Chairman's Statement

The general business outlook of the economy continues to be weak. Due to the continuing uncertainty of the property market, the Directors have considered it prudent to make a specific provision of HK$360 million for its Constellation Cove development in Tai Po, Hong Kong. In addition, the Group incurred losses from sales of Ocean Pointe, Kerry Everbright City and the Yuen Long 2 warehouse. As a result, profit attributable to shareholders dropped by 46% in 2001. The Group is however still cautiously optimistic with respect to the outlook for the coming year with quality developments on hand and improving market sentiment.

I am pleased to report to shareholders the annual results of the Group for the year ended 31 December 2001.

RESULTS

The Group's consolidated profit attributable to shareholders for the year ended 31 December 2001 was HK$396 million, a decrease of 46% compared with 2000 profits of HK$728 million. Earnings per share were HK34.50 cents (2000: HK64.90 cents).

DIVIDENDS

The Directors recommend a final dividend of HK12 cents per share for 2001 which together with the interim dividend of HK20 cents per share, makes a total dividend of HK32 cents per share (2000: 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 "2001 Final Scrip Dividend Scheme"). The proposed final dividend is expected to be paid on 31 May 2002.

A circular containing details of the 2001 Final Scrip Dividend Scheme together with the relevant election form will be sent to shareholders on or about 29 April 2002. The 2001 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 17 April 2002 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.

Overall Business Review

The Group's turnover increased by 58% to HK$5,036 million (2000: HK$3,196 million) in 2001 compared with 2000. Despite lower interest rates and various incentive based marketing schemes offered by property developers, the property market in Hong Kong remained weak especially after the 11 September 2001 World Trade Centre incident in New York. With the continuing uncertainty in the property sector, the Directors have considered it prudent to make a specific provision of HK$360 million in respect of the Constellation Cove project in Tai Po Kau. This is a non-cash provision and should selling prices improve during the year, an assessment will be made whether it is appropriate to write back any of the provision.

The Group has continued to maintain very strong cashflows with its core portfolio of prime properties in Hong Kong and in the PRC such as Aigburth, Belgravia, Beijing Kerry Centre and Shanghai Kerry Centre through maintaining high occupancies, thus ensuring continuing good recurrent rental income.

In addition, the Group is moving forward with its vision of becoming a premier pan-Asian integrated logistics company. During 2001, the Group's network has expanded to Mainland China, Korea, Thailand, Australia and the United States. The Group continues to be a market leader in warehousing in Hong Kong with approximately 95% occupancies at its 6.2 million square feet warehouse portfolio at the end of 2001.

Shangri-La Plaza Mall and Enterprise Center, the Group's investment properties in the Philippines, have continued to maintain high occupancy rates of over 94% and 88%, respectively, as at the year end thus providing the Group with a good source of recurrent income.

In October 2001, the Group signed an agreement to sell its 19.6% interest in the Hu-Ning Expressway in Shanghai for US$56 million. This sale was completed at the end of December 2001.

The performance of the Group's other infrastructure related investments were 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 HK$2,810 million (2000: HK$1,688 million) in 2001 and represents approximately 56% of the Group's turnover. Rental income for the year amounted to HK$423 million (2000: HK$465 million), a decrease of 9% compared with 2000. Proceeds from sales of properties increased by 95% to HK$2,387 million (2000: HK$1,223 million) due to the launching of the sales of Ocean Pointe and Enterprise Square 2 during the year. As a result of the Group's 75% share of the specific provision made for Constellation Cove amounting to HK$270 million, the division suffered a loss attributable to the Group of approximately HK$224 million (2000: profit of HK$199 million).

Development Properties

Sales activities in Hong Kong have improved over the last year as a result of lower interest rates and more incentive based marketing schemes offered, making buying a more affordable option. Two major developments were launched for sale during the year and responses from the public were very encouraging.

