

## *Chairman's Statement*

*The general business outlook for the property market in Hong Kong still remains uncertain in 2001. Given the uncertainty the directors have considered it prudent to make a specific provision of HK\$400 million for the Ocean Pointe project at Sham Tseng in Hong Kong resulting in profit attributable to shareholders decreasing by 41% in the year 2000. However, with the improving fundamentals in the property sector due to declining interest rates and recent government measures and quality developments on hand, the Group is cautiously optimistic with respect to the outlook for the coming year.*

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I am pleased to report to shareholders the annual results of the Group for the year ended 31 December 2000.

### RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2000 was HK\$728 million, a decrease of 41% compared with 1999 profits of HK\$1,233 million. Earnings per share were HK64.90 cents (1999: HK110.25 cents).

### DIVIDENDS

The Directors recommend a final dividend of HK20 cents per share for 2000 which together with the interim dividend of HK20 cents per share, makes a total dividend of HK40 cents per share (1999: HK40 cents).

Shareholders may elect to receive the proposed final dividend wholly or partly in new ordinary shares of par value of HK\$1.00 each of the Company, credited as fully paid in lieu of cash (the "2000 Final Scrip Dividend Scheme"). The proposed final dividend is expected to be paid on 25 May 2001.

A circular containing details of the 2000 Final Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or about 24 April 2001. The 2000 Final Scrip Dividend Scheme is conditional upon (1) the approval of the proposed final dividend at the Company's Annual General Meeting to be held on 11 April 2001 and (2) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto.

### BUSINESS REVIEW

The Group's turnover increased by 36% to HK\$3,196 million (1999: HK\$2,342 million) compared with 1999. Although the Hong Kong economy has shown some signs of recovery, the general business outlook for the property market still remains uncertain especially in the mass residential sector. Given the continuing uncertainty in this sector, the Directors have considered it prudent to make a provision of HK\$400 million in respect of the Ocean Pointe project in Sham Tseng. This is a non-cash provision and should selling prices improve during the year, consideration will be given as to whether it is appropriate to write back any of the provision. Group operating profit excluding the provision has also increased by 14% to HK\$1,191 million (1999: HK\$1,047 million). The provision has resulted in profit attributable to shareholders dropping by 41% compared with 1999. Excluding the impact of the provision, the profit attributable to shareholders has decreased by 8.5% from HK\$1,233 million in 1999 to HK\$1,128 million in 2000.

The Group has continued to maintain a very strong and growing recurrent rental income base and cashflows. Aigburth, Beijing Kerry Centre, Shanghai Kerry Centre and Kerry Cargo Centre have started to make a full year's contribution to the Group's earnings in 2000. These additions to the Group's investment property portfolio help to reinforce the Group's recurrent rental income base.

In response to the changing business environment and industry trends, the Logistics and Warehouse Division has expanded its business to include contract logistics, freight forwarding and distribution to capitalise on its strengths in warehousing. The Group continues to take steps to enhance its service in the Logistics and Warehouse Division in line with its vision to become a premier pan-Asian integrated logistics company. The Group maintains its dominant position as a market leader in warehousing in Hong Kong with approximately 96% occupancies at its 6.6 million square feet warehouse portfolio at the end of 2000.

In order to strengthen its recurrent income base as well as to further diversify its income stream, the Group had further invested in EDSA Properties Holdings Inc. ("EPHI"), its listed associate in the Philippines, through the purchase of shares and Philippine Deposit Receipts ("PDRs") of EPHI during the year. The total additional investment in EPHI amounted to approximately HK\$418 million. After the acquisition, the Group owns a direct equity interest of approximately 37.77% in EPHI's issued share capital whilst the underlying EPHI shares in respect of the PDRs owned by the Group represents approximately another 34.76% of EPHI's issued share capital. These interests jointly account for approximately 72.53% of EPHI's total issued share capital.

The performance of the Group's infrastructure related investments is in line with expectations and these investments have provided a stable stream of revenue to the Group during the year.

