Chairman's Statement

Despite the fact that the global economy continued to be weak in 2002, the Group has been able to achieve an increase of 67% in profits attributable to shareholders. However, in view of the continuing uncertainty in the property market, the directors have considered it prudent to make an additional provision of HK$266 million for its Constellation Cove development in Tai Po, Hong Kong during the year. At the same time, the Group has also taken steps to replenish its land bank whilst improving the quality of its properties and its services. It has also continued with the expansion of its logistics network in the region. The Group believes it is now in a very strong position to capture any new opportunities to expand when they arise.

I am pleased to report to shareholders the annual results of the Group for the year ended 31 December 2002.

Results

The Group's consolidated profit attributable to shareholders increased by 67% to HK$660 million from HK$396 million achieved in 2001. The reasons for the increase in the Group's earnings in 2002 are mainly due to the successful sales of Jupiter Terrace, the lowering of finance costs and a reduction in specific provisions made for Constellation Cove during the year.

In view of the continuing uncertainty in the Hong Kong property market, the Directors have considered it prudent to make an additional provision of HK$133 million in respect of Constellation Cove in Tai Po Kau in the second half of 2002. Together with the HK$133 million provision made as at 30 June 2002, total additional provisions of HK$266 million have been made for this project for the year ended 31 December 2002. Aggregated with the HK$360 million provision made in 2001, a total provision of HK$626 million has been made for the project. The Group's 75% share of the HK$266 million provision made in 2002 amounted to approximately HK$200 million whilst the Group's 75% share of the total provision made to date amounted to approximately HK$470 million.

In accordance with its accounting policies, the Group conducted a revaluation of its investment properties at the end of 2002 with the value of its investment properties decreasing from HK$17,752 million in 2001 to HK$16,565 million in 2002.

Earnings per share were HK56.71 cents, an increase of 64% over 2001's HK34.50 cents.

Dividends

The Directors recommend a final dividend of HK12 cents per share for 2002 (2001: HK12 cents) payable to shareholders whose names appear on the registers of members of the Company on Tuesday, 15 April 2003, with a scrip alternative to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2002 Final Scrip Dividend Scheme"). The final dividend is expected to be paid on Friday, 30 May 2003.

A circular containing details of the 2002 Final Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Wednesday, 30 April 2003. The 2002 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 Tuesday, 15 April 2003; (2) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (3) the granting by the Listing Committee of the Stock Exchange of Hong Kong of the listing of and permission to deal in the new shares to be issued pursuant thereto.

An interim dividend of HK18 cents per share was paid during the year which together with the proposed final dividend of HK12 cents per share will make a total dividend of HK30 cents per share for the year ended 31 December 2002 (2001: HK32 cents per share).

Overall Business Review

The Group's turnover increased by 2% to HK$5,156 million (2001: HK$5,036 million) compared with 2001 whilst profit attributable to shareholders increased from HK$396 million in 2001 to HK$660 million in 2002, representing an increase of 67%.

During the year, an additional provision of HK$266 million was made in respect of the Constellation Cove project in Tai Po making total provisions for the project amounting to HK$626 million. Out of this total provision, HK$188 million was realised in 2002 in line with the sales of properties whilst HK$438 million of the provision still remained unutilised as at 31 December 2002. With respect to Ocean Pointe, an amount of HK$107 million was also realised during 2002 in line with the sales of the properties. Together with the HK$420 million previously realised in 2001, HK$527 million out of the total HK$550 million provision made for the project have been utilised, leaving provisions of HK$23 million for the remaining unsold units in the project.

The Group has continued to maintain very strong recurring cashflows from its investment property portfolio in Hong Kong and in the PRC through maintaining high occupancies, thus ensuring continuing good recurrent rental income. The Logistics and Warehouse Division has also expanded outside the Asian region to Europe with the acquisition of a freight and logistics company in the United Kingdom. Together with the improved performance of the infrastructure projects, particularly the increased cargos being handled by Chiwan Container Terminal and Asia Airfreight Terminal and the steady contributions from the various international investments, the profit attributable to shareholders has increased accordingly during the year under review.

