

## *Report of the Directors*

The directors submit their report together with the audited accounts for the year ended 31 December 2002.

### PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding.

The principal activities of the Company's subsidiaries comprise the following:

- (i) property development and investment in the Hong Kong Special Administrative Region of the People's Republic of China ("Hong Kong"), in the People's Republic of China excluding Hong Kong ("PRC") and in the Asia Pacific region;
- (ii) logistics, freight and warehouse ownership and operations;
- (iii) infrastructure-related investment in Hong Kong and in the PRC; and
- (iv) hotel ownership and operations in the PRC.

The Group is also involved in project and property management, mainly of its own development projects and properties in Hong Kong, the PRC and in the Asia Pacific region.

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is set out in note 2 to the accounts.

### RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated profit and loss account on page 91.

Particulars of dividends proposed and paid during the year are set out in note 7 to the accounts.

### RESERVES

The movements in reserves of the Group and the Company during the year are set out in notes 23 to 25 to the accounts.

### DONATIONS

Charitable donations made by the Group during the year amounted to HK\$228,000.

### FIXED ASSETS

Particulars of the movements in fixed assets of the Group and the Company during the year are set out in note 12 to the accounts.

### INVESTMENT, HOTEL AND DEVELOPMENT PROPERTIES

Particulars of investment, hotel and development properties of the Group are set out on pages 56 to 65.

### SHARE CAPITAL

The movements in the share capital of the Company during the year are set out in note 21 to the accounts.

### CAPITALISED INTEREST

The amounts of interest capitalised by the Group during the year are set out in notes 3 and 4 to the accounts.

## REPORT OF THE DIRECTORS

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### SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2002 are set out in note 36 to the accounts.

### ASSOCIATED COMPANIES

Particulars of the Group's associated companies as at 31 December 2002 are set out in note 37 to the accounts.

### PARTICULARS OF BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Group and the Company as at 31 December 2002 are set out in notes 27 and 33 to the accounts.

### SEVEN YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last seven financial years are summarised on page 160.

### DIRECTORS

The directors who held office during the year and up to the date of this report were:

Mr KUOK Khoon Loong, Edward (Chairman)  
Mr ANG Keng Lam (Deputy Chairman and Joint Managing Director)  
Mr WONG Siu Kong (Joint Managing Director)  
Mr HO Shut Kan  
Mr Thaddeus Thomas BECZAK  
Dr FUNG Kwok King, Victor\*  
Mrs LEE Pui Ling, Angelina\*  
Mr Christopher Roger MOSS, O.B.E.\*

\* *Independent non-executive directors*

Mrs. Lee Pui Ling, Angelina retires by rotation in accordance with Bye-law 118 of the Company's Bye-laws and, being eligible, offers herself for re-election.

### BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

#### *Executive Directors*

**Mr KUOK Khoon Loong, Edward**, aged 50, is the Chairman of the Company. He has been an executive director of the Company since January 1996. Prior to his election as Chairman of the Board of the Company in June 1999, he was the Deputy Chairman and Joint Managing Director of the Company. He is also a Vice Chairman of Kerry Holdings Limited, the immediate holding company of the Company. In addition, Mr Kuok is also a director of Allgreen Properties Limited, which is listed on the Singapore Stock Exchange. Mr Kuok is also the Chairman of the Board of EDSA Properties Holdings Inc. and Kuok Philippine Properties, Inc., both of which are listed on the Philippines Stock Exchange. Mr Kuok is the nephew of Mr Kuok Hock Nien and has been with the Kuok Group since 1978. His responsibilities within the Kerry Properties Group have included the development, construction and establishment of certain hotels and other properties in Hong Kong, the PRC and other areas in the region. He has a Master's degree in Economics from the University of Wales in the United Kingdom.

### BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

#### *Executive Directors (Continued)*

**Mr ANG Keng Lam**, aged 56, is the Deputy Chairman and Joint Managing Director of the Company, with overall responsibilities for the Beijing property activities of the Group and is also responsible for overseeing the daily operations of the warehouse and logistics division of the Group. He has been an executive director and the Joint Managing Director of the Company since May 1996, and was elected Deputy Chairman of the Board of the Company in August 1999. Mr Ang is also a director of Kerry Holdings Limited, the immediate holding company of the Company. He is also a member of the National Committee of the C.P.P.C.C., the Vice-Chairman of China World Trade Center Ltd. in Beijing and chairman of a number of the Group's companies in the PRC. Mr Ang has been a senior executive of the Kuok Group since 1976 and has been responsible for the planning and development of many Kuok Group projects, including Heng Fa Chuen in Hong Kong and the China World Trade Center in Beijing. He attended the University of Western Australia, where he gained his Bachelor's degree in Civil Engineering and the University of Toronto, where he obtained a Master's degree in Business Administration. Mr Ang also attended and completed the International Advanced Management Program at Harvard Business School in November 1998.

**Mr WONG Siu Kong**, aged 51, has been the Joint Managing Director of the Company since June 1999. He has been an executive director of the Company since May 1996. He joined the Kuok Group in 1991 with responsibilities for the Group's developments in Shanghai, Shenzhen and Fuzhou in the PRC. Mr Wong is a director of Kerry Holdings Limited, the immediate holding company of the Company. He is also a director of Kerry Investments (China) Limited, the Managing Director of Hong Kong Shanghai Development Co Ltd. and a director of a number of the Company's subsidiaries. He was educated in the PRC.

**Mr HO Shut Kan**, aged 54, has been an executive director of the Company since May 1998. He is an executive director of Kerry Properties (H.K.) Limited, the principal property company of the Group in Hong Kong. He is also a director of Western Harbour Tunnel Company Limited and EDSA Properties Holdings Inc., which is listed on the Philippines Stock Exchange. From 1985 to 1990, he was a director and the Group General Manager of the principal Kerry Group Hong Kong property operating company. He is responsible for the Group's Hong Kong residential and commercial investments, property developments and infrastructure-related investments. Mr Ho has 25 years' experience in the property field in Hong Kong and the PRC. He holds a Master of Business Administration Degree from the University of East Asia. He is also a Fellow Member and a member of the Board of Assessors of the Hong Kong Institute of Real Estate Administration.

**Mr Thaddeus Thomas BECZAK**, aged 52, has been an executive director of the Company since August 1999. He is an executive director of Kerry Holdings Limited, the immediate holding company of the Company, a director of Shangri-La Asia Limited, the Deputy Chairman of SCMP Group Limited and the Publisher of South China Morning Post Publishers Limited. He is also a director of The Post Publishing Public Company Limited in Bangkok. Prior to joining the Kerry Group, Mr Beczak was a Managing Director of J.P. Morgan Inc. and President of J.P. Morgan Securities Asia Ltd., Hong Kong. From November 1997 to December 2002, Mr Beczak was the Chairman of the Stock Exchange of Hong Kong Listing Committee. He is a member of the Advisory Committee to the Securities and Futures Commission in Hong Kong. Mr Beczak is an American citizen and a graduate of Georgetown University (B.S.F.S.) and Columbia University (M.B.A.). He is a member of the Board of Advisors of the School of Foreign Service of Georgetown University.

### BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

#### *Independent Non-executive Directors*

**Dr FUNG Kwok King, Victor**, aged 57, has been an independent non-executive director of the Company since May 1996. He is Chairman of the Li & Fung Group, the Hong Kong Airport Authority and the Hong Kong University Council and a non-executive director of BOC Hong Kong (Holdings) Limited, PCCW Limited, Orient Overseas (International) Ltd, DBS Kwong On Bank Ltd, Dao Heng Bank Group Limited and Sun Hung Kai Properties Limited. From 1991 to 2000, Dr Fung was the Chairman of the Hong Kong Trade Development Council. He holds a Bachelors and a Masters Degree in Electrical Engineering from the Massachusetts Institute of Technology and a Doctorate in Business Economics from Harvard University.

**Mrs LEE Pui Ling, Angelina**, aged 54, has been an independent non-executive director of the Company since May 1996. She is a practising solicitor in Hong Kong and a partner in the firm of Woo, Kwan, Lee & Lo. She is active in public service and serves on a number of statutory, advisory and appeal committees. She has a Bachelor of Laws degree from University College London, United Kingdom and is a Fellow of the Institute of Chartered Accountants in England and Wales.

**Mr Christopher Roger MOSS**, O.B.E., aged 66, has been an independent non-executive director of the Company since May 1996. He retired as the Finance Director of the Mass Transit Railway Corporation, which position he held from 1984 until his retirement in 1996. He was an international advisor to Goldman Sachs (Asia) L.L.C. until November 2002. He was previously the Finance Director of British Airways. Mr Moss is a Chartered Accountant and a graduate of Cambridge University in the United Kingdom.

#### *Senior Management*

**Mr CHEW Fook Aun**, aged 40, is the Chief Financial Officer of the Company. He is a director of EDSA Properties Holdings Inc. and Kuok Philippine Properties, Inc., both of which are listed on the Philippines Stock Exchange. He is also a director of Asia Airfreight Terminal Company Limited, Chiwan Container Terminal Co., Ltd, Shangri-La Plaza Corporation, Jacksons Landing Development Pty. Limited and Village Docklands Pty. Limited. Prior to joining Kerry Holdings Limited in January 1995 as corporate finance manager, he was a senior manager with Ernst & Young in Hong Kong. He is a graduate of the London School of Economics and Political Science of the University of London in the United Kingdom and holds a Bachelor of Science (Economics) degree from the University of London. He is a Fellow of the Institute of Chartered Accountants in England and Wales, a Fellow of the Hong Kong Society of Accountants and serves as the Deputy Chairman of the Professional Accountants in Business Committee of the Hong Kong Society of Accountants. Mr Chew also serves as the Secretary to the Audit and Remuneration Committees of the Board of the Company.

**Mr MA Wing Kai, William**, aged 41, is the Executive Director and Group General Manager of Kerry Logistics Network Limited, the logistics, freight and warehouse division of the Group. Mr Ma joined Kerry Properties (H.K.) Limited, the principal Hong Kong property company of the Group, in September 1990, and was transferred to the logistics, freight and warehouse division in June 1999. Mr Ma holds a Bachelor of Science (Management Sciences) degree from the University of Lancaster in the United Kingdom. In September 2000, Mr Ma also completed an executive education program – Managing the Supply Chain, at Harvard Business School.

### BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

#### Company Secretary

**Ms CHOW Yin Ping, Anita**, aged 36, has been the Company Secretary of the Company since May 1996. She joined the Kerry Group in 1991. Ms Chow is an associate member of both the Institute of Chartered Secretaries and Administrators and the Hong Kong Institute of Company Secretaries.

### PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

The Company had been notified of the following interests of the Directors in the shares of the Company or any of its associated corporations (within the meaning of Securities (Disclosure of Interests) Ordinance (the "SDI Ordinance")) (the "Associated Corporations") as at 31 December 2002, as recorded in the register required to be kept under Section 29 of the SDI Ordinance:

#### (i) The Company

Name of director	Number of ordinary shares				Total
	Personal interests	Family interests	Corporate interests	Other interests	
Mr KUOK Khoon Loong, Edward	–	–	–	857,704 <sup>1</sup>	857,704
Mr ANG Keng Lam	2,549	–	–	516,332 <sup>1</sup>	518,881
Mr WONG Siu Kong	–	–	–	2,000 <sup>1</sup>	2,000
Mr HO Shut Kan	–	–	–	–	–
Mr Thaddeus Thomas BECZAK	–	–	–	101,465 <sup>2</sup>	101,465
Dr FUNG Kwok King, Victor	–	–	–	–	–
Mrs LEE Pui Ling, Angelina	–	–	–	–	–
Mr Christopher Roger MOSS, O.B.E.	–	–	–	–	–

#### Notes:

1. This represents deemed interests held by the relevant director through discretionary trust(s).
2. This represents interests held by the relevant director and his spouse jointly.

## REPORT OF THE DIRECTORS

### PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES (CONTINUED)

#### (ii) Associated Corporations

Name of associated corporation	Name of director	Number of shares				Total
		Personal interests	Family interests	Corporate interests	Other interests	
Allgreen Properties Limited	Mr KUOK Khoon Loong, Edward	70,000	-	-	606,294 <sup>1</sup>	676,294
	Mr ANG Keng Lam	-	-	406,294	-	406,294
	Mr WONG Siu Kong	-	-	-	252,624 <sup>1</sup>	252,624
EDSA Properties Holdings Inc.	Mr KUOK Khoon Loong, Edward	1,570	-	-	-	1,570
	Mr HO Shut Kan	1,570	-	-	-	1,570
Kerry Group Limited	Mr KUOK Khoon Loong, Edward	-	-	-	29,894,101 <sup>1</sup>	29,894,101
	Mr ANG Keng Lam	-	-	-	12,550,000 <sup>1</sup>	12,550,000
	Mr WONG Siu Kong	-	-	-	3,254,300 <sup>1</sup>	3,254,300
	Mr HO Shut Kan	165,000	-	-	-	165,000
	Mr Thaddeus Thomas BECZAK	-	200,000	-	-	200,000
Rennon Limited	Mr KUOK Khoon Loong, Edward	-	-	-	133 <sup>1</sup>	133
SCMP Group Limited	Mr Thaddeus Thomas BECZAK	-	-	-	294,000 <sup>2</sup>	294,000
Shangri-La Asia Limited	Mr KUOK Khoon Loong, Edward	3,456	-	-	297,410 <sup>1</sup>	300,866
	Mr ANG Keng Lam	212,000	-	158,000	-	370,000
	Mr Thaddeus Thomas BECZAK	-	-	-	500,000 <sup>2</sup>	500,000

*Notes:*

1. This represents deemed interests held by the relevant director through discretionary trust(s).
2. This represents interests held by the relevant director and his spouse jointly.