### HONG KONG PROPERTY DIVISION

Total turnover for the division amounted to approximately HK\$1,688 million (1999: HK\$1,688 million) in 2000 and represents approximately 53% of the Group's turnover. Rental income for the year amounted to HK\$465 million (1999: HK\$476 million), a slight decrease of 2.3% compared with 1999. Proceeds from sales of properties increased by 1% to approximately HK\$1,223 million (1999: HK\$1,212 million). Profit attributable to the Group from the division amounted to approximately HK\$199 million (1999: HK\$1,013 million).

#### Development Properties

The Group continued with the sale of its Tavistock II development. During the year, a total of 9 units were sold, resulting in 97 out of 98 units amounting to 99% of the development being sold.

The Group's joint venture property developments in Hong Kong are continuing to be sold. The Group has equity accounted for its share of results from Phases 1 and 2 of the Tai Kok Tsui project, which are approximately 87% and 46% sold, respectively. In accordance with the Group's accounting policy, profits on the sales of completed joint venture developments have been booked upon the completion of sales during the year. In respect of projects still

under development, the Group has accounted for the sales on a percentage completion basis. Such results have been included under "Share of profits less losses of associated companies" in the accounts.

#### Investment Properties

Continuing with the Group's policy to sell units in non-wholly owned blocks, the Group had sold all remaining units in Century Towers I and II during the year. Strata-title sales of Tregunter Tower II have also commenced with 13 out of the total 54 units sold as at the year end. The Group also completed the sale of 33,058 square feet of Enterprise Square during the year.

Two block sales of properties were also completed during the year. Horizon Lodge in Chung Hom Kok was sold in April 2000 for approximately HK\$115 million and 168 Sai Yeung Choi Street was sold for approximately HK\$287 million in December 2000. The highlight of the year 2000 was the sale of the Aigburth duplex penthouse in May, which was sold for HK\$162 million. After due consideration, the Directors were of the opinion that it was in the Group's best interests to sell the duplex penthouse in view of the lengthy period in attempting to lease this penthouse.

With respect to rental income, the addition of Aigburth together with the recovering luxury residential rental market helped to maintain the Hong Kong rental income base in 2000. The average occupancy rate for the Group's property portfolio

was approximately 97% at the year end with occupancy rates for residential, retail and offices being approximately 96%, 97% and 100%, respectively.

### Status of Developments

The occupation permit for Ocean Pointe in Sham Tseng was received in December 2000 and the whole project is expected to be completed in early 2001. The unique half-moon design of the development provides its residents with a breathtaking view of Tsing Ma Bridge. The implementation of the SOHO (Small Office Home Office) concept in this development where broadband communications capability is an important element also enables residents to connect personal computers at home with those at work, while the estate would also have intranet for intelligent-home services. The Group soft launched the project for sale subsequent to the year end. The public launch commenced on 20 February 2001 with balloting of units scheduled on 2 March 2001.

To meet customer needs and enhance the value of all the Group's buildings, the Group is planning to provide all new developments with broadband telecommunications infrastructure supported by intelligent building management services. This idea will be implemented in existing buildings with a longer term objective of building a virtual community amongst the Group's developments in order to form a sizeable customer base for e-commerce.

The construction of Constellation Cove in Tai Po Kau is currently in progress, with completion of the apartments and houses expected by the end of 2001. Constellation Cove offers twelve 9 storey apartment blocks with a total of 208 apartments, 50 detached houses and 28 duplex villas. The recreational park adjacent to this development has been completed and is fully operational.

The Enterprise Square Two development is nearing completion and is awaiting sales consent. The Group is currently negotiating with several potential buyers for various floors of this development.

### Proposals and Future Plans

The land premium of Ava Mansion was agreed with the Government in April 2000 at approximately HK\$688 million and was paid in June 2000. Demolition work of the existing building has been completed and design work for the residential tower is in progress.

The Group also acquired at auction in August 2000 jointly with Sino Land Company Limited, a 50% interest in Tsuen Wan Town Lot 404, for a total consideration of HK\$292 million.

Outline Zoning Plan reflecting approved Residential (Group E) zoning has been gazetted on 3 March 2000 for the Ap Lei Chau project and subsequently approved by the Executive Council in February 2001. It is expected that the Section 16 application will be

submitted to the Town Planning Board within the next month.

