



KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2003

The Directors of Kerry Properties Limited (the "Company") are pleased to announce the unaudited interim results of the Company, its subsidiaries and associated companies (the "Group") for the six months ended 30 June 2003. The Audit Committee of the Board, comprising of all the independent non-executive directors of the Company, has also met to review the results and the financial statements of the Group for the six months ended 30 June 2003 prior to recommending them to the Board for approval.

The loss attributable to shareholders for the six months ended 30 June 2003 was HK\$591 million, as compared to a profit attributable to shareholders of HK\$366 million (as restated) for the corresponding six months period ended 30 June 2002. The revaluation deficits, provisions and the deferred tax credit referred to below resulted in total charges of approximately HK\$975 million to the Group for the six months ended 30 June 2003. Excluding these factors, profit attributable to shareholders for the six months ended 30 June 2003 amounted to approximately HK\$384 million. As announced on 13 June 2003, as a result of the adoption of the Statement of Standard Accounting Practice ("SSAP") 12 (revised) in Hong Kong, an additional provision of HK\$1.2 billion has been retrospectively made for the deferred tax liability as at 31 December 2002. Profit attributable to shareholders for the year ended 31 December 2002 was restated at approximately HK\$600 million and shareholders' funds as at 31 December 2002 was restated at HK\$19.8 billion.

The decrease in the Group's earnings for the six months ended 30 June 2003 was mainly due to the deficits arising from revaluation as at 30 April 2003 of the Group's investment properties, hotel properties and other land and buildings amounting to HK\$914 million (which have been charged to the consolidated profit and loss account during the period) and additional provisions of HK\$55 million and HK\$137 million for the Constellation Cove project in Tai Po Kau, Hong Kong and for a decline in the carrying value of associated companies, respectively. The Group's loss attributable to shareholders was also offset by a deferred tax credit of HK\$131 million which arose from the adoption of SSAP 12 (revised).

The Group carried out a revaluation of its investment properties, hotel properties and other land and buildings as at 30 April 2003 in view of the proposed privatisation of the Company by its substantial shareholder, Kerry Holdings Limited. This revaluation of the Group's properties was carried out in accordance with the requirements of the Hong Kong Code on Takeovers and Mergers and was not required under Hong Kong accounting standards followed by the Group in the preparation of its accounts. Shareholders are advised that such interim revaluations would not be done under normal circumstances. The Group will continue to carry out annual revaluations of its properties at its financial year ends in accordance with the requirements of Hong Kong accounting standards.

Loss per share for the period was HK50.39 cents as compared to earnings per share of HK31.58 cents (as restated) for the corresponding period in 2002. The basis of calculating the loss per share is detailed in note 6 below.

The Directors have declared an interim dividend of HK13 cents per share in cash for the six months ended 30 June 2003 (2002: HK18 cents) payable on Tuesday, 11 November 2003, to shareholders whose names appear on the registers of members of the Company on Thursday, 2 October 2003, with a scrip alternative to offer the right to shareholders to elect to receive such interim dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash.

A circular containing details of the scrip dividend scheme together with the relevant election form, where applicable, will be sent to each shareholder on or about Monday, 13 October 2003. The scrip dividend scheme is subject to the following conditions: (a) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (b) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") of the listing of and permission to deal in the new shares to be issued pursuant thereto.

At the Company's Annual General Meeting held on 15 April 2003, shareholders approved the final dividend of HK12 cents per share for the year ended 31 December 2002 amounting to a total of HK\$140 million. Shareholders were given a scrip alternative to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash. A total of 13,925,576 shares were issued on 30 May 2003 at a price of HK\$8.37 per share (being the average of the closing price of the five consecutive trading days immediately preceding and including 30 April 2003), which was equivalent in total to HK\$116 million in value, pursuant to this dividend scheme. The dividend payable in cash amounting to HK\$24 million was paid on 30 May 2003.

Consolidated Profit And Loss Account

	Unaudited		Restated	
	Six months ended 30 June		Six months ended 30 June	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Turnover	1,814,468	3,091,972	1,814,468	3,091,972
Cost of sales	(545,501)	(1,717,993)	(545,501)	(1,717,993)
Direct operating expenses	(719,114)	(595,266)	(719,114)	(595,266)
Gross profit	549,853	778,713	549,853	778,713
Other revenues	14,368	29,189	14,368	29,189
Other income	20,165	20,451	20,165	20,451
Provision in respect of stock of completed properties held for sale	(69,346)	(133,000)	(69,346)	(133,000)
Revaluation deficit on properties	(962,458)	-	(962,458)	-
Administrative expenses	(126,103)	(150,132)	(126,103)	(150,132)
Operating (loss)/profit before finance costs	(573,521)	545,221	(573,521)	545,221
Finance costs	(95,550)	(126,909)	(95,550)	(126,909)
Operating (loss)/profit	(669,071)	418,312	(669,071)	418,312
Share of results of associated companies	-	-	-	-
-share of profits less losses	115,700	39,609	115,700	39,609
-provision for decline in carrying value	(20,885)	-	(20,885)	-
(Loss)/profit before taxation	(689,956)	457,921	(689,956)	457,921
Taxation	73,267	(86,055)	73,267	(86,055)
(Loss)/profit after taxation	(616,689)	371,866	(616,689)	371,866
Minority interests	25,627	(6,094)	25,627	(6,094)
(Loss)/profit attributable to shareholders	(591,062)	365,772	(591,062)	365,772
Transfer to reserves	(599,845)	361,839	(599,845)	361,839
Interim dividend	153,990	210,665	153,990	210,665
(Loss)/earnings per share	(50.39) cents	31.58 cents	(50.39) cents	31.58 cents
Interim dividend per share	13 cents	18 cents	13 cents	18 cents

