

> REPORT OF THE DIRECTORS

The directors submit their report together with the audited accounts for the year ended 31 December 2003.

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 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 94.

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\$212,000.

REPORT OF THE DIRECTORS

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 55 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.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2003 are set out in note 36 to the accounts.

ASSOCIATED COMPANIES

Particulars of the Group's associated companies as at 31 December 2003 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 2003 are set out in notes 27 and 33 to the accounts.

EIGHT YEAR FINANCIAL SUMMARY

The results, assets and liabilities of the Group for the last eight financial years are summarised on page 184.

> REPORT OF THE DIRECTORS

DIRECTORS

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

Mr ANG Keng Lam (Chairman)

Mr WONG Siu Kong (Deputy Chairman and Managing Director)

Mr HO Shut Kan

Mr MA Wing Kai, William (appointed on 1 March 2004)

Mr KUOK Khoon Loong, Edward (resigned on 1 March 2004)

Mr Thaddeus Thomas BECZAK (resigned on 12 January 2004)

Mr LAU Ling Fai, Herald* (appointed on 1 December 2003)

Mrs LEE Pui Ling, Angelina*

Mr Christopher Roger MOSS, O.B.E.*

Dr FUNG Kwok King, Victor* (resigned on 22 August 2003)

* *Independent non-executive directors*

Messrs Ma Wing Kai, William and Lau Ling Fai, Herald retire in accordance with Bye-law 114 of the Company's Bye-laws and Mr Christopher Roger Moss, O.B.E. retires by rotation in accordance with Bye-law 118 of the Company's Bye-laws. All retiring directors, being eligible, offer themselves for re-election.

On 1 August 2003, Mr Kuok Khoon Loong, Edward relinquished his position as the Chairman of the Board. Mr Kuok continued to act as an Executive Director of the Company until 1 March 2004 when he resigned as an Executive Director of the Company.

The Board elected Mr Ang Keng Lam, the former Deputy Chairman of the Board and a Joint Managing Director of the Company, to be the Chairman of the Board with effect from 1 August 2003. Mr Wong Siu Kong, formerly the other Joint Managing Director of the Company, has also been appointed as the Deputy Chairman of the Board effective the same date. Mr Wong continues to act as the Managing Director of the Company.

Dr Fung Kwok King, Victor resigned as an Independent Non-executive Director of the Company with effect from 22 August 2003 due to other business commitments. Subsequent to the year end, Mr Thaddeus Thomas Beczak also resigned as an Executive Director of the Company with effect from 12 January 2004. The Board would like to take this opportunity to record a special note of thanks and appreciation to Mr Kuok, Dr Fung and Mr Beczak for all their efforts and contributions during their tenures as Directors of the Company.

REPORT OF THE DIRECTORS

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr ANG Keng Lam, aged 57, is the Chairman of the Board. Prior to his election as the Chairman of the Board on 1 August 2003, Mr Ang was the Deputy Chairman of the Board and the Joint Managing Director of the Company from 9 August 1999 to 31 July 2003 and from 9 May 1996 to 31 July 2003, respectively. Mr Ang is also a director of Kerry Holdings Limited, the immediate holding company of the Company. In addition, Mr Ang is an executive director of China World Trade Center Company Ltd. which is listed on the Shanghai Stock Exchange and a non-executive director of Allgreen Properties Limited which is listed on the Singapore Stock Exchange. He is also a member of the National Committee of the C.P.P.C.C. 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 52, is the Deputy Chairman of the Board and the Managing Director of the Company. Mr Wong has been an executive director of the Company since May 1996. Prior to his election as the Deputy Chairman of the Board and the Managing Director of the Company on 1 August 2003, he was the Joint Managing Director of the Company from 30 June 1999 to 31 July 2003. Mr Wong is a director of Kerry Holdings Limited, the immediate holding company of the Company and a director of China World Trade Center Company Ltd. which is listed on the Shanghai Stock Exchange. In addition, Mr Wong is the Managing Director of Hong Kong Shanghai Development Co Ltd. and the chairman of a number of the Group's companies in the PRC. He joined the Kuok Group in 1991 with responsibilities for the Group's developments in Shanghai, Shenzhen, etc in the PRC. He was educated in the PRC.

Mr HO Shut Kan, aged 55, has been an executive director of the Company since May 1998. Mr Ho is an executive director of Kerry Properties (H.K.) Limited, the principal Hong Kong property company of the Group. He is also a director of Western Harbour Tunnel Company Limited and EDSA Properties Holdings Inc. which is listed on the Philippines Stock Exchange. He is responsible for the Group's Hong Kong residential and commercial investments and property developments.

