

Report of the Directors

The directors submit their report together with the audited accounts for the year ended 31 December 2001.

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, 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 and in the PRC.

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.

REPORT OF THE DIRECTORS

DONATIONS

Charitable donations made by the Group during the year amounted to HK\$150,000.

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.

CONVERTIBLE BONDS

Details of the convertible bonds of the Group are set out in note 27(c) 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.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2001 are set out in note 36 to the accounts.

ASSOCIATED COMPANIES

Particulars of the Group's associated companies as at 31 December 2001 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 2001 are set out in notes 27 and 33 to the accounts.

SIX YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last six financial years are summarised on pages 165 to 166.

REPORT OF THE DIRECTORS

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. *

Mr Paul James Cromwell BUSH#

– deceased 17 November 2001

Non-executive director

* *Independent non-executive directors*

Dr. Fung Kwok King, Victor retires by rotation in accordance with Bye-law 118 of the Company's Bye-laws and, being eligible, offers himself for re-election.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr KUOK Khoon Loong, Edward, aged 49, 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 director 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 a director of Kuok Philippine Properties, Inc., both of which are listed on the Philippine 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 55, 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. and the Beijing 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 50, 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 53, 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 over 20 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 of the Hong Kong Institute of Real Estate Administration.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Executive Directors (Continued)

Mr Thaddeus Thomas BECZAK, aged 51, 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, an executive director of Shangri-La Asia Limited, the Deputy Chairman of SCMP Group Limited (formerly known as South China Morning Post (Holdings) Limited) and a director of The Post Publishing Public Company Limited in Bangkok, Thailand. 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. While being a banker, Mr Beczak was a committee member of the Hong Kong Association of Banks and a director of the Bank of the Philippine Islands. He is the Chairman of the Stock Exchange of Hong Kong Listing Committee and a member of the Advisory Committee of the Securities and Futures Commission of Hong Kong. Mr Beczak is 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.

Independent Non-executive Directors

Dr FUNG Kwok King, Victor, aged 56, 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 Anglogold Limited, Bank of China (Hong Kong) Limited, Pacific Century CyberWorks Limited, Hysan Development Company Limited, Orient Overseas (International) Ltd, DBS Kwong On Bank Ltd, Dao Heng Bank Group Limited and Sun Hung Kai Properties Limited. From 1991 to September 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 53, 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, inter alia, the Standing Committee on Company Law Reform and the Takeovers and Mergers Panel. 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 65, has been an independent non-executive director of the Company since May 1996. He is an international advisor to Goldman Sachs (Asia) L.L.C. 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 previously the Finance Director of British Airways. Mr Moss is a Chartered Accountant and a graduate of Cambridge University in the United Kingdom.

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior Management

Mr CHEW Fook Aun, aged 39, is the Chief Financial Officer of the Company. He is a director of EDSA Properties Holdings Inc., which is listed on the Philippine Stock Exchange. He is also a director of Asia Airfreight Terminal Company Limited, Chiwan Container Terminal Co., Ltd (formerly known as Shenzhen Kaifeng Terminal Co., Ltd), Shangri-La Plaza Corporation and Jacksons Landing Development Pty. Limited. Prior to joining Kerry Holdings Limited in January 1995 as corporate finance manager, he was a senior manager with Ernst & Young, an international accounting firm 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 trained and qualified as a Chartered Accountant with Ernst & Whinney in 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 a Member of the Financial Management 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 40, 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.

Company Secretary

Ms CHOW Yin Ping, Anita, aged 35, 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.

