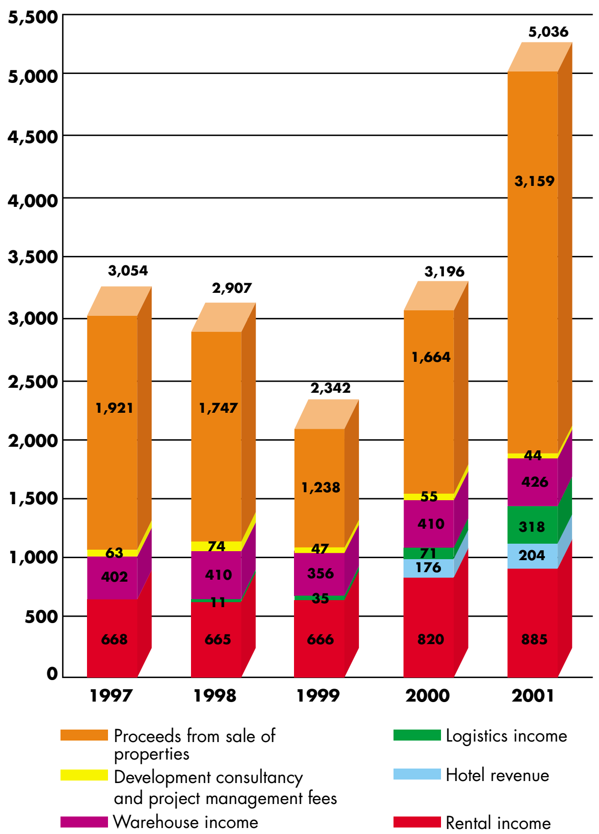
Financial Review

TURNOVER

Turnover for the Group for the year ended 31 December 2001 increased by 58% to HK$5,036 million (2000: HK$3,196 million). Turnover from both rental and sales registered increases during the year. Gross property sales income increased from HK$1,664 million in 2000 to HK$3,159 million in 2001. Property rental income also increased to HK$885 million (2000: HK$820 million) whilst income from warehouse and logistics amounted to HK$744 million (2000: HK$481 million). The Group's hotel operations contributed HK$204 million to turnover during the year (2000: HK$176 million).

BREAKDOWN OF KPL'S TOTAL TURNOVER

HK$ MILLION

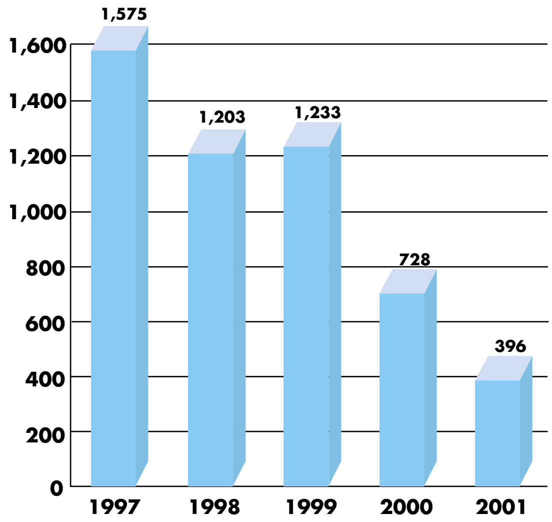


PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders decreased by 45.6% to HK$396 million compared with HK$728 million achieved in 2000. The main reason for the decrease in the Group's earnings in 2001 is due to losses incurred from the sales of Ocean Pointe, Kerry Everbright City, Yuen Long 2 warehouse and a specific provision of HK$360 million in respect of its Constellation Cove project in Tai Po Kau. The Group's 75% share of the provision amounted to HK$270 million. The Group also recorded a profit of approximately HK$112 million from the disposal of its 19.6% interest in the Hu-Ning Expressway in December 2001.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

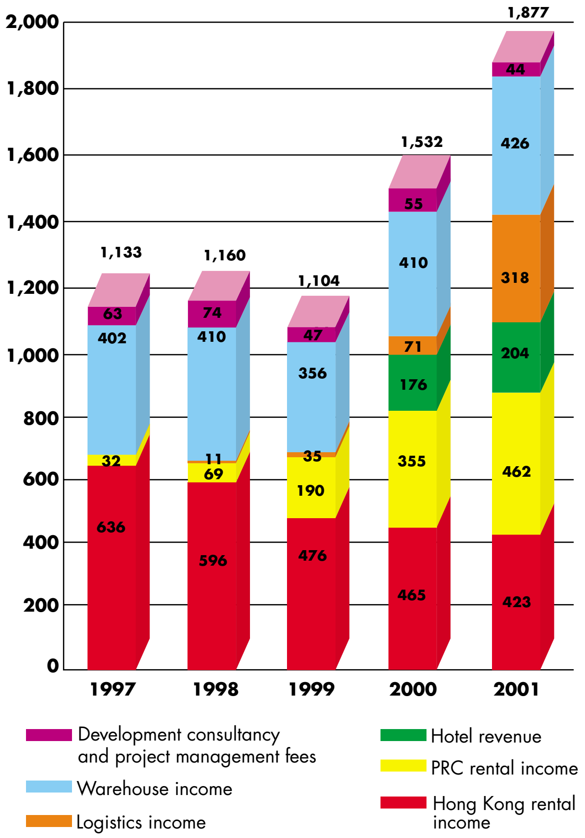
HK$ MILLION



FUNDING AND FINANCING

In order to achieve better control of treasury operations and lower the average cost of funds, KPL has centralised funding for all its operations at the Group level. Financing is generally arranged at the Group level where foreign exchange exposure will also be reviewed and monitored. The Group considers that foreign exchange exposure does not pose a significant risk given that the level of foreign currency exposure is small relative to its total asset base. As at 31 December 2001, US$ borrowings including convertible bonds amounted to US$295 million whilst Renminbi (RMB) borrowings amounted to RMB796 million. The Group's US$ exposure is also expected to be substantially reduced in March 2002 upon

KPL's Recurrent Income Base
HK$ Million



redemption of the US$ convertible bonds if bondholders exercise the put option on the bonds.