The two industrial office sites in Kowloon Bay NKIL 5927 and NKIL 5877 have been rezoned to "Business Use" under the draft Outline Zoning Plan gazetted on 19 January 2001. These two sites are planned to be developed into Enterprise Square phases three and four. Construction of phase three will start this year providing 553,872 square feet of commercial and office space. Phase four which is still under the planning stage would provide approximately 1.6 million square feet when completed.

The land exchange and land premium negotiations for the Hoh Fuk Tong Redevelopment Project are expected to be settled by the end of 2001. The development is expected to be completed in phases to 2007.

Negotiations for the redevelopment of the Kerry Hung Kai Warehouse in Cheung Sha Wan are still ongoing.

The Group's total property portfolio in Hong Kong is approximately 7.6 million square feet. Investment properties account for approximately 23% of the Group's total portfolio in Hong Kong, with approximately 1 million square feet of residential properties and in excess of 766,000 square feet of commercial properties. The Group currently has approximately 5.3 million square feet of properties under development in Hong Kong. The Group will consider replenishing the land bank whenever

appropriate, to maximize land use where there is unutilized plot ratio and to seek opportunities for conversion whenever appropriate.

### PRC PROPERTY DIVISION

Turnover from the PRC Property Division increased significantly by 291% to approximately HK\$972 million (1999: HK\$249 million) in 2000, representing 30% of the Group's total turnover. The increase is mainly attributable to an increase in rental income amounting to approximately HK\$355 million (1999: HK\$190 million) representing a full year's contribution from Beijing Kerry Centre and Shanghai Kerry Centre. Turnover from sale of properties also increased from approximately HK\$27 million in 1999 to approximately HK\$441 million in 2000 with the commencement of pre-sales of Central Residences, the Group's luxury residential project in Hua Shan Road, Shanghai. Turnover of the Beijing Kerry Centre hotel amounted to HK\$176 million (1999: HK\$32 million) during the year. Profit attributable to the Group from the division amounted to approximately HK\$252 million (1999: HK\$36 million).

### Sales and Leasing of Properties

Leasing activities in the PRC have been encouraging due to the recovering PRC economy and the excellent locations, top quality design and professional estate management of the Group's properties. The twin serviced apartment towers of Beijing Kerry Centre, Kerry Residences East and West Towers, were approximately 89% leased as at 31 December 2000. The Group has also leased out approximately 96%

and 78% of the office and commercial podium in the property, respectively.

The hotel section of Beijing Kerry Centre was completed and soft opened in August 1999 and has added approximately 500,000 square feet of gross floor area to the Group's investment property portfolio. During the year under review, the Beijing Kerry Centre hotel achieved an average occupancy rate of approximately 71% with average tariffs during the year of approximately US\$97 per night. The Group's subsidiary which owns the Beijing Kerry Centre hotel has increased its interest in the hotel at the year end from 90% to 95%.

Shanghai Kerry Centre has also achieved excellent leasing results despite the highly competitive market conditions in Shanghai. The office tower, serviced apartments and commercial podium were approximately 99%, 74% and 69% leased, respectively, as at 31 December 2000.

Sales and leasing of the Group's other properties in Shanghai are also progressing satisfactorily during the year under review. At 31 December 2000, approximately 87% of Tower I and 72% of Tower II in Kerry Everbright City are leased or sold. Similarly, 99% of International Apartments and 97% of the office space in Shanghai Trade Square have also been leased or sold. The Group will continue with the sales and leasing of these properties in the coming year.

In July 2000, Jusco, the anchor tenant of the commercial podium in Kerry Everbright City terminated its operations in Shanghai. The Group secured Pacific Department Store to replace Jusco as the anchor tenant for this property. Pacific Department Store commenced operations on 1 December 2000 resulting in the commercial podium of the property being 100% leased.

As at 31 December 2000, approximately 30% and 62% of the office space in Shenzhen Kerry Centre has been sold and leased, respectively.

Last year, the Group reported that the Group's share in Beijing COFCO Plaza Development Co., Ltd ("BCPD") had increased from 15% to approximately 20.85% as a result of a planned corporate reorganisation in BCPD. However, as the corporate reorganisation did not take place, no increase in the Group's equity interest occurred. Accordingly, as at the year end date, the Group still owns an indirect interest of 15% in BCPD.

