

The Directors submit their report together with the audited financial statements for the year ended 31 December 2008.

## **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 section headed "Consolidated Income Statement" of this annual report.

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\$6,286,000.

## **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 in the section headed "Particulars of Properties Held" of this annual report.

## **DISTRIBUTABLE RESERVES**

As at 31 December 2008, the reserves of the Company available for distribution amounted to approximately HK\$19,122,371,000 (2007: HK\$19,071,608,000).

## **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.

## CAPITALIZED INTEREST

The amounts of interest capitalized 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 2008 are set out in note 45 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 2008 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 in the section headed "Ten-Year Financial Summary" of this annual report.

## DIRECTORS

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

Mr KUOK Khoon Chen (Chairman) <sup>+</sup>	(appointed on 3 June 2008)
Mr WONG Siu Kong (President & Chief Executive Officer) <sup>+</sup>	
Mr HO Shut Kan <sup>+</sup>	
Mr MA Wing Kai, William <sup>+</sup>	
Mr SO Hing Woh, Victor, MBE, JP <sup>+</sup>	(appointed on 1 April 2008)
Mr CHAN Wai Ming, William	
Mr QIAN Shaohua	
Mr KU Moon Lun <sup>#</sup>	
Mr LAU Ling Fai, Herald <sup>#</sup>	
Ms WONG Yu Pok, Marina, JP <sup>#</sup>	(appointed on 20 May 2008)
Mr TSE Kai Chi <sup>®</sup>	
Mr ANG Keng Lam <sup>+</sup>	(resigned on 3 June 2008)
Mr William Winship FLANZ <sup>#</sup>	(retired on 6 May 2008)

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

Messrs Ma Wing Kai, William, Lau Ling Fai, Herald and Tse Kai Chi 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. The retiring Directors, being eligible, all offer themselves for re-election.

## BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Biography of Directors and senior management are set out in the section headed "Directors and Senior Management" of this annual report.

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

As at 31 December 2008, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

### (i) Company

Name of Director	Number of ordinary shares		Number of underlying ordinary shares held under equity derivatives <sup>2</sup>	Total	Approximate % of shareholding <sup>5</sup>
	Personal interests <sup>1</sup>	Other interests <sup>4</sup>			
Mr KUOK Khoon Chen	1,004	10,974,137	–	10,975,141	0.77
Mr WONG Siu Kong	–	50,000	3,912,000	3,962,000	0.28
Mr HO Shut Kan	–	50,000	1,200,000	1,250,000	0.09
Mr MA Wing Kai, William	81,020	50,000	1,280,000	1,411,020	0.10
Mr SO Hing Woh, MBE, JP	–	50,000	–	50,000	0.00
Mr CHAN Wai Ming, William	4,000	50,000	800,000	854,000	0.06
Mr QIAN Shaohua	–	50,000	800,000	850,000	0.06

### (ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares			Total	Approximate % of shareholding
		Personal interests <sup>1</sup>	Corporate interests <sup>3</sup>	Other interests <sup>4</sup>		
Kerry Group Limited	Mr KUOK Khoon Chen	7,651,791	6,500,000	280,286,813	294,438,604	19.27 <sup>6</sup>
	Mr WONG Siu Kong	4,617,263	8,504,300	–	13,121,563	0.86 <sup>6</sup>
	Mr HO Shut Kan	1,388,452	–	–	1,388,452	0.09 <sup>6</sup>
	Mr MA Wing Kai, William	1,010,620	–	–	1,010,620	0.07 <sup>6</sup>
	Mr CHAN Wai Ming, William	100,000	–	–	100,000	0.01 <sup>6</sup>
	Mr QIAN Shaohua	500,000	–	–	500,000	0.03 <sup>6</sup>
	Mr TSE Kai Chi	600,000	–	–	600,000	0.04 <sup>6</sup>
Kerry Siam Seaport Limited	Mr MA Wing Kai, William	1	–	–	1	0.00
SCMP Group Limited	Mr KUOK Khoon Chen	8,000	–	20,000	28,000	0.00 <sup>7</sup>
Shang Properties, Inc.	Mr HO Shut Kan	1,570	–	–	1,570	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 of Directors.
- This represents interests held by the relevant Director through his controlled corporation(s).
- This represents interests held by the relevant Director through discretionary trust(s) of which the relevant Director is a contingent beneficiary.
- The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2008 (i.e. 1,427,189,759 ordinary shares).
- The percentage has been adjusted based on the total number of ordinary shares of Kerry Group Limited ("KGL") in issue as at 31 December 2008 (i.e. 1,527,684,428 ordinary shares).
- The percentage has been adjusted based on the total number of ordinary shares of SCMP Group Limited in issue as at 31 December 2008 (i.e. 1,560,945,596 ordinary shares).