During the year, the Group has continued to seek RMB funding to finance its development projects in the PRC and has secured RMB facilities amounting to RMB230 million.

In addition, the Group secured new HK$ facilities amounting to approximately HK$6,300 million during the year 2001, including a HK$6,000 million 5 year unsecured syndicated loan facility which was signed in June 2001. The loan was used to refinance an existing syndicated loan which was due to mature in September 2001. This HK$6,000 million loan facility is the largest syndicated loan raised by the Group since its listing and the loan amount was increased from the original HK$3,000 million due to the facility being oversubscribed by approximately 138%. Total commitments secured for this loan was HK$7,150 million.

Subsequent to the year end in January 2002, the Group signed another 5 year unsecured syndicated loan facility amounting to HK$4,500 million. This loan was used to refinance an existing HK$4,205 million syndicated loan which pays a higher interest margin. Total commitments of HK$7,150 million were again received from the banks for this facility but the Group decided to maintain the facility amount at HK$4,500 million.

With these two new financings, the Group has successfully extended the maturity profile of its debt and at the same time lowered its borrowing costs.

Both facilities were self-arranged by the Group. The successful completion of the two syndicated loans is evidence of the strong support for the Group amongst the banking community and the great confidence of the banks in its strong credit quality.

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 interest loans. In order to lock in lower interest rates in the current low interest environment, during the year, the Group has entered into the following interest rate swap contracts:

Period	Duration	Notional Amount HK$M	Average HIBOR Fixed Rate %
From 9-10/2001 to 9-10/2002	1 year	2,340	2.5350
From 10/2001 to 10/2004	3 years	2,200	3.7145

Subsequent to the year end, the Group entered into another four 3-year forward fixed interest rate swap contracts effective from 30 September 2002 with a total notional amount of HK$1,560 million and HIBOR interest rates fixed at an average of 5.1025% per annum. The interest rate swap contracts will ensure the Group will have a more stable interest rate profile in future years.

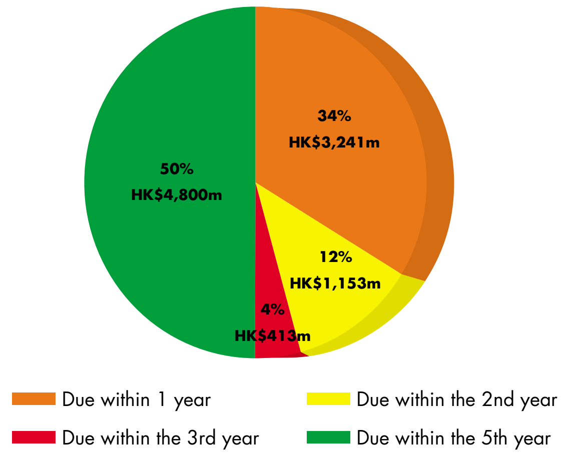
Total borrowings including convertible bonds amounted to HK$9,607 million at 31 December 2001. Approximately 34% of this debt is repayable within one year. At 31 December 2001, the Group had total undrawn facilities of approximately HK$6,882 million and net cash on hand of approximately HK$2,292 million. These available cash resources together with the strong recurring cashflows from the Group's core investment property portfolio and the anticipated cash inflows from the sale of properties in the coming year will enable the Group to fund its debt repayments without difficulties. The Group will also be in a strong financial position to take advantage of new attractive investment opportunities that may arise.

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. Whenever possible, the Group intends to always obtain financing on a fully unsecured basis. During the year, the Group continued to maintain most of its borrowings on an unsecured basis. As at 31 December 2001, unsecured debt comprised of 78% of total borrowings.

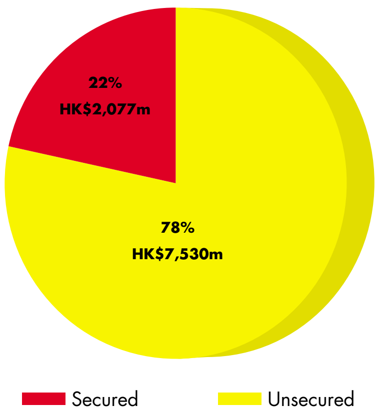
In order to refinance existing facilities, finance developments and pay for new investments, the Group had made drawdowns on new loans amounting to approximately HK$6.6 billion during the year. Loan repayments during the year amounted to approximately HK$7.9 billion, resulting in net repayments amounting to approximately HK$1.3 billion in 2001.

At the year end, total net borrowings including convertible bonds amounted to HK$7,315 million resulting in a gearing ratio of approximately 33%. The Group will continue with its financial strategy of maintaining a prudent gearing ratio and consider steps to reduce its borrowings as appropriate.