### Status of Developments

Central Residences, the Group's project in Hua Shan Road in Shanghai comprises of 4 luxury residential towers which will be developed in phases of 2 towers each. The pre-sale of phase 1 of Central Residences in April 2000 was very well received. 92% of Tower 1 has now been sold. The entire block of Tower 2 was sold to HKR International Limited for US\$31.32 million. Towers 1 and 2 of Central Residences were

93% and 63% completed, respectively, at 31 December 2000 and are scheduled to be completed in the first and third quarter of 2001, respectively. Pre-sale of Towers 3 and 4 are expected to commence in May/June this year.

The construction of Phase 3A of the Shenzhen Regency Park development which comprises 16 villas is completed. Thirteen villas have been sold as at the year end.

### Proposals and Future Plans

The Group acquired a residential project in Futian, Shenzhen in July 2000. This project, located east of the central district in Shenzhen, is intended to be a luxury residential development with an exclusive residents' clubhouse. The project covers a site of approximately 362,000 square feet with a total buildable gross floor area of approximately 1.01 million square feet. 50% of the land premium was paid in September 2000 and the balance is payable in February 2001.

Due to the improving economic outlook in the PRC, a review of Phases I and II of the Yu Quan Hua Yuan project in Fuzhou is also being undertaken with the intention to restart this project.

Revenue from PRC properties is expected to increase in the coming year due to the improving economic outlook in the PRC as a result of the forthcoming entry into the World Trade Organization ("WTO"). The strategic locations of the Group's properties and

the Group's excellent professional building management services will help to grow the recurring income base in the PRC in the years ahead.

The Group's total property portfolio in the PRC is approximately 9 million square feet. Investment properties account for approximately 4 million square feet which is 44% of the Group's total portfolio in the PRC. The Group currently has 3.6 million square feet of properties under development in the PRC and approximately 1.4 million square feet in site area, being the Group's land bank in the PRC, which is held for future development. The Group will also consider replenishing the land bank whenever appropriate.

The Group will continue to adopt a selective and prudent approach to investments in the PRC by focusing on prime developments in major cities in the PRC. The Group is constantly monitoring market conditions and is always evaluating possible development plans for its land bank in the PRC.

### LOGISTICS & WAREHOUSE DIVISION

The Logistics and Warehouse Division continues to be one of the main contributors of revenue to the Group in 2000, contributing approximately HK\$481 million (1999: HK\$391 million), comprising approximately 15% of the Group's total turnover. Earnings before interest and tax grew strongly by 27% from HK\$187 million in 1999 to HK\$238 million in 2000. Profit attributable to the Group earned by the division amounted to approximately HK\$60

million (1999: HK\$90 million). The Group continued to take active steps to enhance its services in the Logistics and Warehouse Division in line with its vision to become a premier pan-Asian integrated logistics company. At the same time, the Group maintained its dominant position as a leader in warehousing in Hong Kong with occupancies at its 6.6 million square feet warehouse portfolio reaching 96% at the end of 2000.

Since 1998, the Group has taken proactive measures to reposition itself in a market undergoing rapid transformation with increasing demand for integrated logistics services in addition to storage space. In response to the changing business environment and industry trends, the Group has expanded its business to include contract logistics, freight forwarding and distribution to capitalise on its strengths in warehousing. The division now operates in Hong Kong, Shanghai, Korea and Thailand.

Logistics revenue doubled compared to the previous year, reaching HK\$71 million in 2000 (1999: HK\$35 million). Approximately 400,000 square feet of warehouse space has since been dedicated to logistics operations with plans to increase this capacity when required. The name "Kerry Logistics" enjoys a strong brand image and is accorded recognition as a quality logistics partner with strong capabilities.

During the year, the division acquired a freight forwarding company, R&B Transports Limited. Freight

forwarding adds the critical outbound segment to the division's logistics capabilities. In January 2001, the freight forwarding network was extended to Korea and Thailand with the acquisition of a majority interest in a leading freight forwarding company in Korea and a joint-venture for freight forwarding based in Bangkok. All three companies will operate under the brand name, "Kerry Freight".