REPORT OF THE DIRECTORS

PARTICULARS OF SHARES HELD BY DIRECTORS, CHIEF EXECUTIVES AND ASSOCIATES

As at 31 December 2001, the 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 recorded in the register required to be kept under Section 29 of the SDI Ordinance were as follows:

(i) The Company

<u>Name of director</u>	<u>Number of ordinary shares</u>	<u>Notes</u>
Mr KUOK Khoon Loong, Edward	857,704	1
Mr ANG Keng Lam	511,389	2
Mr WONG Siu Kong	2,000	1
Mr HO Shut Kan	Nil	
Mr Thaddeus Thomas BECZAK	100,000	3
Dr FUNG Kwok King, Victor	Nil	
Mrs LEE Pui Ling, Angelina	Nil	
Mr Christopher Roger MOSS, O.B.E.	Nil	

Notes:

1. The relevant director has deemed interest in these shares held through a discretionary trust.
2. This represents personal interests in 2,513 shares held by the relevant director and a deemed interest in 508,876 shares held through a discretionary trust.
3. The relevant director has personal interests in these shares.

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

(ii) Associated Corporations

The following Directors have interests in Associated Corporations as listed below:

Kerry Group Limited

Name of director	Number of ordinary shares	Notes
Mr KUOK Khoon Loong, Edward	37,894,101	1
Mr ANG Keng Lam	12,050,000	1
Mr WONG Siu Kong	2,754,300	1
Mr HO Shut Kan	165,000	2
Mr Thaddeus Thomas BECZAK	200,000	2

Shangri-La International Hotels (Seoul) Limited (in members' voluntary liquidation)

Name of director	Number of ordinary shares	Notes
Mr KUOK Khoon Loong, Edward	4,300	2

Notes:

1. The relevant director has deemed interest(s) in these shares held through discretionary trust(s).
2. This represents personal interest(s) held by the relevant director(s).

Save as aforesaid, as at 31 December 2001, none of the directors had any other interests in shares in or debentures of the Company or any of its Associated Corporations 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 (the "Share Option Scheme") of the Company approved by the shareholders of the Company on 27 March 1997, following the change in the Company's issued share capital in May 2001, 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 1 August 2001:

Date of grant	Exercise price per share before adjustment	Exercise price per share after adjustment	Additional number of option shares granted to the Directors for the adjustment
11/04/1997	HK\$15.77	HK\$15.50	110,181
27/11/1999	HK\$10.19	HK\$10.01	44,841
01/06/2000	HK\$7.08	HK\$6.96	52,555
02/03/2001	HK\$12.23	HK\$12.03	1,662

As at 31 December 2001, the number of outstanding options granted by the Company under the 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 as follows:

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(i) The Company (Continued)

Name of director	Date of grant	Tranche	Exercise period	Number of option shares of the Company				Exercise price
				At 1 January 2001	Granted on 2 March 2001	Adjustment		
						on 1 August 2001	At 31 December 2001	
Mr KUOK Khoon Loong, Edward	11/04/1997	N/A	11/04/1999- 26/03/2007	2,774,254	N/A	48,325	2,822,579	HK\$15.50
	27/11/1999	I	27/05/2000- 26/03/2007	405,495	N/A	7,292	412,787	HK\$10.01
		II	27/05/2001- 26/03/2007	405,496	N/A	7,291	412,787 825,574	HK\$10.01
	01/06/2000	I	01/06/2001- 31/05/2010	331,000	N/A	6,000	337,000	HK\$6.96
		II	01/06/2002- 31/05/2010	331,000	N/A	6,000	337,000	HK\$6.96
		III	01/06/2003- 31/05/2010	330,457	N/A	5,111	335,568 1,009,568	HK\$6.96
							<u>4,657,721</u>	

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(i) The Company (Continued)