Consolidated Balance Sheet

	Unaudited		Restated	
	30 June		31 December	
	2003	2002	2003	2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Intangible assets	(43,678)	45,004	(43,678)	45,004
Fixed assets	20,479,579	20,890,174	20,479,579	20,890,174
Associated companies	4,799,797	5,080,824	4,799,797	5,080,824
Other non-current assets	1,475,493	1,589,987	1,475,493	1,589,987
Current assets	878,717	1,363,328	878,717	1,363,328
Stock of completed properties held for sale	590,145	591,273	590,145	591,273
Properties under development for sale	774,389	862,038	774,389	862,038
Accounts receivable, prepayments and deposits	40,738	30,764	40,738	30,764
Tax recoverable	2,166	2,043	2,166	2,043
Trading securities	35,154	70,450	35,154	70,450
Pledged bank deposits	1,289,612	1,353,744	1,289,612	1,353,744
Cash and bank balances	3,610,921	4,273,640	3,610,921	4,273,640
Current liabilities	1,275,491	1,415,574	1,275,491	1,415,574
Accounts payable, deposits received and accrued charges	92,468	109,533	92,468	109,533
Taxation	1,156,192	1,335,481	1,156,192	1,335,481
Short-term bank loans and current portion of long-term bank loans	-	2,949	-	2,949
Unsecured bank overdrafts	2,524,151	2,863,537	2,524,151	2,863,537
Net current assets	1,086,770	1,410,103	1,086,770	1,410,103
Total assets less current liabilities	27,797,961	29,016,092	27,797,961	29,016,092
Financed by:				
Share capital	1,184,540	1,170,551	1,184,540	1,170,551
Share premium	3,581,009	3,478,011	3,581,009	3,478,011
Other reserves	9,180,353	9,386,344	9,180,353	9,386,344
Retained profits	4,867,223	5,621,058	4,867,223	5,621,058
Proposed dividend	153,990	140,466	153,990	140,466
Shareholders' funds	18,967,115	19,796,430	18,967,115	19,796,430
Minority interests and loans	2,499,693	2,816,623	2,499,693	2,816,623
	21,466,808	22,613,053	21,466,808	22,613,053
Long-term liabilities	5,765,349	5,719,091	5,765,349	5,719,091
Deferred taxation	565,804	683,948	565,804	683,948
	27,797,961	29,016,092	27,797,961	29,016,092

Financial Highlights

	Unaudited		Restated	
	30 June		31 December	
	2003	2002	2003	2002
	HK\$M	HK\$M	HK\$M	HK\$M
Shareholders' equity	18,967	19,796	18,967	19,796
Net borrowings	5,597	5,633	5,597	5,633
Net asset value per share	HK\$16.01	HK\$16.91	HK\$16.01	HK\$16.91
Gearing	29.5%	28.5%	29.5%	28.5%
Issued shares (in millions)	1,185	1,171	1,185	1,171

Notes:

1. Principal Accounting Policies

These unaudited consolidated interim accounts are prepared in accordance with SSAP 25 - "Interim financial reporting" issued by the Hong Kong Society of Accountants and Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

This condensed interim accounts should be read in conjunction with the 2002 annual financial statements.

The accounting policies and methods of computation used in the preparation of these condensed interim accounts are consistent with those used in the annual accounts for the year ended 31 December 2002 except that the Group has adopted SSAP 12 (revised) - "Income taxes" issued by the Hong Kong Society of Accountants which is effective for accounting periods commencing on or after 1 January 2003.

Under SSAP 12 (revised), deferred taxation must be provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities (i.e. amounts attributed to those assets and liabilities for taxation purposes) and their carrying amounts in the financial statements. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised. Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Prior to the adoption of SSAP 12 (revised), the Group's accounting policy on deferred taxation was to account for it at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future.

The requirement for the Group to adopt SSAP 12 (revised) for its current period results in a change in its accounting policy. In accordance with accounting standards in Hong Kong in respect of changes in accounting policy, the application of SSAP 12 (revised) will be retrospective. As a result of the retrospective application of SSAP 12 (revised), an additional provision of approximately HK\$1.2 billion has been made for the deferred tax liability as at 31 December 2002, of which approximately HK\$555 million, HK\$344 million and HK\$305 million have been charged against the investment properties revaluation reserve, retained profits and other reserves, respectively. Shareholders' funds as at 31 December 2002 have decreased from approximately HK\$21.0 billion to approximately HK\$19.8 billion. The profit attributable to shareholders for the six months ended 30 June 2002 has also been restated from approximately HK\$363 million to approximately HK\$366 million. The adoption of SSAP 12 (revised) resulted in a deferred tax credit of HK\$131 million to the profit and loss account for the six months ended 30 June 2003 (2002: deferred tax charge of HK\$7 million).

The comparatives presented have been restated to conform to the change in accounting policy as a result of the adoption of SSAP 12 (revised).

2. Principal Activities And Geographical Analysis Of Operations

An analysis of the Group's turnover and contribution to operating (loss)/profit for the period by principal activities and markets is as follows:

Principal activities:	Turnover		Operating (loss)/profit	
	Six months ended 30 June 2003	Six months ended 30 June 2002	Six months ended 30 June 2003	Six months ended 30 June 2002
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Property rental	172,090	190,271	(468,016)	105,496
- Hong Kong	237,932	218,003	(133,424)	123,260
- PRC	410,022	408,274	(601,440)	228,756
Hotel operations	61,543	114,355	(26,273)	46,354
Logistics and warehouse operations	179,899	195,960	(19,983)	83,357
- warehouse	560,921	306,441	15,690	7,745
- logistics	740,820	502,401	(4,293)	91,102
Property sales	377,766	1,815,204	(105,843)	(30,524)
- Hong Kong	203,779	230,535	33,296	41,229
- PRC	581,545	2,045,739	(72,547)	10,705
Infrastructure	-	-	(247)	(246)
Project, property management and others	20,538	21,203	35,729	41,641
Principal markets:	909,635	2,350,602	(535,613)	209,293
Hong Kong	536,503	571,524	(131,902)	199,476
PRC	255,580	88,079	641	(1,420)
United Kingdom	112,750	81,767	(2,197)	10,965
Others	1,814,468	3,091,972	(669,071)	418,312