The network of logistics capabilities in China will be extended to Shenzhen where the division has plans to develop a logistics centre in Yantian in a joint-venture with the Yantian Port Authority. The division also has plans to develop logistics operations in Beijing and North China in collaboration with Beijing Holdings Limited. Development efforts for other cities in China and South-East Asia will intensify in 2001.

The Group continues to enhance the delivery of its logistics and warehousing capabilities through advanced technologies. The division has recently acquired an advanced logistics system with e-commerce and web-based capabilities designed for application in multi-modal, multi-lingual logistics businesses. The system is being implemented in phases in the division's network in various Asian cities.

### INFRASTRUCTURE DIVISION

Profit attributable to the Group from the division amounted to approximately HK\$86 million for the year ended 31 December 2000 (1999: HK\$68 million).



The operations of Shenzhen Kaifeng Terminal are continuing to make good progress and the TEUs being handled for the year has increased by 28% from 350,512 TEUs in 1999 to 450,139 TEUs in the current year. As part of its expansion plan, Shenzhen Kaifeng Terminal opened its third berth with additional quay side cranes and yard cranes in November 2000 to cater for increasing demand. Profits of HK\$14.4 million (1999: HK\$14 million) has been equity accounted for by the Group in respect of Shenzhen Kaifeng Terminal for the year ended 31 December 2000.

In line with increasing cargo turnover at the Chek Lap Kok airport, Asia Airfreight Terminal is operating profitably. Total tonnage handled for 2000 increased by approximately 12% to 380,000 tons when compared to 340,000 tons in 1999. The Group has equity accounted for HK\$19.4 million in profits in 2000 (1999: HK\$18.2 million). The management of Asia Airfreight Terminal is currently conducting studies to evaluate opportunities to take on additional businesses to maximise the utilization of the terminal capacity thereby increasing the revenue stream.

The Western Harbour Tunnel increased its toll on 3 December 2000 from HK\$30 to HK\$40. This will help to improve the cashflow and earnings of this investment. Average daily traffic flow along the tunnel is approximately 43,000 vehicles per day.

The Group's other infrastructure-related investments are fully operational and are contributing a steady source of recurrent earnings to the Group.

### INTERNATIONAL DIVISION

Pre-sales of Jacksons Landing, a joint venture project in Sydney, Australia, has achieved satisfactory results. At the end of December 2000, 367 units out of the 507 units in the first five precincts released for pre-sale have been sold. Construction of other precincts is proceeding according to schedule. The Group has equity accounted for its share of profits after tax for the year of approximately HK\$10 million (1999: HK\$17 million) derived from pre-sales of this project.

The Group continues to enjoy stable income from its 37.77% equity stake in EPHI in the Philippines. EPHI holds a majority stake in Shangri-La Plaza Mall, one of the premier shopping malls in Manila, in the Philippines. The mall had an occupancy rate in excess of 96% as at 31 December 2000.

In order to strengthen its recurring income base as well as to further diversify its income stream, the Group had increased its investment in EPHI during the year through the purchase of 302,569,038 EPHI shares and 933,213,138 PDRs. Each PDR has one EPHI share serving as underlying securities. The holder of each PDR will be entitled to enjoy the cash dividends and other cash distributions derived from one EPHI share and also the right to convert the PDR into one EPHI share at a predetermined exercise price of Pesos 0.02 per share. After the acquisition, the

Group owns a direct equity interest of approximately 37.77% in EPHI's issued share capital whilst the underlying EPHI shares in respect of the PDRs owned by the Group represents approximately another 34.76% of EPHI's issued share capital. These interests jointly account for approximately 72.53% of EPHI's total issued share capital. During the year ended 31 December 2000, the Group had equity accounted for its share of post acquisition profits amounting to HK\$15 million (1999: HK\$6.6 million). The Group is confident that the investment will provide another source of good recurring income for the Group whilst at the same time further strengthen its asset base.

In line with its vision of becoming a premier property group in the Philippines, EPHI during the year acquired a 23.52% interest in KSA Realty Corporation which is the owner of the Enterprise Center comprising of two prime grade A office buildings in the Makati Central Business District in Manila. This acquisition, which will enhance EPHI's investment property portfolio with a landmark presence in the Makati Central Business District, was completed in December 2000.

