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, 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

	Notes	Unaudited Six months ended 30 June 2003 HK$'000	2002 (Restated) HK$'000
Turnover	2	**1,814,468**	3,091,972
Cost of sales		**(545,501)**	(1,717,993)
Direct operating expenses		**(719,114)**	(595,266)
Gross profit		**549,853**	778,713
Other revenues		**14,368**	29,189
Other income		**20,165**	20,451
Provision in respect of stock of completed properties held for sale		**(69,346)**	(133,000)
Revaluation deficit on properties		**(962,458)**	–
Administrative expenses		**(126,103)**	(150,132)
Operating (loss)/profit before finance costs		**(573,521)**	545,221
Finance costs		**(95,550)**	(126,909)
Operating (loss)/profit	2,3	**(669,071)**	418,312
Share of results of associated companies			
–share of profits less losses		**115,700**	39,609
–provision for decline in carrying value		**(136,585)**	–
		(20,885)	39,609
(Loss)/profit before taxation		**(689,956)**	457,921
Taxation	4	**73,267**	(86,055)
(Loss)/profit after taxation		**(616,689)**	371,866
Minority interests		**25,627**	(6,094)
(Loss)/profit attributable to shareholders		**(591,062)**	365,772
Transfer to reserves	5	**(8,783)**	(3,933)
		(599,845)	361,839
Interim dividend		**153,990**	210,665
(Loss)/earnings per share	6	**(50.39) cents**	31.58 cents
Interim dividend per share		**13 cents**	18 cents

Consolidated Balance Sheet

	Notes	Unaudited 30 June 2003 HK$'000	Restated 31 December 2002 HK$'000
Intangible assets		**(43,678)**	45,004
Fixed assets		**20,479,579**	20,890,174
Associated companies		**4,799,797**	5,080,824
Other non-current assets		**1,475,493**	1,589,987
Current assets			
Stock of completed properties held for sale		**878,717**	1,363,328
Properties under development for sale		**590,145**	591,273
Accounts receivable, prepayments and deposits	7	**774,389**	862,038
Tax recoverable		**40,738**	30,764
Trading securities		**2,166**	2,043
Pledged bank deposits		**35,154**	70,450
Cash and bank balances		**1,289,612**	1,353,744
		3,610,921	4,273,640
Current liabilities			
Accounts payable, deposits received and accrued charges	8	**1,275,491**	1,415,574
Taxation		**92,468**	109,533
Short-term bank loans and current portion of long-term bank loans	9	**1,156,192**	1,335,481
Unsecured bank overdrafts		**–**	2,949
		2,524,151	2,863,537
Net current assets		**1,086,770**	1,410,103
Total assets less current liabilities		**27,797,961**	29,016,092
Financed by:			
Share capital		**1,184,540**	1,170,551
Share premium		**3,581,009**	3,478,011
Other reserves		**9,180,353**	9,386,344
Retained profits		**4,867,223**	5,621,058
Proposed dividend		**153,990**	140,466
Shareholders' funds		**18,967,115**	19,796,430
Minority interests and loans		**2,499,693**	2,816,623
		21,466,808	22,613,053
Long-term liabilities	9	**5,765,349**	5,719,091
Deferred taxation		**565,804**	683,948
		27,797,961	29,016,092

Financial Highlights

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

These 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:

	Turnover Six months ended 30 June 2003 HK$'000	2002 HK$'000	Operating (loss)/profit Six months ended 30 June 2003 HK$'000	2002 HK$'000
Principal activities:				
Property rental				
– Hong Kong	**172,090**	190,271	**(468,016)**	105,496
– PRC	**237,932**	218,003	**(133,424)**	123,260
	410,022	408,274	**(601,440)**	228,756
Hotel operations	**61,543**	114,355	**(26,273)**	46,354
Logistics and warehouse operations				
– warehouse	**179,899**	195,960	**(19,983)**	83,357
– logistics	**560,921**	306,441	**15,690**	7,745
	740,820	502,401	**(4,293)**	91,102
Property sales				
– Hong Kong	**377,766**	1,815,204	**(105,843)**	(30,524)
– PRC	**203,779**	230,535	**33,296**	41,229
	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
	1,814,468	3,091,972	**(669,071)**	418,312
Principal markets:				
Hong Kong	**909,635**	2,350,602	**(535,613)**	209,293
PRC	**536,503**	571,524	**(131,902)**	199,476
United Kingdom	**255,580**	88,079	**641**	(1,420)
Others	**112,750**	81,767	**(2,197)**	10,963
	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
HK$'000