Hong Kong Property Division

The Hong Kong Property Division recorded total turnover of HK$2,705 million (2001: HK$2,810 million) in 2002, representing 52% of the total turnover for the Group. Rental income for the year amounted to HK$373 million, a decrease of 12% compared with HK$423 million for 2001. The decrease was mainly due to the disposal of Energy Plaza in July 2001 and revisions in rental rates. Proceeds from sales of properties for the year ended 31 December 2002 amounted to HK$2,332 million (2001: HK$2,387 million). The loss attributable to the Group from the division amounted to approximately HK$24 million (2001: HK$224 million) after taking into account the Group's 75% share of the additional provision made for Constellation Cove amounting to approximately HK$200 million. In addition, as a result of the additional specific provision, the breakeven prices of the apartments, duplex villas and detached houses in Constellation Cove have dropped from HK$3,750 per square foot ("psf") to HK$3,400 psf, HK$4,400 psf to HK3,800 psf and HK$4,750 psf to HK$4,200 psf, respectively.

Sales of Properties

Sales activities in Hong Kong have continued to be strong during 2002. Sales revenue was derived mainly from the launch of Jupiter Terrace and Constellation Cove during the year, as well as the ongoing sales of Ocean Pointe and Enterprise Square 2.

Jupiter Terrace, a property in North Point which the Group acquired in December 2001, was launched for sale in January 2002 after a refurbishment program. The sale of the property received an enthusiastic response from the public and all residential units, commercial spaces and carpark spaces were sold as at 31 December 2002.

Sales of Ocean Pointe, the Group's residential development in Sham Tseng, continued during 2002. As at 31 December 2002, approximately 98% of the units have been sold. Subsequent to the year end, another 4 units were sold with only 10 units remaining.

The Group has also continued with the sales of Enterprise Square 2, the industrial/office building in Kowloon Bay and all units were sold as at 31 December 2002.

The Group commenced the public sales of the apartments, duplex villas and detached houses in Constellation Cove, Tai Po Kau in March 2002. The development, comprising of 208 apartments, 28 duplex villas and 50 detached houses, was 76%, 14% and 36% sold, respectively, as at 31 December 2002. The recent opening up of the Shenzhen border to operate on a twenty four hour basis has also made the development more attractive due to its central location between the border and the city, resulting in 3 apartments, 1 duplex villa and 5 detached houses being sold subsequent to the year end.

The Group also launched the presales of its 50% owned joint venture residential development, The Cliveden in Tsuen Wan, in November 2002. The construction of The Cliveden is progressing according to schedule. As at 31 December 2002, approximately 31% of the development, comprising of 210 units, was presold. Subsequent to the year end, another 6 units in the development were sold.

The Group's joint venture property developments in Hong Kong are continuing to be sold. The Group has equity accounted for its share of results from Phases 1 and 2 of the Tai Kok Tsui project, which are approximately 92% and 85% sold, respectively. Subsequent to the year end, approximately an additional 1% in Phase 2 of the project was sold.

Investment Properties

The Group's luxury residential property portfolio, including Aigburth, Branksome, Gladdon, Tavistock and Tregunter Towers 1 and 2 in Mid-Levels and Belgravia in South Bay, are all leasing well and have helped to maintain the Group's strong recurrent income base with a high average occupancy rate of approximately 97%.

Olympian City 1 and 2, the commercial podiums of Phases 1 and 2 of the Tai Kok Tsui project, are leasing well with occupancy rates being 87% and 92%, respectively, as at 31 December 2002.

Although rental income has decreased slightly when compared to 2001 mainly due to the disposal of Energy Plaza in Tsimshatsui in July 2001, the recurrent rental income base of the Group's property portfolio remains strong. Apart from the impressive occupancy rate achieved by the luxury residential property portfolio, the commercial and retail properties of the Group are also performing well with average occupancy rates standing at 96% and 97%, respectively, as at 31 December 2002.

Status of Developments

Construction of Branksome II, another of the Group's luxury developments located at the prestigious address of 3 Tregunter Path, Mid-Levels, is progressing according to schedule. The development is expected to be completed in the first quarter of 2004 and will further complement the Group's investment property portfolio with another top quality luxury building located in the highly sought after address of Tregunter Path in Mid-Levels, Hong Kong.