In 1998, the Group made a general provision of HK$150 million with respect to the Group's development property portfolio. In accordance with Hong Kong Statement of Standard Accounting Practice 28, "Provisions, Contingent Liabilities and Contingent Assets", which came into effect during the year under review, this provision has now been reclassified as a specific provision in respect of the Ocean Pointe project.

Ocean Pointe, the Group's residential development in Sham Tseng, received its occupation permit in December 2000 and was launched for public sale in March 2001. The Group has realised an amount of approximately HK$420 million of the total provision of HK$550 million made for Ocean Pointe in line with the sales of those properties. As at 31 December 2001, 78% of the units have been sold. Subsequent to the year end, another 18 units were sold.

Enterprise Square 2, an industrial/office building in Kowloon Bay received its occupation permit in April 2001 and was launched for sale at the same time. Enterprise Square 2 is the newest industrial/office building in Kowloon Bay and as such was well received when launched for sale and at the year end, approximately 70% of the property was sold. An additional 37,619 square feet was sold after the year end.

The Group also sold the remaining penthouse in Tavistock II in April 2001 for approximately HK$48 million.

The Group's joint venture property developments in Hong Kong are continuing to be sold with construction of Phase 2 of the Tai Kok Tsui development being completed and the occupation permit received on 19 December 2001. The Group has equity accounted for its share of results from Phases 1 and 2 of the Tai Kok Tsui project, which are approximately 89% and 75% sold, respectively. Subsequent to the year end, an additional approximately 1% and 6% in Phases 1 and 2 of the project were sold, respectively.

Investment Properties

The Group has continued with the sales of units in Enterprise Square and Tregunter Towers. During the year, approximately 19,872 square feet of Enterprise Square was sold for HK$36 million whilst 12 units in Tregunter Towers were sold for HK$186 million.

In July 2001, the Group disposed of its 55.5% interest in Energy Plaza in Tsimshatsui with the Group's share of the aggregate consideration amounting to approximately HK$216 million. In the same month, an agreement was signed to sell Olympian Tower, the office block in the Tai Kok Tsui Phase 1 development in which the Group has a 20% interest, to the Bank of China Group for a total consideration of HK$1,090 million. The sale was completed on 12 January 2002.

Olympian City 1 and 2, the commercial podiums of Phases 1 and 2 of the Tai Kok Tsui development, are leasing well with occupancy rates of 98% and 82%, respectively, as at the year end.

Rental income has decreased slightly during 2001 compared to last year mainly because of the sales of Horizon Lodge and 168 Sai Yeung Choi Street in 2000. The recurrent rental income base as well as the average occupancy rate for the Group's property portfolio remains strong. The average occupancy rate for the entire rental portfolio stood at approximately 93% at the year end.

Status of Developments

The occupation permit for Constellation Cove, the Group's development in Tai Po Kau, was received in January 2002. Overlooking the Tolo Harbour, Constellation Cove is located in an established residential area and 90% of the site area has been reserved exclusively for extensive landscaping. The development comprises of 286 residential units offering accommodation of various sizes ranging from detached houses, duplexes to apartments. The Group is confident that this development will be able to cater to the demands of home owners looking for a comfortable and stylish modern family living environment. Sales of this development commenced at the end of February 2002.

Construction of Ava Mansion is progressing according to schedule with site formation and piling works currently in progress. The development is expected to be completed by the end of 2003 and will further complement the Group's property portfolio with another top quality luxury building located in the highly sought after address of Tregunter Path in Mid-levels, Hong Kong.

Piling work of Enterprise Square 3, another industrial/ office development in Kowloon Bay, has been completed according to schedule. Site formation and piling work at Tsuen Wan Town Lot 404, a site 50% owned by the Group, is also in progress. Both developments are expected to be completed by December 2003.

Future Plans

In December 2001, the Group acquired a residential property at 18 Jupiter Street, North Point which comprises of two residential towers over a two floor commercial podium together with two levels of basement carparks amounting to approximately 154,000 square feet. Renovation and refurbishment of the property are currently in progress. Subsequent to the year end date, the property was launched for sale in January 2002 and has received an overwhelming response from the public. Approximately 93% of the units have already been sold. The successful sale of this property will help to underpin the Group's results in the first half of this year.