PROFILE OF KPL'S BORROWINGS AT THE YEAR END (INCLUDING CONVERTIBLE BONDS) – BY MATURITY



PROFILE OF KPL'S BORROWINGS AT THE YEAR END (INCLUDING CONVERTIBLE BONDS) – BY SECURITY



Opposite page: Apartments of Constellation Cove and club house area

Hong Kong Property Division

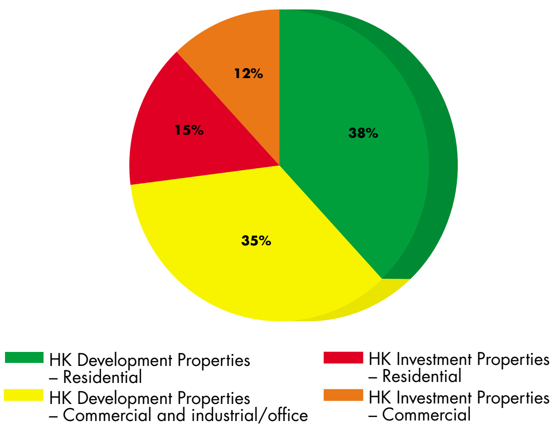
The Hong Kong economy and the property market continues to be weak after the 11 September 2001 incident in New York although there was a slight rebound in activity in the fourth quarter of the year. Despite historic low interest rates and numerous incentive schemes offered by property developers, the Group remains cautious in its outlook for the property sector.

The Group will continue to offer properties and facilities of the highest quality to our tenants and customers whilst making use of the latest high tech features to add values to its developments and services.

SALES OF PROPERTIES

The total gross proceeds from sales of properties in Hong Kong amounted to HK$2,387 million in 2001 (2000: HK$1,223 million). The increase was mainly derived from the sales of Ocean Pointe and Enterprise Square 2 during the year under review.

HONG KONG PROPERTY PORTFOLIO BY GROSS FLOOR AREA ("GFA")



Total GFA 6.6 million sq.ft. as at 31 December 2001

Sales of Ocean Pointe in Sham Tseng commenced in March 2001. The unique half-moon designed development received an overwhelming response from the public and has enjoyed good sales at favourable prices. During the year, the Group held a series of sales campaigns to market the units and has provided buyers with various attractive payment packages as incentives for purchasing the units. The Group will continue to sell the remaining units in the development during the coming year. As at 31 December 2001, approximately 78% of the development had been sold.

The occupation permit for Enterprise Square 2, an industrial/office building in Kowloon Bay, was received in April 2001 with the public sales of the building commencing in the same month. Enterprise Square 2 is a 27 storey building built over 6 floors

Clubhouse lobby of Ocean Pointe at Sham Tseng

of carpark and has a typical floor plate of approximately 10,000 square feet and a total gross floor area of approximately 250,000 square feet. Approximately 70% of the development had been sold as at 31 December 2001.

The Group has continued with the disposal of units in non-wholly owned properties like Enterprise Square and Tregunter Towers during the year under review. In 2001, approximately 19,872 square feet of Enterprise Square and 12 units in Tregunter Towers were sold. The remaining penthouse unit in Tavistock II was also sold in April 2001.

Enterprise Square 2, Kowloon Bay

In July 2001, the Group disposed of its 55.5% interest in Energy Plaza, a 16 storey commercial building with 6 floors of retail podium in Tsimshatsui, for an aggregate consideration of approximately HK$389 million with the sale being completed in September 2001. The office block in the Tai Kok Tsui Phase 1 development, Olympian Tower, in which the Group has a 20% interest, was also sold in July 2001 to the Bank of China Group for approximately HK$1,090 million. This sale was completed on 12 January 2002.


Living room of duplex apartment at Constellation Cove, Tai Po

Sales of the Group's joint venture developments are also progressing with approximately 89% and 75% in Phases 1 and 2 of the Tai Kok Tsui project being sold, respectively, as at 31 December 2001.

INVESTMENT PROPERTIES

Gross rental revenue from investment properties in 2001 amounted to HK$423 million (2000: HK$465 million). In accordance with its accounting policies, the Group conducted a revaluation of its investment properties at the year end.

The Group's portfolio of luxury residential properties include Aigburth, Branksome, Tavistock, Tregunter Towers 1 and 2 and Gladdon in the Mid-Levels and Belgravia located on Island South, have all helped to continue to maintain its strong recurrent income base. They are leasing well with average occupancy rates being approximately 96% as at 31 December 2001.

As at 31 December 2001, approximately 98% and 82% of the lettable area in Olympian City 1 and 2, the commercial podiums of phases 1 and 2 of the Tai Kok Tsui project, respectively, were leased. The Tai Kok Tsui project is a mixed-use development conveniently located next to the Olympic MTR Station.

Apart from the good locations and top quality designs of its properties, the Group also strives to provide its residents with the best professional property management services through its wholly-owned subsidiary, Kerry Property Management Services Limited. Security in the Group's developments is also enhanced by the use of advanced CCTV system and a computerised security checking schedule whenever possible.

In view of the above, the Group continues to generate strong recurrent income from its investment properties and has maintained good leasing results with average occupancy rates for the entire portfolio being approximately 93% at the year end.

Detached houses at Constellation Cove, Tai Po

PROPERTIES UNDER DEVELOPMENTS

The development of Constellation Cove, located adjacent to Tolo Harbour in Tai Po Kau, is progressing satisfactorily. Internal and external finishing works of the houses and apartments have generally been completed. The occupation permit was issued subsequent to the year end in January 2002 and the pre-sales of the apartment blocks commenced at the end of February 2002.