> REPORT OF THE DIRECTORS

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Executive Directors (Continued)

Mr MA Wing Kai, William, aged 42, has been an executive director of the Company since 1 March 2004. Mr Ma is an Executive Director and the Group General Manager of Kerry Logistics Network Limited, the divisional holding company of the logistics, freight and warehouse businesses of the Group. He 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 of the Group 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.

Independent Non-executive Directors

Mr LAU Ling Fai, Herald, aged 63, has been an independent non-executive director of the Company since December 2003. Mr Lau has been practising as a certified public accountant in Hong Kong for over 30 years and has extensive experience in auditing, finance, taxation and management. He was a partner in PricewaterhouseCoopers, Hong Kong until his retirement on 30 June 2001. He is an independent non-executive director of Fairwood Holdings Limited. Mr Lau is a Fellow of each of The Institute of Chartered Accountants in England and Wales and Hong Kong Society of Accountants.

Mrs LEE Pui Ling, Angelina, aged 55, has been an independent non-executive director of the Company since May 1996. Mrs Lee 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 67, has been an independent non-executive director of the Company since May 1996. Mr Moss retired as the Finance Director of the Mass Transit Railway Corporation, which position he held from 1984 until his retirement in 1996. Then, 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.

REPORT OF THE DIRECTORS

BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT (CONTINUED)

Senior Management

Mr CHEW Fook Aun, aged 41, is the Chief Financial Officer of the Company. Mr Chew 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 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, Mr Chew 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. Mr Chew 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 Hong Kong Society of Accountants and is also a Council Member of Hong Kong Society of Accountants. Mr Chew also serves as the Secretary to the Audit and Remuneration Committees of the Board of the Company.

Company Secretary

Ms CHOW Yin Ping, Anita, aged 37, has been the Company Secretary of the Company since May 1996. Ms Chow joined the Kerry Group in 1991. She 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

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2003, the interests of the Directors in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) (the "Associated Corporations") as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

(i) The Company

Name of Director	Number of ordinary shares				Number of underlying ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to total number of ordinary shares in issue*
	Personal interests	Family interests	Corporate interests	Other interests			
Mr ANG Keng Lam	2,585 ¹	-	-	523,733 ²	4,639,858 ³	5,166,176	0.43
Mr WONG Siu Kong	24,000 ¹	-	-	2,000 ²	2,779,364 ³	2,805,364	0.24
Mr HO Shut Kan	-	-	-	-	1,265,985 ³	1,265,985	0.11
Mr KUOK Khoon Loong, Edward ⁴	190,000 ¹	-	857,704 ⁴	-	5,297,266 ³	6,344,970	0.53
Mr Thaddeus Thomas BECZAK ⁵	426,422 ¹	-	-	101,465 ⁵	-	527,887	0.04
Mr LAU Ling Fai, Herald	-	-	-	-	-	-	-
Mrs LEE Pui Ling, Angelina	-	-	-	-	-	-	-
Mr Christopher Roger MOSS, O.B.E.	-	-	-	-	-	-	-

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

(ii) Associated Corporations

Name of Associated Corporation	Name of Director	Number of ordinary shares				Number of ordinary shares held under equity derivatives	Total	Percentage of aggregate interests to total number of ordinary shares in issue
		Personal interests	Family interests	Corporate interests	Other interests			
EDSA Properties Holdings Inc.	Mr HO Shut Kan	1,570 ¹	-	-	-	-	1,570 [#]	0.00
	Mr KUOK Khoon Loong, Edward ^Δ	1,570 ¹	-	-	-	-	1,570 [#]	0.00
Kerry Group Limited	Mr ANG Keng Lam	-	7,050,000 ⁶	-	6,500,000 ²	6,000,000 ⁷	19,550,000	1.34
	Mr WONG Siu Kong	-	-	4,254,300 ⁴	-	5,000,000 ⁷	9,254,300	0.63
	Mr HO Shut Kan	315,000 ¹	-	-	-	1,000,000 ⁷	1,315,000	0.09
	Mr KUOK Khoon Loong, Edward ^Δ	-	-	29,894,101 ⁴	-	10,000,000 ⁷	39,894,101	2.73
	Mr Thaddeus Thomas BECZAK ^Δ	-	400,000 ⁶	-	-	5,000,000 ⁷	5,400,000	0.37
Rennon Limited	Mr KUOK Khoon Loong, Edward ^Δ	-	-	133 ⁴	-	-	133 [#]	1.33

