HOTEL AND DEVELOPMENT PROPERTIES**

Particulars of investment, hotel and development properties of the Group are set out on pages 40 to 50.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2007, the reserves of the Company available for distribution amounted to approximately HK\$19,071,608,000 (2006: HK\$18,919,415,000).

## **SHARE CAPITAL**

The movements in the share capital of the Company during the year are set out in note 33 to the financial statements.

# REPORT OF DIRECTORS

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## BONDS

Details of the bonds of the Group are set out in notes 29 and 30 to the financial statements.

## CAPITALISED INTEREST

The amounts of interest capitalised by the Group during the year are set out in note 8 to the financial statements.

## SUBSIDIARIES AND ASSOCIATED COMPANIES

Particulars of the Company's principal subsidiaries and the Group's principal associated companies as at 31 December 2007 are set out in note 44 to the financial statements.

## PARTICULARS OF BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2007 are set out in notes 28 and 41 to the financial statements.

## TEN-YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last ten financial years are summarized on pages 179 and 180.

## DIRECTORS

The Directors who held office during the year and up to the date of this report are:

Mr ANG Keng Lam (Chairman)<sup>+</sup>

Mr WONG Siu Kong (President & Chief Executive Officer)<sup>+</sup>

Mr HO Shut Kan<sup>+</sup>

Mr MA Wing Kai, William<sup>+</sup>

Mr CHAN Wai Ming, William (appointed on 13 September 2007)

Mr QIAN Shaohua (appointed on 13 September 2007)

Mr William Winship FLANZ<sup>#</sup>

Mr KU Moon Lun<sup>#</sup> (appointed on 3 May 2007)

Mr LAU Ling Fai, Herald<sup>#</sup>

Mr TSE Kai Chi<sup>®</sup>

Mr Christopher Roger MOSS, O.B.E.<sup>#</sup> (retired on 3 May 2007)

<sup>+</sup> Executive Director

<sup>#</sup> Independent Non-executive Director

<sup>®</sup> Non-executive Director

Messrs Wong Siu Kong, Ho Shut Kan and William Winship Flanz are due to retire from the Board by rotation in accordance with Bye-law 99(A) of the Company's Bye-laws at the forthcoming Annual General Meeting. Mr Flanz has decided not to stand for re-election. The other retiring Directors, being eligible, all offer themselves for re-election. The Board would like to take this opportunity to record a special note of thanks and appreciation to Mr Flanz for his contribution and advice during his tenure as a Director of the Company.

(Subsequent note: Mr So Hing Woh, Victor, MBE, JP, being appointed as an Executive Director of the Company with effect from 1 April 2008, is due to retire from the Board by rotation in accordance with Bye-law 102(B) of the Company's Bye-laws at the forthcoming Annual General Meeting. Being eligible, Mr. So offers himself for re-election.)

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biography of Directors and senior management are set out on pages 75 to 80.

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

As at 31 December 2007, 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 of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

### (i) Company

Name of Director	Number of ordinary shares (Personal interests)	Number of underlying ordinary shares held under equity derivatives	Total	Approximate % of shareholding <sup>6</sup>
Mr ANG Keng Lam	115,367 <sup>1</sup>	2,536,495 <sup>2</sup>	2,651,862	0.19
Mr WONG Siu Kong	–	912,000 <sup>2</sup>	912,000	0.06
Mr MA Wing Kai, William	1,020 <sup>1</sup>	720,000 <sup>2</sup>	721,020	0.05
Mr CHAN Wai Ming, William	4,000 <sup>1</sup>	–	4,000	0.00

### (ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares				Total	Approximate % of shareholding
		Personal interests	Family interests	Corporate interests	Other interests		
Shang Properties, Inc. (formerly, EDSA Properties Holdings, Inc.)	Mr HO Shut Kan	1,570 <sup>1</sup>	–	–	–	1,570	0.00
Kerry Group Limited	Mr ANG Keng Lam	–	7,300,000 <sup>3</sup>	5,540,716 <sup>4</sup>	8,000,000 <sup>5</sup>	20,840,716	1.36 <sup>7</sup>
	Mr WONG Siu Kong	4,617,263 <sup>1</sup>	–	8,504,300 <sup>4</sup>	–	13,121,563	0.86 <sup>7</sup>
	Mr HO Shut Kan	1,388,452 <sup>1</sup>	–	–	–	1,388,452	0.09 <sup>7</sup>
	Mr MA Wing Kai, William	1,010,620 <sup>1</sup>	–	–	–	1,010,620	0.07 <sup>7</sup>
	Mr CHAN Wai Ming, William	100,000 <sup>1</sup>	–	–	–	100,000	0.01 <sup>7</sup>
	Mr QIAN Shaohua	500,000 <sup>1</sup>	–	–	–	500,000	0.03 <sup>7</sup>
	Mr TSE Kai Chi	600,000 <sup>1</sup>	–	–	–	600,000	0.04 <sup>7</sup>
Kerry Siam Seaport Limited	Mr ANG Keng Lam	1 <sup>1</sup>	–	–	–	1	0.00
	Mr MA Wing Kai, William	1 <sup>1</sup>	–	–	–	1	0.00