Save as aforesaid, the Company had not been notified of any other interests of the Directors in shares in or debentures of the Company or any of its Associated Corporations as at 31 December 2002, which had been entered in the register kept by the Company pursuant to Section 29 of the SDI Ordinance.

### DIRECTORS' INTERESTS IN CONTRACTS

No contracts of significance in relation to the Group's business to which the Company, its subsidiaries, its fellow subsidiaries or its holding companies was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

#### (i) The Company

Pursuant to the terms of an executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme"), following the adjustment events arising from the changes in the Company's issued share capital on 9 October 2001 and 31 May 2002, the respective exercise prices per option share of the unexercised options and the respective number of option shares exercisable were adjusted as follows with effect from 12 August 2002:

<b>Date of grant</b>	<b>Exercise price per option share before adjustment HK\$</b>	<b>Exercise price per option share after adjustment HK\$</b>	<b>Additional number of option shares granted to the Directors for the adjustment</b>
11/04/1997	15.50	15.30	84,122
27/11/1999	10.01	9.88	33,400
01/06/2000	6.96	6.87	40,619
02/03/2001	12.03	11.88	1,283
16/04/2002	7.10	7.02	35,897

As at 31 December 2002, the number of outstanding options granted by the Company under the 1997 Share Option Scheme to the Directors to subscribe for shares of the Company, as recorded in the register required to be kept under Section 29 of the SDI Ordinance was set out in the section headed "Share Options" of this report.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

#### (ii) Associated Corporations

##### (a) Kerry Group Limited

Pursuant to a share option scheme adopted by Kerry Group Limited, the ultimate holding company of the Company, on 17 November 1999, the directors of Kerry Group Limited granted options in favour of the following Directors to subscribe for shares in Kerry Group Limited as follows:

Name of director	Date of grant	Exercise period	Exercise price HK\$	Number of option shares of Kerry Group Limited
Mr KUOK Khoon Loong, Edward	04/05/2000	04/11/2000– 03/05/2007	4.20	10,000,000
Mr ANG Keng Lam	04/05/2000	04/11/2000– 03/05/2007	4.20	6,000,000
Mr WONG Siu Kong	04/05/2000	04/11/2000– 03/05/2007	4.20	5,000,000
Mr HO Shut Kan	04/05/2000	04/11/2000– 03/05/2007	4.20	1,000,000
Mr Thaddeus Thomas BECZAK	04/05/2000	04/11/2000– 03/05/2007	4.20	5,000,000



## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

### (ii) Associated Corporations (Continued)

#### (b) Shangri-La Asia Limited

Pursuant to the share option schemes adopted by Shangri-La Asia Limited on 16 December 1997 and 24 May 2002 respectively, the directors of Shangri-La Asia Limited granted options in favour of the following Directors to subscribe for shares in Shangri-La Asia Limited as follows:

Name of director	Date of grant	Tranche	Exercise period	Exercise price HK\$	Number of option shares of Shangri-La Asia Limited	
Mr ANG Keng Lam	01/05/1998	I	01/05/1999– 30/04/2008	8.26	96,760	
		II	01/05/2000– 30/04/2008	8.26	96,760	
		III	01/05/2001– 30/04/2008	8.26	96,760	
						290,280
	15/01/2000	I	15/01/2001– 14/01/2010	8.82	145,367	
		II	15/01/2002– 14/01/2010	8.82	145,366	
						290,733
	29/05/2002	I	29/05/2003– 28/05/2012	6.81	100,000	
		II	29/05/2004– 28/05/2012	6.81	100,000	
					200,000	
					<b>781,013</b>	
Mr WONG Siu Kong	29/05/2002	I	29/05/2003– 28/05/2012	6.81	100,000	
		II	29/05/2004– 28/05/2012	6.81	100,000	
					<b>200,000</b>	

## REPORT OF THE DIRECTORS

### DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

#### (ii) Associated Corporations (Continued)

##### (b) Shangri-La Asia Limited (Continued)

Name of director	Date of grant	Tranche	Exercise period	Exercise price HK\$	Number of option shares of Shangri-La Asia Limited	
Mr Thaddeus Thomas BECZAK	01/05/1998	I	01/05/1999– 30/04/2008	8.26	387,041	
		II	01/05/2000– 30/04/2008	8.26	387,041	
		III	01/05/2001– 30/04/2008	8.26	387,041	
						1,161,123
	15/01/2000	I	15/01/2001– 14/01/2010	8.82	242,278	
		II	15/01/2002– 14/01/2010	8.82	242,277	
						484,555
	15/01/2001	I	15/01/2002– 14/01/2011	8.18	48,515	
		II	15/01/2003– 14/01/2011	8.18	48,515	
					97,030	
29/05/2002	I	29/05/2003– 28/05/2012	6.81	75,000		
	II	29/05/2004– 28/05/2012	6.81	75,000		
					150,000	
					<u>1,892,708</u>	

Apart from the aforesaid, at no time during the year ended 31 December 2002 was the Company or any of its Associated Corporations a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate and none of the Directors or their spouses or children under 18 years of age were granted any right to subscribe for any shares in, or debentures of, the Company or any of its Associated Corporations.

## REPORT OF THE DIRECTORS

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### SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

The Company had been notified of the following substantial shareholders' interests, being 10% or more of the Company's issued share capital as at 31 December 2002, as recorded in the register required to be kept under section 16(1) of the SDI Ordinance:

<b>Name of substantial shareholder</b>	<b>Number of ordinary shares</b>
Kerry Group Limited	741,030,134 <i>(Note 1)</i>
Kerry Holdings Limited	741,030,134 <i>(Note1)</i>
Caninco Investments Limited	253,602,384 <i>(Note2)</i>
Darmex Holdings Limited	243,035,614 <i>(Note2)</i>

#### Notes:

1. Kerry Properties Limited is a subsidiary of Kerry Holdings Limited. Kerry Holdings Limited itself is a subsidiary of Kerry Group Limited and, accordingly, the shares in which Kerry Holdings Limited is shown to be interested are also included in the shares in which Kerry Group Limited is shown to be interested.
2. Caninco Investments Limited and Darmex Holdings Limited are subsidiaries of Kerry Holdings Limited. Kerry Holdings Limited itself is a subsidiary of Kerry Group Limited and, accordingly, the shares in which Caninco Investments Limited and Darmex Holdings Limited are shown to be interested are also included in the shares in which Kerry Holdings Limited and Kerry Group Limited are shown to be interested.

Apart from the aforesaid, as at 31 December 2002, the Company had not been notified of any interest amounting to 10% or more of the issued share capital of the Company required to be disclosed pursuant to the SDI Ordinance.

### PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

In December 2002, the Company purchased a total of 226,500 fully paid-up shares on the Stock Exchange of Hong Kong at a total consideration of HK\$1,248,000 for the purpose of enhancing its earnings per share. These shares were purchased at prices ranging from HK\$5.45 to HK\$5.55 per share and all these shares have been duly cancelled.

Save as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year.

### PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Bye-laws or the law in Bermuda.

### SHARE OPTIONS

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the 1997 Share Option Scheme and the adoption of a new share option scheme (the "2002 Share Option Scheme"). 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.

The following is a summary of the principal terms of these two share option schemes (for the 1997 Share Option Scheme, only those terms applying to the outstanding option shares are set out below):

#### **1997 Share Option Scheme**

The 1997 Share Option Scheme was designed to give executive directors, managers or other employees holding an executive, managerial, supervisory or similar position in the Company or any of its subsidiaries an interest in preserving and maximising shareholder value in the longer term, to enable the Company to attract and retain individuals with experience and ability and to reward individuals for expected future performance.

The period within which an option may be exercised was determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option was granted. Subject to the provisions of the 1997 Share Option Scheme, the Board might at its discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the 1997 Share Option Scheme as it thought fit (as stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) conditions, restrictions or limitations relating to the achievement of operating or financial targets, the satisfactory performance by the grantee or the time or period when the right to exercise the option in respect of all or some of the option shares would vest. The amount paid on acceptance of an option was HK\$1. The full amount of the subscription price for shares of the Company (the "Shares") must be paid upon exercise of an option.

The subscription price for any particular outstanding option was determined by the Board of Directors of the Company in its absolute discretion subject to the compliance with the requirements for share option schemes under the Listing Rules.

The 1997 Share Option Scheme was terminated on 17 April 2002 such that thereafter no further options shall be offered but the options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

#### **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.

Under the 2002 Share Option Scheme, the Board of Directors of the Company may, at its discretion, grant options to the eligible persons as defined in the 2002 Share Option Scheme (the "Eligible Person") to subscribe for Shares at HK\$1.00 per option. The basis of eligibility of any of the Eligible Persons to the grant of any options shall be determined by the Board of Directors of the Company from time to time on the basis of their contribution to the development and the growth of the Group.

### SHARE OPTIONS (CONTINUED)

#### **2002 Share Option Scheme** *(Continued)*

The maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not in aggregate exceed 10 per cent. of the Shares in issue as at the date of the adoption of the 2002 Share Option Scheme (the "Scheme Mandate Limit") provided that the Company may at any time as the Board of Directors of the Company may think fit seek approval from its shareholders to refresh the Scheme Mandate Limit, save that the maximum number of Shares which may be issued upon exercise of all options to be granted under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 10 per cent. of the Shares in issue as at the date of approval by the shareholders of the Company in general meeting where such limit is refreshed. Options previously granted under the 2002 Share Option Scheme and any other scheme of the Company (including those outstanding, cancelled, and lapsed in accordance with the terms of the 2002 Share Option Scheme or any other scheme of the Company or exercised options under the said schemes) shall not be counted for the purpose of calculating the limit as refreshed. Notwithstanding aforesaid in this paragraph, the maximum number of Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2002 Share Option Scheme (and under any other scheme of the Company) shall not exceed 30 per cent. of the Shares in issue from time to time. As at the date of the annual report, a total of 115,572,748 Shares (representing approximately 9.87% of the existing issued share capital of the Company) are available for issue under the 2002 Share Option Scheme. The maximum entitlement of each participant under the 2002 Share Option Scheme is 1 per cent. of the Shares in issue from time to time.

The period within which an option may be exercised will be determined by the Board of Directors of the Company in its absolute discretion, save that no option may be exercised later than 10 years from the date on which the option is granted. Subject to the provisions of the 2002 Share Option Scheme, the Board may in its absolute discretion when offering the grant of an option impose any conditions, restrictions or limitations in relation thereto in addition to those set forth in the 2002 Share Option Scheme as it may think fit (to be stated in the letter containing the offer of the grant of the option) including (without prejudice to the generality of the foregoing) continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the option shares shall vest. The amount payable on acceptance of an option is HK\$1. The period within which the amount of the subscription price for the Shares to be paid upon exercise of an option shall be determined by the Board of Directors of the Company.

The subscription price in respect of any particular option under the 2002 Share Option Scheme shall be such price as the Board may in its absolute discretion determine at the time of grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but the subscription price shall not be less than whichever is the highest of (a) the nominal value of a Share; (b) the closing price of the Shares as stated in the Stock Exchange of Hong Kong's daily quotations sheet on the date of the Board resolution approving the grant of options; and (c) the average of the closing prices of the Shares as stated in the Stock Exchange of Hong Kong's daily quotations sheet for the five business days immediately preceding the date of the Board resolution approving the grant of options.

The 2002 Share Option Scheme will expire on 16 April 2012.

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### SHARE OPTIONS (CONTINUED)

Movements of the options, which have been granted under the 1997 Share Option Scheme, during the year are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of Grant	Tranche	Number of Option Shares held at 01/01/2002	Number of Option Shares granted during the Year	Number of Option Shares granted for Adjustment	Number of Option Shares exercised during the Year	Number of Option Shares lapsed during the Year	Number of Option Shares held at 31/12/2002	Exercise Price HK\$	Exercise Period	
1. Directors											
Mr KUOK Khoo Loong, Edward	11/04/1997	N/A	2,822,579	-	36,896	-	-	2,859,475	15.30	11/04/1999 - 26/03/2007	
	27/11/1999	I	412,787	-	5,431	-	-	418,218	9.88	27/05/2000 - 26/03/2007	
	27/11/1999	II	412,787	-	5,431	-	-	418,218	9.88	27/05/2001 - 26/03/2007	
								836,436			
	01/06/2000	I	337,000	-	4,000	-	-	341,000	6.87	01/06/2001 - 31/05/2010	
	01/06/2000	II	337,000	-	4,000	-	-	341,000	6.87	01/06/2002 - 31/05/2010	
	01/06/2000	III	335,568	-	5,225	-	-	340,793	6.87	01/06/2003 - 31/05/2010	
								1,022,793			
	16/04/2002	I	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2003 - 15/04/2012	
	16/04/2002	II	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2004 - 15/04/2012	
								1,011,396			
								<u>5,730,100</u>			
	Mr ANG Keng Lam	11/04/1997	N/A	1,693,547	-	22,137	-	-	1,715,684	15.30	11/04/1999 - 26/03/2007
		27/11/1999	I	412,787	-	5,431	-	-	418,218	9.88	27/05/2000 - 26/03/2007
27/11/1999		II	412,787	-	5,431	-	-	418,218	9.88	27/05/2001 - 26/03/2007	
								836,436			
01/06/2000		I	337,000	-	4,000	-	-	341,000	6.87	01/06/2001 - 31/05/2010	
01/06/2000		II	337,000	-	4,000	-	-	341,000	6.87	01/06/2002 - 31/05/2010	
01/06/2000		III	335,568	-	5,225	-	-	340,793	6.87	01/06/2003 - 31/05/2010	
								1,022,793			
16/04/2002		I	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2003 - 15/04/2012	
16/04/2002		II	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2004 - 15/04/2012	
							1,011,396				
							<u>4,586,309</u>				