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

	Six months ended 30 June 2003						
	Hong Kong Property	PRC Property	Logistics and Warehouse	Infra-structure	Overseas Property	Others	Eli-minations
REVENUE	549,856	503,254	740,820	-	-	20,538	-
Turnover	-	-	-	-	-	129,285	(129,285)
Inter-segment revenue	-	-	-	-	-	140,993	(140,993)
Inter-segment interest income	-	-	-	-	-	-	-
Total revenue	549,856	503,254	740,820	-	-	290,816	(270,278)
RESULT	(514,108)	(96,499)	22,286	(247)	(2,449)	144,121	(140,993)
Segment results	3,806	-	-	-	-	-	-
Dividend income	4,897	1,648	173	2,221	-	1,623	-
Interest income	(68,454)	(31,580)	(26,752)	(2,221)	-	(107,566)	140,993
Interest expenses	(573,859)	(126,401)	(4,293)	(247)	(2,449)	38,178	-
Operating (loss)/profit	(110,485)	11,696	(982)	59,450	19,436	-	(20,885)
Share of results of associated companies	(684,344)	(114,705)	(5,275)	59,203	16,987	38,178	-
(Loss)/profit before taxation	1,583	73,037	3,409	(3,692)	(1,035)	(35)	-
Taxation	(682,761)	(41,668)	(1,866)	55,511	15,952	38,143	-
(Loss)/profit after taxation	17,005	8,892	(270)	-	-	-	-
Minority interests	(665,756)	(32,776)	(2,136)	55,511	15,952	38,143	-
(Loss)/profit attributable to shareholders	6,249	8,892	(270)	-	-	-	-

	Six months ended 30 June 2002 (Restated)						
	Hong Kong Property	PRC Property	Logistics and Warehouse	Infra-structure	Overseas Property	Others	Eli-minations
REVENUE	2,005,475	562,893	502,401	-	-	21,203	-
Turnover	-	-	-	-	-	141,910	(141,910)
Inter-segment revenue	-	-	-	-	-	202,771	(202,771)
Inter-segment interest income	-	-	-	-	-	-	-
Total revenue	2,005,475	562,893	502,401	-	-	365,884	(344,681)
RESULT	178,995	258,569	124,396	(246)	(3,485)	160,574	(202,771)
Segment results	1,976	-	-	-	16,299	5	-
Dividend income	1,541	2,315	172	1,950	-	4,931	-
Interest income	(107,540)	(50,041)	(33,466)	(1,950)	-	(136,683)	202,771
Interest expenses	74,972	210,843	91,102	(246)	12,814	28,827	-
Operating profit/(loss)	(50,447)	10,426	(1,642)	45,164	36,108	-	-
Share of results of associated companies	24,525	221,269	89,460	44,918	48,922	28,827	-
Profit before taxation	(26,922)	(10,173)	(2,002)	(15,329)	7,389	-	-
Taxation	(12,463)	(37,018)	(5,771)	-	-	-	-
(Loss)/profit after taxation	31,755	(37,018)	(5,771)	-	-	-	-
Minority interests	19,293	152,411	76,422	42,897	33,593	41,156	-
Profit attributable to shareholders	50,048	(53,036)	(11,253)	42,897	33,593	41,156	-

3. Operating (Loss)/Profit

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
Operating (loss)/profit is stated after crediting/charging the following:		
Crediting		
Dividend income from listed and unlisted investments	3,806	18,280
Interest income	10,562	10,909
Gain/(loss) on sale of properties	(7,824)	(12,334)
- Investment properties	43,868	340,080
- Properties under development and completed properties for sale	36,044	327,746
Amortisation of negative goodwill	2,158	11
Charging		
Depreciation	32,892	29,551
Amortisation of goodwill	1,195	611
Total finance costs incurred	137,235	181,036
Less: amount capitalised in properties under development	(41,685)	(54,127)
Total finance costs expensed during the period	95,550	126,909

4. Taxation

	Six months ended 30 June	
	2003	2002
	HK\$'000	HK\$'000
The taxation credit/(charge) comprises:		
Hong Kong profits tax		
Current	(20,367)	(48,914)
Deferred	23,991	-
Overprovision in prior years	4,401	9,613
	8,025	(39,301)
PRC taxation		
Current	(27,881)	(79,456)
Deferred	97,450	51,119
Overprovision in prior years	375	706
	69,944	(27,631)
Overseas taxation		
Current	(612)	(21)
Overprovision in prior years	-	67
	(612)	46
Share of taxation attributable to associated companies		
Current	(14,196)	(1

HONG KONG PROPERTY DIVISION

The Hong Kong Property Division recorded total turnover of HK\$550 million for the six months ended 30 June 2003 (2002: HK\$2,005 million), representing 30% of the total turnover for the Group. Rental income for the six month period recorded a decrease of 9% to HK\$172 million compared with HK\$190 million for the corresponding period last year. Proceeds from sales of properties for the six months ended 30 June 2003 amounted to HK\$378 million as compared to HK\$1,815 million for the same period in 2002. Loss attributable to the Group from the Division amounted to approximately HK\$666 million (2002: profit of HK\$19 million).

The Group's share of the additional provision for Constellation Cove amounted to HK\$55 million and a provision was made for a decline in the carrying value of associated companies amounting to approximately HK\$137 million. The deficit on revaluation of investment properties of approximately HK\$529 million was offset by a deferred tax credit for the Division of HK\$12 million.