With the intention of developing a cluster of quality offices and retail complexes in Kowloon Bay, the Group is now planning for the development of Enterprise Square 4 which when fully developed will provide approximately an additional 1.6 million square feet of grade A office/retail space to the office community in Kowloon Bay.

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 6.6 million square feet. Investment properties account for approximately 27% of the Group's total portfolio in Hong Kong, with approximately 1 million square feet of residential properties and in excess of 800,000 square feet of commercial properties. The Group currently has approximately 4.1 million square feet of properties under development in Hong Kong and approximately 700,000 square feet of completed properties held for sale. 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 wherever appropriate.

PRC Property Division

Turnover from the PRC Property Division increased significantly by 38% to approximately HK$1,345 million (2000: HK$972 million) in 2001, representing 27% of the Group's total turnover. Rental income increased by approximately 30% to HK$462 million (2000: HK$355 million). Proceeds from sale of properties also increased to approximately HK$679 million in 2001 from approximately HK$441 million in 2000 comprising mainly of the sale of Central Residences, the Group's luxury residential project in Hua Shan Road, Shanghai and sales of units in Kerry Everbright City Tower 2. Turnover of the Beijing Kerry Centre Hotel amounted to HK$204 million (2000: HK$176 million) during the year. Profit attributable to the Group from the division amounted to approximately HK$293 million (2000: HK$252 million).

Sales and Leasing of Properties

Leasing activities in the PRC have been encouraging due to the strong PRC economy and the excellent quality and location of the Group's properties. Leasing in Beijing Kerry Centre continues to be strong with approximately 91% and 86% of the office and commercial podium in the property being leased, respectively. The serviced apartments in Beijing Kerry Centre, Kerry Residences, were approximately 70% leased at the year end.

Beijing Kerry Centre Hotel also made a good contribution to the Group. During the year under review, the Beijing Kerry Centre Hotel achieved an average occupancy rate of approximately 68% with average tariffs during the year of approximately US$118 per night.

Sales and leasing of the Group's properties in Shanghai are also progressing satisfactorily. The office tower, serviced apartments and commercial podium in Shanghai Kerry Centre were approximately 89%, 74% and 95% leased, respectively, as at 31 December 2001.

With respect to Kerry Everbright City, 171 residential units in Tower 2 amounting to approximately 21,571 square metres were sold during the year with 4,140 square metres of such sales to be completed subsequent to the year end. As at 31 December 2001, 76% and 8% of Tower 1 and 4% and 88% of Tower 2 have also been leased and sold, respectively. The shopping mall was 100% leased as at the same date.

As at 31 December 2001, all units in International Apartments in Shanghai were sold while the shopping mall was approximately 63% and 30% leased and sold, respectively. Similarly, in Shanghai Trade Square, approximately 29% and 66% of the office space have been leased and sold, respectively, whilst the retail shops are 100% leased.

As at 31 December 2001, approximately 30% and 68% of the office space in Shenzhen Kerry Centre have been sold and leased, respectively.

Status of Development

Construction of Towers 1 and 2 of Central Residences, the Group's project in Hua Shan Road in Shanghai, was completed during the year and were 99% and 100% sold, respectively, as at the year end. The pre-sales of Towers 3 and 5 of Central Residences commenced during the year in June and November 2001, respectively, and were very well received by the public. As at 31 December 2001, Towers 3 and 5 of Central Residences which were 82% and 70% completed, respectively, were approximately 83% and 44% pre-sold. Subsequent to the year end, an additional 1 unit and 3 units in Towers 3 and 5 were sold, respectively. Construction of the two towers is scheduled to be completed in the third quarter of 2002.

Demand for high quality properties continues to be strong and development of the Cao Jia Yan project located adjacent to the Group's Hua Shan Road development is on schedule. Vacant possession of the site is targeted by early 2002 and conceptual design is currently under review by the government authorities.