### TECHNOLOGY INVESTMENTS

On 19 June 2000, the Group signed an agreement to invest in a fund called the C Tech Fund. The Group's investment amounted to US\$6 million of which approximately US\$2.2 million had been paid as at 31 December 2000. The C Tech Fund is a venture capital fund that intends to focus on investments in a portfolio of technology companies

in the PRC with its investment objective being to achieve long-term capital appreciation. The latest valuation of the fund by the manager indicates the value of the fund is above its cost.

### DONATIONS

During the year, the Group made charitable donations amounting to HK\$205,000.

### CREDIT RATING

In January 2000, Standard & Poor's ("S&P") reviewed the Group's S&P rating and reaffirmed the Group's corporate and convertible bond ratings to be of investment grade with a 'BBB-' rating together with a stable outlook. We believe that this is a positive endorsement of the consistent and stable quality of the Group's earnings and of the sound and conservative financial policies pursued by the Group's management.

### FINANCING AND GEARING

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, the Group is continually reviewing its financing requirements and will consider any unsecured bank financing and/or secured project financing as and when the need arises. With respect to foreign exchange exposure, this does not pose significant risk for the Group given that the level of US\$ and RMB exposure is small relative to its total asset base. As at the year end, the Group had net borrowings amounting to

approximately HK\$9.5 billion (1999: HK\$9 billion) which includes foreign currency loans of US\$370 million (1999: US\$437 million) and RMB828 million (1999: RMB907 million).

During the year, the Group continued to maintain most of its borrowings on an unsecured basis. In May 2000, the Group successfully raised a 5 year HK\$4,205 million Revolving Credit/Term Loan Facility. The original HK\$3,000 million facility had received an overwhelming response from the banking community and as a result, the Group agreed to increase the size of the facility to HK\$4,205 million. The Group is appreciative of the support from the banking community and this enthusiastic response also signifies the public's confidence in the future of both the Group and the property market as a whole. Proceeds from the loan was used for refinancing the syndicated facility raised by the Group in October 1997 and for future general funding requirements of the Group.

The Group's net borrowings including convertible bonds at 31 December 2000 amounted to approximately HK\$9,492 million (1999: HK\$8,983 million), resulting in a gearing ratio of approximately 40% (1999: 36%) based on shareholders' equity of approximately HK\$23,579 million (1999: HK\$24,713 million). Majority of the Group's borrowings are subject to floating interest rates except for certain loans in the PRC and the convertible bonds which are fixed interest loans. Of the total amounts of bank loans and convertible bonds outstanding as

at the year end, 41% (1999: 5%) are repayable within the next year, 24% (1999: 55%) repayable within the second year with the remaining balance repayable in the third to fifth years, inclusive. The Group plans to settle these debts from internal resources and/or available banking facilities and will continue with its policy of maintaining a prudent gearing ratio and will consider further steps to reduce its outstanding debt as appropriate.

As at 31 December 2000, the Group had total available cash resources of approximately HK\$4.97 billion, comprising net cash on hand of approximately HK\$1.27 billion together with undrawn facilities of approximately HK\$3.7 billion. This strong financial position puts the Group in a good position to take advantage of any attractive investment and development opportunities in the years ahead.

### CONTINGENT LIABILITIES

The Group had provided guarantees for banking and other facilities granted to associated companies and investee companies and guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC. At 31 December 2000, the utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group amounted to approximately HK\$1,928 million (1999: HK\$2,300 million) and approximately HK\$97 million (1999: HK\$89 million), respectively. As and when required, in the ordinary course of business, the Group will provide guarantees, counter indemnities or

undertakings to cover the Group's obligations in respect of projects undertaken by the Group.

### ENVIRONMENTAL PROTECTION INITIATIVES

The recreation park, Tai Po Kau Interactive Nature Centre (the "Centre") in Constellation Cove, was completed in December 2000 and is now fully operational. Working closely with local environmental associations to promote awareness and knowledge in relation to issues on environmental conservation, the Centre consists of the first interactive ethnological museum in Hong Kong, Museum of Ethnology, "Ethnic Village", an outdoor park, activity area and a multifunctional building. The presence of a mangrove swamp and rare species trees makes it an ideal place for such a nature park. This is a good example of the Group's initiatives on environmental protection issues.