Name of director	Date of grant	Tranche	Exercise period	Number of option shares of the Company				Exercise price
				Adjustment				
				At 1 January 2001	Granted on 2 March 2001	on 1 August 2001	At 31 December 2001	
Mr ANG Keng Lam	11/04/1997	N/A	11/04/1999-26/03/2007	1,664,552	N/A	28,995	1,693,547	HK\$15.50
	27/11/1999	I	27/05/2000-26/03/2007	405,495	N/A	7,292	412,787	HK\$10.01
		II	27/05/2001-26/03/2007	405,496	N/A	7,291	412,787	HK\$10.01
							825,574	
	01/06/2000	I	01/06/2001-31/05/2010	331,000	N/A	6,000	337,000	HK\$6.96
		II	01/06/2002-31/05/2010	331,000	N/A	6,000	337,000	HK\$6.96
		III	01/06/2003-31/05/2010	330,457	N/A	5,111	335,568	HK\$6.96
						1,009,568		
							3,528,689	
Mr WONG Siu Kong	11/04/1997	N/A	11/04/1999-26/03/2007	1,109,701	N/A	19,330	1,129,031	HK\$15.50
	27/11/1999	I	27/05/2000-26/03/2007	202,747	N/A	3,646	206,393	HK\$10.01
		II	27/05/2001-26/03/2007	202,748	N/A	3,645	206,393	HK\$10.01
							412,786	
	01/06/2000	I	01/06/2001-31/05/2010	169,000	N/A	3,000	172,000	HK\$6.96
		II	01/06/2002-31/05/2010	169,000	N/A	3,000	172,000	HK\$6.96
		III	01/06/2003-31/05/2010	168,355	N/A	2,730	171,085	HK\$6.96
						515,085		
							2,056,902	

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(i) The Company (Continued)

Name of director	Date of grant	Tranche	Exercise period	Number of option shares of the Company				Exercise price
				Adjustment				
				At 1 January 2001	Granted on 2 March 2001	on 1 August 2001	At 31 December 2001	
Mr HO Shut Kan	11/04/1997	N/A	11/04/1999-26/03/2007	776,791	N/A	13,531	790,322	HK\$15.50
	27/11/1999	I	27/05/2000-26/03/2007	131,786	N/A	2,369	134,155	HK\$10.01
		II	27/05/2001-26/03/2007	131,786	N/A	2,370	134,156	HK\$10.01
							268,311	
	01/06/2000	I	01/06/2001-31/05/2010	119,000	N/A	2,000	121,000	HK\$6.96
		II	01/06/2002-31/05/2010	119,000	N/A	2,000	121,000	HK\$6.96
		III	01/06/2003-31/05/2010	116,449	N/A	2,111	118,560	HK\$6.96
							360,560	
	02/03/2001	I	02/03/2002-01/03/2011	N/A	34,000	N/A	34,000	HK\$12.03
		II	02/03/2003-01/03/2011	N/A	34,000	N/A	34,000	HK\$12.03
		III	02/03/2004-01/03/2011	N/A	32,000	1,662	33,662	HK\$12.03
							101,662	
							<u>1,520,855</u>	

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(i) The Company (Continued)

Name of director	Date of grant	Tranche	Exercise period	Number of option shares of the Company				Exercise price
				Adjustment				
				At 1 January 2001	Granted on 2 March 2001	on 1 August 2001	At 31 December 2001	
Mr Thaddeus Thomas BECZAK	27/11/1999	I	27/05/2000- 26/03/2007	101,373	N/A	1,823	103,196	HK\$10.01
		II	27/05/2001- 26/03/2007	101,374	N/A	1,822	103,196	HK\$10.01
							206,392	
	01/06/2000	I	01/06/2001- 31/05/2010	68,000	N/A	1,000	69,000	HK\$6.96
		II	01/06/2002- 31/05/2010	68,000	N/A	1,000	69,000	HK\$6.96
		III	01/06/2003- 31/05/2010	66,542	N/A	1,492	68,034	HK\$6.96
							206,034	
							412,426	

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(ii) Associated Corporations

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

Apart from the aforesaid, at no time during the year ended 31 December 2001 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 was granted any right to subscribe for any shares in, or debentures of, the Company or any of its Associated Corporations.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2001, as far as the Directors are aware, the interests of the substantial shareholders in the shares of the Company were as follows:

<u>Name of substantial shareholder</u>	<u>Number of ordinary shares</u>
Kerry Group Limited	729,733,406 <i>(Note)</i>
Kerry Holdings Limited	729,733,406 <i>(Note)</i>

Note: 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.