Notes:

- This represents interests held by the relevant director as beneficial owner.
 - This represents interests held by the relevant director through a discretionary trust of which the relevant director is a beneficiary.
 - This represents interests in options held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the options granted by the Company under the 1997 Share Option Scheme, details of which are set out in the section headed "Share Options" of this report.
 - This represents interests held by the relevant director through his controlled corporation(s).
 - This represents interests held by the relevant director and his spouse jointly.
 - This represents interests held by the relevant director's spouse.
 - This represents interests in the option held by the relevant director as a beneficial owner to subscribe for the relevant underlying ordinary shares in respect of the option granted by Kerry Group Limited, details of which are set out in the section headed "Directors' Rights to Acquire Shares or Debentures" below.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2003 (i.e. 1,191,526,727 ordinary shares).

^Δ The relevant director resigned as an Executive Director of the Company subsequent to the year end.

[#] The relevant notification was filed under the repealed Securities (Disclosure of Interests) Ordinance.

> REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

All the interests disclosed in sections (i) and (ii) above represent long positions in the shares of the Company or the Associated Corporations.

Save as aforesaid, as at 31 December 2003, none of the Directors had any other interests or short positions in the shares, underlying shares 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 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

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 the 1997 Share Option Scheme, following the adjustment events arising from the changes in the Company's issued share capital on 22 October 2002, in December 2002 and on 30 May 2003, 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 30 May 2003:

Date of grant	Exercise price per option share before adjustment	Exercise price per option share after adjustment	Additional number of option shares granted to the Directors for the adjustment
	HK\$	HK\$	
11/04/1997	15.30	15.12	77,612
27/11/1999	9.88	9.77	28,956
01/06/2000	6.87	6.79	37,010
02/03/2001	11.88	11.74	1,227
16/04/2002	7.02	6.94	36,722

As at 31 December 2003, 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 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code was set out in the section headed "Share Options" of this report.

REPORT OF THE DIRECTORS

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES (CONTINUED)

(ii) Associated Corporation

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 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	4.20	5,000,000
Mr HO Shut Kan	04/05/2000	04/11/2000– 03/05/2007	4.20	1,000,000
Mr KUOK Khoon Loong, Edward ^Δ	04/05/2000	04/11/2000– 03/05/2007	4.20	10,000,000
Mr Thaddeus Thomas BECZAK ^Δ	04/05/2000	04/11/2000– 03/05/2007	4.20	5,000,000

^Δ The relevant director resigned as an Executive Director of the Company subsequent to the year end.

Apart from the aforesaid, at no time during the year ended 31 December 2003 was the Company, its subsidiaries, its fellow subsidiaries or its holding companies 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.

REPORT OF THE DIRECTORS

SUBSTANTIAL INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2003, the interests of those persons (other than the Directors) in the shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Capacity in which ordinary shares were held	Number of ordinary shares	Percentage of ordinary shares to total number of ordinary shares in issue*
			%
Kerry Group Limited	Interest of controlled corporations	752,142,097 <i>(Notes 1, 2 & 3)</i>	63.12
Kerry Holdings Limited	Interest of controlled corporations	752,142,097 <i>(Notes 1, 2 & 3)</i>	63.12
Caninco Investments Limited	Beneficial owner	299,632,708 <i>(Note 2)</i>	25.15
Darmex Holdings Limited	Beneficial owner	246,519,994 <i>(Note 2)</i>	20.69
Moslane Limited	Beneficial owner	84,942,917 <i>(Note 2)</i>	7.13
Kerry 1989 (C.I.) Limited	Interest of controlled corporations	80,758,908 <i>(Notes 2 & 3)</i>	6.78
Desert Grove Limited	Beneficial owner	79,743,860 <i>(Note 3)</i>	6.69

Notes:

1. Kerry Properties Limited is a subsidiary of Kerry Holdings Limited ("KHL"). KHL itself is a wholly-owned subsidiary of Kerry Group Limited ("KGL") and, accordingly, the shares in which KHL is shown to be interested are also included in the shares in which KGL is shown to be interested.
 2. Caninco Investments Limited ("Caninco"), Darmex Holdings Limited ("Darmex"), Moslane Limited ("Moslane") and Kerry 1989 (C.I.) Limited ("Kerry 1989 CI") are wholly-owned subsidiaries of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Caninco, Darmex, Moslane and Kerry 1989 CI are shown to be interested are also included in the shares in which KHL and KGL are shown to be interested.
 3. Desert Grove Limited ("Desert") is a wholly-owned subsidiary of Kerry 1989 CI which in turn is a wholly-owned subsidiary of KHL. KHL itself is a wholly-owned subsidiary of KGL and, accordingly, the shares in which Desert are shown to be interested are also included in the shares in which Kerry 1989 CI, KHL and KGL are shown to be interested.
- * The percentage has been adjusted based on the total number of ordinary shares of the Company in issue as at 31 December 2003 (i.e. 1,191,526,727 ordinary shares).

All the interests disclosed under this section represent long positions in the shares of the Company.

Apart from the aforesaid, as at 31 December 2003, the Company had not been notified of any interests and short positions in the shares and underlying shares of the Company which had been recorded in the register required to be kept under Section 336 of the SFO.

REPORT OF THE DIRECTORS

PUBLIC FLOAT

Based on the information that is publicly available to the Company as at 29 February 2004 and within the knowledge of the Directors, there was a sufficiency of public float of the Company's securities as required under the Listing Rules.

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

Neither the Company nor any of its subsidiaries had 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 laws 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 2003, options to subscribe for a total of 26,303,507 option shares were still outstanding under the 1997 Share Option Scheme. No option has 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).

(i) 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.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

(i) 1997 Share Option Scheme (Continued)

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 might 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 should be offered but the options which had been granted during its life should continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions should remain in full force and effect.

(ii) 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 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.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

(ii) 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 this annual report, a total of 115,572,748 Shares (representing approximately 9.68% 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.

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

(ii) 2002 Share Option Scheme (Continued)

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.

Movements of the options, which were 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 01/01/2003	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year ^(Note 1)	Number of option shares lapsed during the year	Number of option shares held at 31/12/2003	Exercise price	Exercise period
HK\$										
1. Directors										
Mr ANG Keng Lam	11/04/1997	N/A	1,715,684	-	20,424	-	-	1,736,108	15.12	11/04/1999-26/03/2007
	27/11/1999	I	418,218	-	4,709	-	-	422,927	9.77	27/05/2000-26/03/2007
	27/11/1999	II	418,218	-	4,708	-	-	422,926	9.77	27/05/2001-26/03/2007
								845,853		
	01/06/2000	I	341,000	-	4,000	-	-	345,000	6.79	01/06/2001-31/05/2010
	01/06/2000	II	341,000	-	4,000	-	-	345,000	6.79	01/06/2002-31/05/2010
	01/06/2000	III	340,793	-	4,050	-	-	344,843	6.79	01/06/2003-31/05/2010
								1,034,843		
	16/04/2002	I	505,698	-	5,829	-	-	511,527	6.94	16/04/2003-15/04/2012
	16/04/2002	II	505,698	-	5,829	-	-	511,527	6.94	16/04/2004-15/04/2012
								1,023,054		
								4,639,858		

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

Category	Date of grant	Tranche	Number of option shares held at 01/01/2003	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year ^(Note 1)	Number of option shares lapsed during the year	Number of option shares held at 31/12/2003	Exercise price	Exercise period
HK\$										
1. Directors (Continued)										
Mr WONG Siu Kong	11/04/1997	N/A	1,143,789	-	13,616	-	-	1,157,405	15.12	11/04/1999-26/03/2007
	27/11/1999	I	209,108	-	2,355	-	-	211,463	9.77	27/05/2000-26/03/2007
	27/11/1999	II	209,109	-	2,353	-	-	211,462	9.77	27/05/2001-26/03/2007
								422,925		
	01/06/2000	I	174,000	-	2,000	(176,000)	-	-	6.79	01/06/2001-31/05/2010
	01/06/2000	II	174,000	-	2,000	(176,000)	-	-	6.79	01/06/2002-31/05/2010
	01/06/2000	III	173,832	-	2,148	-	-	175,980	6.79	01/06/2003-31/05/2010
								175,980		
	16/04/2002	I	505,698	-	5,829	-	-	511,527	6.94	16/04/2003-15/04/2012
	16/04/2002	II	505,698	-	5,829	-	-	511,527	6.94	16/04/2004-15/04/2012
								1,023,054		
								2,779,364		
Mr HO Shut Kan	11/04/1997	N/A	800,653	-	9,531	-	-	810,184	15.12	11/04/1999-26/03/2007
	27/11/1999	I	135,920	-	1,531	-	-	137,451	9.77	27/05/2000-26/03/2007
	27/11/1999	II	135,921	-	1,529	-	-	137,450	9.77	27/05/2001-26/03/2007
								274,901		
	01/06/2000	I	122,000	-	2,000	(124,000)	-	-	6.79	01/06/2001-31/05/2010
	01/06/2000	II	122,000	-	2,000	(124,000)	-	-	6.79	01/06/2002-31/05/2010
	01/06/2000	III	121,283	-	303	(121,586)	-	-	6.79	01/06/2003-31/05/2010
								-		
	02/03/2001	I	35,000	-	-	-	-	35,000	11.74	02/03/2002-01/03/2011
	02/03/2001	II	35,000	-	-	-	-	35,000	11.74	02/03/2003-01/03/2011
	02/03/2001	III	32,945	-	1,227	-	-	34,172	11.74	02/03/2004-01/03/2011
								104,172		
	16/04/2002	I	75,854	-	875	(76,729)	-	-	6.94	16/04/2003-15/04/2012
	16/04/2002	II	75,855	-	873	-	-	76,728	6.94	16/04/2004-15/04/2012
								76,728		
								1,265,985		