# REPORT OF THE DIRECTORS

## SHARE OPTIONS (CONTINUED)

Category	Date of Grant	Tranche	Number of Option Shares held at 01/01/2002	Number of Option Shares granted during the Year	Number of Option Shares granted for Adjustment	Number of Option Shares exercised during the Year	Number of Option Shares lapsed during the Year	Number of Option Shares held at 31/12/2002	Exercise Price HK\$	Exercise Period	
1. Directors (Continued)											
Mr WONG Siu Kong	11/04/1997	N/A	1,129,031	-	14,758	-	-	1,143,789	15.30	11/04/1999 - 26/03/2007	
	27/11/1999	I	206,393	-	2,715	-	-	209,108	9.88	27/05/2000 - 26/03/2007	
	27/11/1999	II	206,393	-	2,716	-	-	209,109	9.88	27/05/2001 - 26/03/2007	
								418,217			
	01/06/2000	I	172,000	-	2,000	-	-	174,000	6.87	01/06/2001 - 31/05/2010	
	01/06/2000	II	172,000	-	2,000	-	-	174,000	6.87	01/06/2002 - 31/05/2010	
	01/06/2000	III	171,085	-	2,747	-	-	173,832	6.87	01/06/2003 - 31/05/2010	
								521,832			
	16/04/2002	I	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2003 - 15/04/2012	
	16/04/2002	II	-	500,000 <sup>1</sup>	5,698	-	-	505,698	7.02	16/04/2004 - 15/04/2012	
								1,011,396			
								3,095,234			
	Mr HO Shut Kan	11/04/1997	N/A	790,322	-	10,331	-	-	800,653	15.30	11/04/1999 - 26/03/2007
		27/11/1999	I	134,155	-	1,765	-	-	135,920	9.88	27/05/2000 - 26/03/2007
27/11/1999		II	134,156	-	1,765	-	-	135,921	9.88	27/05/2001 - 26/03/2007	
								271,841			
01/06/2000		I	121,000	-	1,000	-	-	122,000	6.87	01/06/2001 - 31/05/2010	
01/06/2000		II	121,000	-	1,000	-	-	122,000	6.87	01/06/2002 - 31/05/2010	
01/06/2000		III	118,560	-	2,723	-	-	121,283	6.87	01/06/2003 - 31/05/2010	
								365,283			
02/03/2001		I	34,000	-	1,000	-	-	35,000	11.88	02/03/2002 - 01/03/2011	
02/03/2001		II	34,000	-	1,000	-	-	35,000	11.88	02/03/2003 - 01/03/2011	
02/03/2001		III	33,662	-	(717)	-	-	32,945	11.88	02/03/2004 - 01/03/2011	
								102,945			
16/04/2002		I	-	75,000 <sup>1</sup>	854	-	-	75,854	7.02	16/04/2003 - 15/04/2012	
16/04/2002		II	-	75,000 <sup>1</sup>	855	-	-	75,855	7.02	16/04/2004 - 15/04/2012	
							151,709				
							1,692,431				

## REPORT OF THE DIRECTORS

### SHARE OPTIONS (CONTINUED)

Category	Date of Grant	Tranche	Number of Option Shares held at 01/01/2002	Number of Option Shares granted during the Year	Number of Option Shares granted for Adjustment	Number of Option Shares exercised during the Year	Number of Option Shares lapsed during the Year	Number of Option Shares held at 31/12/2002	Exercise Price HK\$	Exercise Period
1. Directors (Continued)										
Mr Thaddeus Thomas BECZAK	27/11/1999	I	103,196	-	1,357	-	-	104,553	9.88	27/05/2000 - 26/03/2007
	27/11/1999	II	103,196	-	1,358	-	-	104,554	9.88	27/05/2001 - 26/03/2007
								209,107		
	01/06/2000	I	69,000	-	1,000	-	-	70,000	6.87	01/06/2001 - 31/05/2010
	01/06/2000	II	69,000	-	1,000	-	-	70,000	6.87	01/06/2002 - 31/05/2010
	01/06/2000	III	68,034	-	699	-	-	68,733	6.87	01/06/2003 - 31/05/2010
								208,733		
								417,840		
2. Continuous Contract Employees										
	11/04/1997	N/A	4,933,852	-	64,477	-	(57,187)	4,941,142	15.30	11/04/1999 - 26/03/2007
	27/11/1999	I	1,707,873	-	22,459	-	(31,365)	1,698,967	9.88	27/05/2000 - 26/03/2007
	27/11/1999	II	1,707,901	-	22,465	-	(31,366)	1,699,000	9.88	27/05/2001 - 26/03/2007
								3,397,967		
	01/06/2000	I	1,854,000	-	17,000	(54,000) <sup>2</sup>	(41,000)	1,776,000	6.87	01/06/2001 - 31/05/2010
	01/06/2000	II	1,854,000	-	17,000	(54,000) <sup>2</sup>	(41,000)	1,776,000	6.87	01/06/2002 - 31/05/2010
	01/06/2000	III	1,743,604	-	34,415	-	(62,305)	1,715,714	6.87	01/06/2003 - 31/05/2010
								5,267,714		
	02/03/2001	I	396,000	-	3,000	-	(14,000)	385,000	11.88	02/03/2002 - 01/03/2011
	02/03/2001	II	396,000	-	3,000	-	(14,000)	385,000	11.88	02/03/2003 - 01/03/2011
	02/03/2001	III	366,948	-	8,625	-	(13,178)	362,395	11.88	02/03/2004 - 01/03/2011
								1,132,395		
	16/04/2002	I	-	805,000 <sup>1</sup>	9,142	-	(30,340)	783,802	7.02	16/04/2003 - 15/04/2012
	16/04/2002	II	-	805,000 <sup>1</sup>	9,177	-	(30,342)	783,835	7.02	16/04/2004 - 15/04/2012
								1,567,637		
3. Others										
	11/04/1997	N/A	564,515	-	7,379	-	(571,894)	-	15.30	11/04/1999 - 26/03/2007
Total			27,701,286	4,760,000	413,460	(108,000)	(937,977)	31,828,769		



### SHARE OPTIONS (CONTINUED)

Notes:

1. At the date before the options were granted, i.e. 15 April 2002, the value of the options granted to the respective parties is listed below based on the market value of HK\$7.15 per share:

	HK\$
Directors:	22,522,500
Continuous contract employees:	<u>11,511,500</u>
Total:	<u>34,034,000</u>

2. The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$8.17.
3. No options were cancelled during the year.

In accordance with Rule 17.08 of the Listing Rules, a valuation of the Company's options granted during the financial year has been calculated based on the Black-Scholes option pricing model as stipulated in Rule 17.08. This model was developed for use in estimating the fair value of traded options which do not have vesting restrictions and which are fully transferable. In addition, the option valuation model requires the input of highly subjective assumptions, including the expected stock-price volatility. As the Company's options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

The following assumptions, measured based on the date when the options were granted, were used in determining the pro forma amount:

	2002
Stock volatility (assuming 260 trading days per year)	45.44%
Expected life from grant date (in years)	10
Risk-free interest rate (interest rate for the Exchange Fund Notes)	6.0%
Expected dividend yield	4.0%

Based on the closing price of the Company's share on the date of grant and the above assumptions, the computed fair value of the options granted during 2002 was HK\$2.73 per option share.