Construction of Enterprise Square 3 in Kowloon Bay is also progressing well with superstructure work currently in progress. Subsequent to the year end in January 2003, the land premium negotiations for the conversion of Enterprise Square 3 from industrial/office use to business use was concluded with the conversion premium amounting to HK$12 million. The development is expected to be completed in the first quarter of 2004.

With the intention of developing a cluster of quality offices and retail complexes in Kowloon Bay, the Group is now planning the development of Enterprise Square 5. The development would provide approximately 1.6 million square feet of grade A office/retail space when completed. Conceptual designs are currently in progress.

In May 2002, the Group announced the acquisition of an industrial property, Chung Nam Industrial Building at 152–160 Kwok Shui Road in Tsuen Wan, for approximately HK$120 million. The development is intended to be redeveloped into high rise residential buildings over a carpark and recreation podium with ground floor commercial spaces. The transaction was completed on 12 February 2003.

The Group and Sino Land Company Limited won the tender for the MTR Tseung Kwan O Hang Hau Station Development in June 2002. Master layout plans of the development have been approved and the development is expected to be completed in the first quarter of 2005. The Group has a 40% interest in this project.

In September 2002, the Group announced that it has decided not to proceed with the Hoh Fuk Tong Redevelopment Project.

The Group won the tender for 15 Ho Man Tin Hill Road in Kowloon for approximately HK$410 million in December 2002. The property has a site area of 26,078 square feet and a buildable residential floor area of approximately 130,340 square feet. Total development cost for the project is estimated to be approximately HK$700 million. The purchase was completed on 28 January 2003 and the site will be developed into a luxury high rise residential building with accompanying recreational facilities and is expected to be completed by the first quarter of 2006.

The Town Planning Board has confirmed the residential zoning for Ap Lei Chau Inland Lot No. 129. The Group's share of the buildable gross floor area is approximately 319,663 square feet and this site is intended to be developed into a residential project.

The Group's total property portfolio in Hong Kong is approximately 5.9 million square feet. Investment properties account for approximately 30% of the Group's total portfolio in Hong Kong, with approximately 1 million square feet of residential properties and in excess of 744,000 square feet of commercial properties. The Group currently has approximately 3.7 million square feet of properties under development in Hong Kong and approximately 433,000 square feet of completed properties held for sale. The Group will consider replenishing its land bank whenever appropriate and to seek opportunities for conversion if appropriate.

PRC Property Division

Turnover from the PRC Property Division decreased by 19% to approximately HK$1,089 million (2001: HK$1,345 million) in 2002, representing 21% of the Group's total turnover. Rental income amounted to approximately HK$456 million (2001: HK$462 million) whilst proceeds from the sales of properties amounted to approximately HK$401 million (2001: HK$679 million) in 2002. The drop in turnover is mainly due to sales of Phase 1 of Central Residences, the Group's luxury residential project in Hua Shan Road, in Shanghai being almost completed. The project was first launched for presales in 2000 and construction of the project was fully completed during the year. Turnover of the Beijing Kerry Centre Hotel amounted to approximately HK$232 million (2001: HK$204 million) during the year. Profit attributable to the Group from the division amounted to approximately HK$300 million (2001: HK$293 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 97% of the office and commercial podium in the property being leased, respectively. The service apartments in Beijing Kerry Centre, Kerry Residences, were approximately 80% leased at the year end.

Beijing Kerry Centre Hotel also made a good contribution to the Group. During the year under review, the average occupancy rate of Beijing Kerry Centre Hotel has increased from approximately 68% in 2001 to approximately 80% in 2002 with the average tariff during the year being approximately US$114 per night.

Sales and leasing of the Group's properties in Shanghai are also progressing satisfactorily. The office tower, service apartments and commercial podium in Shanghai Kerry Centre were approximately 97%, 71% and 94% leased, respectively, as at 31 December 2002. Construction of Phase 1 of Central Residences, the Group's luxury residential development in Hua Shan Road has all been completed and residents have already moved in. As at the year end, Towers 3 and 5 were 92% and 71% sold, respectively. A further 3 units in Tower 5 were sold subsequent to the year end.

With respect to Kerry Everbright City, sales of residential units have continued. As at 31 December 2002, 80% and 8% of Tower 1 have also been leased and sold, respectively whilst Tower 2 was 96% sold. The shopping mall was 100% leased as at the same date.