Apart from the aforesaid, as at 31 December 2001, 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

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

The Share Option Scheme is 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 maximum number of shares in the Company (the "Shares") in respect of which options may be granted (including Shares in respect of which options, whether exercised or still outstanding, have already been granted) under the Share Option Scheme (or under any other share option scheme of the Company pursuant to which options may from time to time be granted to those in the service of the Company or any of its subsidiaries) shall be such number of Shares as shall represent 10 per cent. of the Shares in issue from time to time (excluding the number of Shares which have been duly allotted and issued upon the exercise of options granted pursuant to the Share Option Scheme) (the "Maximum Number"). As at the date of the annual report, a total of 27,598,269 Shares (representing approximately 2.39% of the existing issued share capital of the Company) are available for issue under the Share Option Scheme. The maximum entitlement of each participant under the Share Option Scheme is 25 per cent. of the Maximum Number at the relevant time.

SHARE OPTIONS (CONTINUED)

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 Share Option Scheme, the Board may 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 Share Option Scheme as it thinks 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) 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 will vest. The amount payable on acceptance of an option is HK\$1. The full amount of the subscription price for the Shares must be paid upon exercise of an option.

The subscription price for any particular option shall be such price as the Board of Directors of the Company may in its absolute discretion determine but shall not be less than whichever is the higher of (a) the nominal value of a Share; and (b) 90 per cent. of the average of the closing prices of the Shares as stated in the Stock Exchange of Hong Kong's daily quotation sheets for the five trading days immediately preceding the date of offer of an option on which there were dealings in Shares on the Stock Exchange of Hong Kong.

The Share Option Scheme will expire on 26 March 2007.

The Stock Exchange of Hong Kong amended the requirements for share option schemes under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The new requirements have come into effect from 1 September 2001.

As a transitional arrangement applicable to the Share Option Scheme, the Company must comply with the new requirements of the Listing Rules. These new requirements make some of the provisions of the existing Share Option Scheme no longer applicable. The Board of the Company approved a new option scheme which complies with the new requirements of the Listing Rules at the board meeting on 4 March 2002. This new option scheme will be tabled for shareholders' approval at a Special General Meeting to be convened accordingly.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

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

Category	Number of Option Shares held at 01/01/2001	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 31/12/2001	Exercise Price (HK\$)	Grant Date	Exercise Period
Directors ²	6,325,298	-	110,181	-	-	6,435,479	15.50	11/04/1997	11/04/1999 - 26/03/2007
	1,246,896 ³	-	22,422	-	-	1,269,318	10.01	27/11/1999	27/05/2000 - 26/03/2007
	1,246,900 ³	-	22,419	-	-	1,269,319	10.01	27/11/1999	27/05/2001 - 26/03/2007
	1,018,000 ⁴	-	18,000	-	-	1,036,000	6.96	01/06/2000	01/06/2001 - 31/05/2010
	1,018,000 ⁴	-	18,000	-	-	1,036,000	6.96	01/06/2000	01/06/2002 - 31/05/2010
	1,012,260 ⁴	-	16,555	-	-	1,028,815	6.96	01/06/2000	01/06/2003 - 31/05/2010
	-	34,000 ⁵	-	-	-	34,000	12.03	02/03/2001	02/03/2002 - 01/03/2011
	-	34,000 ⁵	-	-	-	34,000	12.03	02/03/2001	02/03/2003 - 01/03/2011
	-	32,000 ⁵	1,662	-	-	33,662	12.03	02/03/2001	02/03/2004 - 01/03/2011
Continuous Contract Employees	4,849,383	-	84,469	-	-	4,933,852	15.50	11/04/1997	11/04/1999 - 26/03/2007
	1,677,722 ³	-	30,151	-	-	1,707,873	10.01	27/11/1999	27/05/2000 - 26/03/2007
	1,677,736 ³	-	30,165	-	-	1,707,901	10.01	27/11/1999	27/05/2001 - 26/03/2007
	1,850,000 ⁴	-	26,000	-	(22,000)	1,854,000	6.96	01/06/2000	01/06/2001 - 31/05/2010
	1,850,000 ⁴	-	26,000	-	(22,000)	1,854,000	6.96	01/06/2000	01/06/2002 - 31/05/2010
	1,720,000 ⁴	-	40,889	-	(17,285)	1,743,604	6.96	01/06/2000	01/06/2003 - 31/05/2010
	-	390,000 ⁵	6,000	-	-	396,000	12.03	02/03/2001	02/03/2002 - 01/03/2011
	-	390,000 ⁵	6,000	-	-	396,000	12.03	02/03/2001	02/03/2003 - 01/03/2011
	-	360,000 ⁵	6,948	-	-	366,948	12.03	02/03/2001	02/03/2004 - 01/03/2011
Others	554,850	-	9,665	-	-	564,515	15.50	11/04/1997	11/04/1999 - 26/03/2007
Total	26,047,045	1,240,000	475,526	-	(61,285)	27,701,286			