### SERVICE AND MANAGEMENT CONTRACTS

There is no service contract, which is not determinable by the Company within one year without payment of compensation (other than statutory compensation), in respect of any Director proposed for re-election at the forthcoming Annual General Meeting.

Details of contracts of significance for the provision of services by related parties are set out in note 30 to the accounts.

### MAJOR CUSTOMERS AND SUPPLIERS

The percentages of the five largest customers combined and the five largest suppliers combined are less than 30% of the Group's total turnover and purchases, respectively.

### DIRECTORS' INTEREST IN COMPETING BUSINESS

During the year and up to the date of this report, the Directors who are considered to have interests in the following businesses which compete or are likely to compete, either directly or indirectly, with the businesses of the Group, other than those businesses where the Directors have been appointed/were appointed as directors to represent the interests of the Company and/or the Group, pursuant to the Listing Rules are set out below.

Mr Kuok Khoon Loong, Edward is a director of the Allgreen Properties Limited ("Allgreen") group of companies which businesses consist of property investment and development, property and project management, operators of office, retail and service apartments in Singapore. In this regard, Mr Kuok is regarded to be interested in such competing businesses (the "Excluded Businesses") of the Group. Allgreen is listed on the Singapore Stock Exchange.

Messrs Kuok Khoon Loong, Edward, Ang Keng Lam, Wong Siu Kong and Thaddeus Thomas Beczak are directors of the Shangri-La Asia Limited ("SA") group of companies which businesses consist of hotel ownership and operation. In this regard, they are regarded to be interested in the Excluded Businesses of the Group. SA is listed on the Stock Exchange of Hong Kong.

Mr Kuok Khoon Loong, Edward is the Chairman of Kuok Philippine Properties, Inc. ("KPPI") which businesses consist of property investment and development and real estate management in the Philippines. Prior to his election as the Chairman of the Board of KPPI on 6 August 2002, he was a director of KPPI. In this regard, Mr Kuok is regarded to be interested in the Excluded Businesses of the Group. KPPI is listed on the Philippines Stock Exchange.

Mr Ang Keng Lam is a director of the China World Trade Center Ltd. group of companies which businesses consist of property investment and development, hotel ownership and operation in the PRC. In this regard, Mr Ang is regarded to be interested in the Excluded Businesses of the Group.

The abovementioned Excluded Businesses are managed by publicly listed companies (in the case of Allgreen, SA and KPPI) with independent management and administration.

All the incumbent executive directors maintain certain personal and deemed interests and/or directorships in personal investment entities and/or other entities within the Kerry Group Limited group of companies which businesses consist of property investment and development, hotel ownership and operation, warehouse ownership and operation, port terminal ownership and operation and freight operations. In this regard, they are regarded to be interested in the Excluded Businesses of the Group. However, the size of the businesses undertaken by these entities in which they are appointed directors and/or they have deemed/beneficial interests are considered insignificant and immaterial as compared to the Group.

As the Board of Directors of the Company is independent of the boards of the abovementioned companies carrying out the Excluded Businesses, the Group is capable of carrying on its business independent of, and at arm's length from, the Excluded Businesses mentioned above.

### CONNECTED TRANSACTIONS

(i) Details of the connected transactions of the Group as announced by the Company during the year are set out below:

- (a) A joint venture entity with an issued share capital of US\$10 was formed between Cashel Assets Limited ("Cashel Assets") and Jetso Resources Limited ("Jetso Resources") on 16 July 2002 on a 40/60 basis for the purpose of undertaking the extension property developments at Tseung Kwan O Town Lot No. 24, Area 38b, Tseung Kwan O, New Territories, Hong Kong (the "Development Site") comprising: (a) six residential towers with a total gross floor area of 138,652 square metres providing a maximum of 2,134 residential units; and (b) a podium fully integrated with a public transport interchange, a retail centre with a gross floor area of about 3,500 square metres and some 369 car parking spaces (the "Hang Hau Station Development"). The total capital commitment in terms of the initial transaction of the Hang Hau Station Development contributed by the Group amounted to HK\$650,400,000.

Cashel Assets is an indirect wholly owned subsidiary of the Company. Jetso Resources is an indirect wholly owned subsidiary of Sino Land Company Limited which is a substantial shareholder (as defined under the Listing Rules) of certain subsidiaries of the Company and hence, Jetso Resources is a connected person (as defined under the Listing Rules) of the Company.

- (b) A preliminary sale and purchase agreement dated 8 August 2002 (the "Preliminary S&P") was made between an agent of Port Destiny Limited ("Port Destiny") and Kerry Trading Co. Limited ("Kerry Trading"), pursuant to which Port Destiny agreed to sell and Kerry Trading agreed to purchase Unit 25A of Tower 1 ("Unit 25A"), Jupiter Terrace, 18 Jupiter Street, Hong Kong ("Jupiter Terrace") at a consideration of HK\$2,830,000. Since the launch of the sales of Jupiter Terrace, Port Destiny had sold Unit 18A of Tower 1 ("Unit 18A") of Jupiter Terrace for HK\$2,770,000 and Unit 19A of Tower 1 ("Unit 19A") of Jupiter Terrace for HK\$2,758,000 to Kerry Trading prior to entering into the Preliminary S&P. Aggregating the consideration for the sales of Unit 18A, Unit 19A and Unit 25A of Jupiter Terrace, the total consideration amounted to HK\$8,358,000.

Port Destiny is an indirect wholly owned subsidiary of the Company. Kerry Trading is a wholly owned subsidiary of Kerry Holdings Limited which is a substantial shareholder (as defined under the Listing Rules) of the Company. Accordingly, Kerry Trading is a connected person (as defined under the Listing Rules) of the Company.

Subsequent to the press notice made by the Company in respect of the sales of Units 18A, 19A and 25A of Jupiter Terrace, Port Destiny, through its agent, sold Unit 20A of Tower 1 ("Unit 20A") of Jupiter Terrace to Kerry Trading at a consideration of HK\$2,770,000. The sale of Unit 20A of Jupiter Terrace by Port Destiny to Kerry Trading falls within the meaning of the Future Transaction as defined below and the disclosure of the sale of Unit 20A of Jupiter Terrace by way of a press notice has been waived under a conditional waiver granted by the Stock Exchange of Hong Kong.