As at 31 December 2002, the shopping mall in International Apartments was approximately 61% and 30% leased and sold, respectively. Similarly, in Shanghai Trade Square, approximately 32% and 65% of the office space have been leased and sold, respectively, whilst the retail shops are 69% leased and 31% sold.

As at 31 December 2002, approximately 39% and 59% of the office space in Shenzhen Kerry Centre have been sold and leased, respectively.

On 30 August 2002, the Group sold its residential and commercial site in Suzhou to an independent third party for a consideration of approximately RMB26.6 million. The sale was completed on 6 October 2002.

Status of Developments

Demand for high quality properties continues to be strong and development of Phase 2 of Central Residences is on schedule. Site handover is now in progress and piling work will commence shortly thereafter.

The land use contract of No. 1288 Yan An Zhong Road in the Jingan District in Shanghai was signed on 6 February 2002. The Group is currently undertaking feasibility studies and conceptual planning to try to encompass the development together with the adjoining Shanghai Kerry Centre.

Riding on the success of its Phase 3A development, construction of Phase 3B of the Shenzhen Regency Park development is now nearing completion with the show house ready for public viewing. The phase 3B development comprises of 7 deluxe houses with 3 different individual designs. As at 31 December 2002, one house was presold and the project is approximately 90% completed.

Construction of the Group's newest residential project, Arcadia Court, in Futian, Shenzhen, is progressing well. Internal sales of Arcadia Court commenced in late December 2002 with 58 units being presold at an average price of approximately RMB9,500 per square metre. Subsequent to the year end, another 5 units were sold. Public presale of the development will start in the near future and construction of the project is expected to be completed in early 2004.

In August 2002, the Group announced the acquisition of Shenzhen Futian Central District Lot No. 7-3 from the Shenzhen City Planning and Land Resources Bureau for a total consideration of approximately HK$177 million. The site is adjacent to a new Shangri-La hotel site and will be developed as an office project for lease and for sale.

As at the year end, substructure work of the Yu Quan Hua Yuan residential project in Fuzhou has been completed with superstructure work currently in progress.

Proposals and Future Plans

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. The joint venture company will perform all necessary work for the relocation and resettlement of the current occupiers of the land which is currently in progress. Subsequently the land will be parceled out to individual project companies to be formed for the development of the land. The project occupies a total site area of approximately 3.7 million square metres. The investment in the joint venture company is estimated to be approximately RMB1.5 billion in which the Group's interest is 20%.

The Group's total property portfolio in the PRC is approximately 17.5 million square feet. Investment properties account for approximately 3.9 million square feet which is 22% of the Group's total portfolio in the PRC. The Group currently has approximately 4.4 million square feet of properties under development and approximately 9.2 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 continues to be one of the main contributors of revenue to the Group in 2002. During the year, the division achieved a turnover of HK$1,318 million (2001: HK$837 million, including the sales proceeds arising from the disposal of the Yuen Long 2 warehouse of HK$93 million), which represents approximately 26% (2001: 17%) of the Group's total turnover. Logistics revenue increased by 189% from HK$318 million in 2001 to HK$919 million in 2002, whilst revenue from warehousing dropped slightly by 6% from HK$426 million in 2001 to HK$399 million in 2002.

Profit attributable to the Group from the division for the year amounted to HK$167 million (2001: HK$57 million). HK$142 million (2001: HK$46 million) in profit is attributable to warehousing and HK$25 million (2001: HK$11 million) is derived from logistics operations.

Warehousing

The warehousing business in Hong Kong has been facing one of the toughest times seen in decades during 2002 with the demand for warehouse space in Hong Kong continuing to decrease. The division has been approaching this adverse market condition by implementing effective strategies to secure both cargo volume as well as tenants by taking a proactive approach and a continuous improvement in service quality. As a result, there was only a 6% reduction in turnover generated from the division's warehousing business versus a decrease in market rental of over 20% in 2002. The occupancy rate for the entire warehouse portfolio operated by the division stood at 92% as at 31 December 2002.

Subsequent to the year end, on 9 January 2003 the division acquired the remaining 40% equity interest in Kerry BCI Warehouse Holdings Limited ("Kerry BCI") for a total consideration of HK$110 million. Subsequent to the acquisition, Kerry BCI became a wholly owned subsidiary of the division and its principal assets are two cold storage warehouses in Hong Kong.