Notes:

- This represents interests held by the relevant Director as beneficial owner.
- This represents interests in share options of the Company (the "Options") held by the relevant Director as a beneficial owner of such Options which were granted by the Company to subscribe for the relevant underlying ordinary shares pursuant to the share option schemes. Details of which are set out in the section headed "Share Options" of this report.
- This represents interests held by the relevant Director and his spouse through a discretionary trust of which the relevant Director and his spouse are contingent beneficiaries.
- This represents interests held by the relevant Director through his controlled corporation(s).
- This represents interests held by the relevant Director through a discretionary trust of which the relevant Director is a contingent beneficiary.
- The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2007 (i.e. 1,424,278,046 ordinary shares).
- The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited in issue as at 31 December 2007 (i.e. 1,529,076,815 ordinary shares).

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

# REPORT OF DIRECTORS

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## DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (Continued)

Save as aforesaid, as at 31 December 2007, 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' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

### (i) Company

As at 31 December 2007, the number of outstanding Options granted by the Company 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 in the section headed "Share Options" of this report.

### (ii) Associated Corporation

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 options ("KGL Options") in favour of the following Directors to subscribe for shares in KGL. All the outstanding KGL Options have been exercised by the relevant Directors as at 31 December 2007. Details are set out as follows:

Name of Director	Date of Grant	Number of	Number of	Number of	Exercise price	Exercise period
		KGL Options held as at 01/01/2007	KGL Options exercised during the year	KGL Options held as at 31/12/2007		
Mr ANG Keng Lam	04/05/2000	5,540,716	(5,540,716)	–	4.54	04/11/2000 – 03/05/2007
Mr WONG Siu Kong	04/05/2000	4,617,263	(4,617,263)	–	4.54	04/11/2000 – 03/05/2007

Apart from the aforesaid, at no time during the year ended 31 December 2007 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 31 December 2007, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Long position/Short position/Lending pool	Approximate % of shareholding <sup>2</sup>
Kerry Group Limited	Interest of controlled corporations	757,398,587 <sup>1</sup>	Long position	53.18
Kerry Holdings Limited	Interest of controlled corporations	757,398,587 <sup>1</sup>	Long position	53.18
Caninco Investments Limited	Beneficial owner	310,718,565 <sup>1</sup>	Long position	21.82
Darmex Holdings Limited	Beneficial owner	255,640,776 <sup>1</sup>	Long position	17.95
Moslane Limited	Beneficial owner	88,085,647 <sup>1</sup>	Long position	6.18
JPMorgan Chase & Co.	Interest of controlled corporations	108,827,877	Long position	7.64
		3,856,529	Short position	0.27
		27,419,901	Lending pool	1.93

Notes:

1. Caninco Investments Limited ("Caninco"), Darmex Holdings Limited ("Darmex") and Moslane Limited ("Moslane") are wholly-owned subsidiaries of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex and Moslane are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
2. The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2007 (i.e. 1,424,278,046 ordinary shares).

Apart from the aforesaid, as at 31 December 2007, 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.

## PUBLIC FLOAT

Based on the information that is publicly available to the Company as at the date of this report and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the rules governing the listing of securities on the Stock Exchange (the "Listing Rules").

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the laws in Bermuda.

## 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, subsidized educational and training programs as well as share option schemes.

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## SHARE OPTIONS

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").

As at 31 December 2007, a total of 6,789,534 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.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding Options are set out).

### (i) 1997 Share Option Scheme

The 1997 Share Option Scheme was designed to give Executive Directors, managers or other employees holding an executive, managerial, supervisory or similar position in the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company to attract and retain individuals with experience and ability and to reward individuals for expected future performance.