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

Category	Date of grant	Tranche	Number of option shares held at 01/01/2003	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year ^(Note 1)	Number of option shares lapsed during the year	Number of option shares held at 31/12/2003	Exercise price	Exercise period
HK\$										
1. Directors (Continued)										
Mr KUOK Khoon Loong, Edward ^A	11/04/1997	N/A	2,859,475	-	34,041	-	-	2,893,516	15.12	11/04/1999-26/03/2007
	27/11/1999	I	418,218	-	4,709	-	-	422,927	9.77	27/05/2000-26/03/2007
	27/11/1999	II	418,218	-	4,708	-	-	422,926	9.77	27/05/2001-26/03/2007
								845,853		
	01/06/2000	I	341,000	-	4,000	(345,000)	-	-	6.79	01/06/2001-31/05/2010
	01/06/2000	II	341,000	-	4,000	(155,000)	-	190,000	6.79	01/06/2002-31/05/2010
	01/06/2000	III	340,793	-	4,050	-	-	344,843	6.79	01/06/2003-31/05/2010
								534,843		
	16/04/2002	I	505,698	-	5,829	-	-	511,527	6.94	16/04/2003-15/04/2012
	16/04/2002	II	505,698	-	5,829	-	-	511,527	6.94	16/04/2004-15/04/2012
								1,023,054		
								5,297,266		
Mr Thaddeus Thomas BECZAK ^A	27/11/1999	I	104,553	-	1,178	(105,731)	-	-	9.77	27/05/2000-26/03/2007
	27/11/1999	II	104,554	-	1,176	(105,730)	-	-	9.77	27/05/2001-26/03/2007
								-		
	01/06/2000	I	70,000	-	1,000	(71,000)	-	-	6.79	01/06/2001-31/05/2010
	01/06/2000	II	70,000	-	1,000	(71,000)	-	-	6.79	01/06/2002-31/05/2010
	01/06/2000	III	68,733	-	459	(69,192)	-	-	6.79	01/06/2003-31/05/2010
								-		
								-		

REPORT OF THE DIRECTORS

SHARE OPTIONS (CONTINUED)

Category	Date of grant	Tranche	Number of option shares held at 01/01/2003	Number of option shares granted during the year	Number of option shares granted for adjustment	Number of option shares exercised during the year ^(Note 1)	Number of option shares lapsed during the year	Number of option shares held at 31/12/2003	Exercise price	Exercise period
2. Continuous Contract Employees	11/04/1997	N/A	4,941,142	-	58,812	-	(115,739)	4,884,215	15.12	11/04/1999-26/03/2007
	27/11/1999	I	1,698,967	-	19,149	-	(63,438)	1,654,678	9.77	27/05/2000-26/03/2007
	27/11/1999	II	1,699,000	-	19,087	-	(63,436)	1,654,651	9.77	27/05/2001-26/03/2007
								3,309,329		
	01/06/2000	I	1,776,000	-	23,000	(1,437,230)	-	361,770	6.79	01/06/2001-31/05/2010
	01/06/2000	II	1,776,000	-	23,000	(1,096,000)	-	703,000	6.79	01/06/2002-31/05/2010
	01/06/2000	III	1,715,714	-	15,842	(868,554)	(15,711)	847,291	6.79	01/06/2003-31/05/2010
								1,912,061		
	02/03/2001	I	385,000	-	-	-	(42,000)	343,000	11.74	02/03/2002-01/03/2011
	02/03/2001	II	385,000	-	-	-	(42,000)	343,000	11.74	02/03/2003-01/03/2011
	02/03/2001	III	362,395	-	13,007	-	(40,516)	334,886	11.74	02/03/2004-01/03/2011
								1,020,886		
	16/04/2002	I	783,802	-	8,815	(314,424)	(20,227)	457,966	6.94	16/04/2003-15/04/2012
16/04/2002	II	783,835	-	8,775	-	(56,033)	736,577	6.94	16/04/2004-15/04/2012	
							1,194,543			
							12,321,034			
Total			31,828,769	-	371,014	(5,437,176)	(459,100)	26,303,507		

