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## KERRY PROPERTIES LIMITED

*(Incorporated in Bermuda with limited liability)*

嘉里建設有限公司\*

### ANNOUNCEMENT

#### MADE PURSUANT TO PARAGRAPH 2 OF THE LISTING AGREEMENT

In the course of preparation of the Scheme Document for the purpose of the Privatisation Proposal, the Board has received certain information which it now announces, in accordance with paragraph 2 of the Listing Agreement, as follows:

- As a company that prepares its financial statements in accordance with Hong Kong GAAP, the KPL Group is required to adopt a new accounting policy in respect of the year ending 31 December 2003 as a result of Revised SSAP 12 issued by the Hong Kong Society of Accountants coming into effect for accounting periods commencing on or after 1 January 2003. The KPL Group has also been advised by its auditors of the requirement to adopt Revised SSAP 12 in order to comply with Hong Kong GAAP.
- Hong Kong GAAP requires the change in accounting policy resulting from the adoption of Revised SSAP 12 to be applied retrospectively. As a result of the retrospective application of Revised SSAP 12, shareholders' funds as at 31 December 2002 and profit attributable to shareholders for the year ended 31 December 2002 have been restated from approximately HK\$21.0 billion to approximately HK\$19.8 billion and from approximately HK\$660 million to approximately HK\$600 million, respectively, as described below.
- In connection with the Privatisation Proposal, the KPL Group is required by the Takeovers Code to prepare a valuation of its interests in properties and infrastructure projects for inclusion in the Scheme Document. Valuations prepared as at 30 April 2003 show an overall decrease in the values of property interests of the KPL Group. As a result of the decrease, there is a charge of approximately HK\$1,106 million to the KPL Group's unaudited consolidated profit and loss account for the four months ended 30 April 2003 as detailed below.
- This charge to the unaudited consolidated profit and loss account of the KPL Group is a non-cash item and does not have any cash flow impact on the KPL Group.

In addition, the trading environment in which the KPL Group operates has been more difficult in the first quarter of 2003 than management had expected. The principal factors affecting the KPL Group's trading environment are discussed in this announcement.

**Shareholders and potential investors of the Company are advised to exercise extreme caution when dealing in the Shares.**

## **INTRODUCTION**

In the course of preparation of the Scheme Document for the purpose of the Privatisation Proposal, the Board has received certain information which it now announces in accordance with paragraph 2 of the Listing Agreement, as set out below, together with the principal factors affecting the trading environment in which the KPL Group operates.

## **EFFECT OF THE REQUIREMENT TO ADOPT REVISED SSAP 12**

### **Requirement to adopt Revised SSAP 12**

For the financial year ending 31 December 2003, Hong Kong GAAP requires the KPL Group to adopt Revised SSAP 12. Revised SSAP 12 is applicable to all companies which prepare their accounts in accordance with Hong Kong GAAP and is applicable in respect of financial statements relating to accounting periods beginning on or after 1 January 2003. The KPL Group has also been advised by its auditors of the requirement to adopt Revised SSAP 12 in order to comply with Hong Kong GAAP.

### **Deferred taxation under Revised SSAP 12**

Under Revised SSAP 12, deferred taxation must be provided for in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities (i.e., amounts attributed to those assets and liabilities for taxation purposes) and their carrying amounts in the financial statements. In the case of the KPL Group, the principal temporary differences arise from depreciation on fixed assets, revaluations of investment properties, hotel properties, other land and buildings and tax losses carried forward.

### **Deferred taxation before adoption of Revised SSAP 12**

Prior to the adoption of Revised SSAP 12, the KPL Group's accounting policy on deferred taxation is to account for it at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset is expected to be payable or recoverable in the foreseeable future.

Accordingly, in prior accounting periods, a deferred tax liability was not required to be provided in full if the timing differences were not expected to crystallise in the foreseeable future.

### **Retrospective effect of Revised SSAP 12**

The requirement for the KPL Group to adopt Revised SSAP 12 for its current financial year ending 31 December 2003 results in a change in its accounting policy. In accordance with accounting standards in Hong Kong in respect of changes in accounting policy, the application of Revised SSAP 12 will be retrospective. As a result of the retrospective application of Revised SSAP 12, an additional provision of approximately HK\$1.2 billion has been made for the deferred tax liability as at 31 December 2002, of which approximately HK\$555 million, HK\$344 million and HK\$305 million have been charged against the investment properties revaluation reserve, retained profits and other reserves, respectively.

Profit attributable to shareholders for the year ended 31 December 2002 has been restated from approximately HK\$660 million to approximately HK\$600 million. Shareholders' funds as at 31 December 2002 have decreased from approximately HK\$21.0 billion to approximately HK\$19.8 billion.

## **EFFECT OF THE REQUIREMENT TO PREPARE PROPERTY VALUATIONS**

### **Requirement to prepare property valuations**

In connection with the Privatisation Proposal, the KPL Group is required by the Takeovers Code to prepare a valuation of its interests in properties and infrastructure projects for inclusion in the Scheme Document. Accordingly, valuations of the KPL Group's interests in properties and infrastructure projects as at 30 April 2003 have been prepared by its independent property valuers, as a result of which the KPL Group's share of values of (i) investment properties; (ii) hotel properties; and (iii) other freehold and leasehold land and buildings have decreased by approximately HK\$952 million. In the absence of sufficient revaluation reserves, following the prior year adjustments in respect of deferred taxation (described above), to offset this decrease in valuations of properties, the decrease in valuations amounting to approximately HK\$914 million has been charged to the KPL Group's unaudited consolidated profit and loss account for the four months ended 30 April 2003 in accordance with Hong Kong accounting standards.