Logistics

Already established as a significant player in Hong Kong, the division continues to implement its long-term strategic plan to build a strong and comprehensive logistics network focusing on Asia. Logistics revenue increased by 189% to HK$919 million when compared with 2001, with 59% of such revenues generated from outside Hong Kong. As at 31 December 2002, the division operates in 12 countries and 29 cities around the world with approximately 1,200 staff.

PRC

In view of the rapidly growing economy in the PRC, the division has continued to focus its development efforts in the PRC during the year with four offices being set up in the first quarter of 2002, including Shenzhen, Qingdao, Shanghai and Tianjin. Another office in Xiamen was opened in early 2003.

In addition to the Class A international freight forwarding operating licence which the division successfully obtained in Beijing in April 2002 through a 50% joint venture company, in December 2002, the division secured another comprehensive business licence in Shanghai through another 50% joint venture company, Shanghai Kerry CHJ Logistics Limited, which was formed in July 2002 with the Shanghai Caohejing Hi-Tech Park Development Corporation. The joint venture will complement the division's existing operations in the Waigaoqiao Free Trade Zone in capturing business from Shanghai and its neighbouring cities.

The division's new logistics centre located in the Yantian Free Trade Zone in Shenzhen will commence operations in mid 2003 and will serve as a regional hub for the booming Pearl River Delta market. In the meantime, the division is also operating a 16,000 square metre leased facility in the Futian Free Trade Zone. Efforts will be made to further develop other logistics business in this area when the opportunity arises.

Hong Kong

With its global freight forwarding network gradually coming online, the division has achieved a significant increase in cargo volume handled during the year in Hong Kong. The increase in throughput has enabled the division to charter two 747 freighters for the first time in November 2002 flying to the United States. The port closure in the United States west coast in October 2002 has also generated extra business for the division as cargos must be dispatched by air in order to meet pre-Christmas orders. The division will continue to expand its air and ocean freight business in order to enhance its bargaining power to obtain better rates and to secure space for its customers' cargos.

In addition, the division has managed to secure a variety of integrated logistics accounts covering industry chemical products, FMCG (fast moving consumer goods), consumer electronics, high value consumer products as well as food and beverages during the year. The division will continue with its strategy to promote its Hong Kong operation as the regional hub for Asia for its multinational clients, with distribution destined for international markets whilst having outsourced their manufacturing processes to factories in the PRC.

Overseas

Apart from the logistics facility in Yantian, Shenzhen, the division is also in the process of constructing a 15,000 square metre logistics centre in Thailand located in the area of Laem Chabang Port, south of Bangkok and will commence operations in mid 2003. To complement the division's logistics development in this area, the division has also started its long-haul transport business in Thailand during the year.

In April 2002, the division successfully established its first logistics foothold in Europe with the acquisition of a 91% stake in Trident International Limited ("Trident"). Trident is one of the leading players in the Asia-United Kingdom trade and has built up a comprehensive range of logistics services in the United Kingdom. This acquisition has brought about material synergy to the division's freight business in Asia, especially in the PRC and Hong Kong. In February 2003, Trident was renamed as Kerry Logistics (UK) Limited and will operate under the trade name of Kerry Logistics.

The division has also formed a joint venture with a German-based logistics operator, Rhenus AG & Co. KG ("Rhenus") in January 2003 for joint marketing in Europe and Asia. Under this co-operation, Kerry Logistics Network will be Rhenus's preferred partner for contract logistics projects in Asia and vice versa.

Information Technology ("IT")

In terms of its IT capability, the division has carried out a number of efficiency enhancement initiatives during the year. The in-house developed warehouse management system 'KerrierWMS' has started to replace the existing warehouse operating systems since mid 2002. In the freight forwarding sector, the 'KerrierFMS' will also commence operations in March 2003. Currently, the division is also enhancing its capability in electronic data interchange with its partners and customers.

In 2003, the division will continue to strengthen its logistics competency in order to meet with ever increasing competition. Geographically, the division will continue to focus its development efforts in the PRC. The division believes that it has got distinctive advantages in the PRC market with its early penetration and existing established operations which allows it to position itself effectively in securing potential customers.