Constellation Cove comprises a total of 286 residential units, including 50 deluxe detached houses ranging from 3,200 to 3,900 square feet, 28 uniquely designed duplex villas ranging from 2,700 to 2,900 square feet and 12 blocks of 10 storey luxury apartments offering 200 standard units from 1,300 to 1,500 square feet and 8 penthouse units of 3,000 square feet.

Located within a short distance of the Hong Kong Science Park which is currently under construction, Constellation Cove occupies a site area of approximately 800,000 square feet with nearly 90% reserved for extensive landscaping. Detached houses featuring high ceilings, private garage and gardens, may also include a swimming pool for the added touch of luxury. As highlighted by the stylish exterior curves, the first floor units of the luxury apartment blocks will enjoy a private garden whilst the penthouse units will include an exclusive rooftop veranda for the enjoyment of residents.

The clubhouse boasts an area of over 70,000 square feet and features a wide array of sports and recreational facilities for residents of all ages and needs. The facilities are housed in separate detached locations to create a private resort atmosphere. The facilities in the clubhouse include gymnasium, sauna, jacuzzi, billiards room, children's play room, wading and swimming pools, golf driving range and tennis courts. All these facilities are linked by brightly lit walkways decorated with plants.

Constellation Cove is one of the few residential projects in Hong Kong which incorporates the concept of "Green Management". The generous floor to ceiling heights as well as larger windows provide better ventilation and allows maximum natural light penetration thus reducing power consumption. Special arrangements have also been made for waste management and recycling.

Ava Mansion, another of the Group's luxury developments, is located at the prestigious address of 3 Tregunter Path, Mid-Levels, adjacent to another of the Group's luxury residential buildings, Branksome. The Group has made use of the unutilised

Jupiter Terrace, North Point

plot ratio in the Branksome site to maximize the land use to build Ava Mansion. Site formation and piling works for Ava Mansion are in progress. The development, with buildable gross floor area of approximately 142,848 square feet, is expected to be completed by the end of 2003.

The Ava Mansion development will comprise a 39 storey luxury residential building with ancillary carparks and clubhouse facilities offering panoramic sea views of the city and the harbour. Ava Mansion,

The sites of Enterprise Square 3 (white hoarding) and Enterprise Square 4 in the foreground outlined in red in Kowloon Bay

when completed, will provide 68 apartments inclusive of 2 duplex penthouses with unit sizes ranging from 2,230 square feet to 5,400 square feet. Each penthouse will have an exclusive swimming pool.

Piling work in Enterprise Square 3 has been completed and the project will provide 553,872 square feet of commercial and office space when completed. Site formation work and piling work in Tsuen Wan Town Lot 404, a 50% joint venture between the Group and Sino Land, are also in progress. The site area of this residential development is approximately 75,025 square feet with buildable gross floor area of approximately 225,066 square feet. Both projects are expected to be completed by December 2003.

Proposed Ava Mansion development, Tregunter Path, Mid-Levels

Acquisitions and Future Plans

In December 2001, the Group acquired a property at 18 Jupiter Street, North Point. The property, later renamed as Jupiter Terrace, is located within walking distance of Causeway Bay and comprises of two residential towers over a two floor commercial podium with a total of 188 residential units. The property consists of two bedroom and three bedroom units with sizes ranging from 628 to 738 square feet, respectively. The commercial podium has a total gross floor area of over 20,000 square feet with two levels of carparks in the basement. The intention is to refurbish the property for public sale after renovation.

Subsequent to the year end in January 2002, Jupiter Terrace was launched for public sale. The sale of the property received an enthusiastic response from the public and as at the date of this report, approximately 93% of the units were already sold. The refurbishment of Jupiter Terrace is in progress and is targeted to be finished by April 2002.

Similar to Enterprise Square 3, the industrial office site in NKIL 5927 has been rezoned to "Business Use" under the draft Outline Zoning Plan gazetted on 19 January 2001 and is planned to be developed into Enterprise Square phase four. This site is currently under the planning stage and would provide approximately 1.6 million square feet when completed.

The Enterprise Square developments are located in the heart of Kowloon Bay and enjoy the convenience of the future transportation facilities being planned for the area including the proposed MTR Eastern Kowloon Extension. The developments will become a cluster of quality offices and retail complexes establishing a unique high quality grade A commercial community of its own in Kowloon Bay. These developments when completed, are expected to be amongst the best available office properties in Kowloon Bay.

The Town Planning Board confirmed the Residential Zoning for Ap Lei Chau Inland Lot No. 129. The Group acquired this site in August 1999 and the Group's share of gross floor area of this development is 319,663 square feet. This site is intended to be developed into a residential project.

Land exchange and land premium negotiations for the 1 million square feet Hoh Fuk Tong redevelopment project is still in progress. The development is expected to be completed in phases to 2007.

The Group's total property portfolio in Hong Kong is approximately 6.6 million square feet. The gross asset value of the Group's properties in Hong Kong was approximately HK$16,453 million (2000: HK$19,847 million) as at 31 December 2001 comprising HK$12,121 million (2000: HK$14,842 million) and HK$4,332 million (2000: HK$5,005 million) of residential and commercial properties, respectively.