# REPORT OF DIRECTORS

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

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

Save as aforesaid, as at 31 December 2008, 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

As at 31 December 2008, 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 of Directors.

Apart from the aforesaid, at no time during the year ended 31 December 2008 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 2008, 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	53.07
Kerry Holdings Limited	Interest of controlled corporations	757,398,587 <sup>1</sup>	Long position	53.07
Caninco Investments Limited	Beneficial owner	310,718,565 <sup>1</sup>	Long position	21.77
Darmex Holdings Limited	Beneficial owner	255,640,776 <sup>1</sup>	Long position	17.91
Moslane Limited	Beneficial owner	88,085,647 <sup>1</sup>	Long position	6.17
JPMorgan Chase & Co.	Interest of controlled corporations	83,933,676	Long position	5.88
		2,220,570	Short position	0.16
		46,821,809	Lending pool	3.28
Morgan Stanley	Interest of controlled corporations	72,569,337	Long position	5.08
		9,585,086	Short position	0.67

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 2008 (i.e. 1,427,189,759 ordinary shares).

Apart from the aforesaid, as at 31 December 2008, 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 of Directors and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under 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 2008, the Company and its subsidiaries had 9,857 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 programmes as well as share option schemes.

## **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 1997 Share Option Scheme previously adopted by the Company on 27 March 1997 and the adoption of the 2002 Share Option Scheme.

On 2 April 2008, a total of 12,400,000 Options were granted under the 2002 Share Option Scheme. As at 31 December 2008, a total of 17,741,555 Options were outstanding which comprised 1,059,555 and 16,682,000 Options granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme respectively.

On 6 February 2009, a total of 7,830,000 Options were granted under the 2002 Share Option Scheme. Accordingly, as at the date of this report of Directors, a total of 25,571,555 Options were outstanding which comprised 1,059,555 and 24,512,000 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 maximizing 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 in its absolute discretion, save that no Option might be exercised later than 10 years from the date on which the Option was granted. The amount paid on acceptance of an Option was HK\$1. The subscription price for any particular outstanding Option was determined by the Board 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 optimize 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): (1) 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 may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit; and (2) shall not exceed 10% of the Shares in issue as at the date of approval by its shareholders 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. Moreover, 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 2008, a total of 52,594,403 Shares (representing approximately 3.69% 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 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.

## SHARE OPTIONS (Continued)

Movements of the Options, which were granted under the 1997 Share Option Scheme, during the year ended 31 December 2008 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2008	Transfer from other category during the year	Transfer to other category during the year	Number of Options exercised during the year (Notes 1 & 2)	Number of Options held as at 31/12/2008	Exercise price HK\$	Exercise period
<b>1. Directors</b>									
Mr ANG Keng Lam	16/04/2002	I	518,248	-	(518,248)	-	-	6.85	16/04/2003 – 15/04/2012
(resigned on 3 June 2008)	16/04/2002	II	518,247	-	(518,247)	-	-	6.85	16/04/2004 – 15/04/2012
<b>2. Continuous Contract Employees</b>									
	01/06/2000	I	30,000	-	-	(27,000)	3,000	6.70	01/06/2001 – 31/05/2010
	01/06/2000	II	72,564	-	-	(27,000)	45,564	6.70	01/06/2002 – 31/05/2010
	01/06/2000	III	96,616	-	-	(24,878)	71,738	6.70	01/06/2003 – 31/05/2010
	02/03/2001	I	37,000	-	-	-	37,000	11.59	02/03/2002 – 01/03/2011
	02/03/2001	II	45,000	-	-	(8,000)	37,000	11.59	02/03/2003 – 01/03/2011
	02/03/2001	III	44,038	-	-	(12,208)	31,830	11.59	02/03/2004 – 01/03/2011
	16/04/2002	I	101,711	-	-	(3,247)	98,464	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	111,711	-	-	(13,247)	98,464	6.85	16/04/2004 – 15/04/2012
<b>3. Others</b>									
	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
	16/04/2002	I	-	518,248	-	(400,000)	118,248	6.85	16/04/2003 – 15/04/2012
	16/04/2002	II	-	518,247	-	-	518,247	6.85	16/04/2004 – 15/04/2012
<b>Total:</b>			<b>1,772,534</b>	<b>1,036,495</b>	<b>(1,036,495)</b>	<b>(712,979)</b>	<b>1,059,555</b>		

