

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 major cities of China will intensify in 2001.

In South-East Asia, the division's logistics business commenced operations in Thailand in January 2001 with plans to extend its capabilities to Malaysia/Singapore, the Philippines and Taiwan in due course.

The Group is able to provide a full range of logistics services from traditional logistics to e-fulfillment. The Kerry Logistics web-site, www.kerrylogistics.com, has been well received by customers and the Group has been successful in migrating traditional customers onto its web-based platform at an increasing rate. The web-based platform enables customers to integrate

with the Group's supply chain management system, thereby providing customers with an efficient and cost effective solution within a seamless business environment.

The division has recently acquired an advanced logistics system 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.

DISTRIBUTION

Distribution is an integral part of logistics. To enhance customer service, the division has a distribution fleet and team which is capable of providing premier distribution services under the brand name, "Kerry Distribution".

FREIGHT FORWARDING

In May 2000, the division acquired a majority interest in a freight forwarding company, R&B Transports Limited (now known as Kerry R&B Forwarding Limited), which has a long established history in Hong Kong. Kerry R&B Forwarding Limited is a member of IATA and FIATA and has an established global agency network. Freight forwarding provides international air and sea transportation to strengthen the Group's outbound 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 Korean freight forwarding company, Kenney Freight Systems, Inc. and a joint-venture for freight forwarding in Bangkok. All three companies operate under the brand name, "Kerry Freight". This network allows the division to offer better and comprehensive ground services to customers.



Distribution services by Kerry Logistics



Kerry Logistics' fleet of vehicles

WAREHOUSE

The Group continues to maintain a dominant position in warehousing in Hong Kong. It operates 14 warehouses with leasable gross floor area of 6.6 million square feet. The gross asset value of the Group's warehouse portfolio was approximately HK\$4,687 million (1999: HK\$5,273 million) as at 31 December 2000. The division caters to the varied needs of its customers for storage of general cargo, dangerous goods and bonded goods as well as cold storage. Approximately 400,000 square feet of warehouse space has also been dedicated to logistics operations.

The Group continues to generate good recurrent rental income from its warehouses. The occupancy rate of its warehouse portfolio was 96% as at the end of 2000. This is a significant improvement over the average occupancy of 81% achieved in 1999.

To achieve better operational efficiency, conventional public warehousing services has been consolidated from 14 sites to 8 sites.

The Group will continuously evaluate opportunities to maximise value from its warehouse portfolio.

International Division

During the year, the Group increased its investment in EDSA Properties Holdings Inc. through the purchase of additional shares and Philippine Deposit Receipts. The Management believes that this investment will bring a steady source of recurring income to the Group and also allow the Group to further diversify its income base.



Regatta Wharf Apartments on the waterfront at Jacksons Landing

JACKSONS LANDING

Jacksons Landing is a joint venture development entered into on 6 February 1998 between the Group, Lend Lease Corporation of Australia and the Government Investment Corporation of Singapore. It is a residential-commercial development in the Pyrmont peninsula in Sydney, Australia.

Pre-sales of Jacksons Landing 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 derived from pre-sales of this project.

EDSA PROPERTIES HOLDINGS INC. ("EPHI")

The Group has continued to enjoy a stable income derived from its investment in EPHI in the Philippines during the year under review. EPHI holds a majority stake in Shangri-La Plaza Mall, one of the renowned shopping malls in Manila, in the Philippines, whose occupancy rate stood at 96% at the year end.

During the year, the Group had further invested in EPHI through the purchase of additional shares and Philippines Deposit Receipts ("PDRs"). After the acquisition, the Group owns a direct interest of approximately 37.77% in EPHI's issued share capital whilst the underlying shares in respect of the PDRs represent 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.



EPHI shopping mall, hotel land and car parks in the foreground

Over 54 new stores from various retail categories have opened at the mall during 2000 including famous brand names like DKNY Jeans, Osh Kosh, Benetton, Starbucks Coffee, American Eye Centre, Moiselle and DHL.

Shangri-La Plaza Mall also commenced its renovation program in July 2000. The renovation is aimed at enhancing the mall's market positioning as a premier shopping complex effectively delivering an upscale retail experience. Included in the renovation program is a link from the mall to the Metro Railway Transit ("MRT") Shaw station which facilitates access for MRT commuters into the mall and vice versa. This link, which features fully enclosed escalators and immediate access to the mall and the connecting bridge to the carpark building, is currently opened and is expected to generate thousands of additional pedestrian flows to the mall. When completed, the project would add approximately another 3,000 square metres net leasable area to the mall.