As a result of the additional specific provision for Constellation Cove, the written down values of the remaining apartments, duplex villas and detached houses in Constellation Cove have decreased from HK\$3,400 per square foot ("psf") to HK\$2,857 psf, HK\$3,800 psf to HK\$3,477 psf and HK\$4,200 psf to HK\$3,836 psf, respectively. Together with the HK\$470 million provision previously made for the project in 2001 and 2002, the Group's share of the total provision made to date amounts to approximately HK\$525 million. Release of provisions for Constellation Cove for the period amounted to HK\$179 million and the total provisions released as at 30 June 2003 is HK\$367 million.

Excluding the effect of the revaluation deficits, additional provisions and the deferred tax credit as stated above, total profit for the Hong Kong Property Division for the six months ended 30 June 2003 amounted to HK\$43 million (2002: HK\$119 million, excluding a HK\$100 million provision made for Constellation Cove).

Development Properties

Sales of Ocean Pointe in Sham Tseng continued during the period under review. As at 30 June 2003, the development had only two remaining units. Subsequent to the period end, all the remaining units were sold.

The Group has also continued with the sales of the apartments, duplex villas and detached houses in Constellation Cove, Tai Po Kau. The development, comprising of 208 apartments, 28 duplex villas and 50 detached houses, was 83%, 29% and 66% sold, respectively, as at 30 June 2003. In addition, a further 6 apartments, 3 duplex villas and 1 detached house were sold subsequent to 30 June 2003.

In November 2002, the Group launched the presales of its 50% owned joint venture residential development, The Cliveden in Tsuen Wan. The construction of The Cliveden is in the final stages and the occupation permit is expected to be received in the last quarter of 2003, with completion scheduled by the end of 2003. As at 30 June 2003, approximately 44% of the development, comprising of a total of 210 units, was presold. Subsequent to the period end, another 18 units were presold.

The Cliveden comprises nine residential towers of 10 storeys each, with 210 units and sizes of apartments range from approximately 900 square feet to 1,500 square feet.

The Group's joint venture developments are continuing to be sold and are progressing well. The Group has equity accounted for its share of results from Phases 1 and 2 of the Tai Kok Tsui project, which were approximately 93% and 91% sold, respectively as at 30 June 2003. Subsequent to the period end, an additional 3% in Phase 2 of the project was sold.

Investment Properties

During the period under review, approximately 10,000 square feet of Enterprise Square in Kowloon Bay was sold and approximately 96% of the development has been leased as at the period end.

Subsequent to the period end, the Group sold the penthouse duplex of Tregunter Tower 2 in the Mid-Levels.

Despite the extremely difficult conditions in the Hong Kong leasing market especially after the SARS outbreak, the Group's luxury residential portfolio, including Aigburth, Branksome, Tavistock and Tregunter Towers 1 and 2 in the Mid-Levels and Belgravia in South Bay, are all leasing well and have maintained an average occupancy rate of approximately 92%.

Olympian City 1 and 2, the commercial podiums of Phases 1 and 2 of the Tai Kok Tsui project, are also leasing well with occupancy rates of approximately 80% and 94%, respectively, as at 30 June 2003.

The retail and commercial properties of the Group are also performing well with high occupancy rates of 82% and 92%, respectively, as at 30 June 2003.

Status of Developments

Construction of Branksome II, another of the Group's luxury developments located at the prestigious address of 3 Tregunter Path, Mid-Levels, is progressing according to schedule. The development, with a buildable gross floor area of approximately 143,000 square feet, is a 35 storey luxury residential building on top of a carpark and recreation podium. It will provide a total of 64 units, including 60 apartments, 2 garden units and 1 simplex with private swimming pools and 1 penthouse duplex with a private swimming pool on the roof. The development is due for completion in the first quarter of 2004 and is intended to be retained for lease to further strengthen the Group's investment property portfolio.

Construction of Enterprise Square 3, a grade A office development in Kowloon Bay, is also progressing well with installation of curtain walls currently in progress. In January 2003, the land premium negotiation for the conversion of Enterprise Square 3 from industrial/office use to business use was concluded with the conversion premium amounting to HK\$12 million. The pre-sale consent for the development is expected to be received in the fourth quarter of 2003 and the development is expected to be completed in the first quarter of 2004.

As the Group intends to develop a cluster of quality offices and retail complexes in Kowloon Bay, it is now planning the development of Enterprise Square 5. Tender negotiation for the foundation contract is currently in progress. The development would provide approximately 1.6 million square feet of grade A commercial space when completed.

In May 2002, the Group acquired an industrial property, Chung Nam Industrial Building at 152-160 Kwok Shui Road in Tsuen Wan. The development is intended to be redeveloped into high rise residential buildings over a carpark and recreation podium with ground floor commercial spaces. Negotiation with the Government regarding the land exchange is currently in progress.

In June 2002, a consortium formed by the Group and Sino Land Company Limited won the tender for the Tsung Kwan O Hang Hau Station Development with the MTR Corporation Limited. Major contracts for the project have been awarded and superstructure works have commenced. The development, named Residence Oasis, will comprise of six residential towers with a landscaped podium and clubhouse. Presale consent for the development was received in late August 2003.

In December 2002, the Group won the tender for 15 Ho Man Tin Hill Road in Kowloon for approximately HK\$410 million. Foundation works and piling construction are currently in progress. The property has a site area of 26,078 square feet and a buildable residential floor area of approximately 130,340 square feet and will be developed into a luxury high rise residential building with accompanying recreational facilities. The project is expected to be completed in the fourth quarter of 2005.

The Town Planning Board has confirmed the residential zoning for Ap Lei Chau Inland Lot No. 129. The Group's share of the buildable gross floor area is approximately 319,663 square feet and this site is intended to be developed into a residential project.