	Hong Kong Property	PRC Property	Logistics and Warehouse	Infra-structure	Overseas Property	Others	Eli-minations	Con-solidated
REVENUE								
Turnover	**549,856**	**503,254**	**740,820**	**–**	**–**	**20,538**	**–**	**1,814,468**
Inter-segment revenue	**–**	**–**	**–**	**–**	**–**	**129,285**	**(129,285)**	**–**
Inter-segment interest income	**–**	**–**	**–**	**–**	**–**	**140,993**	**(140,993)**	**–**
Total revenue	**549,856**	**503,254**	**740,820**	**–**	**–**	**290,816**	**(270,278)**	**1,814,468**
RESULT								
Segment results	**(514,108)**	**(96,499)**	**22,286**	**(247)**	**(2,449)**	**144,121**	**(140,993)**	**(587,889)**
Dividend income	**3,806**	**–**	**–**	**–**	**–**	**–**	**–**	**3,806**
Interest income	**4,897**	**1,648**	**173**	**2,221**	**–**	**1,623**	**–**	**10,562**
Interest expenses	**(68,454)**	**(31,550)**	**(26,752)**	**(2,221)**	**–**	**(107,566)**	**140,993**	**(95,550)**
Operating (loss)/profit	**(573,859)**	**(126,401)**	**(4,293)**	**(247)**	**(2,449)**	**38,178**	**–**	**(669,071)**
Share of results of associated companies	**(110,485)**	**11,696**	**(982)**	**59,450**	**19,436**	**–**	**–**	**(20,885)**
(Loss)/profit before taxation	**(684,344)**	**(114,705)**	**(5,275)**	**59,203**	**16,987**	**38,178**	**–**	**(689,956)**
Taxation	**1,583**	**73,037**	**3,409**	**(3,692)**	**(1,035)**	**(35)**	**–**	**73,267**
(Loss)/profit after taxation	**(682,761)**	**(41,668)**	**(1,866)**	**55,511**	**15,952**	**38,143**	**–**	**(616,689)**
Minority interests	**17,005**	**8,892**	**(270)**	**–**	**–**	**–**	**–**	**25,627**
(Loss)/profit attributable to shareholders	**(665,756)**	**(32,776)**	**(2,136)**	**55,511**	**15,952**	**38,143**	**–**	**(591,062)**

Six months ended 30 June 2002 (Restated)
HK$'000

	Hong Kong Property	PRC Property	Logistics and Warehouse	Infra-structure	Overseas Property	Others	Eli-minations	Con-solidated
REVENUE								
Turnover	2,005,475	562,893	502,401	–	–	21,203	–	3,091,972
Inter-segment revenue	–	–	–	–	–	141,910	(141,910)	–
Inter-segment interest income	–	–	–	–	–	202,771	(202,771)	–
Total revenue	2,005,475	562,893	502,401	–	–	365,884	(344,681)	3,091,972
RESULT								
Segment results	178,995	258,569	124,396	(246)	(3,485)	160,574	(202,771)	516,032
Dividend income	1,976	–	–	–	16,299	5	–	18,280
Interest income	1,541	2,315	172	1,950	–	4,931	–	10,909
Interest expenses	(107,540)	(50,041)	(33,466)	(1,950)	–	(136,683)	202,771	(126,909)
Operating profit/(loss)	74,972	210,843	91,102	(246)	12,814	28,827	–	418,312
Share of results of associated companies	(50,447)	10,426	(1,642)	45,164	36,108	–	–	39,609
Profit before taxation	24,525	221,269	89,460	44,918	48,922	28,827	–	457,921
Taxation	(36,987)	(31,840)	(7,267)	(2,021)	(15,329)	7,389	–	(86,055)
(Loss)/profit after taxation	(12,462)	189,429	82,193	42,897	33,593	36,216	–	371,866
Minority interests	31,755	(37,018)	(5,771)	–	–	4,940	–	(6,094)
Profit attributable to shareholders	19,293	152,411	76,422	42,897	33,593	41,156	–	365,772

3. Operating (Loss)/Profit

	Six months ended 30 June 2003 HK$'000	2002 HK$'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		
– Investment properties	**(7,824)**	(12,334)
– Properties under development and completed properties for sale	**43,868**	340,080
	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 HK$'000	2002 (Restated) HK$'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)**	(12,002)
Deferred	**10,106**	(7,167)
	(4,090)	(19,169)
	73,267	(86,055)

Hong Kong profits tax has been provided at 17.5% (2002: 16%) on the estimated assessable profits for the period. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

5. Transfer To Reserves

	Six months ended 30 June 2003 HK$'000	2002 (Restated) HK$'000
Transfer to:		
Enterprise expansion reserve	**(61)**	–
Share of surplus and capital reserves of associated companies	**(8,722)**	(3,933)
	(8,783)	(3,933)

6. (Loss)/Earnings Per Share

The calculation of (loss)/earnings per share is based on the loss attributable to shareholders of HK$591,062,000 (2002: profit of HK$365,772,000) and the weighted average number of 1,173,021,525 shares (2002: 1,158,228,637 shares) in issue during the period.

There was no dilution arising from the outstanding share options granted by the Company in 1997, 1999 and 2001. For the six months ended 30 June 2003, the outstanding share options granted by the Company in 2000 and 2002 were anti-dilutive (2002: dilutive but the effect was immaterial). Accordingly, diluted (loss)/earnings per share had not been shown.