# REPORT OF DIRECTORS

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## SHARE OPTIONS (Continued)

Movements of the Options, which were granted under the 2002 Share Option Scheme, during the year ended 31 December 2008 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant	Tranche	Number of Options held as at 01/01/2008	Number of Options granted during the year	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 held as at 31/12/2008	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
(resigned on 3 June 2008)	17/03/2005	II	750,000	-	-	(750,000)	-	-	18.74	17/03/2007 – 16/03/2015
Mr WONG Siu Kong	17/03/2005	I	162,000	-	-	-	-	162,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	750,000	-	-	-	-	750,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	750,000	-	-	-	750,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	750,000	-	-	-	750,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	1,500,000	-	-	-	1,500,000	47.70	02/04/2011 – 01/04/2018
Mr HO Shut Kan	02/04/2008	I	-	300,000	-	-	-	300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	300,000	-	-	-	300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	600,000	-	-	-	600,000	47.70	02/04/2011 – 01/04/2018
Mr MA Wing Kai, William	17/03/2005	I	320,000	-	-	-	(240,000)	80,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	400,000	-	-	-	-	400,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
Mr CHAN Wai Ming, William	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
Mr QIAN Shaohua	02/04/2008	I	-	200,000	-	-	-	200,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	200,000	-	-	-	200,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	400,000	-	-	-	400,000	47.70	02/04/2011 – 01/04/2018
<b>2. Continuous Contract Employees</b>	17/03/2005	I	667,500	-	-	-	(37,500)	630,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	1,197,500	-	-	-	(457,500)	740,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	1,300,000	-	-	-	1,300,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	1,300,000	-	-	-	1,300,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	2,600,000	-	-	-	2,600,000	47.70	02/04/2011 – 01/04/2018
<b>3. Others</b>	17/03/2005	I	-	-	750,000	-	-	750,000	18.74	17/03/2006 – 16/03/2015
	17/03/2005	II	20,000	-	750,000	-	-	770,000	18.74	17/03/2007 – 16/03/2015
	02/04/2008	I	-	150,000	-	-	-	150,000	47.70	02/04/2009 – 01/04/2018
	02/04/2008	II	-	150,000	-	-	-	150,000	47.70	02/04/2010 – 01/04/2018
	02/04/2008	III	-	300,000	-	-	-	300,000	47.70	02/04/2011 – 01/04/2018
<b>Total:</b>			<b>5,017,000</b>	<b>12,400,000</b>	<b>1,500,000</b>	<b>(1,500,000)</b>	<b>(735,000)</b>	<b>16,682,000</b>		

Notes:

1. The weighted average closing price of the Shares immediately before the dates on which the Options were exercised was HK\$49.62.
2. During the year, no Options were granted/granted for adjustment, cancelled or lapsed under the 1997 Share Option Scheme.
3. During the year, no Options were granted for adjustment, cancelled or lapsed 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.

### **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 2008 and up to the date of this report of Directors, 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.

Messrs Kuok Khoon Chen and Wong Siu Kong were directors of subsidiaries of Shangri-La Asia Limited ("SA") and both of them 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 was primarily listed on the main board of the Stock Exchange with secondary listing on the Singapore Exchange Securities Trading Limited as at the date of this report of Directors.