PRC PROPERTY DIVISION

Turnover from the PRC Property Division for the six months ended 30 June 2003 decreased by 11% to HK\$503 million (2002: HK\$563 million), representing 28% of the Group's total turnover. Rental income from the Division increased by approximately 9% to HK\$238 million (2002: HK\$218 million) during the period. Proceeds from sales of properties of approximately HK\$204 million (2002: HK\$231 million) were primarily due to sales of units of Central Residences in Shanghai and Arcadia Court in Shenzhen. Revenues generated from the Beijing Kerry Centre Hotel for the first six months of this period decreased by approximately 46% to HK\$61 million (2002: HK\$114 million) as it was affected by lower occupancies during the SARS outbreak.

During the period under review, revaluation deficits for investment and hotel properties amounting to approximately HK\$277 million were charged to the profit and loss account. Together with a deferred tax credit of HK\$104 million, the loss attributable to the Group from the Division amounted to approximately HK\$33 million (2002: profit of HK\$152 million). Excluding the effect of the revaluation deficits and the deferred tax credit, total profit for the PRC Property Division for the six months ended 30 June 2003 amounted to HK\$140 million. The contribution from this Division continues to be satisfactory due to the strong economic growth of the PRC although the results of the Beijing Kerry Centre Hotel were adversely affected by the outbreak of SARS.

Development Properties

The construction of Phase 1 of Central Residences, the Group's Hua Shan Road luxury residential project in Shanghai, has been completed and residents have already moved in. As at the period end, Towers 3 and 5 were 94% and 85% sold, respectively. A further 4 units in Tower 5 were sold subsequent to the period end.

The construction of Phase 3B of the Shenzhen Regency Park development is now nearing completion. The Phase 3B development comprises of seven deluxe houses with three different individual designs ranging between 385 square metres and 798 square metres. As at 30 June 2003, one house was presold.

The construction of the Group's newest residential project, Arcadia Court in Futian, Shenzhen, is progressing well with the project being 70% complete. Internal sales and public presale of Arcadia Court commenced in late December 2002 and April 2003, respectively, with a total of 198 units being sold at an average price of approximately RMB9,600 per square metre. Subsequent to the period end, another 32 units were presold. Public presale of Towers 5 and 6 commenced with an exhibition held in Hong Kong on 20 August 2003. The development has a site area of approximately 33,000 square metres, comprising of eight luxury residential towers of 23 to 30 storeys, providing three and four bedroom units of 125 to 223 square metres and penthouse units, together with an exclusive residents' clubhouse and a kindergarten. Construction of the project is expected to be completed in early 2004.

Investment Properties

Performance of the Group's investment properties portfolio in the PRC has been satisfactory. Leasing activities in Beijing Kerry Centre continue to be strong with approximately 90% and 97% of the office and retail space in the property being leased, respectively. The service apartments in Beijing Kerry Centre, Kerry Residences, were approximately 74% leased as at 30 June 2003.

The performance of Beijing Kerry Centre Hotel has been affected by the SARS outbreak during the first six months of this year with an average occupancy rate during the period of approximately 45% (2002: 79%) and the average tariff during the period being approximately US\$107 per night.

Sales and leasing of the Group's properties in Shanghai are also progressing satisfactorily. As at 30 June 2003, the office tower, commercial podium and service apartments of Shanghai Kerry Centre were approximately 99%, 94% and 71% leased, respectively.

With respect to Kerry Everbright City in Shanghai, sales of residential units have continued. As at 30 June 2003, approximately 81% and 7% of Tower 1 have been leased and sold, respectively, and 96% of Tower 2 had also been sold. The shopping mall in Kerry Everbright City is also 100% leased.

As at 30 June 2003, the retail shops in International Apartments in Shanghai was approximately 55% and 30% leased and sold, respectively. In Shanghai Trade Square, approximately 31% and 65% of the office space have been leased and sold whilst the retail shops are 69% and 31% leased and sold, respectively.

The marketing activities of Shenzhen Kerry Centre are continuing and approximately 53% and 42% of the office space have been leased and sold, respectively, at the period end. The commercial podium of Shenzhen Kerry Centre is almost 100% leased.

Status of Developments

Development of Phase 2 of Central Residences in Shanghai is on schedule. Vacant possession of the entire site is targeted by the end of September 2003 and piling work has commenced.

The Group took possession of the site at No. 1288 Yan An Zhong Road in the Jingan District in Shanghai in February 2003. The Group is currently undertaking feasibility studies and conceptual planning to try to encompass the development together with the adjoining Shanghai Kerry Centre.

All superstructure work of Yu Quan Hua Yuan, now renamed as Central Residences Fuzhou, the Group's residential development in Fuzhou, has been completed and interior decoration work is currently in progress. The development is intended to be completed by the first quarter of 2004.

On 23 July 2003, the Group signed an agreement to sell its 65% interest in an industrial site in Changchun for a consideration of RMB14 million. The sale is expected to be completed by the end of 2003.

Future Plans

In August 2002, the Group announced the acquisition of Shenzhen Futian Central District Lot No. 7-3 from the Shenzhen City Planning and Land Resources Bureau for a total consideration of approximately HK\$177 million. The site is adjacent to a new Shangri-La hotel site and will be developed as an office project for lease and for sale.

In October 2001, the Group entered into a joint venture called Beijing BHL Logistics Limited to perform resettlement work on a piece of land at Shibaldian in the Chaoyang District in Beijing. The Group has a 20% interest in the joint venture. The joint venture company is performing all necessary work for the relocation and resettlement of the current occupiers of the land. Subsequently the land will be parceled out to individual project companies to be formed for the development of the land. The project occupies a total site area of approximately 3.7 million square metres.

LOGISTICS AND WAREHOUSE DIVISION

The Logistics and Warehouse Division continues to be one of the major contributors of revenue to the Group. During the six months ended 30 June 2003, the Division achieved a turnover of HK\$741 million (2002: HK\$502 million) which represents approximately 41% of the Group's turnover. Logistics revenue increased by approximately 83% to HK\$561 million for the six months ended 30 June 2003 from HK\$306 million in 2002, whilst revenue from warehousing dropped by 8% from HK\$196 million for the six months ended 30 June 2002 to HK\$180 million in 2003.