The construction of Phase 3A of the Shenzhen Regency Park development which comprises 16 villas has been completed and all the villas were sold at the year end with the sale of the last villa to be completed after the year end. Construction of Phase 3B of this development which comprises of 7 deluxe houses has now commenced.

In order to meet the strong demand for residential properties in Shenzhen, the Group is developing a residential project in Futian, Shenzhen with pre-sales expected to commence in the second half of 2002. This project, located east of the central district in Shenzhen, is intended to be a luxury residential development with an exclusive residents' clubhouse. Construction of the project has commenced and is expected to be completed in the second half of 2004.

The development of the Yu Quan Hua Yuan residential project in Fuzhou has also been restarted with foundation work currently in progress.

Proposals and Future Plans

In April 2001, the Group signed a letter of intent with the Land Grant Committee Office of the Jingan District in Shanghai to develop residential housing at 1288 Yan An Zhong Road. The proposed land cost of the development amounts to approximately US$489 per square metre and the land use contract was signed on 6 February 2002. The Group intends to construct a high rise luxury residential development with landscaped gardens and recreational facilities for residents.

In October 2001, the Group entered into a joint venture called Beijing BHL Logistics Limited to acquire a piece of land at Shibalidian in the Chaoyang District in Beijing. The Group has a 20% interest in the joint venture. It is intended that the joint venture company will perform 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 3.9 million square metres. The investment in the joint venture company is estimated to be approximately RMB1.5 billion in which the Group's interest is 20%.

Revenue from PRC properties is expected to increase in the future years due to the improving economic outlook and the entry of the PRC into the World Trade Organization ("WTO"). The strategic locations of the Group's properties and the Group's strong 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 17 million square feet. Investment properties account for approximately 4 million square feet which is 24% of the Group's total portfolio in the PRC. The Group currently has approximately 3.2 million square feet of properties under development in the PRC and approximately 9.8 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 the PRC's major cities. The Group is constantly monitoring market conditions and is always evaluating possible development plans for its land bank in the PRC.

Logistics Network Division

The Logistics Network Division is one of the major contributors of revenue to the Group in 2001. During the year, the division reported turnover of HK$837 million (2000: HK$481 million), which represents approximately 17% (2000: 15%) of the Group's total turnover. Logistics revenue increased by approximately 350% to HK$318 million from HK$71 million in 2000, whilst revenue from warehousing increased by 4% from HK$410 million in 2000 to HK$426 million in 2001. Excluding the effect of the disposal of the Yuen Long 2 warehouse, the division recorded earnings before interest and tax of HK$259 million compared with HK$238 million last year, representing a growth of 9%.

Profit attributable to the Group from the division for the year amounted to HK$57 million (2000: HK$60 million), after taking into account a loss of HK$80 million arising from the sale of the Yuen Long 2 warehouse in November 2001. HK$11 million in profits is attributable to logistics operations and HK$46 million is derived from warehousing.

Sales proceeds of HK$93 million, which has been included in turnover, arising from the disposal of the Yuen Long 2 warehouse will be utilised to further fund the expansion of the logistics network. Notwithstanding the sale, the division still operates 13 warehouses in Hong Kong with a total market valuation of approximately HK$3,986 million and total gross floor area of 6.2 million square feet and remains the largest warehouse owner and operator in Hong Kong. The occupancy rate for the entire warehouse portfolio in Hong Kong as at 31 December 2001 was 95%.

The division is committed to repositioning itself in the market and to building up a strong and comprehensive logistics network in the Asia Pacific region with a vision to be one of the leading third party logistics service providers in Asia. Kerry Logistics is aiming to be one of the fastest growing third party logistics service providers, both in Hong Kong and the Asia Pacific region.

During the year, the division has made significant progress in strengthening its network by extending its operations to various countries in the Asia Pacific region, including Mainland China, Korea, Thailand, Australia and the United States. Logistics revenue achieved an impressive growth of approximately 350% to HK$318 million in 2001 compared with HK$71 million in 2000. Approximately 50% of such revenues are generated from outside Hong Kong.