Messrs Kuok Khoon Chen and Wong Siu Kong were directors of (but both of them did not have any interests in shares in) the China World Trade Center Co., Ltd. ("CWTC") group of companies, the businesses of which consisted of property investment and development and hotel ownership and operation in 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 PRC, it is likely that these Excluded Businesses may compete with the property and hotel businesses of the Group in PRC.

The Excluded Businesses are operated and managed by companies (and in the case of SA and CWTC, 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 10 March 2008, a consortium formed between Kerry Properties (China) Limited (incorporated in Hong Kong) ("KPCL") (an indirect wholly-owned subsidiary of the Company) and Shangri-La China Limited ("SACL") (an indirect wholly-owned subsidiary of SA) won a bid at an open bidding to acquire the land use rights of a plot of land at the Central District of Honggutan, Nanchang City, Jiangxi Province, PRC (the "Project Site"). KPCL and SACL is now holding 80% and 20% respectively in the joint venture company established for the purposes of acquiring, holding and developing of the Project Site.

The consideration for the acquisition of the Project Site was approximately RMB258,000,000 (approximately HK\$283,000,000). The maximum contribution of the Company to the joint venture company is expected to be approximately RMB1,760,000,000 (HK\$1,927,000,000).

KHL is a controlling shareholder of the Company. SA is an associate of KHL under the Listing Rules and therefore a connected person of the Company. The establishment of the joint venture company constituted 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 22 April 2008.

2. On 23 April 2008, the Company entered into an agreement with COFCO (Hong Kong) Limited ("COFCO HK"), Crosslight International Limited ("Crosslight") and Kerry Properties (China) Limited (incorporated in the British Virgin Islands) ("Kerry China") (a direct wholly-owned subsidiary of the Company) pursuant to which the Company has conditionally acquired, through Kerry China, 10% of the issued share capital of and the proportionate shareholder's loan in Hong Kong Shanghai Development Co Ltd ("HKSD") from COFCO HK, through Crosslight, at an aggregate consideration of RMB383,887,000 (approximately HK\$427,967,670).

The consideration has been satisfied by (i) Kerry China transferring its entire interest in Nite Lites Limited ("NLL") and assigning its loan made to NLL to COFCO HK; and (ii) the Company paying an amount of RMB57,637,000 (approximately HK\$64,255,295) to COFCO HK. The Company is now indirectly owning 75% of the issued share capital of HKSD and has disposed of its entire indirect interest in NLL to COFCO HK.

Crosslight was a substantial shareholder of HKSD and HKSD was an indirect 65%-owned subsidiary of the Company. COFCO HK was the holding company, and was hence an associate, of Crosslight. Crosslight and COFCO HK were therefore connected persons of the Company. Accordingly, the aforesaid transaction constituted a connected transaction for the Company under the Listing Rules.

3. On 26 April 2008, Golden Snow Limited ("GSL"), Peterson Holdings Company Limited ("PHCL"), Peterson Property (Holdings) Company Limited ("PP(H)CL"), Mr Yeung Sai Hong ("Mr Yeung"), Precious Path Limited ("PPL") (an indirect wholly-owned subsidiary of the Company) and Wing Tsing Financial Services Limited ("WTFSL") (an indirect wholly-owned subsidiary of the Company) entered into a sale and purchase agreement for the formation of a joint venture company by way of acquisition of 71% of the entire issued share capital of Fancy Win Limited (a wholly-owned subsidiary of GSL) and the proportionate shareholder's loans at an aggregate consideration of HK\$696,725,019 for the purpose of holding of various properties located at (i) Li Sing Street; (ii) Wilmer Street; and (iii) Queen's Road West, Hong Kong respectively for re-development.

The joint venture company is owned by GSL and PPL in the proportions of 29% and 71% respectively and that the maximum contribution of the Company to the joint venture company is expected to be approximately HK\$907,000,000.