The loss attributable to the Group from the Division during the period amounted to HK\$2 million (2002: profit of HK\$76 million). The loss is derived at after taking into consideration the deficits arising from the revaluation of the Division's warehouse portfolio amounting to HK\$108 million, which is offset by a deferred tax credit of HK\$12 million.

Excluding the effects of the revaluation deficits and the deferred tax credit as stated above, total profit for the Division for the six months ended 30 June 2003 amounted to HK\$94 million (2002: HK\$76 million) of which HK\$83 million (2002: HK\$70 million) was attributable to warehousing and HK\$11 million (2002: HK\$6 million) was derived from logistics operations.

Leasing of warehouses in Hong Kong

The Hong Kong warehouse rental market remained weak in the first half of 2003 with the demand for warehouse space continuing to decrease. The sagging demand has resulted in a drop in market rentals by another 15% in the first half of 2003 when compared with December 2002. The situation was exacerbated by the SARS outbreak in the second quarter of 2003 which further weakened the Hong Kong economy and consumer demand as a whole. The occupancy rate for the entire warehouse portfolio operated by the Division in Hong Kong was 91% as at 30 June 2003, compared with 97% as at 30 June 2002.

With the impact of SARS starting to subside and the economy recovering, we expect a moderate improvement in the performance of the Division's warehousing business in the second half of 2003. Nevertheless, the ever increasing competition from the cheaper facilities in the Pearl River Delta area as well as the gradual relaxation of rules governing direct cargo movement in and out of the PRC will continue to impose downward pressure on the warehouse market rental in Hong Kong. The Division has taken and will continue to take extensive measures to ensure the maximization of the capital value and rental yield of its warehouse portfolio by controlling costs and upholding the quality of services as well as the standard and condition of the warehouse, whilst on the other hand taking a proactive approach to extending its marketing efforts in order to secure both cargo volume and tenants.

Logistics business

The continued expansion of the Division's logistics business in the first half of 2003 was hindered by the outbreak of SARS in Asia in March 2003. The suspension of cross-country travel means a reduction in meetings with potential business partners and customers and thus the opportunities to explore and develop sales leads. The suspension of passenger flights during SARS also resulted in a negative impact on the freight forwarding business of the Division during the period. Despite these challenges, the Division recorded an impressive growth in logistics revenue of 83% from HK\$306 million for the six months ended 30 June 2002 to HK\$561 million for 2003.

In April 2003, the Division completed the disposal of its 18.63% interest in Shanghai Linghua Logistics Centre for approximately US\$2.4 million.

Logistics and distribution

In April 2003, the Division completed the construction of a 17,000 square metres logistics centre in Thailand with the facility commencing operations in May 2003. The facility is located in the area of Laem Chabang Port, south of Bangkok and is the first custom-built logistics facility of the Division outside of Hong Kong. Subsequent to the period end, the Division has also completed the construction of another logistics centre of approximately 40,000 square metres in Yantian, in the PRC with the facility soft-opening in August 2003. The Division is also planning to develop its own facilities in the Shanghai and Beijing areas in the near future.

On 26 August 2003, the Division announced that it has signed an agreement to acquire a site at the Waigaogiao Free Trade Zone in Shanghai for US\$2 million. It is intended that a 2 storey logistics centre of approximately 14,000 square metres will be built to provide freight forwarding, warehousing, distribution and related value added logistics services to serve businesses in Shanghai.

In the United Kingdom ("UK"), the Division is operating several rented logistics centres amounting to approximately 30,000 square metres at locations in London and Manchester, including a 7,000 square metres "Garment on Hangers" (GOH) fashion distribution centre with handling capacity of over 7 million pieces per annum. The Division is already a leading player in the Asia-UK trade for sea-freight. Kerry Logistics (UK) Limited will continue to enhance and strengthen its position in the Asia-UK traffic by continually looking at additional new business opportunities.

In Hong Kong, the Division has continued to gain large logistics contracts in addition to its existing logistics customer portfolio of in excess of one hundred customers. Despite the impact of SARS, the Division's Hong Kong logistics and distribution revenue for the six months ended 30 June 2003 increased by 27% when compared with the same period in 2002. In the future, other than extending its efforts to enhance its core competencies and competitive advantages as a market leader in the logistics business in Hong Kong, the Division will continue with its strategy to promote its Hong Kong operations as the regional hub for Asia for its multi-national clients.

In March 2003, KerryFlex Supply Chain Solutions Limited ("KFlex"), a wholly owned subsidiary of the Division, took over the business of Flex-Merchandising Resources Limited ("Flex"). Flex has been a rapidly growing retail merchandising services agency in Hong Kong since its incorporation in 2000 and is the leading provider of shelf merchandising services, compliance tracking, investigation and outsourced merchandising services to manufacturers and retailers in the fast-moving consumer goods (FMCG) industry in Hong Kong. In less than three years from its incorporation, Flex had attracted more than 500 brands which are represented in 1,300 outlets of Hong Kong retail chain stores. The acquisition has strengthened the Division's competitive edge by extending its scope of services to match specific needs of different customers, paving the way to establishing its position as a total solution service provider in the territory. The impact and synergies brought about by this acquisition will be reflected in the results of the Division starting from 2003.

Freight

During the first half of 2003, the Division continued to focus its development efforts in the PRC. To expand the Division's PRC presence, another freight office was set up in Xiamen in early 2003 to complement the Division's existing freight operations at Shenzhen, Qingdao, Shanghai, Beijing and Tianjin. With the signing of the Closer Economic Partnership Agreement (CEPA) between Hong Kong and the PRC in June 2003, it is expected that the existing barriers to market entry and other limitations on foreign investments will be lifted and phased out soon, ahead of the original World Trade Organisation (WTO) timetable. The Division will take this opportunity to explore new business opportunities and position itself on the mainland, aiming at building a competitive nation-wide logistics operation as well as strengthening the Division's global freight forwarding network by securing more multinational clients who are exploring business opportunities in the PRC.