In January 2001, the division successfully established its first logistics foothold outside Hong Kong with the acquisition of a 51% interest in a leading freight forwarding company in Korea. In the same month, the division also commenced its logistics and freight operations in Thailand in the vicinity of the Siam Sea Port Terminal at Laem Chabang Port, south of Bangkok. The division has also commenced construction of a 16,000 square metres logistics center located in the same vicinity which is expected to commence operations in late 2002.

The division has also extended its logistics capabilities to Australia during the year by acquiring a 100% interest in a logistics and container handling company in Adelaide, Australia.

In Hong Kong, the division now has more than 400,000 square feet of warehouse space dedicated for logistics operations. At present, the division is operating a fleet of 90 vehicles. The size of the fleet will continue to grow depending on the rate of expansion of the business.

The division has also actively expanded into the PRC. A joint venture agreement was signed with Beijing Holdings Group in March 2001 to develop a northern China logistics hub for Beijing and other northern Chinese cities. Warehouses were also set up in the Shanghai Waigaoqiao Free Trade Zone to capture the business from Shanghai and its neighbouring cities. Both of these ventures commenced operations in the first half of 2001. The division is also in various stages of developing a number of logistics centres in various PRC cities including Yantian in Shenzhen and in Beijing through joint ventures with the Yantian Port Authority and Beijing Holdings Group, respectively. The Yantian Logistics Centre will commence operations in the second half of 2003 whilst it is anticipated that the Beijing project will be completed before the 2008 Olympics. The division is also exploring opportunities to further extend its logistics capability in the Shanghai area.

The Group believes that the division has got distinctive advantages in the PRC market with its early penetration and existing establishments which allows it to position itself effectively in securing potential customers. The division also aims at building a competitive nation-wide network of logistics operations in the PRC thus establishing its position as a niche total solution service provider in the PRC market within the next 10 years.

As at December 2001, the division operates in 5 countries and 12 cities around the world. In the future, the division will further extend its logistics network to other countries in Asia whilst at the same time further develop its competitive advantages in order to establish a leading position in the region with a special emphasis on the PRC.

Knowing that a well-developed web-based platform is an important component to an integrated supply chain management solution, the division is continuously evaluating its information technology capability, which is currently supported by a web-enabled supply chain execution system. Currently, the division is focusing on enhancing its capability in 'hub management'. The division aims at expanding its core competence from being a local distribution center or a return distribution center to having a regional focus. Vertically, the division is concentrating on the development of vendor managed inventory, continuous replenishment programmes, "Bill of Materials" technology and operating skill-sets.

The division will however continue to intensify its development efforts with a view to repositioning itself in the market and to enhance its services in line with its vision to become a premier Pan-Asian integrated logistics company.

Infrastructure Division

Profit attributable to the Group from the division amounted to approximately HK$217 million for the year ended 31 December 2001 (2000: HK$86 million). The main reason for the increase in profits from this division in 2001 is a profit of approximately HK$112 million arising from the sale of the Hu-Ning Expressway in December 2001.

The operations of Shenzhen Kaifeng Terminal are continuing to make good progress with 643,745 TEUs handled during the year, representing an increase of 43% over last year. Profits of HK$17.3 million (2000: HK$14.4 million) has been equity accounted by the Group in respect of Shenzhen Kaifeng Terminal for the year ended 31 December 2001.

Asia Airfreight Terminal, the aircargo terminal operator at Chek Lap Kok, is continuing to operate profitably. Total tonnage handled for 2001 decreased by approximately 4% to 366,602 tons when compared to 380,000 tons in 2000. The Group has equity accounted for HK$21.6 million in profits in 2001 (2000: HK$19.4 million). The management of Asia Airfreight Terminal is currently conducting studies to evaluate opportunities to take on additional business to maximise the utilization of the terminal capacity thereby increasing the revenue stream.