Notes:

- The weighted average closing price of the Shares immediately before the dates on which the options were exercised was HK\$10.76.
 - No option was cancelled during the year.
- ^A The relevant director resigned as an Executive Director of the Company subsequent to the year end.

> REPORT OF THE DIRECTORS

SERVICE 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 of the Company.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

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

Pursuant to Rule 8.10 of the Listing Rules, the Company disclosed below that during the year and up to the date of this report, the following 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.

Mr Ang Keng Lam 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 Ang is regarded to be interested in such competing businesses (the "Excluded Businesses") of the Group. Allgreen is listed on the Singapore Stock Exchange.

Messrs Ang Keng Lam and Wong Siu Kong 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.

Messrs Ang Keng Lam and Wong Siu Kong are directors 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, they are regarded to be interested in the Excluded Businesses of the Group.

REPORT OF THE DIRECTORS

DIRECTORS' INTEREST IN COMPETING BUSINESS (CONTINUED)

Mr Kuok Khoon Loong, Edward, who resigned as an Executive Director of the Company subsequent to the year end on 1 March 2004, is the Chairman of SA and a director of the SA group of companies which businesses consist of hotel ownership and operation as mentioned above. Mr Kuok is also the Chairman of Kuok Philippine Properties, Inc. ("KPPI") which businesses consist of property investment and development and real estate management in the Philippines. KPPI is listed on the Philippines Stock Exchange. In addition, during the year, Mr Kuok was a director of the Allgreen group of companies which businesses consist of property investment and development, property and project management in Singapore, etc as mentioned above. Mr Kuok resigned as a director of Allgreen with effect from 27 October 2003. In this regard, Mr Kuok was regarded to be interested in the Excluded Businesses of the Group.

During the year, Mr Thaddeus Thomas Beczak was a director of the SA group of companies which businesses consist of hotel ownership and operation as mentioned above. In this regard, Mr Beczak was regarded to be interested in the Excluded Businesses of the Group. Subsequent to the year end, Mr Beczak ceased to act as a director of the SA group of companies with effect from 1 January 2004 and resigned as an Executive Director of the Company with effect from 12 January 2004.

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.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS

- (i) 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 (now known as Kerry TC Warehouse Holdings Limited) (“Kerry TC 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 TC 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 TC 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 TC 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 TC 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 TC 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 TC 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.

- (ii) Subsequent to the year end date on 9 March 2004, KLN Siam Holdings Limited (“KLN Siam Holdings”) entered into a sale and purchase agreement with each of (i) Rednor Limited (“Rednor”) and Siam Rimnam Holdings Limited (“Siam Rimnam”); and (ii) Kerry-Glory Holdings Inc. (“Kerry-Glory”) pursuant to which each of Rednor, Siam Rimnam and Kerry-Glory agreed to sell and KLN Siam Holdings agreed to purchase a total of 26,639,034 issued shares of par value Baht 10 each (the “Sales Shares”), representing approximately 54.98% of the total issued share capital of Siam Seaport Terminal & Warehouses Co., Ltd. (“Siam Seaport”), at a total consideration of Baht 554,091,907.20 (approximately HK\$110,264,290 based on the exchange rate of Baht 1 = HK\$0.199) and subject to the terms and conditions as set out therein (the “Acquisition”).