SHARE OPTIONS (CONTINUED)

Notes:

1. At the date before the options were granted, i.e. 1 March 2001, the value of the options granted to the respective parties is listed below based on the market value of HK\$12.30 per share:

	HK\$
Directors:	1,230,000
Continuous contract employees:	14,022,000
Others:	<u>0</u>
Total:	<u>15,252,000</u>

2. For the breakdown of the "Directors" category, please refer to the section headed "Directors' Rights to Acquire Shares or Debentures" in this report.
3. The options granted on 27 November 1999 are exercisable in 2 tranches.
4. The options granted on 1 June 2000 are exercisable in 3 tranches.
5. The options granted on 2 March 2001 are exercisable in 3 tranches.
6. 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:

	2001
Stock volatility (assuming 260 trading days per year)	49.81%
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%

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 share options granted during 2001 was HK\$4.89 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 a director of Kuok Philippine Properties, Inc. ("KPPI") which businesses consist of property investment and development and real estate management in the Philippines. In this regard, he is regarded to be interested in the Excluded Businesses of the Group. Mr. Thaddeus Thomas Beczak resigned as a director of KPPI on 17 August 2001. KPPI is listed on the Philippine Stock Exchange.

DIRECTORS' INTEREST IN COMPETING BUSINESS (CONTINUED)

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

Details of the connected transactions of the Group during the year are set out below:

- (i) A sale and purchase agreement dated 5 June 2001 made between Kerry Logistics Services (Australia) Limited ("KLSA"), an indirect wholly-owned subsidiary of the Company and Kerry Holdings Limited ("KHL"), a substantial shareholder of the Company, pursuant to which KLSA agreed to acquire from KHL 100 shares of par value US\$1 each (representing its existing entire issued share capital) in Longstone Holdings Limited ("Longstone"), the holding company of the Charlick group of companies comprising Charlick Operations Pty. Limited (now known as Kerry Logistics Holdings (Australia) Pty Ltd), MEFS Transport Pty. Ltd. (now known as Kerry Freight (Australia) Pty Ltd), Charlick Trading Pty. Limited (now known as Kerry Logistics (Australia) Pty Ltd) and Charlicks New Guinea Ltd., together with an interest-free shareholder's loan of US\$3,000,000 due by Longstone to KHL, at a total consideration of A\$6,150,775.
- (ii) An agreement dated 12 July 2001 made between, amongst others, Burgo Inc ("Burgo"), Kerry Properties (H.K.) Limited ("KPHKL"), Kerry Estate Management Limited ("KEML"), Sino Land Company Limited ("Sino"), Campbell Construction Company Limited ("CCCL"), Sing-Ho Finance Company Limited ("Sing-Ho"), Elite Chance Limited ("Elite"), E. Lite (Choi's) Holdings Limited and King Chance Development Limited, pursuant to which each of Burgo, KPHKL, KEML, Sino and CCCL agreed to sell their respective portions of the shares, being the entire issued share capital of Sea Lord Trading Company Limited ("Sea Lord"), Coastline Company Limited ("Coastline") and Energy Plaza Management Company Limited ("Energy Management"), and each of KPHKL, Sino, CCCL and Sing-Ho agreed to sell their respective portions of the outstanding loans owed by Sea Lord, Coastline and Energy Management, to Elite for an aggregate consideration of approximately HK\$402,528,000.