PRC Property Division

The increasing occupancies of the new investment properties and good sales achieved with respect to launches of properties in the PRC helped to sustain the earnings of the Group in 2001. Proceeds from the sale of properties are mainly derived from the pre-sales of Central Residences and the sales of Kerry Everbright City in Shanghai. The PRC's entry into the World Trade Organisation ("WTO") in 2001, the merging of the domestic and the foreign-sale residential markets in Shanghai and the 2008 Olympics in Beijing will definitely benefit the Division as a whole. The Group will continue to adopt a prudent approach in planning the development of its property projects in major cities in the PRC.

Regency Park Phase IIIA, Shenzhen, PRC

SALES OF PROPERTIES

Sales of properties in the PRC amounted to HK$679 million in 2001 (2000: HK$441 million) as a result of the sales of Central Residences and Kerry Everbright City during the year.

The merging of the domestic and the foreign-sale residential markets in Shanghai was effected in 2001. This was a significant reform for the Shanghai real estate market and has boosted the sentiment in the property sector as a whole. The Group has received enthusiastic responses for the pre-sale of its Central Residences Towers 3 and 5 in Shanghai. The pre-sale of Towers 3 and 5 commenced in June and November 2001, respectively, with exhibitions held in Hong Kong. Average achieved selling prices for Towers 3 and 5 are approximately US$2,535 and US$1,972 per square metre, respectively.

Central Residences in Shanghai, PRC

Central Residences is located at Hua Shan Road in Shanghai, which is considered to be one of the most prestigious residential areas in Shanghai. The property enjoys the convenience of good transportation facilities within the city with a subway station and access to major highways in close proximity. The project, which has 2 phases comprising of 4 buildings, offers a total of 547 residential units. It covers a site of 18,552 square metres, and has a total gross floor area of approximately 121,760 square metres. Construction of Towers 3 and 5 are expected to be completed by the third quarter of 2002. The buyers of Central Residences include Hong Kong and Taiwanese businessmen and executives who work in Shanghai, Shanghainese in Hong Kong and property investors. As at 31 December 2001, Towers 1, 2, 3 and 5 were approximately 99%, 100%, 83% and 44% sold, respectively.

Beijing Kerry Centre, Beijing, PRC

Sales in Kerry Everbright City is also progressing with approximately 8% and 88% of Towers 1 and 2 in the Phase 1 development being sold as at 31 December 2001. The Group will continue with the sale of this property in the coming year.

All 16 villas in Phase 3A of the Shenzhen Regency Park development were sold as at 31 December 2001 with the sale of the last villa to be completed subsequent to the year end. Construction work for the Phase 3B development, comprising of 7 deluxe houses each measuring over 700 square metres, has already commenced.

INVESTMENT PROPERTIES

Leasing activities in Beijing Kerry Centre are progressing well as a result of the strong PRC economy and the superb location, top quality design and professional estate management of the property. As at 31 December 2001, the office, residential and commercial podium of Beijing Kerry Centre achieved an occupancy rate of 91%, 70% and 86%, respectively.

Beijing Kerry Centre Hotel, which is fully operational, has also performed satisfactorily during the year with an average occupancy rate of approximately 68% and average transient rate of approximately US$118. The Group is expected to benefit from the continued high demand in the market as a result of the 2008 Olympics to be held in Beijing. Increased business opportunities are expected which will benefit the Division as a whole.

Despite the highly competitive environment in Shanghai, occupancy in Shanghai Kerry Centre remains high. At the end of December 2001, the office tower and commercial podium were both approximately 93% leased. The service apartments, Kerry Residences was 68% leased as at the year end.

As at 31 December 2001, Tower 1 of Kerry Everbright City was 76% leased. Pacific Department Store opened its third retail department store in Shanghai in the commercial podium of Kerry Everbright City in December 2000. The store offers a wide selection of products and it also operates a supermarket within the shopping mall. The commercial podium is now 100% leased.

The marketing activities of Shenzhen Kerry Centre are continuing and approximately 68% and 30% of the office space has been leased and sold, respectively, at 31 December 2001. In addition, the worldwide purchasing centre of Wal-Mart has contracted to occupy the second, third and fourth floors of the commercial podium of this building in July 2001. Accordingly, the occupancy rate of the commercial podium now stands at 98%.

ACQUISITIONS AND FUTURE PLANS

The development of the Cao Jia Yan project in Shanghai is on schedule. Located adjacent to Central Residences in Hua Shan Road, the Group is confident that when completed, the development will be very well received by the public. Vacant possession is targeted by early 2002 and planning and design works are currently in progress.

A letter of intent was signed with the Land Grant Committee Office of the Jingan District in Shanghai to develop residential housing at No.1288 Yan An Zhong Road in April 2001. The development is located south-west of Shanghai Kerry Centre in the Jingan district with the intention to construct a high rise luxury residential development with a total buildable area of approximately 44,700 square metres with landscaped gardens. The proposed land cost amounts to an accommodation value of approximately US$489 per square metre and the land use contract was signed on 6 February 2002. The development is expected to be completed by December 2004.

Kerry Everbright City in Shanghai, PRC

Proposed residential development in Futian, Shenzhen, PRC

In October 2001, the Group entered into a joint venture called Beijing BHL Logistics Limited to acquire a piece of land at Shibalidian in Chaoyang District, 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. After completion, the land will be parceled out to individual 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 RMB 1.5 billion and as at 31 December 2001, US$300,000 has been injected into the company as part of the Group's 20% share of the share capital.

