

## CHAIRMAN'S STATEMENT

### OVERVIEW

The first half of 2003 was an exceptionally difficult period for this region because of the widespread effects of the SARS crisis and the war in Iraq. The general economy was badly hit and market confidence severely affected. Despite such an environment, Mainland China accelerated its pace of economic development to a six-year high of a 9.1% growth rate in GDP. Hong Kong, on the other hand, experienced sluggish economic growth for most of 2003. However, market sentiment improved towards the end of the year with the containment of SARS and the introduction of various policies to stimulate the Special Administrative Region's economic growth, including the signing of the Closer Economic Partnership Agreement with the Mainland. With the year having ended on a more positive note, I am confident of the Mainland's continuing fast pace of development and optimistic about Hong Kong's economic recovery.

Year 2003 was also an eventful period for the Kerry Properties Group. In April 2003, its majority shareholder, Kerry Holdings Limited, put forward a proposal to privatize the Company at a premium of approximately 58% to the market price of the shares at that time. This privatization proposal, however, was rejected by the minority shareholders.

Looking ahead, I believe that the Group is well positioned for growth and foresee directing it in ways that maximize shareholder value.

### RESULTS

The Group achieved a profit attributable to shareholders for the year 2003 of HK\$395 million (2002: HK\$600 million). Revaluation deficits, provisions and deferred tax credits (described under paragraph (A) of Management Discussion and Analysis) resulted in total exceptional charges attributable to the Group of approximately HK\$429 million for the year ended 31 December 2003 (2002: HK\$260 million). However, excluding the effects of these exceptional items, total profit for the Group was HK\$824 million as compared with HK\$860 million in 2002, representing a drop of 4%. Despite the difficult operating environment experienced by the Group across its business lines, its broad-ranging investment portfolio displayed remarkable resilience and delivered stable results. During 2003, the Group had increased its recurrent income base from approximately HK\$2,423 million in 2002 to approximately HK\$2,670 million.

### DIVIDEND

The Directors have recommended payment of a final dividend of HK15 cents per share for the year ended 31 December 2003, with a scrip alternative. The final dividend is expected to be paid on 28 May 2004.

## CHAIRMAN'S STATEMENT

### PROSPECT

The future of the Group will be shaped largely by property development and investment both on the Mainland and in Hong Kong, the provision of logistics services and selective infrastructure investments. Moving forward, the Group is well positioned to benefit from China's continuing rapid economic development and the further integration of Hong Kong's economy with the Mainland's and the knock-on benefits for Hong Kong. On the Mainland, the continued expansion of the population in the major commercial cities will drive property demand in the major cities. The staging of the Olympics in Beijing in 2008 will spur further growth in the capital whilst enhancing China's global image. Meanwhile, China's surging economic growth has produced new levels of prosperity, particularly in the coastal cities, creating a fast-growing affluent sector. This burgeoning sector, now seeking higher quality products and accommodation as part of their enhanced lifestyle, is becoming trendsetters amongst China's enormous consumer base. In response, one of the Group's focuses is to concentrate on upmarket residential and mix use projects for this sector as well as for the growing expatriate communities. We shall continue to differentiate ourselves from our competitors through careful attention to design, property management as well as the provision of value added services in order to create prestigious landmark developments.

In Hong Kong, the Group will continue to focus on high-end residential developments to capitalize on the expertise it has built up in this particular niche and the scarcity of luxury residential units in the market. Turning to commercial properties, the Group is also focusing on Grade A developments in emergent areas such as Enterprise Square in Kowloon.

Another major factor influencing the Company's performance will be the extent of Hong Kong's economic recovery which will impact rental levels of the Group's investment properties and selling prices of its developments. I believe that with interest rates currently at historically low levels and no substantial increases expected during 2004, coupled with the improved sentiment in the economy, the current upswing in Hong Kong's property market should continue.

Leveraging on the Group's expertise in warehousing, the logistics division is continuing to expand into a premium full service third party logistics provider with an emphasis on Asia. This is to capitalize on the increasing demand for logistics services arising from the growth of cargo movements around Asia and to the rest of the world. The Group has invested extensively over the past four years in the division's physical infrastructure, information systems and manpower to enable it to provide high quality logistics services to its clients throughout the network. Kerry Logistics is also one of the few in its field to be granted the necessary licences to provide logistics services on the Mainland. Capitalizing on this breakthrough, it has firmly established itself as one of the country's pacesetters in logistics. The division's prospects are bright whilst entry into more Mainland markets should be easier as China opens up still further as a member of the WTO. The Group anticipates that the volume of cargo movement within China will reach staggering proportions, all of which shall require logistics handling. As China and other parts of Asia absorb still more stages of global production processes, demand for high quality end to end logistics services in Asia will be

## CHAIRMAN'S STATEMENT

even greater. The Group will continue to expand its logistics network, thereby strengthening its penetration in Asia and in particular in Mainland China. In December 2003, our logistics division had the honour of winning the Export Marketing Grand Award in the 2003 Hong Kong Awards for Services, thus confirming its position as a key player of the global logistics industry.

### SUCCESSION

During the year, I succeeded Mr Kuok Khoon Loong, Edward, as Chairman of the Board. Mr Kuok continued to act as an Executive Director of the Company until 1 March 2004 when he resigned from the Company. Mr Wong Siu Kong, formerly the other Joint Managing Director of the Company, was appointed Deputy Chairman of the Board and is now the sole Managing Director.

Dr Fung Kwok King, Victor, resigned as an Independent Non-executive Director of the Company with effect from 22 August 2003 due to his other business commitments. Subsequent to the year end, Mr Thaddeus Thomas Beczak also resigned as an Executive Director. I would like to take the opportunity to thank Mr Kuok, Dr Fung and Mr Beczak for all their efforts and contributions during their tenures as Directors of the Company. Mr Lau Ling Fai, Herald, a former partner of PricewaterhouseCoopers, was appointed as an Independent Non-executive Director in December 2003. In addition, on 1 March 2004, Mr Ma Wing Kai, William, Executive Director and Group General Manager of Kerry Logistics Network Limited, was appointed an Executive Director of the Company.

### APPRECIATION

On behalf of the Board of Directors of the Company, I would like to express my sincere appreciation to the management and the staff for their diligence, loyalty, dedication and continuing support. I am also grateful to the Directors for their wise counsel and guidance, and to our investors and strategic partners for their support and confidence.

### GROWTH

With the outlook for the world economy looking more positive than in recent years and China's continuing economic growth as it evolves into a modern, more market-oriented country, the Group is well positioned for growth over the years to come. The ongoing success of China's economic development will have a big impact on the Company's future. I remain confident that the Group will generate higher returns for shareholders as we continue with our expansion.



**Ang Keng Lam**  
*Chairman*

9 March 2004, Hong Kong