Infrastructure Division

Profit attributable to the Group from the division amounted to approximately HK$101 million for the year ended 31 December 2002 (2001: HK$217 million). The significant drop in profits from the division was mainly due to the profits on disposal of the Hu-Ning Expressway being booked in December 2001 whilst the performances of the other infrastructure investments have actually improved during the year.

The operations of Chiwan Container Terminal are continuing to make good progress with its third berth making a full year contribution in 2002. 1,173,595 TEUs were handled during the year, representing an increase of 82% over 2001. The record number of TEUs handled represents another milestone for the company. Profits of HK$49 million (2001: HK$17 million) have been equity accounted by the Group in respect of the investment for the year ended 31 December 2002.

2002 was a record year for Asia Airfreight Terminal, the aircargo terminal operator at Chek Lap Kok, with tonnage handled during the year reaching 431,416 tons (2001: 366,602 tons). The Group has equity accounted for HK$27 million in profits in 2002 (2001: HK$22 million).

The Western Harbour Tunnel has also made a positive contribution to the Group during the year with profit attributable to the Group amounting to HK$25 million (2001: HK$13 million). In June 2002, a consortium formed by the shareholders of the Western Harbour Tunnel and in which the Group has a 15% interest, successfully secured an extension of the management contract of the Cross Harbour Tunnel with the Government for two years commencing September 2002, extendable for another two years thereafter. Both investments are performing within expectations.

International Investments

Profit attributable to the Group from the division for the year ended 31 December 2002 amounted to HK$46 million (2001: HK$32 million).

Presales of Jacksons Landing, the Group's joint venture project in Sydney, Australia, have continued with satisfactory results. As at 31 December 2002, 747 units out of 841 units in the seven precincts released for sales and presales 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 amounting to HK$13 million (2001: HK$10 million).

The Group continues to enjoy stable recurrent income from its investment in EDSA Properties Holdings Inc. ("EPHI") in the Philippines. As at 31 December 2002, the occupancy rates of Shangri-La Plaza Mall and The Enterprise Center stood at 95% and 82%, respectively, despite the keen competition in the market.

On 6 August 2002, the board of directors of EPHI including the independent directors unanimously approved EPHI entering into a Memorandum of Agreement with its associate company, Kuok Philippine Properties, Inc. to develop a high-end residential condominium, The Shang Grand Tower, in the heart of the Makati Central Business District. EPHI will have a beneficial interest of approximately 68% in the net saleable area of the project.

A stock dividend of 57 shares for every 100 shares held in EPHI was approved on 13 June 2002 at EPHI's Annual General Meeting and was paid on 22 November 2002. The stock dividends in respect of the underlying shares in EPHI held via Philippine Deposit Receipts ("PDRs") by the Group amounted to 531,931,488 shares. In order to receive its entitlement to the stock dividends, a supplementary agreement was drawn up to change the conversion ratio of PDR to EPHI shares from 1 PDR to 1 EPHI share to 1 PDR to 1.57 EPHI shares. Accordingly, the number of underlying EPHI shares in respect of the 933,213,138 PDRs held by Travel Aim Investment B.V., a wholly owned subsidiary of the Company, has increased from 933,213,138 EPHI shares to 1,465,144,626 EPHI shares.

On 19 February 2003, EPHI announced its results for the year ended 31 December 2002 reporting profit attributable to shareholders of approximately Pesos 210.09 million (2001: Pesos 223.54 million). The drop in profit attributable to shareholders was mainly due to an increase in interest expenses during the year as a result of bank loans taken out to finance the mall's renovation program. The Group has recorded profits from its investments in EPHI amounting to HK$33 million (2001: HK$21 million).

DONATIONS

During the year, the Group made charitable donations amounting to HK$228,000.

CREDIT RATING

On 21 May 2002, Standard & Poor's performed a review of the ratings of eight property companies in Hong Kong including the Company. The Company is only one of the three companies out of the eight which were reviewed and had its investment grade rating of "BBB-" reaffirmed.

FINANCIAL REVIEW

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. During the year, the Group redeemed all the outstanding US$ convertible bonds with a total principal value of US$197.18 million. US$ borrowings as at 31 December 2002 has therefore been reduced to US$20 million. As at 31 December 2002, total foreign currency borrowings excluding Renminbi (RMB) borrowings amounted to approximately HK$204 million. RMB loans at the year end amounted to RMB510.5 million (2001: RMB795.5 million) and are used to finance the Group's projects in the PRC.