Due to the strong property market in Shenzhen and the city's high average income, the Group intends to release its Futian project in Shenzhen for pre-sales in the second half of 2002. The Futian project is located east of the central district in Shenzhen and covers a site of approximately 33,600 square metres with a total buildable gross floor area of approximately

94,000 square metres. It is intended to be a luxury residential development with an exclusive clubhouse with accompanying facilities. The initial design of the development has been approved by the Government and detailed design work is in progress. Construction of the project has commenced and is expected to be completed in the second half of 2004.

Due to the improving economic outlook in the PRC, the Yu Quan Hua Yuan project in Fuzhou has been restarted with foundation work currently in progress. The project is intended to be a residential development with retail shops.

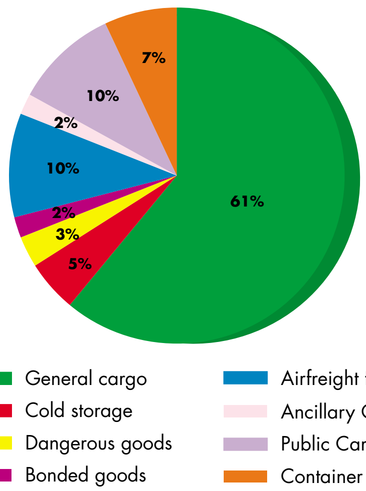
The Group's total property portfolio in the PRC is approximately 17 million square feet. The gross asset value of the Group's properties in the PRC was approximately HK$6,617 million (2000: HK$6,611 million) as at 31 December 2001. Revenue from PRC properties is expected to continue to be strong in future years due to the improving economic outlook and the entry of the PRC into the WTO. The strategic location and the quality of the Group's properties in the PRC and its excellent professional building management services will also help to further strengthen the recurrent income base.

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

Logistics and Warehouse Division

The Logistics and Warehouse Division is one of the major contributors of revenue to the Group in 2001, accounting for approximately 17% of the Group's total turnover. With a vision to be one of the leading third party logistics service providers in Asia, the division has made significant progress in strengthening its network by extending its operations to various countries in the Asia Pacific region during the year. The division will continue to intensify its development efforts to 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.

EXTENSIVE AND COMPREHENSIVE WAREHOUSE COVERAGE



Total GFA of approximately 6.8 million sq.ft. attributable to Kerry Properties Limited as at 31 December 2001

	GFA sq.ft.
General cargo	4,127,385
Cold storage	337,918
Dangerous goods	226,814
Bonded goods	129,486
Airfreight forwarding	693,196
Ancillary office	133,683
Public carparks	649,894
Container park	484,380
Total	6,782,756

LOGISTICS

The division is committed to repositioning itself in the logistics and warehouse market and to building up a strong and comprehensive logistics network in the Asia Pacific region. Today, "Kerry Logistics" is known to be one of the fastest growing third-party logistics service providers in the Asia Pacific region, providing a top quality service with extensive capabilities. In addition to warehousing, the division offers a comprehensive range of logistics solutions encompassing web-based logistics, warehousing, inventory management, freight management, transportation, distribution, e-fulfillment, e-commerce solutions and value-added services.

During the year, the division has successfully extended its supply chain competencies and operating network to various countries in the Asia Pacific region out of Hong Kong, including Mainland China, Thailand, Korea, Australia and the United States. As at December 2001, the division operates in 5 countries and 12 cities around the world. A number of these operations are involved in the businesses of freight forwarding, logistics and distribution services. Logistics revenue recorded a strong growth of approximately 350% from HK$71 million in 2000 to HK$318 million in 2001.

Air cargo palletization

In Hong Kong, the division has more than 400,000 square feet of warehouse space dedicated to the logistics division. The division is also operating a fleet of 90 vehicles which is capable of providing premier distribution services. Capitalizing on its strengths and leading position in warehousing in Hong Kong, the division's logistics business has taken off rapidly from having less than 5 customers in 1999 to over 70 customers at the present time with clients in multiple market segments, including industrial products, telecommunications, branded consumer goods, fast food shops and convenient stores. The division will continue to enhance its competencies and develop its competitive advantages in order to command and secure a leading position in the logistics business in Hong Kong within the next few years.

PAN-ASIA EXPANSION

Korea

In January 2001, the division successfully established its first logistics foothold outside Hong Kong with the acquisition of a 51% interest in Kerry Freight (Korea) Inc., a leading Korean freight forwarding company in Korea.

PRC

The division has a joint venture with Beijing Holdings Group to develop a northern logistics hub for Beijing and other northern Chinese cities. The venture commenced operations in the first half of 2001.

In order to capture the businesses from the vast manufacturing and retail industries of Shanghai and its neighboring cities along the Yangtze River, the division has set up warehouses in the Shanghai Waigaoqiao Free Trade Zone. The operations of these warehouses commenced during the year. The division is also exploring opportunities to further extend its logistics capability in the Shanghai area where the division has plans to develop a logistics centre.

In order to establish the division's network in southern China, a joint venture agreement was signed with the Yantian Port Group in Shenzhen in March 2001 to develop a 40,000 square metres logistics centre in the Yantian Free Trade Zone next to Terminal 2 of the Yantian Port. This facility is well situated at a convenient location and will be able to serve the entire Pearl River Delta. In view of the current limited supply of bonded storage facilities in the Free Trade Zone, the market potential for logistic services in this area is highly promising. Conceptual design of the logistics centre has been finalized and tenders from

Model of logistics centre at Yantian, Shenzhen, PRC various contractors are in progress. The centre will commence operations in the second half of 2003. It is expected that the facility will be able to serve the consignees and shipping lines migrating from Hong Kong to Yantian as a result of substantial cost differentials.