In December 2001, the Group disposed of its 19.6% minority interest in Hu-Ning Expressway (Shanghai Section) for a total consideration of US$56 million. The Western Harbour Tunnel has been operating profitably during the year and is making a positive contribution to the Group. The Group has a 15% interest in a consortium which has the management contract of the Cross Harbour Tunnel. In September 2001, the consortium successfully secured an extension of the management contract granted by the Government for another year.

International Investments

Sales of Jacksons Landing, a joint venture project in Sydney, Australia, have continued to be good. At the end of December 2001, 565 units out of the 607 units in the first six precincts released for 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 (2000: HK$10 million) derived from sales of this project.

The Group continues to enjoy stable income from its investments in EDSA Properties Holdings Inc. ("EPHI") in the Philippines. EPHI holds a majority stake in Shangri-La Plaza Mall, one of the premier shopping malls in Manila. Although the mall has undergone a program of renovation during the year, the management has successfully kept the interruptions to the tenants and shoppers at a minimum. At the year end, the mall had an occupancy rate in excess of 94%. In December 2000, EPHI acquired a 23.52% interest in KSA Realty Corporation ("KSA"), whose main asset is Enterprise Center, a twin tower grade A office building in the Makati District in Manila. KSA has made a full year contribution to the Group during the year and has helped to strengthen the financial position of EPHI. The occupancy of Enterprise Center stood at 88% at the year end.

During the year ended 31 December 2001, the Group recorded profits from its investments in EPHI amounting to HK$21 million (2000: HK$15 million). The Group is confident that the investment will provide another source of good recurring income whilst at the same time further strengthen its asset base.

Technology Division

During the year, the Group invested a further US$0.7 million into the C Tech Fund as part of its total commitment of US$6 million. Total amount invested as at 31 December 2001 is US$2.8 million. The latest valuation of the fund continues to indicate that the value of the fund approximates to its cost.

Donations

During the year, the Group made charitable donations amounting to HK$150,000.

Credit Rating

The Group's credit standing is reinforced by the April 2001 issue of the Asset magazine which ranked the Company one of the best credits in Hong Kong. In addition, on 13 July 2001, Standard & Poor's reviewed the Group's credit 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.

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, foreign exchange exposure does not pose a significant risk for the Group given that the level of foreign exchange exposure is small relative to the total asset base. US$ borrowings including convertible bonds as at 31 December 2001 amounted to approximately US$295 million. The Group's US$ exposure is also expected to be substantially reduced in March 2002 upon redemption of the US$ convertible bonds if bondholders exercise the put option on the bonds.

On 18 June 2001, the Group signed an agreement with a syndicate of banks for a 5-year unsecured facility amounting to HK$6 billion for refinancing an existing HK$4 billion syndicated loan which was due to mature in September 2001. This new facility carries an interest rate of HIBOR plus 50 basis points. The facility was well received by the market, as highlighted by 12 reputable banks and financial institutions of various nationalities underwriting the transaction and 25 banks participating as lenders upon conclusion of the loan. Total commitments of HK$7.15 billion was received from the co-ordinating arrangers and the participating banks, which exceeded the initial facility size of HK$3 billion by over 138%. The commitments of the banks were scaled back to HK$6 billion.

In order to take advantage of the current low interest environment, the Group signed another syndicated loan agreement on 23 January 2002 for another 5-year unsecured facility amounting to HK$4.5 billion. The interest rate for this facility is HIBOR plus 40 basis points. This facility is for refinancing an existing HK$4.205 billion syndicated loan facility signed in May 2000. Responses from the banking community to this facility was also very enthusiastic with 13 reputable banks and financial institutions underwriting the transaction and 17 banks participating as lenders upon conclusion of the loan. The Group again received total commitments of HK$7.15 billion, which is 58% more than the initial facility size of HK$4.5 billion. The Group decided to maintain the facility amount at HK$4.5 billion.

Both facilities were self-arranged by the Group. The successful conclusion of these loans is evidence of the strong support for the Group amongst the banking community.