### CONNECTED TRANSACTIONS (CONTINUED)

- (c) The following two agreements (the "Agreements") were made between Kerry Distribution (Hong Kong) Limited ("Kerry Distribution") and South China Morning Post Publishers Limited ("SCMP Publishers") on 19 August 2002:

	Newspaper Pre-Delivery Service Agreement	Local Transportation Service Agreement
Purpose:	Provision of daily newspaper pre-delivery services by Kerry Distribution to SCMP Publishers at the Tai Po Morning Post Centre, Tai Po, Hong Kong	Provision of services by Kerry Distribution to SCMP Publishers involving transportation and distribution of newspapers and magazines
Term:	2 years commencing from 31 May 2002 and ending on 30 May 2004, terminable by either party by giving the other party not less than 30 days' written notice or such shorter notice as the parties may mutually agree	1 year commencing from 15 August 2002 and ending on 14 August 2003, terminable by either party by giving the other party not less than 30 days' written notice or such shorter notice as the parties may mutually agree
Service Charge:	HK\$60,000 per month	HK\$549,000 per month

The Newspaper Pre-Delivery Service Agreement was entered into to formalize the arrangements in respect of services provided by Kerry Distribution to SCMP Publishers since 31 May 2002.

The annual consideration for the Newspaper Pre-Delivery Service Agreement and the Local Transportation Service Agreement for a term of one year is HK\$720,000 and HK\$6,588,000, respectively. The aggregate value of the Agreements for a term of one year amounts to HK\$7,308,000.

Kerry Distribution is an indirect wholly owned subsidiary of the Company. SCMP Publishers is a wholly owned subsidiary of SCMP Group Limited, which is an associate (as defined under the Listing Rules) of Kerry Group Limited, a substantial shareholder (as defined under the Listing Rules) of the Company. Accordingly, SCMP Publishers is a connected person (as defined under the Listing Rules) of the Company.

Subsequent to the year end date on 30 January 2003, SCMP Publishers gave notice to Kerry Distribution to terminate the Agreements with effect from 1 April 2003.

### CONNECTED TRANSACTIONS (CONTINUED)

In connection with the transactions involving the sales of units of Jupiter Terrace by Port Destiny to Kerry Trading or any of its associates and the provision of distribution and transportation services by Kerry Distribution to SCMP Publishers as set out in (b) and (c) above, respectively, on each occasion when they arise subsequent to the respective dates of press announcements (the "Future Transactions"), the Stock Exchange of Hong Kong has granted conditional waivers to the Company from the requirements of disclosure by way of press notices as stipulated in Rule 14.25(1) of the Listing Rules. The independent non-executive directors of the Company had reviewed the Future Transactions made during the year (the "Transactions") and confirmed that:

1. the relevant Transactions had been entered into by the Group (a) in the ordinary and usual course of the business of Port Destiny and Kerry Distribution, where applicable; (b) on normal commercial terms or on terms that were fair and reasonable so far as the shareholders of the Company were concerned; and (c) in accordance with the terms of the agreements governing such Transactions or (where there were no such agreements) on terms no less favourable than those available to an independent third party.
  2. the annual aggregate consideration of the Transactions involved in each of (b) and (c) stated above did not exceed 3% of the net tangible assets of the Company as disclosed in the Company's published consolidated accounts for the year ended 31 December 2002.
- (ii) Subsequent to the year end date on 9 January 2003, the Company announced that a sale and purchase agreement was made between Kerry Warehouse Limited ("KWL"), Glad Honour Investments Limited ("Glad Honour") and Wellbusy Investment Limited ("Wellbusy") pursuant to which KWL agreed to acquire from Glad Honour 2,000,000 issued shares of par value HK\$1 each, representing 20% of the total issued and paid up share capital of Kerry BCI Warehouse Holdings Limited ("Kerry BCI Holdings") (the "GHIL Sale Shares") together with the interest-free shareholder's loan with a principal amount of HK\$109,000,000 due by Kerry BCI Holdings to Glad Honour (the "GHIL Loan") and to acquire from Wellbusy 2,000,000 issued shares of par value HK\$1 each, representing 20% of the total issued and paid up share capital of Kerry BCI Holdings (the "WIL Sale Shares") together with the interest-free shareholder's loan with a principal amount of HK\$109,000,000 due by Kerry BCI Holdings to Wellbusy (the "WIL Loan") for a total consideration of HK\$110,000,000. The Company held a 60% indirect interest in the issued share capital of Kerry BCI Holdings before the acquisition of the GHIL Sale Shares (together with the GHIL Loan) and the WIL Sale Shares (together with the WIL Loan) (the "Acquisition"). Upon completion of the Acquisition, Kerry BCI Holdings becomes an indirect wholly owned subsidiary of the Company.
- KWL is an indirect wholly owned subsidiary of the Company. Glad Honour and Wellbusy were substantial shareholders (as defined under the Listing Rules) of Kerry BCI Holdings which in turn is an indirect subsidiary of the Company. Accordingly, Glad Honour and Wellbusy were connected persons (as defined under the Listing Rules) of the Company.
- (iii) The Group has made various advances to a 75% owned subsidiary (the "Developer") pursuant to an agreement (the "Agreement") with the minority shareholders which hold the remaining 25% interest in the Developer (the "Minority Shareholders"). Pursuant to the Agreement, advances are to be made by the Group to the Developer for financing the development of the property held by the Developer if external financing for the estimated construction and other costs of development cannot be obtained. Such advances shall bear interest at the rate of 1.5% per annum above the prime or best lending rate from time to time of The Hongkong and Shanghai Banking Corporation Limited for Hong Kong dollars in Hong Kong. The advances are secured by way of fixed and/or floating charges over the assets or any part thereof of the Developer. Shareholder's loans provided by the shareholders in proportion to their shareholdings in the Developer are subordinated to such advances by the Group.

### CONNECTED TRANSACTIONS (CONTINUED)

One of the Minority Shareholders is connected to the Group by virtue only of its substantial shareholding in the Developer. As at 31 December 2002, the advances outstanding amounted to approximately HK\$209,673,000 (2001: HK\$255,474,000) and interest charged during the year ended 31 December 2002 amounted to approximately HK\$18,196,000 (2001: HK\$19,844,000).

- (iv) As disclosed by SCMP Group Limited ("SCMP Group"), which is a connected person (as defined in the Listing Rules) of the Company by virtue of it being an associate (as defined under the Listing Rules) of Kerry Group Limited which is a substantial shareholder (as defined under the Listing Rules) of the Company, on 31 July 2000, Kerry Logistics (Hong Kong) Limited ("KL-Hong Kong"), an indirect wholly owned subsidiary of the Company, entered into 5 separate logistics services agreements (together the "Logistics Agreements"), one of which expired on 30 June 2000, with Highlight Trading Limited, Highlight Trading (HK) Limited, SCMP Retailing (HK) Limited and SCMP Book Publishing Limited, all wholly owned subsidiaries of SCMP Group (the "SCMP Subsidiaries"), regarding the provision of logistics services by KL-Hong Kong to each of the SCMP Subsidiaries. The provision of such logistics services is within the ordinary course of business of KL-Hong Kong and the Logistics Agreements were reached on an arm's length basis.