### **Provisions in respect of certain property interests**

Furthermore, the valuations as at 30 April 2003 indicate that the following provisions in respect of the KPL Group's property interests are required:

- (1) an additional provision for stock of remaining completed properties at Constellation Cove with the KPL Group's 75% share of the additional provision amounting to approximately HK\$55 million; and
- (2) a provision for a decline in the carrying value of associated companies amounting to approximately HK\$137 million.

### **Effect of the provisions**

The effect of the above provisions is to further decrease the KPL Group's profit by approximately HK\$192 million. Together with the deficit on revaluation of properties charged to the unaudited consolidated profit and loss account of approximately HK\$914 million, the total charge to the KPL Group's unaudited consolidated profit and loss account for the four months ended 30 April 2003 amounts to approximately HK\$1,106 million. This charge to the unaudited consolidated profit and loss account of the KPL Group is a non-cash item and does not have any cash flow impact on the KPL Group.

## **OTHER FACTORS AFFECTING THE KPL GROUP**

The trading environment in which the KPL Group operates has been more difficult in the first quarter of 2003 than management had expected. The principal factors affecting the KPL Group's trading environment relate to Hong Kong's recent general economic situation, which has seen a period of deflation in Hong Kong lasting for 65 consecutive months since November 1998. The accompanying impact on confidence and investor sentiment are highlighted by some Hong Kong households having to cope with net mortgage debt (i.e., debt greater than property value).

The uncertainty in the trading environment affecting the KPL Group has been exacerbated since 31 December 2002 by the Iraqi war as well as the outbreak of the SARS virus, a new and previously unknown highly infectious disease for which a vaccine is still being worked on. Further, the rise in unemployment in Hong Kong, which currently stands at 7.8%, has been spurred on by SARS, particularly in the retail, hospitality and transport sectors.

The above factors have continued to affect consumer confidence as well as spending, and together with the continued excess of property development over demand, have together continued to exert downward pressure on the Hong Kong property market. This is reflected in the KPL Group's valuations as at 30 April 2003 which are set out above.

## **PRIVATISATION PROPOSAL**

Shareholders are reminded of the Privatisation Proposal as described in the Previous Announcements.

As required under Rule 10.4 of the Takeovers Code, the financial information contained in this announcement has been reported on in accordance with the Takeovers Code and the report has been lodged with the Executive.

The Company has also issued a joint announcement today with KHL that the Company has made an application to the Executive pursuant to Rule 8.2 of the Takeovers Code, and consent has been granted by the Executive, for a further extension of time within which to despatch the Scheme Document to Shareholders from 20 June 2003 until 30 June 2003 in order to give all the parties involved time to assess the impact of this announcement on the Privatisation Proposal. Please refer to the joint announcement of the Company and KHL dated today's date.

Shareholders and potential investors should be aware that implementation of the Privatisation Proposal is subject to the satisfaction or waiver of the conditions set out in the Previous Announcements and therefore may or may not become effective.

**Shareholders and potential investors of the Company are advised to exercise extreme caution when dealing in the Shares.**

## **GENERAL**

The Board confirms that apart from the Privatisation Proposal as announced in the Previous Announcements, there are no negotiations or agreements relating to intended acquisitions or realisations which are discloseable under paragraph 3 of the Listing Agreement, and except for matters in connection with the abovementioned, the Board is not aware of any other matter discloseable under the general obligation imposed by paragraph 2 of the Listing Agreement, which is or may be of a price sensitive nature.

## **DEFINITIONS**

The words and expressions below have the following meanings:

“Board”	the board of directors of the Company
“Company”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the Shares of which are currently listed on The Stock Exchange of Hong Kong Limited
“Constellation Cove”	a property situated at 1 Hung Lam Drive, Tai Po, New Territories, Hong Kong and developed by the KPL Group

“Executive”	the Executive Director of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong or any delegate of the Executive Director
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Hong Kong GAAP”	generally accepted accounting principles in Hong Kong
“Hong Kong Government”	the government of Hong Kong
“KHL”	Kerry Holdings Limited, a company incorporated in Hong Kong with limited liability, and the controlling shareholder of the Company
“KPL Group”	the Company and its subsidiaries
“Listing Agreement”	the listing agreement made between the Company and The Stock Exchange of Hong Kong Limited setting out the continuing obligations which the Company undertakes to comply with as a condition of listing
“PRC”	the People’s Republic of China, excluding for the purposes of this announcement the regions of Hong Kong, Macau and Taiwan
“Previous Announcements”	the joint announcements by KHL and the Company dated 23 April 2003, 30 April 2003 and 14 May 2003, respectively, in respect of the Privatisation Proposal
“Privatisation Proposal”	the proposal for the privatisation of the Company by KHL by way of a scheme of arrangement under section 99 of the Companies Act 1981 of Bermuda (as amended)
“Revised SSAP 12”	Statement of Standard Accounting Practice 12 “Income Taxes” issued by the Hong Kong Society of Accountants
“SARS”	Severe Acute Respiratory Syndrome
“Scheme Document”	a scheme document of the Company containing details of the Privatisation Proposal to be despatched to Shareholders
“Share(s)”	share(s) of HK\$1.00 each in the capital of the Company
“Shareholder(s)”	holder(s) of Shares
“Takeovers Code”	The Hong Kong Code on Takeovers and Mergers

On behalf of the board of  
**Kerry Properties Limited**  
**Chow Yin Ping, Anita**  
*Company Secretary*

Hong Kong, 13 June 2003

*The directors of the Company jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable enquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement, the omission of which would make any statement in this announcement misleading.*

\* *For identification purpose only*

“Please also refer to the published version of this announcement in South China Morning Post”