PHCL is a substantial shareholder of an indirect 71%-owned subsidiary of the Company. Both PHCL and PP(H)CL are beneficially owned by Mr Yeung and PP(H)CL is the holding company of GSL. PHCL, PP(H)CL, GSL and Mr Yeung are each therefore a connected person of the Company. Accordingly, the entering into of the sale and purchase agreement constituted a connected transaction for the Company under the Listing Rules.

## CONNECTED TRANSACTIONS (Continued)

4. On 21 July 2008, KPCL, Jeston Investments Pte Ltd (“JIPL”) (a direct wholly-owned subsidiary of Allgreen Properties Limited (“APL”)), SACL and Winson Terrace International Limited (“WTIL”) (an indirect wholly-owned subsidiary of Kuok Brothers Sdn. Bhd. (“KB”)) jointly won the bids at the open biddings to acquire the land use rights of three plots of land all located at Feng Huang Xin Cheng, Tangshan City, Hebei Province, PRC (the “Tangshan Sites”). KPCL, JIPL, SACL and WTIL entered into a master joint venture agreement pursuant to which KPCL, JIPL, SACL and WTIL will hold 40%, 25%, 20% and 15% respectively in one or more joint venture companies to be established for the purposes of acquiring, holding and developing of the Tangshan Sites.

The consideration for the acquisition of the Tangshan Sites was approximately RMB1,705,000,000 (approximately HK\$1,960,000,000). The maximum contribution of the Company to the joint venture company(ies) is expected to be approximately RMB2,920,000,000 (approximately HK\$3,356,000,000).

Kuok (Singapore) Limited (“KSL”) is interested in approximately 34.1% of the issued share capital of APL. KSL indirectly owns 33% of the issued shares of a 67%-owned subsidiary of the Company and therefore APL is a connected person of the Company. SA is a connected person of the Company. KB is entitled to indirectly exercise 49% of the voting power at general meetings of a 51%-owned subsidiary of the Company and is therefore a connected person of the Company. Accordingly, the entering into of the master joint venture agreement constituted 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 4 September 2008.

On 15 January 2009, KPCL, JIPL, SACL and WTIL entered into a cancellation agreement with Tangshan City Land Resources Transactions Centre (“TCLR”) to relinquish their rights to acquire the land use rights of the Tangshan Sites as the joint venture parties decided to adopt a more conservative approach in relation to the project in light of the current market conditions. A penalty of a sum of RMB21,000,000 (approximately HK\$23,900,000) was deducted from the deposit by TCLR whilst the balance of the deposit in the amount of RMB679,000,000 was refunded.

5. On 23 September 2008, KPCL, SACL and Belfin Investments Pte Ltd (“BIPL”) (a direct wholly-owned subsidiary of APL) jointly won a bid at an open bidding to acquire the land use rights of a plot of land located at Zhong Yang Road, Gu Lou District, Nanjing, Jiangsu Province, PRC (the “Nanjing Site”). KPCL, SACL and BIPL will hold 45%, 40% and 15% respectively in the joint venture company to be established for the purposes of acquiring, holding and developing of the Nanjing Site.

The consideration for the acquisition of the Nanjing Site was RMB200,000,000 (approximately HK\$230,000,000). The maximum contribution of the Company to the joint venture company is expected to be approximately RMB675,000,000 (approximately HK\$776,000,000).

APL and SA are connected persons of the Company. Accordingly, the establishment of the joint venture company constituted a connected transaction for the Company under the Listing Rules.

## CONNECTED TRANSACTIONS (Continued)

6. On 28 October 2008, the Company and SA entered into a supplemental agreement in relation to the joint acquisition, ownership and development of the sites in Jingan District, Shanghai, PRC pursuant to which the Company and SA agreed that the maximum total commitment of the project as referred to in the master agreement previously approved by the independent shareholders of the Company at the special general meeting held on 25 June 2004 shall be increased from US\$700,000,000 to RMB7,600,000,000.

The proportionate additional funding commitment of the Company is approximately RMB924,324,000. The maximum funding commitment of the Company in respect of the project (including the commitments which the Company have already made) will be increased to RMB3,876,000,000.

SA is a connected person of the Company. The entering into of the supplemental agreement constituted 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 8 December 2008.