The period within which an Option may be exercised was determined by the Board of Directors of the Company in its absolute discretion, save that no Option might be exercised later than 10 years from the date on which the Option was granted. Subject to the provisions of the 1997 Share Option Scheme, the Board might at its discretion when offering the grant of an Option impose any conditions in relation thereto including the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the Option in respect of all or some of the Options would vest. The amount paid on acceptance of an Option was HK\$1. The subscription price for any particular outstanding Option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

The 1997 Share Option Scheme was terminated on 17 April 2002 such that thereafter no further Options should be offered but the Options which had been granted during its life should continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions should remain in full force and effect.

## SHARE OPTIONS (Continued)

### (ii) 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 optimise their future contributions to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions.

The maximum number of shares of the Company (the "Shares") which may be issued upon exercise of all Options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10% of the Shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all Options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10% of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised Options under the said schemes) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of Shares which may be issued upon exercise of all outstanding Options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30% of the Shares in issue from time to time. As at 31 December 2007, a total of 64,994,403 Shares (representing approximately 4.56% of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme. The maximum entitlement of each participant under the 2002 Share Option Scheme is 1% of the Shares in issue from time to time.

The period within which an Option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no Option may be exercised later than 10 years from the date on which the Option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an Option impose any conditions in relation thereto including the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the Option in respect of all or some of the Options shall vest. The amount payable on acceptance of an Option is HK\$1.

The subscription price in respect of any particular Option under the 2002 Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant Option but the subscription price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in the Stock Exchange's daily quotations sheet on the date of the Board resolution approving the grant of Options; and (c) the average of the closing prices of the Shares as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of Options.

The 2002 Share Option Scheme will expire on 16 April 2012.

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## SHARE OPTIONS (Continued)

Movements of the Options, which were granted under the 1997 Share Option Scheme, during the year ended 31 December 2007 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of Grant	Tranche	Number of Options held as at 01/01/2007	Number of Options exercised during the year (Notes 1 & 2)	Number of Options held as at 31/12/2007	Exercise price HK\$	Exercise Period
<b>1. Directors</b>							
Mr ANG Keng Lam	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
	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
Mr MA Wing Kai, William	11/04/1997	N/A	69,582	(69,582)	–	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
	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
<b>2. Continuous Contract Employees</b>	11/04/1997	N/A	403,746	(403,746)	–	14.92	11/04/1999 – 26/03/2007
	27/11/1999	I	7,812	(7,812)	–	9.64	27/05/2000 – 26/03/2007
	27/11/1999	II	56,480	(56,480)	–	9.64	27/05/2001 – 26/03/2007
	01/06/2000	I	79,000	(49,000)	30,000	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	121,564	(49,000)	72,564	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	158,309	(61,693)	96,616	6.70	01/06/2003 – 31/05/2010
	02/03/2001	I	133,000	(96,000)	37,000	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	141,000	(96,000)	45,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	126,076	(82,038)	44,038	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	206,255	(104,544)	101,711	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	236,254	(124,543)	111,711	6.85	16/04/2004 – 15/04/2012
<b>3. Others</b>	11/04/1997	N/A	732,303	(732,303)	–	14.92	11/04/1999 – 26/03/2007
	01/06/2000	I	45,000	–	45,000	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	45,000	–	45,000	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	44,088	–	44,088	6.70	01/06/2003 – 31/05/2010
	02/03/2001	I	22,000	–	22,000	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	22,000	–	22,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	19,311	–	19,311	11.59	02/03/2004 – 01/03/2011
<b>Total:</b>			<b>4,983,916</b>	<b>(3,211,382)</b>	<b>1,772,534</b>		

## SHARE OPTIONS (Continued)

Movements of the Options, which were granted under the 2002 Share Option Scheme, during the year ended 31 December 2007 are listed below in accordance with rule 17.07 of the Listing Rules:

Category	Date of Grant	Tranche	Number of Options held as at 01/01/2007	Transfer from other category during the year	Transfer to other category during the year	Number of Options exercised during the year (Notes 1 & 3)	Number of Options lapsed during the year	Number of Options held as at 31/12/2007	Exercise price HK\$	Exercise Period
<b>1. Directors</b>										
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
Mr WONG Siu Kong	17/03/2005	I	250,000	-	-	(88,000)	-	162,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	750,000	-	-	-	-	750,000	18.74	17/03/2007 – 16/03/2015
Mr HO Shut Kan	17/03/2005	I	90,000	-	-	(90,000)	-	-	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	400,000	-	-	(400,000)	-	-	18.74	17/03/2007 – 16/03/2015
Mr MA Wing Kai, William	17/03/2005	I	400,000	-	-	(80,000)	-	320,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	400,000	-	-	-	-	400,000	18.74	17/03/2007 – 16/03/2015
Mr CHAN Wai Ming, William	17/03/2005	II	-	50,000	-	(50,000)	-	-	18.74	17/03/2007 – 16/03/2015
<b>2. Continuous Contract Employees</b>	17/03/2005	I	1,160,000	-	-	(492,500)	-	667,500	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	1,862,500	-	(130,000)	(497,500)	(37,500)	1,197,500	18.74	17/03/2007 – 16/03/2015
<b>3. Others</b>	17/03/2005	II	-	80,000	-	(60,000)	-	20,000	18.74	17/03/2007 – 16/03/2015
<b>Total:</b>			<b>6,812,500</b>	<b>130,000</b>	<b>(130,000)</b>	<b>(1,758,000)</b>	<b>(37,500)</b>	<b>5,017,000</b>		

Notes:

- The weighted average closing price of the shares of the Company immediately before the dates on which the Options were exercised was HK\$48.03.
- During the year, no Options were granted/granted for adjustment, transferred to/from other category, cancelled or lapsed under the 1997 Share Option Scheme.
- During the year, no Options were granted/granted for adjustment or cancelled under the 2002 Share Option Scheme.

## SERVICE CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the forthcoming Annual General Meeting of the Company.

## MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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## MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the five largest customers combined and the five largest suppliers combined are less than 30% of the Group's total turnover and purchases, respectively.

## DIRECTOR'S INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year ended 31 December 2007 and up to the date of this report, the following Directors are considered to have interests in the following businesses ("Excluded Businesses"), being businesses which competed or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses in which (a) the Group was interested and (b) the Directors' only interests are as directors appointed to represent the interests of the Group.

Mr Ang Keng Lam is a director of and has interests in shares in Allgreen Properties Limited ("AG"), the businesses of which consisted of property investment and development, project and property management and leasing of office premises, retail space and serviced apartments in Singapore. The Directors believe that as the size of these Excluded Businesses is not insignificant when compared with the property businesses of the Group, it is likely that these Excluded Businesses may compete with the property businesses of the Group in the Asia Pacific region. AG is listed on the Singapore Exchange Securities Trading Limited as at the date of this report.

Messrs Ang Keng Lam and Wong Siu Kong are directors of subsidiaries of Shangri-La Asia Limited ("SA") and Mr Ang had interests in shares of SA, the businesses of which consisted of hotel ownership and operation. The Directors believe that as the size of that part of these Excluded Businesses in Beijing, where the Group has hotel businesses, is not insignificant when compared with the hotel business of the Group in Beijing, it is likely that these Excluded Businesses may compete with the hotel business of the Group in Beijing. SA is listed on the Stock Exchange as at the date of this report.

Messrs Ang Keng Lam and Wong Siu Kong are directors of (but did not have any interests in shares in) the China World Trade Center Ltd. group of companies, the businesses of which consisted of property investment and development and hotel ownership and operation in the PRC. The Directors believe that as the size of these Excluded Businesses is not insignificant when compared with the property and hotel businesses of the Group in the PRC, it is likely that these Excluded Businesses may compete with the property and hotel businesses of the Group in the PRC.

The Excluded Businesses are operated and managed by companies (and in the case of AG, and SA, by publicly listed companies) with independent management and administration. On this basis, the Directors believe that the Group is capable of carrying on its businesses independently of the Excluded Businesses and at arm's length from the Excluded Businesses.

The Directors, including those interested in the Excluded Businesses, will, as and when required under the Bye-laws of the Company, abstain from voting on any resolution of the Board in respect of any contract, arrangement or proposal in which he or any of his associates has a material interest.

## CONNECTED TRANSACTIONS

1. On 17 July 2007, Saddlers Group Limited (a direct wholly-owned subsidiary of Kerry Group Limited (“KGL”)), Wise Assets Limited (an indirect wholly-owned subsidiary of the Company), Forever Up Investments Limited (an indirect wholly-owned subsidiary of Shangri-La Asia Limited (“SA”)) and Wilmar International Limited entered into two joint venture agreements for the establishment of two joint venture companies for the purposes of acquiring, owning, managing, operating and chartering two aircrafts for corporate travels. Each joint venture party will hold 25% interest in each joint venture company.