7. Accounts Receivable, Prepayments And Deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 30 June 2003 was as follows:

	30 June 2003 HK$'000	31 December 2002 HK$'000
0 – 1 month	**159,362**	132,360
2 – 3 months	**83,192**	115,376
Over 3 months	**15,911**	9,937
	258,465	257,673

8. Accounts Payable, Deposits Received And Accrued Charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 30 June 2003 was as follows:

	30 June 2003 HK$'000	31 December 2002 HK$'000
0 – 1 month	**106,914**	116,008
2 – 3 months	**17,621**	13,756
Over 3 months	**20,087**	8,994
	144,622	138,758

9. Long-Term Liabilities

	30 June 2003 HK$'000	31 December 2002 HK$'000
Bank loans – unsecured	**6,760,346**	6,407,773
Bank loans – secured	**161,195**	646,799
Total bank loans *(note (i))*	**6,921,541**	7,054,572
Short-term bank loans and current portion of long-term bank loans	**(1,156,192)**	(1,335,481)
	5,765,349	5,719,091

(i) At 30 June 2003, the Group's bank loans were repayable as follows:

	30 June 2003 HK$'000	31 December 2002 HK$'000
Within one year	**1,156,192**	1,335,481
After one year		
In the second year	**387,239**	870,279
In the third year	**537,501**	26,178
In the fourth year	**4,562,398**	270,634
In the fifth year	**275,078**	4,552,000
Over five years	**3,133**	–
	5,765,349	5,719,091
	6,921,541	7,054,572

10. Contingent Liabilities

	30 June 2003 HK$'000	31 December 2002 HK$'000
Banking facilities		
Guarantees for banking and other facilities of certain associated companies and investee companies *(note (i))*	**762,291**	912,431
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC *(note (ii))*	**94,706**	83,569
	856,997	996,000

(i) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK$762,291,000 (31 December 2002: HK$912,431,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK$1,624,135,000 (31 December 2002: HK$1,609,938,000).

(ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group at the balance sheet date amounted to approximately HK$94,706,000 (31 December 2002: HK$83,569,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK$1,303,057,000 (31 December 2002: HK$384,246,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2002.

11. Pledge Of Assets

At 30 June 2003, the Group's total bank loans of HK$6,921,541,000 (31 December 2002: HK$7,054,572,000) included an aggregate amount of HK$6,760,346,000 (31 December 2002: HK$6,407,773,000) which is unsecured and an aggregate amount of HK$161,195,000 (31 December 2002: HK$646,799,000) which is secured by the following:

(i) legal charges over certain properties with an aggregate net book value of HK$1,226,681,000 (31 December 2002: HK$4,548,431,000);

(ii) charges on all assets, including bank balances amounting to HK$35,154,000 (31 December 2002: HK$70,450,000), of certain subsidiaries; and

(iii) an assignment of insurance proceeds of certain properties.

BUSINESS REVIEW AND PROSPECTS

Turnover of the Group for the six months ended 30 June 2003 decreased to HK$1,814 million (2002: HK$3,092 million) whilst the loss attributable to shareholders amounted to HK$591 million (2002: profit attributable to shareholders of HK$366 million).

The Group's performance during the period has undoubtedly been affected by the weak economy in Hong Kong with the unemployment rate remaining high. The outbreak of the Severe Acute Respiratory Syndrome (SARS) disease during the period has also affected market confidence, further compounded by the outbreak of the Iraqi war.

The effects of these negative factors have resulted in a downward revaluation of the Group's properties which was carried out as at 30 April 2003. Accordingly, a revaluation deficit of HK$914 million has been charged to the Group's profit and loss account with respect to its investment properties, hotel properties and other land and buildings. Further provisions of HK$55 million and HK$137 million were also made for the Constellation Cove project in Tai Po Kau, Hong Kong and for a decline in the carrying value of associated companies, respectively.

Excluding the effects of the above-mentioned revaluation deficits and provisions, the Group achieved a positive operating result. The Group has continued to maintain high occupancies, thus ensuring a continuing strong recurrent income base, with its core portfolio of prime properties in Hong Kong and in the PRC despite the deteriorating marketing conditions in Hong Kong. The contribution from the Logistics and Warehouse Division continues to improve with the division continuing to expand its logistics network. Together with the improved performances of its infrastructure projects and the contributions from its Overseas Property Division, the Group was able to maintain a strong recurrent cashflow from its operating activities despite reporting a loss attributable to shareholders during the six months ended 30 June 2003.

On 11 April 2003, the Company was advised by its controlling shareholder, Kerry Holdings Limited, of its intention to privatise the Company by way of a scheme of arrangement (the "Scheme") with an offer price of HK$8.50 per share. Subsequently on 30 April 2003, the offer price was revised to HK$9.50 per share. The privatisation proposal was put forward to the independent shareholders of the Company at a Court Meeting held on 22 July 2003 whereby independent shareholders holding approximately 99 million of the Company's shares voted against the Scheme whilst approximately 77 million shares voted in favour of the Scheme. The proposal was therefore rejected and the Company remains a listed company.

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 Shibalidian 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 Waigaoqiao 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 convenient 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 Center, 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 Center 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.