Given the current low penetration rate for third party logistics ("3PL") providers in the PRC, together with the vast market to be opened up as a result of the PRC's entry into the WTO, the potential growth of 3PLs in China is expected to be significant. The division believes that it 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 aims at establishing its position as a niche total solution provider in the PRC market within the next decade by building a competitive nation-wide network of logistics operations in the PRC.

Leading edge technology

Australia

In June 2001, the division acquired a 100% interest in Charlick Operations Pty. Limited which was subsequently renamed Kerry Logistics Holdings (Australia) Pty Ltd. The Australian companies are mainly engaged in the provision of freight and logistics services, container depot services, interstate and local transport services, loading/unloading and storage services at rail terminals. It has over 30 years of experience as a road and rail operator. The acquisition enables the division to explore potential business synergies and to add the Australasian presence to our logistics network.

Model of logistics centre at Laem Chabang Port, Thailand

Thailand

In Thailand, the division is in the process of building a 16,000 square metres logistics centre in the area of Laem Chabang Port on a 4 hectare piece of land which is south of Bangkok. The logistics centre will commence operations in late 2002. In January 2001, the division commenced air and freight operations in the vicinity of the Siam Sea Port Terminal at Laem Chabang Port.

United States

In June 2001, Kerry Freight (USA) Inc. was incorporated in the Unites States. This is the division's first logistics foothold outside the Asia Pacific region. The company is mainly engaged in the business of inbound air freight from Asia in collaboration with the division's Korean subsidiary.

Small parts handling service

Development efforts in other major cities in the Asian Pacific region will intensify in 2002 with plans to extend the network to Singapore, Philippines, Malaysia and Taiwan in due course. The division is also looking for strategic alliances outside Asia which have a strong presence in terms of network that can enable us to have immediate access to multinational customers. The aim is to deliver a higher level of expertise in integrated logistics management as well as offer a wider logistics service package to customers whilst continuing to establish a network of operating points in the region.

Warehouse

Despite the general economic slowdown and the reduced market rental, the division's warehousing business delivered a good performance in a difficult market in 2001. Revenue increased by 4% from HK$410 million in 2000 to HK$426 million in 2001.

During the year, the division disposed of the Yuen Long 2 Warehouse at a consideration of HK$93 million. The proceeds will be utilised to further fund the expansion of the logistics network. Notwithstanding the sale, the division still operates 16 warehouses and logistics centres with a total gross floor area of 6.8 million square feet and remains the largest warehouse owner and operator in Hong Kong.

The demand for warehouse space in Hong Kong has been adversely affected by the general economic downturn in the United States and Europe. Cargo throughput volume and total tonnage handled in Hong Kong has started to decrease in the second half of 2001. The trend of reduced tonnage passing through Hong Kong is expected to continue as China's accession to the WTO will lead to direct trade links and businesses between China and other parts of the world. Nevertheless, the division will continuously evaluate opportunities to maximize value from its warehouse portfolio by minimizing the transitional vacancy of the warehouse spaces as well as tightening control over the operating cost of the warehouses. More warehouse space will be converted to bonded storage or for logistics operations when necessary where the yield is higher than general storage. The division aims to maintain the occupancy rate of the warehouse portfolio at a minimum of 95% in 2002.

As at 31 December 2001, the Group's attributable share of the gross floor area of its portfolio of warehouses and logistics centres was approximately 7.1 million square feet with a gross asset value of approximately HK$3,539 million (2000: HK$4,687 million).

International Division

The Group had been able to maintain a steady source of recurring income from its investments in Australia and in the Philippines. These investments help to strengthen the Group's earnings and also allow it to diversify its income stream. The Group will continue selectively to look for other attractive investments when the opportunity arises.

Rum Store (left) and Elizabeth apartments (right) at Jacksons Landing, Sydney, Australia

Jacksons Landing

Jacksons Landing, a 12 hectare master planned residential development, is a joint venture development 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. The project has 1,500 dwellings, including waterfront apartments, terrace houses and heritage listed buildings converted into loft apartments. It also incorporates other ancillary developments including restaurants, cafes, commercial offices, a 3.5 hectare park and open spaces with a 600 metre waterfront promenade.

Sales of Jacksons Landing has achieved satisfactory results. The Glasshouse and The Station, being the community pool and the clubhouse in the development were completed and fully operational at the year end. 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 pre-sales and sales of this project.

EDSA Properties Holdings Inc. ("EPHI")

The Group owns a direct equity interest of 39.12% in EPHI, a company listed on the Philippines Stock Exchange. In addition to the shares directly held, the Group had also invested in EPHI through the purchase of Philippines Deposit Receipts ("PDRs") in which the underlying shares in respect of the PDRs represent 34.76% of EPHI's issued share capital. These interests jointly account for approximately 73.88% of EPHI's total issued share capital.

EPHI holds a majority stake in the Shangri-La Plaza Mall, one of the premier shopping malls in Manila, in the Philippines, whose occupancy rate stood at 94% at the year end. The mall has worked continuously to improve its retail mix to provide customers with an ideal selection of goods and services. During the year, famous stores such as Mango, Paul Smith, California Pizza Kitchen, Kodak Express and Mercury Drugs were opened in the mall.