In order to take advantage of the current low interest environment, the Group signed a syndicated loan agreement on 23 January 2002 for a 5 year unsecured facility amounting to HK$4.5 billion. The interest rate for this facility is HIBOR plus 40 basis points and the facility has been used to refinance an existing HK$4.205 billion syndicated loan facility signed in May 2000. Responses from the banking community to this facility was 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 received total commitments of HK$7.15 billion, which is 58% more than the initial facility size of HK$4.5 billion. Despite the large amount of oversubscription to the facility, the Group decided to maintain the facility amount at HK$4.5 billion.

This facility was self-arranged by the Group. The successful conclusion of the loan is evidence of the strong support for the Group amongst the banking community.

The majority of the Group's borrowings are subject to floating interest rates. As at 31 December 2002, the Group had outstanding interest rate swap contracts amounting to HK$3.76 billion in total, enabling the Group to hedge its interest rate exposure in the current low interest environment and 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.

With the successful conclusion of the self-arranged syndicated loan in January 2002 and the total redemption of the Group's convertible bonds, the Group has extended the maturity profile of its borrowings and at the same time lowered its borrowing costs. As at 31 December 2002, total borrowings of the Group amounted to HK$7,054 million, of which 19% (2001: 34%) is due within one year whilst 12% (2001: 12%) and 69% (2001: 54%) are 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 2002, unsecured debt comprised approximately 91% of total borrowings while total net borrowings amounted to approximately HK$5,633 million, resulting in a gearing ratio of approximately 27% based on shareholders' equity of approximately HK$21 billion.

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 2002, the Group had total undrawn bank loan facilities of approximately HK$6,231 million and net cash on hand of approximately HK$1,421 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 2002, 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$912 million (2001: HK$1,038 million) and approximately HK$84 million (2001: HK$151 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 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 guarantee 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 shareholders. The Directors, in accordance with the recommendation of the Audit Committee of the Board, 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 Company's 2002 Annual Report.

Landscaped slope of The Cliveden, Tsuen Wan

Environmental Protection Initiatives

The Group has continued with its initiatives to incorporate environmental protection measures in its projects. Starting from the design of the properties to the selection of materials and equipments, enhancement of the environment is achieved through well planned landscaping and the introduction of a "Green Property Management System". Environmental protection measures such as waste management and recycling have been incorporated into the Group's three newest developments in Hong Kong, namely Branksome II, The Cliveden and Enterprise Square 3. The designs in The Cliveden have also taken into account units with balconies to allow maximum light penetration.

Likewise, the Group has also strived to roll out this environmental protection concept into its developments in the PRC and overseas. As evidenced by the design of Arcadia Court in Futian district in Shenzhen, in the PRC, 65% of the site area is reserved for extensive greenery landscaping. Over 1,500 trees are to be planted with floral and foliages blooming in different seasons. In the Philippines, The Enterprise Center in Manila received an award for its Energy Conservation Program at the 3rd Annual ASEAN Energy Awards held in Brunei in July 2002. Final judging revealed that The Enterprise Center was the most energy efficient building in the Philippines and the fifth most energy efficient building in the whole ASEAN region.

Going forward, the Group will continue to explore the possibility of incorporating more environmental protection measures implemented in its future developments where appropriate.

The Hong Kong Institute of Directors (HKIoD) presented the Company with the "Best Listed Company Board Award". (from left to right) HKIoD Chairman Mr Moses Cheng OBE JP, KPL Independent Non-Executive Director Mr Christopher Roger Moss, OBE, The Chief Secretary for Administration The Hon Donald Tsang GBM JP, KPL Executive Director Mr Thaddeus Thomas Beczak, KPL Independent Non-Executive Director Mrs Angelina Lee and HKIoD Deputy Chairman Mr Edward Chow

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. During the year, the Group has been extremely pleased to see that its endeavours in maintaining good disclosures and corporate governance practices have been recognised by the community as follows:

(1) 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.

(2) In November 2002, the Hong Kong Institute of Directors ("HKIoD") presented the Company with the "Best Listed Company Board Award" in its Directors of the Year Awards Program.