On 10 October 2007, the joint venture parties entered into an amended and reiterated joint venture agreement to amend the two joint venture agreements dated 17 July 2007. Pursuant to the amended and reiterated joint venture agreement, the joint venture parties agreed to sell the two aircrafts already bought and replace them with a single aircraft with a larger capacity and longer range.

Upon completion of the replacement and disposals, the maximum funding commitment of the joint venture parties to the joint venture companies is approximately HK\$405,600,000. Prior to the disposal of the two aircrafts and upon acquisition of the replacement aircraft, the maximum funding commitment of the joint venture parties to the joint venture companies would be approximately HK\$719,160,000. All contributions from the joint venture parties shall be made pro-rata to their equity interests in each joint venture company.

KGL is a substantial shareholder and connected person of the Company. SA is an associated company of KGL and hence an associate of KGL under the Listing Rules. Therefore, Saddlers Group Limited and Forever Up Investments Limited are regarded as connected persons of the Company. The entering into of the joint venture agreements and the amended and reiterated joint venture agreement constitutes connected transaction for the Company under the Listing Rules.

2. On 12 October 2007, a consortium formed between Million Palace Limited (“MPL”) and Allgreen Properties (Chengdu) Pte. Ltd. (“AGCD”) won a bid in an open bidding to acquire the land use rights of a plot of land at Hi-Tech Industrial Development Zone, Chengdu, Sichuan Province, PRC (the “Project Site”). MPL and AGCD will hold 75% and 25% respectively in the joint venture company to be established for the purposes of acquiring, holding and developing of the Project Site.

The consideration for the acquisition of the Project Site is RMB1,041,600,000 (HK\$1,079,400,000). The maximum contribution of the Company to the joint venture company is expected to be approximately RMB1,155,000,000 (HK\$1,197,000,000).

The Company and Kerry Holdings Limited (“KHL”) respectively holds 73.3% and 26.7% in MPL indirectly. AGCD is a direct wholly-owned subsidiary of Allgreen Properties Limited (“AG”). Kuok (Singapore) Limited (“KSL”) is a controlling shareholder of AG. KSL owns 100% of a company which is interested in 33% of the issued shares of a 67%-owned subsidiary of the Company. Therefore, AGCD is a connected person of the Company. The establishment of the joint venture company constitutes a connected transaction for the Company under the Listing Rules and was approved by the independent shareholders of the Company at a special general meeting held on 23 November 2007.

# REPORT OF DIRECTORS

Continued

## CONNECTED TRANSACTIONS (Continued)

- On 9 November 2007, 嘉里建設管理(上海)有限公司 (Kerry Properties Development Management (Shanghai) Co, Ltd.) (“KPDM”), entered into project management services agreements (the “PMS Agreements”) with the relevant members of the SA group in relation to the provision of project management services by KPDM in respect of hotel development projects undertaken by the SA group in the PRC and office development project undertaken by the SA group in Mongolia. On the same date, Alpine Project Management Ltd. (“APM”) entered into project consultancy services agreements (the “PCS Agreements”) with the relevant members of the SA group in relation to the provision of project consultancy services by APM in respect of hotel development projects undertaken by the SA group in the PRC.

The provision of such services is in line with the business strategy of the Group to pursue the opportunities in the PRC to provide properties development management and consultancy services. The aggregate fees to be received by the Group under the PMS Agreements and the PCS Agreements are expected to be HK\$59,070,243.

KPDM and APM are wholly-owned subsidiaries of the Company. SA and its subsidiaries are connected persons of the Company. Accordingly, the entering into of the PMS Agreements and the PCS Agreements constitutes connected transaction for the Company under the Listing Rules.

- On 6 December 2007, the Company, KHL and AG entered into a framework reorganization agreement (the “Framework Reorganization Agreement”) for the purposes of the reorganization of the Group’s PRC property portfolio. Pursuant to the Framework Reorganization Agreement, the Company agreed to dispose of some equity interests in each of the companies holding the relevant PRC properties (the “PRC Companies”) to KHL and AG.

On 20 December 2007, the Company, KHL and AG entered into an amendment agreement (the “Amendment Agreement”) for the purpose of amending the Framework Reorganization Agreement. Pursuant to the Amendment Agreement, the two Hangzhou sites would be excluded from the reorganization and the disposal would be transacted by reference to the independent valuation of the PRC properties without any discount.