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

KLN Siam Holdings has been accounted for by the Company as a 100% indirectly owned subsidiary of the Company. Rednor is an indirect wholly-owned subsidiary of Kerry Group Limited ("KGL") which, at the time of entering into the abovesaid two sales and purchase agreements by KLN Siam Holdings, was indirectly interested in approximately 62.98% of the voting rights attaching to the issued share capital of the Company as disclosed under the Securities and Futures Ordinance. Kerry-Glory is indirectly owned as to 51% by KGL and 49% by China National Cereals, Oils & Foodstuffs Import & Export Corporation which in turn indirectly holds a 10% interest in a 55% indirectly owned subsidiary of the Company. Accordingly, both Rednor and Kerry-Glory are connected persons of the Company. Siam Rimnam is a member of the Kuok Group (companies owned or controlled by Mr Kuok Hock Nien and/or interests associated with him) and, accordingly, is also a connected person of the Company. Furthermore, Mr Maris Pakdeetaveevivat ("Mr Pakdeetaveevivat"), who holds approximately 16.97% interest in Siam Seaport, is a director of certain subsidiaries of the Company, including KLN Siam Holdings. Therefore, the entering into by KLN Siam Holdings of the two sale and purchase agreements to acquire the Sale Shares constituted connected transactions of the Company under the Listing Rules.

- (iii) Since October 2002, Kerry Distribution (Thailand) Limited ("Kerry Distribution (Thailand)") has provided from time to time on a "on request" basis services of transportation and distribution of steel coils and general cargoes and services of similar nature ("Distribution Services") to Siam Seaport. The aggregate distribution fees paid by Siam Seaport to Kerry Distribution (Thailand) for the year ended 31 December 2003 were approximately Baht 34,594,000 (approximately HK\$6,481,186 based on the average exchange rate of Baht 1 = HK\$0.18735 during the year ended 31 December 2003).

Kerry Distribution (Thailand) is a 60% indirectly owned subsidiary of the Company with the remaining 20% interest indirectly held by Siam Seaport and another 20% interest indirectly held by Mr Lim Soon Huat ("Mr Lim") who is a connected person of the Company by virtue of his present and past directorship in certain subsidiaries of the Company. Siam Seaport holds a 16% interest in a company which has been accounted for by the Company as an indirectly owned subsidiary of the Company, and hence, Siam Seaport was a connected person of the Company before the Acquisition (as defined in (ii) above). Accordingly, the provision of Distribution Services by Kerry Distribution (Thailand) to Siam Seaport before the Acquisition (as defined in (ii) above) constituted a connected transaction for the Company under the Listing Rules.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

Upon completion of the Acquisition (as defined in (ii) above), the Company indirectly owns approximately 54.98% interest in Siam Seaport and hence, Siam Seaport is accounted for by the Company as an indirectly owned subsidiary of the Company. Accordingly, the provision of Distribution Services by Kerry Distribution (Thailand) to Siam Seaport becomes a transaction between non-wholly owned subsidiaries of the Company. Since there is a connected person of the Company being a substantial shareholder in each of Kerry Distribution (Thailand) (Mr Lim indirectly holds a 20% interest in Kerry Distribution (Thailand)) and Siam Seaport (Mr Pakdeetaveevivat holds approximately 16.97% in Siam Seaport), the provision of Distribution Services by Kerry Distribution (Thailand) to Siam Seaport continues to constitute a connected transaction for the Company under the Listing Rules upon the completion of the Acquisition (as defined in (ii) above).

- (iv) 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.

One of the Minority Shareholders is connected to the Group by virtue only of its substantial shareholding in the Developer. As at 31 December 2003, all the advances had been fully repaid (2002: advances outstanding amounted to approximately HK\$209,673,000) and interest charged during the year ended 31 December 2003 amounted to approximately HK\$1,651,000 (2002: HK\$18,196,000).

- (v) As disclosed by SCMP Group Limited ("SCMP Group"), which is a connected person of the Company by virtue of it being an associate (as defined under the Listing Rules) of KGL which is a substantial shareholder of the Company, on 3 October 2003, SCMP Book Publishing Limited and SCMP Retailing (HK) Limited, both are wholly owned subsidiaries of SCMP Group (the "SCMP Subsidiaries") engaged Kerry Logistics (Hong Kong) Limited ("KL-Hong Kong"), an indirect wholly owned subsidiary of the Company, to provide logistics services under the respective logistics services agreements (as extended or renewed from time to time) (together, the "Logistics Agreements") made between each of the SCMP Subsidiaries and KL-Hong Kong. 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.

> REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

The transactions regarding the provision of logistics services by KL-Hong Kong to the SCMP Subsidiaries constitute connected transactions of the Company under the Listing Rules. For the purpose of Rule 14.25(1) of the Listing Rules, both the respective service fee received as well as fees estimated to be received from each of the SCMP Subsidiaries under the respective Logistics Agreements and the aggregate service fee receivable for all the 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 3 October 2003.

At the year end date, the Logistics Agreements were still operative and the aggregate consideration received by KL-Hong Kong therefrom for the financial year ended 31 December 2003 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 may be extended for a further term to be agreed between KL-Hong Kong and the SCMP Subsidiaries and the amounts involved might, in future, reach the level required for disclosure as required under the Listing Rules, the Company is aware and will make the appropriate disclosure as required by the Listing Rules when necessary.

- (vi) During the year, the Group made loans to a 55% owned subsidiary (the "Borrower"). The other shareholder in the Borrower is connected to the Group by virtue only of its substantial shareholding in the Borrower. The loans advanced by the Group to the Borrower during the year amounted to HK\$18,142,000 (2002: Nil). The loans were made by the Group in proportion to its equity interest in the Borrower and were interest free. The loans are for an initial term of 3 years and are extendable upon expiry until the Borrower has sufficient operating funds to repay the loans.

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

(vii) 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
Ariel Investments Limited	13
Brisbane Trading Company Limited	5,843
Cavalcade Holdings Limited	3
Grand Creator Investment (BVI) Limited	22,590
Harvest Sun (B.V.I.) Limited	42,000
Olympian City 2 Finance Company Limited	20,415
Residence Oasis Finance Company Limited	32,770

Certain beneficial shareholders of the above companies are connected persons of the Company by virtue of their being substantial shareholders 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.

(viii) 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\$1,867,000 (2002: HK\$2,880,000) and are interest bearing with no fixed terms of repayment.

(ix) During the year, there were other connected transactions which are disclosed herein in accordance with the respective waivers previously granted by the Listing Division of the Stock Exchange of Hong Kong:

(1) Kerry Distribution (Hong Kong) Limited ("Kerry Distribution"), an indirect wholly owned subsidiary of the Company, provided daily newspaper pre-delivery services and services of transportation and distribution of newspapers and magazines to South China Morning Post Publishers Limited ("SCMP Publishers"), a wholly owned subsidiary of SCMP Group, under two agreements dated 19 August 2002 made between Kerry Distribution and SCMP Publishers (the "Agreements"). The Agreements were terminated with effect from 1 April 2003 and the service fee paid by SCMP Publishers to Kerry Distribution under the Agreements for the period from 1 January 2003 to 31 March 2003 was approximately HK\$1,846,000; and

REPORT OF THE DIRECTORS

CONNECTED TRANSACTIONS (CONTINUED)

(2) the transactions as set out in Note 30 to the accounts.

The independent non-executive directors of the Company had reviewed the above transactions made during the year and confirmed that these transactions were carried out (a) in the ordinary and usual course of business of the Group, (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 (or from) independent third parties. The independent non-executive directors of the Company also confirmed that in relation to the transaction as set out in (1) above, the annual aggregate consideration of the transactions 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 2003.

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 of the Company in accordance with the Company's Bye-laws.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Board of Directors of the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the revised Listing Rules (which will take effect on 31 March 2004) as the Code for Securities Transactions by Directors of the Company with effect from the same date.

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.

(i) Financial Assistance and Guarantees to Affiliated Companies

The Company has obtained a waiver from the Stock Exchange under Paragraph 3.10 of PN19 from disclosing a proforma combined balance sheet of affiliated companies as defined therein. Instead, in accordance with PN 19, the Company discloses the following information as at 31 December 2003, as an alternative, 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.

> REPORT OF THE DIRECTORS

PRACTICE NOTE 19 OF THE LISTING RULES (CONTINUED)

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

	Notes	HK\$'000
The Group's share of total indebtedness analysed as follows:		
Bank borrowings	1	988,717
Other borrowings including loans from shareholders	2	4,113,612
		<u>5,102,329</u>
The Group's share of capital commitments		
Authorised but not contracted for		127,977
Contracted but not provided for		461,538
		<u>589,515</u>

Notes:

1. The above amount includes bank borrowings by affiliated companies which are not guaranteed by the Group. As at 31 December 2003, banking and other facilities utilised by the affiliated companies and guaranteed by the Group amounted to approximately HK\$460 million.
2. The above amount includes borrowings from the Group. As at 31 December 2003, such borrowings amounted to approximately HK\$3,961 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



Ang Keng Lam
Chairman
9 March 2004