The judging panel of the HKIoD cited that "The Board of Kerry Properties Limited receives this Award for its substantial effort to practice good corporate governance, with emphasis on ethics, integrity, transparency and high level of disclosure in its annual report, including attendance records of Board and committee members. The corporate mission aims for maximizing the returns for shareholders while safeguarding the Company's assets. Corporate governance systems and processes are in place, with formal style of the Board. Since listing, the Board has adhered to the separation of public shareholders' interests from family interests. Non-Executive Directors are active, pose candid questions on proposals by management and are seen by management as a strong non-executive team."

(3) In the same month, the Hong Kong Society of Accountants also presented the Company with the Diamond Award, which is the top award, for the "Best Corporate Governance Disclosure Award" in the Non Hang Seng Index companies category. This is the third consecutive year that the Company has received an award in this category.

(4) The Company is also delighted that in December 2002, it received an honourable mention from the Hong Kong Management Association in its 2002 Best Annual Reports Awards Program.

Corporate Communications Initiatives

Website

Since its launch in May 1998, the Kerry Properties Limited 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 from the investment community and buyers of properties are encouraging and the average number of hits per month since the launch of the website are as follows:

	2002	2001	2000	1999	1998
Number of hits (per month)	**537,029**	347,316	156,928	69,994	37,777

Other websites, namely "Kerry Home" and individual websites for the Group's developments such as The Cliveden, Enterprise Square 2 and Constellation Cove etc were also launched. The "Kerry Logistics" website, apart from being an informative website on the Logistics Network Division, is also a B2B web based platform which can be accessed by registered users to facilitate e-commerce transactions. EPHI and Jacksons Landing have also launched their respective 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. Press and analysts conferences are held at least twice a year subsequent to the interim and final results announcements 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, timely press releases, regular meetings with fund managers and potential investors. The Group participated in various roadshows and conferences during the year as follows:

Date	**Event**	**Organiser**	**Venue**
March 2002	Roadshow	Salomon Smith Barney	London
May 2002	Investor Briefing	EDSA Properties Holdings Inc.	Manila
May 2002	Roadshow	Morgan Stanley	Sydney
August 2002	Hong Kong Property Corporate Day	Deutsche Bank AG	Hong Kong
September 2002	Property Forum	JP Morgan Securities	Hong Kong
October 2002	Pan-Pacific Equity Conference	Morgan Stanley	Singapore
November 2002	Greater China Equity Conference	JP Morgan Securities	Shanghai

Prospects

The global economy continues to be weak with the United States ("US") market still taking time to recover. Investors' confidence has been affected by corporate accounting issues in the US and the possibility of an impending war in the Middle East. The Hong Kong economy, which closely follows the US market, is still affected and continues to be uncertain.

Despite these unfavourable factors, the Group is confident in the long term prospects of the property markets in Hong Kong and in the PRC. Historic low interest rates has made purchasing property extremely affordable which together with recent government measures, continue to underpin the demand for quality housing in Hong Kong. In the PRC, demand for quality housing also continues to increase as a result of improved living standards. The opening up of the Shenzhen border to operate on a twenty four hour basis will also have an encouraging effect on the Shenzhen property market.

In order to take advantage of the current market situation, the Group has taken steps to replenish its quality land banks both in Hong Kong and in the PRC. With the Group's established presence in the Hong Kong luxury residential market and its strong foothold in major cities in the PRC such as Beijing, Shanghai and Shenzhen, the Group is in an excellent position to access further opportunities when they arise. The Group's healthy and growing recurrent income base and its strong financial standing will also equip the Group to face the challenges ahead. With all these sound fundamentals, the Group is confident that it is in a very strong position to expand and grow in the coming years.

DIRECTORS AND STAFF

At the end of 2002, the Company and its subsidiaries had 3,148 employees. Salaries of employees are maintained at competitive levels whilst 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.

Share Option Schemes

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees in the service of any member of the Group and other persons who may make a contribution to the Group to optimise their future contributions to the Group and enable the Group to attract and retain individuals with experience and ability and to reward them for their past contributions.

As at 31 December 2002, options to subscribe for a total of 31,828,769 option shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

APPRECIATION

On behalf of the Board of Directors of the Company, 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

Hong Kong SAR, 3 March 2003