In addition, the Group is also conscious of the effect of materials and equipment used in its developments. In Ocean Pointe, the use of durable materials and the fitting of energy-saving equipment ensures that environmental issues are taken into consideration but is also beneficial to both potential tenants and buyers since management fees would be lower due to energy savings.

### CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance which provide an important framework for the overall operations of the Group as well as to enhance shareholders' value. In recognition of the Group's endeavours in maintaining good

disclosure and corporate governance practices, the Hong Kong Society of Accountants presented the Diamond Award, being the highest award, in the Non Hang Seng Index companies category in its inaugural "Best Corporate Governance Disclosure Awards", to the Company in October 2000. The Group is honoured to receive this award which highlights the Group's commitment to maintaining high standards of transparency and good corporate governance.

The Company's Board of Directors comprises a mix of executive and non-executive directors, including three independent non-executive directors. The Board is scheduled to meet at least four times a year to review the operations of the Group, determine corporate objectives, approve interim and annual results, budgets and any other significant matters that affect the operations of the Group as a whole.

In performing their duties, the Board of Directors also acknowledges their responsibility for the Group's system of internal financial control. The system is designed with a view to provide reasonable assurance against any material misstatement or loss. These aim to ensure that assets of the Group are safeguarded, that proper accounting records are maintained and that the financial information used within the business and for publication is reliable. The control system also includes clearly drawn lines of accountability and delegation of authority and comprehensive reporting and analysis against approved budgets.

The Board also monitors its internal financial control systems through management reviews and a programme of internal audits. Regular and ad hoc reports will also be prepared for the Board and its committees to ensure that Directors are supplied with all the information they require in a timely manner. The Board has also delegated specific responsibilities to its committees whose specific terms of reference it sets.

### Audit Committee

The Audit Committee of the Board has been established since 1998 and currently comprises all four non-executive directors of the Company, including all three independent non-executive directors. It acts in an advisory capacity and makes recommendations to the Board. It reviews the plans and findings of both the internal and external auditors, the internal control systems throughout the Group, the completeness and accuracy of the financial statements and liaises on behalf of the Board with the auditors. The Audit Committee met three times during 2000 and twice in the year to date in conjunction with the auditors, to review audit reports, status of the Group's audits, internal controls, interim and the final financial statements of the Group, prior to recommending them to the Board for approval.

### Remuneration Committee

The Remuneration Committee of the Board has been established since 1997 and currently comprises the Chairman and the Deputy Chairman of the Board and all three independent non-executive directors of the Company. It makes recommendations with respect to the remuneration of executive directors of the Company. The Remuneration Committee met twice during 2000 and once in January 2001.

## CORPORATE COMMUNICATIONS INITIATIVES

### Website

The Corporate Communications Department launched the website for Kerry Properties Limited on 22 May 1998. The site has continued to enhance the Group's corporate image and is a helpful source of information for third parties on the Group and its current activities. Feedback received to date indicates that the website is very well received by the investment community and by buyers of properties, especially for launches of new developments. The average number of hits during 2000 is 156,928 per month, which is more than double the average number of hits in 1999 of 69,994 hits per month. There is also an increasing trend in the number of hits which has since increased to 192,442 hits for the month of January 2001.

The Group is also in the process of launching new websites for its Estate Management Division, Ocean Pointe and Enterprise Square Two. EPHI and Jacksons Landing have already launched their websites. Kerry Logistics' website was also launched on 28 February 2000. The website is not only an informative website on the Logistics and Warehouse Division but also a B2B website which can be accessed by registered users to facilitate e-commerce transactions on a web based platform. All these websites are linked to the Kerry Properties website and visitors to these websites will also be able to access the Kerry Properties website.

### Investor Relations

In order to develop and maintain continuing good relations with the Group's investors, the Group had participated in various conferences during the year ended 31 December 2000 as follows:

<b>Date</b>	<b>Conference</b>	<b>Organiser</b>	<b>Venue</b>
January 2000	Tech Conference	HSBC	Hong Kong
March 2000	Internet Conference	Lehman Brothers	Hong Kong
March 2000	Asia Investment Conference	Credit Suisse First Boston	Hong Kong
April 2000	Asia Pacific Investor Conference	Merrill Lynch	London

During the year, the Group had been on roadshow to the Netherlands in February 2000. In addition, the Group has been invited to participate in the Salomon Smith Barney Hong Kong/China conference scheduled for April this year.