The entering into of the Logistics Agreements constituted connected transactions of the Company under the Listing Rules. For the purpose of Rule 14.25(1) of the Listing Rules, both the respective basic service fee received as well as fees estimated to be received from the SCMP Subsidiaries under each of the Logistics Agreements and the aggregate basic service fee receivable for all 5 Logistics Agreements whether on an annual basis or in respect of the fixed term of all the Logistics Agreements was less than 0.03% of the book value of the net tangible assets of the Company at the time when SCMP Group disclosed the above connected transactions by way of a press notice on 31 July 2000.

At the year end date, 4 Logistics Agreements (including two having been renewed for a term of one year) were still operative and the aggregate consideration received by KL-Hong Kong therefrom for the financial year ended 31 December 2002 was still below the threshold for disclosure as required by Rule 14.25(1) of the Listing Rules. However, as the Logistics Agreements are still ongoing and the amounts involved might, in future, reach the level required for disclosure as stipulated by Rule 14.25(1) of the Listing Rules, the Company is aware and will make the appropriate disclosure as required by the Listing Rules when necessary.

- (v) During the year, the Group provided proportionate guarantees in favour of banks/financial institutions for securing bank loans/facilities granted to the following companies in which the Company's subsidiaries and the Company's connected persons have interests:

Name of company	Note	Guaranteed amount HK\$'000
Brisbane Trading Company Limited ("Brisbane")		125,000
Grand Creator Investment Limited ("Grand Creator")	1	851,600
Kerry Freight (Korea) Inc. ("KF-Korea")	2	10,098

*Notes:*

- Amount represents the share of total facility guaranteed by the Group. Facility utilised at 31 December 2002 and guaranteed by the Group amounted to HK\$325,200,000.
- Amount represents the share of total facility guaranteed by the Group. Facility utilised at 31 December 2002 and guaranteed by the Group amounted to approximately HK\$3,631,000.

The other beneficial shareholder holding the remaining interest in each of Brisbane and Grand Creator is a connected person of the Company by virtue of it being a substantial shareholder of certain subsidiaries of the Company. The other shareholder holding the remaining interest in KF-Korea is a director of KF-Korea and accordingly, is also a connected person (as defined under the Listing Rules) of the Company.

### CONNECTED TRANSACTIONS (CONTINUED)

- (vi) During the year, the Group made unsecured proportionate shareholders' loans to the following companies in which the Company's subsidiaries and the Company's connected persons have interests:

Name of company	Amount of loan advanced HK\$'000
Benefit Bright (B.V.I.) Limited	19,136
Brisbane Trading Company Limited	49,103
Cavalcade Holdings Limited	3
Grand Creator Investment (BVI) Limited	332,064
Maple Crest Development Limited	93,647
Olympian City 2 Finance Company Limited	40,184

Certain beneficial shareholders of the above companies are connected persons of the Company by virtue of their being substantial shareholders (as defined under the Listing Rules) of certain subsidiaries of the Company. The above shareholders' loans were made by the Group in proportion to its equity interest in each of the above companies and were either interest bearing or interest-free. The shareholders' loans made to the above companies have no fixed term of repayment or are repayable as determined by the directors of the respective companies.

- (vii) During the year, the Group and a connected person made loans to an associated company, in which the Group and the connected person each holds a 35% interest through a joint venture company formed by the Group and the connected person in equal share, as had been previously announced. The remaining 30% interest is held by an independent third party. In accordance with the joint venture agreement relating to the immediate holding company of the associated company, loans will be advanced by the Group and the connected person to the associated company in equal share. The loans advanced by the Group to the associated company during the year amounted to HK\$2,880,000 and are interest bearing with no fixed terms of repayment.

- (viii) During the year, there were other connected transactions as set out in Note 30 to the accounts, which are disclosed herein in accordance with a waiver previously granted by the Listing Division of the Stock Exchange of Hong Kong. In the opinion of the independent non-executive directors of the Company, these transactions were carried out on normal commercial terms, in the ordinary course of business of the Group and are fair and reasonable to the shareholders of the Company.

### CODE OF BEST PRACTICE

The Company has complied with the Code of Best Practice, as set out in Appendix 14 of the Listing Rules, throughout the financial year under review.

The term of office for the non-executive directors of the Company are subject to retirement by rotation and re-election at the Annual General Meeting in accordance with the Company's Bye-laws.

### PRACTICE NOTE 19 OF THE LISTING RULES

Practice Note 19 of the Listing Rules ("PN19") requires the disclosure of financial assistance and guarantees provided by the Group to affiliated companies and the specific performance obligations on controlling shareholders of the Company. The circumstances requiring disclosure by the Company of such financial assistance and guarantees have not been present since 31 December 1999 and this is still the case at the year end. The Directors, in accordance with the recommendation of the Audit Committee of the Board of Directors of the Company, consider that in the interest of good corporate governance and disclosure, the Company continues to make such disclosures.

### PRACTICE NOTE 19 OF THE LISTING RULES (CONTINUED)

#### (i) Financial Assistance and Guarantees to Affiliated Companies

In line with the disclosure requirements of Paragraph 3.10 of PN 19, the Company discloses the following information as at 31 December 2002 in relation to the affiliated companies as at the end of the most recent financial period reported on by the affiliated companies. This information has been extracted from the relevant audited accounts or management accounts of the affiliated companies.

	Notes	HK\$'000
The Group's share of total indebtedness analysed as follows:		
Bank borrowings	1	989,499
Other borrowings including loans from shareholders	2	4,628,868
		<u>5,618,367</u>
The Group's share of capital commitments		
Authorised but not contracted for		7,876
Contracted but not provided for		144,673
		<u>152,549</u>

*Notes:*

1. As at 31 December 2002, banking and other facilities utilised by the affiliated companies and guaranteed by the Group amounted to approximately HK\$564 million.
2. The above amount includes borrowings from the Group. As at 31 December 2002, such borrowings amounted to approximately HK\$4,478 million and were included in amounts due from associated companies disclosed in note 14 to the accounts.

#### (ii) Specific Performance Obligations on Controlling Shareholder

In addition, PN 19 requires disclosure of loan agreements which contain covenants requiring specific performance obligations on the controlling shareholder of the Company and breach of such obligations will cause defaults in respect of loans that are significant to the operations of the Company. As at the year end, no such covenants exist in respect of any outstanding loan agreements entered into by the Company.

#### AUDITORS

The accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board



**Kuok Khoon Loong, Edward**

Chairman

3 March 2003