CONNECTED TRANSACTIONS (CONTINUED)

The Company holds an indirect equity interest of 55.5% each in Sea Lord through KPHKL and Burgo, in Coastline through KPHKL and in Energy Management through KEML. Both KPHKL and Burgo are indirect wholly-owned subsidiaries of the Company. KEML is a direct wholly-owned subsidiary of the Company. Sino holds a direct and an indirect (through its wholly-owned subsidiary, CCCL) aggregate equity interest of 44.5% each in Sea Lord, Coastline and Energy Management. Sino is therefore a substantial shareholder and also a controlling shareholder of each of Sea Lord, Coastline and Energy Management. Accordingly, Sino is a connected person of the Company as defined under the Listing Rules.

- (iii) The Group has made various advances to a 75% owned subsidiary (the "Developer") pursuant to an agreement (the "Agreement") with the minority shareholder which holds the remaining 25% interest in the Developer (the "Minority Shareholder"). 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.

The Minority Shareholder is connected to the Group by virtue only of its substantial shareholding in the Developer. As at 31 December 2001, the advances outstanding amounted to approximately HK\$255,474,000 (2000: HK\$181,774,000) and interest charged during the year ended 31 December 2001 amounted to approximately HK\$19,844,000 (2000: HK\$18,351,000).

All the above connected transactions are disclosed in accordance with Chapter 14 of the Listing Rules.

As disclosed by SCMP Group Limited (formerly known as South China Morning Post (Holdings) Limited) ("SCMP Group"), which is a connected person (as defined in the Listing Rules) of the Company by virtue of it being a member of the Kuok Group (as defined in the Company's prospectus dated 23 July 1996), 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.

CONNECTED TRANSACTIONS (CONTINUED)

At the year end date, 4 Logistics Agreements (including one 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 2001 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.

As disclosed by SCMP Group on 15 August 2001, Kerry Distribution (Hong Kong) Limited ("KD-Hong Kong"), an indirect wholly-owned subsidiary of the Company, entered into a local transportation services agreement (the "Services Agreement") for one year commencing on 15 August 2001 and ending on 14 August 2002 with South China Morning Post Publishers Limited ("SCMP Publishers"), a wholly-owned subsidiary of SCMP Group regarding the provision of transportation and distribution services related to SCMP Publishers' newspaper business by KD-Hong Kong to SCMP Publishers at a service charge of HK\$594,000 per month. The provision of transportation and distribution services is within the ordinary course of business of KD-Hong Kong and the Services Agreement was reached on an arm's length basis.

The entering into of the Services Agreement constituted a connected transaction of the Company under the Listing Rules. However, for the purpose of Rule 14.25(1) of the Listing Rules, the aggregate service charges payable by SCMP Publishers to KD-Hong Kong under the Services Agreement was less than 0.03% of the book value of the net tangible assets of the Company at the time when the Services Agreement was entered into. Therefore, the Company is not required to make any disclosure under the Listing Rules. In the interest of transparency, the Company discloses the above transaction for the information of the Company's shareholders.

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.

(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 2001 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	1,306,699
Other borrowings including loans from shareholders	2	4,249,841
		<u>5,556,540</u>
The Group's share of capital commitments		
Authorised but not contracted for		11,637
Contracted but not provided for		313,907
		<u>325,544</u>

Notes:

1. As at 31 December 2001, banking and other facilities utilised by the affiliated companies and guaranteed by the Group amounted to approximately HK\$671 million.
2. The above amount includes borrowings from the Group. As at 31 December 2001, such borrowings amounted to approximately HK\$4,090 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
4 March 2002