Enterprise Center, Manila, Philippines

Shangri-La Plaza Mall, Manila, Philippines

The renovation project of the mall is still continuing which aims at enhancing the mall's market positioning as a premier shopping complex effectively delivering an upscale retail experience. Phase 1 of the project has been completed with new shops opened at the street levels of internal avenue and Shaw Boulevard, the building exterior being improved with general mechanical and electrical works upgraded. The link from the mall to the Metro Rail Station ("MRT") was also opened with the hallway leading the Metrolink redeveloped into a new zone with shops catering for MRT commuters.

Phase 2 of the renovation program is now in progress and includes works such as the improvement of the Grand Atrium with new water features incorporating fountains and waterwalls, the installation of giant revolving doors at the Level 1 entrances and the reconfiguration of the food court to add colour and increase seating capacity.

In order to maintain and attract mall goers during the renovations, the mall continued to pursue aggressive promotions throughout the year to sustain market interest and mall patronage. Amongst the

Enterprise Center Lobby, Manila, Philippines

crowd-drawers were events and exhibits highlighting the mall's chosen advocacies of arts and culture such as film festivals from Japan, France, Germany, Great Britain and Israel, exhibitions of nativity artworks, special events for festival seasons like Chinese New Year, Halloween and Christmas etc. A "Winning Streaks Promo" was also launched in August 2001 to give away instance prizes and raffle prizes to mall customers for purchases made in the mall.

KSA Realty Corporation ("KSA"), in which EPHI holds a 23.52% interest, is also performing satisfactorily. Acquired in December 2000, KSA has made a full year contribution to the Group during the year. The main asset of KSA is Enterprise Center, a twin tower grade A office building in the Makati Central Business District in Manila in the Philippines. With its superior facilities, central location, extensive landlord provisions and an impressive mix of existing tenants, the Enterprise Center continued to command a premium over the newer buildings in the market. As at 31 December 2001, Enterprise Center was 88% leased.

As at 31 December 2001, the gross asset value of the Group's international investments was approximately HK$1,877 million (2000: HK$1,377 million) comprising HK$120 million (2000: HK$119 million) and HK$1,757 million (2000: HK$1,258 million) of assets in Australia and in the Philippines, respectively.

Infrastructure Division

The Group's infrastructure-related investments are fully operational and are contributing a steady source of recurrent earnings to the Group. The Western Harbour Tunnel has started to make a positive contribution to the Group whilst all other projects are operating within expectations.

Shenzhen Kaifeng Terminal

Shenzhen Kaifeng Terminal started operations in January 1994 and is continuing to make good progress. 643,745 TEUs were handled in 2001, representing an increase of 43% compared to 450,139 TEUs in 2000. The increase can be attributed to the opening of its third berth in November 2000, with additional quay side cranes and yard cranes. To strengthen the supervision in the port and improve the management of the terminal, a CCTV system was installed to conduct real-time round the clock supervision.

Subsequent to the year end, in February 2002, the Company changed its name to Chiwan Container Terminal Co., Ltd.

During the year, the Group equity accounted for HK$17.3 million (2000: HK$14.4 million) in profits after tax from this investment. The operations of the terminal will certainly benefit from the PRC's entry into the WTO in the years ahead.

Asia Airfreight Terminal

Asia Airfreight Terminal commenced operations at the Hong Kong International Airport in July 1998 and continues to operate profitably during the year. The Group equity accounted for its share of profit after tax amounting to HK$21.6 million in 2001 (2000: HK$19.4 million).

Construction of Western By Pass at Asia Airfreight Terminal

In recognition of its efforts, Asia Airfreight Terminal won three awards during the year, namely "Preferred Supplier 2001", "Aviation Purchasing, Group Handling" and "Aviation Purchasing, Supplier of the Year" in the 2001 Qantas Supplier Assessment Programme presented by Qantas Airways Limited.

Western Harbour Tunnel

Western Harbour Tunnel commenced operations in April 1997. The performance of the tunnel was in line with expectations and has started making a positive contribution to the Group. As at 31 December 2001, the Group equity accounted for its share of profits from the tunnel amounting to HK$12.6 million. With the completion of the residential and commercial properties in the area, such as Island Harbourview, Park Avenue and Olympian City, the traffic flow along the Western Harbour Tunnel is expected to continue to increase gradually, thereby bringing increased earnings in future years.

New berth at Shenzhen Kaifeng Terminal, Shekou, Shenzhen, PRC

HU-NING EXPRESSWAY (SHANGHAI SECTION)

In December 2001, the Group sold its 19.6% interest in Hu-Ning Expressway (Shanghai Section) and its ancillary facilities for a total consideration of US$56 million.

CROSS HARBOUR TUNNEL

In April 1999, the management, operation and maintenance contract for the Cross Harbour Tunnel was awarded to a joint venture company, formed by the shareholders of the Western Harbour Tunnel, named Hong Kong Tunnels and Highways Management Company Limited in which the Group has a 15% interest. The term of the original contract was for two years and the contract has expired in 2001. In September 2001, the joint venture successfully secured an extension of the management contract granted by the Government for another year. This investment 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 2001, the gross asset value of the Group's infrastructure investments was approximately HK$596 million (2000: HK$903 million) comprising HK$427 million (2000: HK$374 million) and HK$169 million (2000: HK$529 million) of assets located in Hong Kong and the PRC, respectively.