### PROSPECTS

The PRC's impending entry into the WTO in 2001 will present significant opportunities to Hong Kong in a wide range of sectors. Other significant announcements, such as the Disney project, will also have a longer term positive impact on Hong Kong. Given the declining interest rate trend and the improving fundamentals for the property sector, the Group is cautiously optimistic with respect to the outlook for the year.

On the domestic front, the reduction in interest rates and the new programme introduced by the Hong Kong Mortgage Corporation of making available mortgages of up to 90%, will help underpin property demand in the coming year. The reduction in land supply as recently announced by the government will also help to boost end user interest in the property sector with continuing interest rate reductions making buying an affordable option. The Group is expected to continue to benefit from the improvement in the luxury residential property market in Hong Kong and the rental income growth of its investment properties in Hong Kong and the PRC.

The Group will continue to focus on enhancing the value of our high quality property portfolio. Sustained by a strong recurrent rental income base from investment properties, warehouses and logistics services together with a sound financial position, I am confident that the Group is able to grow in the years ahead.

### DIRECTORS AND STAFF

Mr Thomas Joseph Barrack, Jr resigned as a Non-Executive Director of the Company with effect from 12 September 2000. Dr Shan Weijian also ceased to act as an alternate Director to Mr Barrack with effect from the same date. The Board would like to take this opportunity to record a note of special thanks and appreciation to Mr Barrack and Dr Shan for all their efforts and contribution during their tenure as Non-Executive Director and alternate Director of the Company.

At the end of 2000, the Company and its subsidiaries had approximately 2,386 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.

### EMPLOYEE SHARE OPTION SCHEME

The shareholders of the Company approved an executive share option scheme (the "Share Option Scheme") on 27 March 1997. The Share Option Scheme is designed to give executives and key employees in the service of the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company and the relevant subsidiaries to attract and retain individuals with experience and ability and to reward individuals for performance.

Under the Share Option Scheme, the Directors may, at their discretion, invite executive directors and key employees of the Company or any of its subsidiaries to subscribe for shares in the Company subject to terms and conditions stipulated therein. On 1 June 2000, the Company granted a total of 8,422,000 option shares at an exercise price of HK\$7.17 per share.

Pursuant to the terms of the Share Option Scheme, the Company adjusted the exercise price per option share of the unexercised options and the number of option shares comprised thereunder on 4 December 2000 following changes in the Company's issued share capital in 1999 and 2000. The exercise prices have been adjusted from HK\$16 to HK\$15.77, from HK\$10.33 to HK\$10.19 and from HK\$7.17 to HK\$7.08 in respect of the unexercised options granted on 11 April 1997, 27 November 1999 and 1 June 2000, respectively, with additional corresponding option shares of 168,597, 79,254 and 106,260 granted accordingly.

## CHAIRMAN'S STATEMENT

The total outstanding option shares at 31 December 2000 were listed as follows:

Date of grant	Tranche	Exercise period	Exercise price	Number of option shares of the Company
11/04/1997	N/A	11/04/1999- 26/03/2007	HK\$15.77	11,729,531
27/11/1999	I	27/05/2000- 26/03/2007	HK\$10.19	2,924,618
	II	27/05/2001- 26/03/2007	HK\$10.19	2,924,636
				5,849,254
01/06/2000	I	01/06/2001- 31/05/2010	HK\$7.08	2,868,000
	II	01/06/2002- 31/05/2010	HK\$7.08	2,868,000
	III	01/06/2003- 31/05/2010	HK\$7.08	2,732,260
				8,468,260
			Total	<u>26,047,045</u>

No options have been exercised under the Share Option Scheme since its adoption by the shareholders of the Company.

### APPRECIATION

Taking this opportunity, on behalf of the Board of Directors, I would like to express my sincere appreciation to all the management and staff for their diligence, loyalty and dedication. I am also grateful to the Directors for their wise counsel and guidance and for the support and confidence of our investors and strategic partners throughout the year.



**Kuok Khoon Loong, Edward**

Chairman

23 February 2001