7. On 6 January 2009, the Company announced that (i) Magnifair Company Limited (“Magnifair”) (through its agent, Kerry Real Estate Agency Limited) (as Vendor) had on 29 August 2008 entered into three memoranda for sale with Metropoly Limited and Ms Ruth Kuok respectively (collectively, the “SOHO Purchasers”) in relation to the sales and purchases of three property units at 38 Shelley Street, Mid-Levels, Hong Kong (the “SOHO Units”) for a total consideration of HK\$33,715,000; and (ii) Woody Company Limited (“Woody”) (through its agent, Kerry Real Estate Agency Limited) (as Vendor) had on 2 January 2009 entered into three provisional agreements for sale and purchase with Connolly Limited, Triple Wise Holdings Limited and All Sheen Limited respectively (collectively, the “Belgravia Purchasers”) in relation to the sales and purchases of three property units and six car-parking spaces at 57 South Road, Repulse Bay, Hong Kong (the “Belgravia Units”) for a total consideration of HK\$109,050,500.

Magnifair and Woody (the “Vendors”) are indirect wholly-owned subsidiaries of the Company. Connolly Limited and Ms Ruth Kuok are associates of the Chairman of the Company. Triple Wise Holdings Limited is an associate of the President & Chief Executive Officer of the Company. All Sheen Limited and Metropoly Limited are associates of Mr Ang Keng Lam, who is a director of the Company’s subsidiary companies. The SOHO Purchasers and the Belgravia Purchasers are therefore regarded as connected persons of the Company. Accordingly, the sales of the SOHO Units and the Belgravia Units by the Vendors to the SOHO Purchasers and the Belgravia Purchasers constituted connected transactions for the Company under the Listing Rules.

8. On 4 February 2009, KPCL, JIPL, SACL and WTIL entered into a joint bid agreement in relation to the joint payment of a deposit (the “Deposit”) in the sum of RMB239,000,000 to TCLR and the joint participation in an open bidding for the land use rights of two plots of land both located at Feng Huang Xin Cheng, Tangshan City, Hebei Province, PRC (the “New Tangshan Sites”) in the proportion of interests of 40%, 25%, 20% and 15% respectively.

APL, SA and KB are connected persons of the Company. Accordingly, the payment of the Deposit and the entering into of the joint bid agreement constituted connected transactions for the Company under the Listing Rules.

### **CONNECTED TRANSACTIONS (Continued)**

9. On 11 February 2009, KPCL, JIPL, SACL and WTIL jointly won the bids at the open biddings to acquire the land use rights of the New Tangshan Sites. KPCL, JIPL, SACL and WTIL entered into a master joint venture agreement pursuant to which KPCL, JIPL, SACL and WTIL will hold 40%, 25%, 20% and 15% respectively in one or two joint venture companies to be established for the purposes of acquiring, holding and developing of the New Tangshan Sites.

The consideration for the acquisition of the New Tangshan Sites was approximately RMB377,000,000 (approximately HK\$428,000,000). The maximum contribution of the Company to the joint venture company(ies) is expected to be approximately RMB854,400,000 (approximately HK\$971,000,000).

APL, SA and KB are connected persons of the Company. Accordingly, the entering into of the master joint venture agreement and the transactions contemplated thereunder constituted connected transactions for the Company under the Listing Rules and approval by the independent shareholders of the Company is required at a special general meeting to be held on 31 March 2009.

### **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 Shangri-La’s Kerry Centre Hotel (formerly known as Beijing Kerry Centre Hotel), Beijing 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 Shangri-La’s Kerry Centre Hotel. BKCH is owned as to 71.25% by KPCL, 23.75% by the SA group and 5% by an independent third party. 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 2008 amount to HK\$23,213,170, 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.

# REPORT OF DIRECTORS

Continued

## **CONTINUING CONNECTED TRANSACTIONS (Continued)**

The auditor of the Company has provided a letter to the Board of Directors of the Company confirming that the continuing connected transactions:

1. have received the approval of the Board of Directors of the Company;
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.

## **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

**Kuok Khoon Chen**

*Chairman*

Hong Kong, 18 March 2009