During the period, the Division also established freight offices in Philippines and Vietnam. More offices will be set up in the second half of 2003, including Taiwan and Ningbo in the PRC.

Information Technology ("IT")

Knowing that a well-developed IT platform and capability is paramount to third party logistics (3PL) solutions, the Division has continued to extend its efforts on developing and enhancing its IT capability during the period. Since early 2003, all the Division's warehousing and logistics operations have been running under the in-house developed warehouse management system "KerrierWMS". The system has been connected to customers' Manufacturing Resources Planning (MRP II), Enterprise Resources Planning (ERP) and Point Of Sales (POS) systems and is able to generate a wide variety of on-line customized reports from time to time for enhancing our customers' supply chain management. In the freight sector, the sea freight module of "KerrierFMS" has been fully operational during the second quarter of 2003, whilst the development of the air freight module is underway. Currently, the Division is also in the process of upgrading its existing purchase orders track and trace system, aiming to ensure a higher level of services reliability and quality. To date, the Division's IT capability remains one of its key strengths when competing with other players in the industry.

Future plans

The Division is now operating in 13 countries around the world and is serving thousands of companies, many of which are Fortune 500 multinational corporations. Market segments include industrial products, telecommunications, branded consumer goods, fast food shops, retail chains and convenience stores. Looking ahead, with Asia and the PRC playing an increasingly important role as the manufacturing base for the global market, the Division will continue to explore business opportunities in the areas in order to fulfill its aim of developing a global logistics network with the main focus in the PRC. In particular, the Division will keep a close look at the coming changes to the investment market environment as well as the regional cargo flow in the Asian-Pacific areas which would be brought about by the gradual implementation of the PRC's changes in line with WTO as well as the recent signing of CEPA.

INFRASTRUCTURE-RELATED INVESTMENTS

Profit attributable to the Group from the Division for the six months ended 30 June 2003 amounted to approximately HK\$56 million (2002: HK\$43 million).

The operations of Chiwan Container Terminal Co., Ltd (CCT) are continuing to make good progress during the period under review. For the six months ended 30 June 2003, CCT handled 805,890 TEUs, representing an increase of 58% compared to 508,887 TEUs for the first six months of 2002. The significant increase in container throughput is mainly due to an increase in market demand as a result of the PRC's accession to the WTO. During the six months ended 30 June 2003, the Group had equity accounted for HK\$35 million (2002: HK\$21 million) in profits after tax from this investment.

Asia Airfreight Terminal is continuing to operate profitably at the Chek Lap Kok airport. Total tonnage handled during the six months ended 30 June 2003 was approximately 205,919 tons (2002: 191,111 tons). The Group had equity accounted for its share of profits after tax amounting to HK\$12 million (2002: HK\$11 million) for the six months ended 30 June 2003.

The Western Harbour Tunnel has also made a positive contribution to the Group during the period under review. During the six months ended 30 June 2003, the Group had equity accounted for its share of profits from the investment amounting to HK\$9 million (2002: HK\$11 million).

The consortium formed by the shareholders of the Western Harbour Tunnel in which the Group has a 15% interest, has continued to manage the Cross Harbour Tunnel with satisfactory results.

OVERSEAS PROPERTY DIVISION

Profit attributable to the Group from the Division for the six months ended 30 June 2003 amounted to HK\$16 million compared to HK\$34 million for the corresponding period last year.

Pre-sales of Jacksons Landing, the Group's joint venture project in Sydney, Australia, have continued with satisfactory results. As at 30 June 2003, 768 units out of 858 units in the seven precincts released for sales and presales have been sold. Construction of the other precincts is proceeding according to schedule. The Group had equity accounted for its share of profits after tax for the first six months amounting to HK\$4 million (2002: HK\$10 million).

The Group continues to enjoy a stable income from its investment in EDSA Properties Holdings Inc. ("EPHI") in the Philippines. Despite the keen competition in the Philippine property market, both Shangri-La Plaza Mall, a premier shopping mall in Manila, and The Enterprise Centre, a twin tower grade A commercial building in the Makati Central Business District, have managed to secure high occupancy rates, thereby generating good recurrent income for the Group. As at 30 June 2003, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Centre stood at 96% and 81%, respectively.

In August 2003, EPHI announced its interim results for the six months ended 30 June 2003, reporting profit attributable to shareholders of approximately Pesos 116.2 million which represents an increase of 23% over the corresponding period in 2002 of approximately Pesos 94.4 million. The increase in profit attributable to shareholders was mainly due to the continuing strong rental income performance of Shangri-La Plaza Mall.

The construction of The Shang Grand Tower, a luxury residential condominium project in the Makati Central Business District in which EPHI has a beneficial interest of approximately 68%, commenced in October 2002 and the development is progressing on schedule for target completion by early 2006. The project was launched for sale on 3 September 2003.

During the period, the Group recorded profits from its investments in EPHI amounting to HK\$12 million (2002: HK\$24 million). The Group is confident that the investment will continue to enhance its recurrent income base.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance and transparency which the Directors believe would provide a positive framework for the overall operations of the Group as well as to enhance shareholders' value.

In an effort to promote corporate governance, not only within the Company but also in the economy as a whole, the Company participated in the "Corporate Governance for the New Generation" Youth Summit 2002/03 organized by the Independent Commission Against Corruption (ICAC) of the HKSAR on 1 March 2003. The event was a whole day forum which allowed tertiary students from around the region to share views and interact with renowned academics and businessmen on related issues of corporate governance.