Shangri-La Plaza Mall had also generated market attention and mall patronage during the year through organising various events and exhibitions. These events and exhibitions highlight the mall's chosen advocacies of arts, culture and environment, which included the 5th French Film Festival, Israeli Film Festival and Exhibition, Tissot World of Music Concert Series, World Wildlife Fund Exhibition, Bridal Fair and Fashion Shows, Philippine Orchid Society Exhibition and Trade Show.

The mall has continued to win awards and some of the plaudits earned during the year were, "2000 Best Christmas Tree (Mall Category)" and "2000 Most Spectacular Christmas Decor" awarded by the Philippine Star.

In line with its vision to becoming a premier property group in the Philippines, EPHI acquired a 23.52% interest in KSA Realty Corporation, whose main asset is Enterprise Center, a twin tower grade A office building in the Makati Central Business District in



Enterprise Center, Manila, Philippines

Manila. This acquisition will enhance not only EPHI's investment property portfolio and recurring rental income but will also allow EPHI to have a landmark presence in the Makati Central Business District in Manila in the Philippines.

As at 31 December 2000, the gross asset value of the Group's international investments was approximately HK\$1,377 million (1999: HK\$1,084 million) comprising HK\$119 million (1999: HK\$127 million) and HK\$1,258 million (1999: HK\$957 million) of assets in Australia and in the Philippines, respectively.

Infrastructure Division

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

SHENZHEN KAIFENG TERMINAL

The operations of Shenzhen Kaifeng Terminal are continuing to make good progress. 450,139 TEUs were handled in 2000, representing an increase of 28% compared to 350,512 TEUs in 1999. The increase can be attributable to the opening of a third berth, with additional quay side cranes and yard cranes, as part of an expansion plan in November 2000. During the year, the Group has equity accounted for HK\$14.4 million (1999: HK\$14 million) in profits after tax from this investment. With the PRC's impending entry into the WTO, this should augur well for the operations of the terminal in the years ahead.

ASIA AIRFREIGHT TERMINAL

Asia Airfreight Terminal commenced operations in July 1998 and is operating profitably due to much improved cargo turnover at the Chek Lap Kok airport. Total tonnage handled during the year ended 31 December 2000 was approximately 380,000 tons, representing an increase of 12% over 1999 of approximately 340,000 tons. The Group has equity accounted for its share of profit after tax amounting to HK\$19.4 million in 2000. The management of Asia Airfreight Terminal is conducting studies to evaluate opportunities to take on additional business to maximise the utilization of the terminal capacity and to increase the revenue stream.

During the year, Asia Airfreight Terminal also won the Good People Management Award 2000 organised by the Labour Department of the Government of the Hong Kong Special Administrative Region in which 180 companies participated. The award ceremony was held in January 2001.

WESTERN HARBOUR TUNNEL

The Western Harbour Tunnel increased its toll on 3 December 2000 from HK\$30 to HK\$40. This increase has helped to improve the cashflow and earnings of this investment. With the completion of the residential and commercial properties in the area, such as Island Harbourview, Park Avenue and Olympian City and the anticipated commencement of the Disney project, the traffic flow along the Western Harbour Tunnel is expected to increase, thereby bringing increased earnings for this project.

HU-NING EXPRESSWAY (SHANGHAI SECTION)

The Group has a 19.6% interest in a sino-foreign co-operative joint venture company, which has obtained the right to operate and maintain the Hu-Ning Expressway (Shanghai Section) and its ancillary facilities for a period of ten years commencing on 1 January 1997. This investment is being amortized over the ten year license period. The performance of the expressway in 2000 was in line with expectations, generating a steady source of income to the Group.



New berth at Shenzhen Kaifeng Terminal

CROSS HARBOUR TUNNEL

In April 1999, the management contract for the Cross Harbour Tunnel was awarded to a consortium named Hong Kong Tunnels and Highways Management Company Limited in which the Group has a 15% interest. The two year management contract will help to diversify the Group's earnings stream as well as better utilize the Group's management expertise in infrastructure-related businesses.

As at 31 December 2000, the gross asset value of the Group's infrastructure investments was approximately HK\$903 million (1999: HK\$924 million) comprising HK\$374 million (1999: HK\$347 million) and HK\$529 million (1999: HK\$577 million) of assets located in Hong Kong and the PRC, respectively.