In addition, in September 2001, the Group purchased US$1.3 million of its convertible bonds due in 2007 for cancellation for a total cost of US$1.66 million or an average price of US$127.75. The principal amount of outstanding convertible bonds at the year end is US$197.18 million.

The 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 rate loans. In order to hedge its interest rate exposure in the current low interest environment, the Group has entered into fixed rate interest rate swap contracts amounting to HK$4.5 billion during the year. These contracts will enable the Group to have a more stable interest rate profile over the next few years.

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

As a result of the new syndicated loan obtained during the year, the Group has managed to successfully extend the maturity profile of its borrowings whilst at the same time lowering its borrowing costs. As at 31 December 2001, total borrowings of the Group including convertible bonds amounted to HK$9,607 million, of which 34% (2000: 41%) was due within one year whilst 12% (2000: 24%) and 54% (2000: 35%) were due in the second year and in the third to fifth years, respectively. During the year, the Group continued to maintain most of its borrowings on an unsecured basis. As at 31 December 2001, unsecured debt comprised 78% of total borrowings while total net borrowings including convertible bonds amounted to approximately HK$7,315 million, resulting in a gearing ratio of approximately 33% based on shareholders' equity of approximately HK$21,897 million.

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

At 31 December 2001, the Group had total undrawn facilities of approximately HK$6,882 million and net cash on hand of approximately HK$2,292 million. In addition, the Group also continues to generate strong recurring cashflows from its core investment property portfolio. This strong financial position enables the Group to take advantage of investment opportunities with confidence.

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 2001, 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$1,038 million (2000: HK$1,928 million) and approximately HK$151 million (2000: HK$97 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.

Practice Note 19 of the Listing Rules ("PN 19") requires the disclosure of financial assistance and guarantees provided by the Group to affiliated companies and the specific performance obligations on controlling shareholders of the Company. The circumstances requiring disclosure by the Company of such financial assistance and guarantees have not been present since 31 December 1999 and this is still the case as at the year end. In addition, at the year end, the Group did not have any loan agreements with covenants which impose specific performance obligations on the controlling shareholder. The Directors, in accordance with the recommendation of the Audit Committee of the Board of Directors of the Company, consider that in the interest of good corporate governance and disclosure, the Company continues to make such disclosures. Full details of such disclosures can be found in the Report of the Directors in the Group's Annual Report.

Environmental Protection Initiatives

As part of the Group's strategy in setting new standards of quality living, the Group is conscious of the importance of environmental protection. The development in Tai Po Kau offers a comfortable modern and healthy living environment to its residents.

The Tai Po Kau Interactive Nature Centre (the "Centre") in the Constellation Cove development was completed in December 2000 and is fully operational. The Centre aims to offer recreational and educational leisure activities to members of the public of every age group and background. Set in twenty three acres of diversified habitats with abundant wildlife, more than three quarters of the Tai Po Kau Interactive Nature Centre has been left deliberately undeveloped to preserve its natural environment. These include a mangrove swamp, lagoon, streams, fresh water ponds and nature woodland. In addition, a variety of innovative programs have been designed for different age groups, such as families, the elderly, corporations and schools to share in the activities carried out at the Centre.

Constellation Cove covers an area of approximately 800,000 square feet and site coverage is limited to 11% resulting in almost 90% of the site being covered by landscaping area and open space. The development is planted with over 2,000 trees, including trees which blossom in all four seasons in various colours and numerous fruit trees. Special arrangements have also been made for waste management and recycling. 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 not only 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 Gold Award for the "Best Corporate Governance Disclosure Award" in the Non Hang Seng Index companies category to the Company in October 2001. This is the second consecutive year that the Company has received an award in this category. The Group is honoured to receive this award which highlights the Group's continuing commitment to maintaining high standards of transparency and good corporate governance.

In February 2002, Euromoney, the prestigious international financial magazine, conducted a survey on the 'Best Companies in Asia'. The Company is honoured to have been ranked amongst the top three best property companies in Hong Kong in the survey.