The Group wishes to advise shareholders that the attendance records of the independent non-executive directors for the years 1999 to 2001 of 72%, 47% and 75%, respectively as disclosed on page 27 of the 2002 annual report should refer to the average attendance records of "audit committee members" in those years and had been disclosed as such properly in the 2001 annual report. It was intended that there should be an asterisk denoting the attendance records as average attendance records of audit committee members in the 2002 annual report in relation to those years but this had been omitted inadvertently in the printing process and the omission is regretted.

Going forward, the Group will strive to maintain the highest standards of corporate governance and transparency in its operations and development whilst at the same time participate in activities that will help to promote corporate governance on a wider perspective.

CREDIT RATING

On 18 August 2003, Standard & Poor's reaffirmed the Group's corporate rating to be of investment grade with a "BBB-" rating with a negative outlook.

FINANCIAL REVIEW

The Group has centralised funding for all its operations at the Group level. This policy achieves better control of treasury operations and lower average cost of funds. In addition, foreign exchange exposure does not pose a significant risk for the Group given that the level of foreign exchange exposure is small relative to the total asset base. As at 30 June 2003, total foreign currency borrowings excluding Renminbi (RMB) borrowings amounted to approximately HK\$66 million. RMB loans at the period end amounted to RMB706 million (2002: RMB475.5 million) and are used to finance the Group's projects in the PRC.

The majority of the Group's borrowings are subject to floating interest rates. As at 30 June 2003, the Group has outstanding interest rate swap contracts amounting to HK\$3.76 billion in total, enabling the Group to hedge its interest rate exposure in the current low interest environment and to have a more stable interest rate profile over the next few years.

As and when required, the Group will also pledge specific assets to banks for banking facilities granted for the development or acquisition of specific assets.

As at 30 June 2003, total borrowings of the Group amounted to HK\$6,922 million, of which 17% (2002: 19%) was due within one year whilst 5% (2002: 12%) and 78% (2002: 69%) were due in the second year and in the third to fifth years, respectively. During the period, the Group continued to maintain most of its borrowings on an unsecured basis. As at 30 June 2003, unsecured debt comprised approximately 98% of total borrowings while net borrowings amounted to approximately HK\$5,597 million, resulting in a gearing ratio of approximately 29.5% based on shareholders' equity of approximately HK\$18,967 million.

The Group will continue to obtain financing on a fully unsecured basis whenever possible and supplement such borrowings with secured project financing as and when the need arises. The Group will also continue its policy of maintaining a prudent gearing ratio.

At 30 June 2003, the Group had total undrawn bank loan and overdraft facilities of approximately HK\$6,312 million and net cash on hand of approximately HK\$1,325 million. In addition, the Group also continues to generate strong recurring cashflows from its core investment property portfolio. This strong financial position enables the Group to take advantage of investment opportunities with confidence.

ENVIRONMENTAL PROTECTION INITIATIVES

The Group has continued with its initiatives to incorporate environmental protection measures in its projects. Starting from the design of the properties to the selection of materials and equipments, enhancement of the environment is achieved through well planned landscaping and the introduction of a "Green Property Management System". It is the Group's intention to incorporate this eco-friendly concept into all of its developments. In The Cliveden, Branksome II, Enterprise Square 3 and The Arcadia Court, four of the Group's latest developments in Hong Kong and the PRC, the Group continues with its initiatives to incorporate environmental protection measures in its developments by introducing the green property management system. In addition, the designs in The Cliveden and The Arcadia Court have also taken into account units with balconies to allow maximum light penetration. The Group will continue to explore the possibilities of having more environmental protection measures implemented in its future developments where appropriate.

CORPORATE COMMUNICATIONS INITIATIVES

Website

The Kerry Properties website, www.kerryprops.com, has continued to be well received by the investment community and buyers of properties with average number of hits during the six months ended 30 June 2003 increasing to 568,755 hits (2002: 518,407 hits) per month.

Investor Relations

In an effort to maintain continuing good relations with the Group's investors, the Group participated in various roadshows and conferences as follows:

Date	Event	Organiser	Venue
March 2003	Asian Investment Conference	Credit Suisse First Boston	Hong Kong
August 2003	Roadshow	Lehman Brothers	Sydney
August 2003	Hong Kong Property Day	Credit Suisse First Boston	Hong Kong

In addition, the Company is currently working on a Level 1 American Depository Receipt program which will allow the Company to access a wider spectrum of potential investors.

DIRECTORS AND STAFF

Subsequent to the period end, on 1 August 2003, Mr Kuok Khoon Loong, Edward relinquished his position as the Chairman of the Board. Mr Kuok will continue to act as an executive director of the Company. The Board would like to extend its sincere appreciation to Mr Kuok for his valuable contributions during his tenure as Chairman of the Company.

The Board elected Mr Ang Keng Lam, the former Deputy Chairman of the Board and a Joint Managing Director of the Company, to be the Chairman of the Board with effect from 1 August 2003. Mr Wong Siu Kong, formerly the other Joint Managing Director of the Board, has also been appointed as the Deputy Chairman effective the same date. Mr Wong will continue to act as the Managing Director of the Company.

Dr Fung Kwok King, Victor, resigned as an independent non-executive Director of the Company with effect from 22 August 2003 due to other business commitments. The Board would also like to take this opportunity to record a special note of thanks and appreciation to Dr Fung for all his efforts and contribution during his tenure as an independent non-executive Director of the Company.

As at 30 June 2003, the Company and its subsidiaries had 3,171 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance and medical cover, subsidised educational and training programmes as well as a share option scheme.

Share Option Scheme

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group to 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.

As at 30 June 2003, options to subscribe for a total of 32,039,084 option shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

CONCLUSION

The prospects of the Hong Kong property market continues to be uncertain due to the overall weakness in the economy and the prevailing oversupply of residential units in the market. Although the Government has announced that it will introduce new measures to support the property sector later this year, the measures and their resultant impact are yet to be seen. On the other hand, the economy and the property