

PRC Property Division

The performance of the Group's PRC investment portfolio has been good and it continues to contribute steadily to the Group's earnings. Sales and leasing in all the locations have been in accordance with expectations and the Group is working to explore all possible opportunities to further add and improve its portfolio. With the PRC's accession into the World Trade Organisation ("WTO") and the forthcoming 2008 Olympics in Beijing, the Group is confident of its investments in the PRC and will continue to focus on prime developments in the PRC's major cities, such as Beijing, Shanghai and Shenzhen.



Central Residences Tower 5, Shanghai, PRC

SALES OF PROPERTIES

Sales of properties in the PRC amounted to HK\$401 million in 2002 (2001: HK\$679 million) primarily due to the continuing sales of Central Residences during the year.

Central Residences is located at Hua Shan Road in Shanghai, which is considered to be one of the most prestigious residential areas in Shanghai. The property enjoys the convenience of good transportation facilities within the city with a subway

station and access to major highways in close proximity. Construction of the remaining two towers, Towers 3 and 5 of Phase 1, was completed during the year and buyers have already moved in. As at 31 December 2002, Towers 3 and 5 were approximately 92% and 71% sold, respectively.

After its relaunched in 2001, sales of residential units in Kerry Everbright City Tower 2 have continued in 2002 and as at 31 December 2002, approximately 96% of Tower 2 in the Phase 1 development had been sold. The Group will continue with the sales of the residential units in this property in the coming year.

Construction of the Phase 3B development in Shenzhen Regency Park commenced during the year after all villas in Phase 3A were sold. Consisting of 7 deluxe houses with 3 different individual designs, the Phase 3B development aims at providing buyers with an elegant yet relaxed living environment. It will include 2 twin houses each measuring 385 square metres, 3 detached garden houses each measuring 688 square metres and 2 deluxe houses each measuring 798 square metres. Each of the detached garden and deluxe houses has its own swimming pool and garage. One of the seven houses is already presold as at the year end.

On 30 August 2002, the Group sold its residential and commercial site at Suzhou Gucheng District Lot B4 in Suzhou to an independent third party for a total consideration of approximately RMB26.6 million. The sale was completed on 6 October 2002.

INVESTMENT PROPERTIES

Gross rental revenue from investment properties in 2002 amounted to HK\$456 million (2001: HK\$462 million).

Leasing activities in Beijing Kerry Centre are progressing well as a result of the strong PRC economy and the superb location, top quality design and professional estate management of the property. As at 31 December 2002, the office, residential and commercial podium of Beijing Kerry Centre achieved an occupancy rate of 91%, 80% and 97%, respectively.



Beijing Kerry Centre Hotel, Beijing, PRC



Shanghai Kerry Centre, Shanghai, PRC

Beijing Kerry Centre Hotel has also performed satisfactorily during the year with an average occupancy rate of approximately 80% and an average transient rate of approximately US\$114 per night. The Group is expected to benefit from the continued high demand in the market as a result of the PRC's accession into the WTO and the 2008 Olympics to be held in Beijing, both of which will draw an increasing number of multinational companies into the country. Increased business opportunities are therefore expected which in turn will benefit the Division as a whole.

Despite the highly competitive environment in Shanghai, occupancy in Shanghai Kerry Centre remains high. At the end of December 2002, the office tower and commercial podium were approximately 97% and 94% leased, respectively. The service apartments, Kerry Residences, was also 71% leased as at the year end.

As at 31 December 2002, Tower 1 of Kerry Everbright City was 80% leased. The performance of Pacific Department Store has been satisfactory and has successfully brought in shoppers to the area. The commercial podium remains 100% leased.

The marketing activities of Shenzhen Kerry Centre are continuing and approximately 59% and 39% of the office space has been leased and sold, respectively, as at 31 December 2002. The occupancy rate of the commercial podium now stands at 99%.



Shenzhen Kerry Centre, Shenzhen, PRC

PROPERTIES UNDER DEVELOPMENT

The development of the Cao Jia Yan site in Shanghai, which is intended to be Phase 2 of the Central Residences project, is on schedule. Located adjacent to Phase 1 of Central Residences in Hua Shan Road, the Group is confident that when completed, the development will be very well received by the public. Site handover is currently in progress and conceptual planning and designs are currently awaiting approval from the government authorities.

The land use contract for No. 1288 Yan An Zhong Road was signed on 6 February 2002. The development is located south-west of Shanghai Kerry Centre in the Jingan district and has a total buildable area of approximately 44,700 square metres. Project planning work is currently in progress with the intention to encompass the adjacent Shanghai Kerry Centre into the whole development.



Arcadia Court, Futian, Shenzhen, PRC

In October 2001, the Group entered into a joint venture called Beijing BHL Logistics Limited to acquire a piece of land at Shibaidian in Chaoyang District, Beijing. The Group has a 20% interest in the joint venture. The joint venture company will perform all necessary work for the relocation and resettlement of the current occupiers of the land which is currently in progress. After completion, the land will be parceled out to individual companies to be formed for the development of the land. The project occupies a total site area of approximately 3.7 million square metres. The investment in the joint venture company is estimated to be approximately RMB1.5 billion and as at 31 December 2002, US\$4,000,000 has been injected into the company as part of the Group's 20% share of the share capital.

Due to the strong property market in Shenzhen and the city's high average income, the Group has developed Arcadia Court in Futian to meet the increasing demand for quality housing in the area. Internal sales began in late December 2002 and was very well received with approximately 11% of the total units available being presold at the year end. Arcadia Court is located east of the central district in Shenzhen and covers a site of approximately 33,600 square metres with a buildable gross floor area of approximately 90,000 square



Residential development at Fuzhou, PRC

metres. The project consists of 8 residential towers offering a total of 532 units ranging from 2 bedroom apartment units of 87 square metres to deluxe penthouses of 500 square metres. An exclusive clubhouse with accompanying facilities is also available with over 65% of the site area being covered with a wide expanse of greenery. Public presales of the project is expected in the near future and construction of the project is expected to be completed in the first quarter of 2004.

REVIEW OF OPERATIONS

During the year, the Group acquired Shenzhen Futian Central District Lot No. 7-3 from the Shenzhen City Planning and Land Resources Bureau for a total consideration of approximately HK\$177 million or an accommodation value of approximately HK\$2,350 per square metre. The project occupies a site of 10,013 square metres with a buildable area of approximately 75,000 square metres and will be developed as an office project for lease and for sale. Total development cost of the project is estimated to be approximately HK\$774 million.

The Yu Quan Hua Yuan project in Fuzhou is progressing well with superstructure work currently in progress. The project is intended to be a residential development with ancillary retail shops.

Revenue from PRC properties is expected to continue to be strong in future years due to the improving economic outlook and the entry of the PRC into the WTO. The strategic location and the quality of the Group's properties in the PRC and its excellent professional building management services will also help to further strengthen the recurring income base.

The Group's total property portfolio in the PRC is approximately 17.5 million square feet. The gross asset value of the Group's properties in the PRC was approximately HK\$6,632 million (2001: HK\$6,617 million) as at 31 December 2002.