CORPORATE COMMUNICATIONS INITIATIVES

Website

The Corporate Communications Department launched the website for Kerry Properties Limited in 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 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 in 2001 was 347,316 hits per month with the average number of hits since the launch of the website as follows:

	2001	2000	1999	1998
Number of hits (per month)	**347,316**	156,928	69,994	37,777

The Group launched several new websites during 2001 including a website for the Hong Kong residential property portfolio, "Kerry Home" and individual websites for Ocean Pointe, Enterprise Square 2, Jupiter Terrace and Constellation Cove. The "Kerry Logistics" 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. EPHI and Jacksons Landing have also launched their websites. All these websites are hyper 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 shareholders and investors, various communication channels have been established. Shareholders can raise any comments on the performance and future direction of the

Company with the Directors at the Annual General Meeting. In addition, press and analysts conferences are held at least twice a year at which the executive directors are available to answer queries on the Group. The Company also avails itself of opportunities to communicate and explain its strategies to investors and the public in general through active participation at investors conferences, press interviews/press releases, regular meetings with fund managers and potential investors etc. As part of the ongoing corporate communications initiative, the Group participated in the Salomon Smith Barney Hong Kong/China conference held in Singapore in April 2001.

Prospects

Although the Hong Kong property market remained difficult during 2001, the Group believes in the long term prospects of the property sector in Hong Kong and the PRC. As the local economy continues its recovery following the US and Asian economic slowdown and market confidence recovers, the commercial and residential sectors should improve, both in terms of sales and rental. The successful entry of the PRC into the World Trade Organisation in 2001 and the strong economic growth of the PRC will certainly augur well for the future. The Group is confident that the Hong Kong property market will show an improved performance in future years.

The PRC's economy remains strong and the Group is in a good position to access further opportunities there. The Group is expected to continue to enjoy a healthy recurrent income base which together with its strong financial standing, puts the Group in an excellent position to expand and grow in the coming years.

Directors and Staff

Mr Paul James Cromwell Bush, the non-executive director of the Company, passed away peacefully on 17 November 2001. Mr Bush was one of the founding Directors of the Company and made a significant contribution to the flotation of the Company on the Stock Exchange of Hong Kong. He also made major contributions at deliberations of the Board and its committees. He will be sadly missed by all his fellow directors and his colleagues in the Group. The Board would also like to take this opportunity to extend its deepest sympathy and condolences to the family of the late Mr. Bush.

At the end of 2001, the Company and its subsidiaries had 2,521 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.

Executive 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 future 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 2 March 2001, the Company granted a total of 1,240,000 option shares at an exercise price of HK$12.23 per option 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 1 August 2001 following changes in the Company's issued share capital in May 2001. The exercise prices have been adjusted from HK$15.77 to HK$15.50, from HK$10.19 to HK$10.01, from HK$7.08 to HK$6.96 and from HK$12.23 to HK$12.03 in respect of the unexercised options granted on 11 April 1997, 27 November 1999, 1 June 2000 and 2 March 2001, respectively, with additional corresponding option shares of 204,315, 105,157, 145,444 and 20,610 granted accordingly.

Together with the option shares granted in previous years, the outstanding option shares at 31 December 2001 were 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$15.50	11,933,846
27/11/1999	I	27/05/2000-26/03/2007	HK$10.01	2,977,191
	II	27/05/2001-26/03/2007	HK$10.01	2,977,220
				5,954,411
01/06/2000	I	01/06/2001-31/05/2010	HK$6.96	2,890,000
	II	01/06/2002-31/05/2010	HK$6.96	2,890,000
	III	01/06/2003-31/05/2010	HK$6.96	2,772,419
				8,552,419
02/03/2001	I	02/03/2002-01/03/2011	HK$12.03	430,000
	II	02/03/2003-01/03/2011	HK$12.03	430,000
	III	02/03/2004-01/03/2011	HK$12.03	400,610
				1,260,610
			Total	27,701,286

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

Appreciation

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, dedication and continuing support. 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
4 March 2002