The considerations payable by KHL and AG (excluding any further capital contributions to be made to the PRC Companies before completion) are estimated to be HK\$555,722,398 and HK\$672,832,745, respectively. The maximum contribution of the Company to the PRC Companies is expected to be approximately RMB13,165,000,000 (HK\$13,857,000,000) if both the independent shareholders of the Company and AG approve the reorganization. However, if the independent shareholders of the Company approve the reorganization whilst the independent shareholders of AG do not approve the reorganization, AG is deemed to have withdrawn from the reorganization and the maximum contribution of the Company to the PRC Companies is expected to be increased to approximately RMB18,973,000,000 (HK\$19,972,000,000).

KHL and AG are connected persons of the Company. Accordingly, the reorganization constitutes connected transaction for the Company under the Listing Rules and were approved by the independent shareholders of the Company at a special general meeting held on 21 February 2008. The reorganization was also approved by the independent shareholders of AG at a special general meeting held on 25 February 2008.

### CONNECTED TRANSACTIONS (Continued)

5. On 19 December 2007, guarantees were granted by the Company, SA and KHL, respectively, in favour of Standard Chartered Bank (Hong Kong) Limited (“SCB”) to secure, on a pro rata and several basis in accordance with their respective equity interests in Fine Winner Holdings Limited (“FWH”), the obligations of FWH under a loan agreement for an amount not exceeding HK\$360,000,000. The maximum amount of the guarantees to be provided by the Company will be HK\$108,000,000.

FWH is a direct wholly-owned subsidiary of Expert Vision Holdings Limited (“EVH”). EVH is the joint venture vehicle for the acquisition of the property at No. 508 Queen’s Road West, Hong Kong and is owned by the Company, SA and KHL as to 30%, 30% and 40%, respectively. Pursuant to the original shareholders’ agreement in relation to EVH, the maximum funding commitment of the joint venture parties shall not exceed HK\$670,000,000.

Following the provision of the guarantees and the repayment of the shareholders’ loans of approximately HK\$260,000,000, the aggregate funding commitment which the joint venture parties have provided to EVH and FWH will be approximately HK\$713,000,000 and will have exceeded the initial maximum funding commitment of HK\$670,000,000.

EVH and FWH are associates of KHL under the Listing Rules and are therefore connected persons of the Company. Accordingly, the granting of the guarantee by the Company and any subsequent financial assistance by the Company for the benefit of EVH and/or FWH constitute connected transactions for the Company under the Listing Rules.

# REPORT OF DIRECTORS

Continued

## CONTINUING CONNECTED TRANSACTIONS

Shangri-La International Hotel Management Limited (“SLIM”), an indirect wholly-owned subsidiary of SA, and its fellow subsidiaries are currently providing hotel management, marketing, communication and reservation services (the “Hotel Management Services”) to Beijing Kerry Centre Hotel, PRC pursuant to the hotel management, marketing and related agreements (the “Hotel Management Agreements”) entered into between Beijing Kerry Centre Hotel Co., Ltd. (“BKCH”) and SLIM on 30 June 1998 (as modified by an addendum dated 26 January 2004). The Hotel Management Agreements were entered for 20 years ending on 27 August 2019, with an option to renew for 10 years which is exercisable by mutual agreement of both parties.

BKCH is the owner of Beijing Kerry Centre Hotel. BKCH is owned as to 95% by Kerry Beijing (Guang Hua) Ltd. (“KBGH”) and 5% by an independent third party. KBGH is owned as to 75% by the Group and 25% by the SA group. SA and SLIM are connected persons of the Company. Accordingly, the provision of the Hotel Management Services by SLIM to BKCH is treated as continuing connected transactions of the Company under the Listing Rules.

During the remaining tenure of the Hotel Management Agreements, the annual aggregate fees payable by the Group pursuant to the Hotel Management Agreements for each of the financial years of the Company ending 31 December 2019 are not expected to exceed HK\$75,000,000 (the “Cap”). The fees paid by the Group under the Hotel Management Agreements for the year ended 31 December 2007 amount to HK\$23,393,044, which is within the Cap.

The continuing connected transactions mentioned above have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

1. in the ordinary and usual course of business of the Company;
2. either on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and
3. in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditor of the Company has provided a letter to the Company’s board of directors confirming that the continuing connected transactions:

1. have received the approval of the Company’s board of directors;
2. have been conducted on terms in accordance with the terms of the relevant agreements governing the transactions; and
3. have not exceeded the relevant annual cap as disclosed in the relevant press announcement.

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### **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.

### **AUDITOR**

The financial statements have been audited by PricewaterhouseCoopers who retires and, being eligible, offers itself for re-appointment.

On behalf of the Board

**Ang Keng Lam**

Chairman

Hong Kong, 19 March 2008