

## Chairman's Message



Chairman Lim Chee Onn

On behalf of the Board, I am pleased to present the Keppel Land Group report for the year ended 31 December 1997.

### **Financial Performance**

1997 proved to be a more difficult year than expected. Nevertheless, Keppel Land ended the year with consolidated sales increasing 5% to \$621 million and with a Group attributable profit of \$104.7 million, an increase of 3% over the previous year. Earnings per share was 16.7 cents, compared with 16.8 cents for last year.

These results reflect higher profits from the Group's investment properties, and contributions from the partial sale of Prudential Tower, the disposal of a 30% interest in the company which owns Capital Square, and sales of the Pebble Bay condominium apartments, the Quartz and Orion industrial buildings, and shop units at Heritage Court and Bukit Timah Plaza. Also included in the year's results is a loss of \$13.5 million which the Group's regional operations suffered. This was due to unhedged losses on foreign currency borrowings of a few Indonesian joint-ventures, and start-up costs of recently completed projects in Myanmar and Indonesia.

The effective tax rate for the Group was 31% in 1997, up from 26.7% for 1996 as profits of certain subsidiaries could not be offset against losses incurred by the other Group companies.

In June 1997, the Company's shareholders' funds were boosted by the conversion of 45.3 million warrants into shares. However, this was offset at the year-end by a downward adjustment of the revaluation surpluses of the Group's investment properties and a write-down of the Group's Indonesian investments. The downward revaluation and the write-down of the Group's investments amounted to \$207 million. Overall, shareholders' funds remained fairly unchanged at \$2.8 billion at end-1997, but net tangible assets per share fell to \$4.32 from \$4.66 a year ago. Net borrowings grew 37.5% to \$2.1 billion, representing 75% of shareholders' funds.

## Proposed Dividend

The Board is recommending a final gross dividend of 8% or 4 cents per share amounting to \$19.4 million on the existing issued share capital. This recommended dividend, if approved by shareholders at the Annual General Meeting on 15 June 1998, will be paid on 6 July 1998.

For the financial year ended 31 December 1996, the dividend distribution was 8% or 4 cents per share less tax at 26%, amounting to \$18.4 million.

## Major Developments

During the year, Capital Square attracted another large tenant, Morgan Stanley Asia which has committed to take up 60,000 square feet of office space on a long-term lease of 12 years, with an option to extend a further six years. Monthly rentals are fixed at about \$10 psf for the first four years. Citibank signed up as the first large tenant for Capital Square in December 1996. As at end-1997, the office tower of Capital Square was 46% leased and Prudential Tower 56% sold. Both developments are expected to be ready by the second half of 1998.

The Group's two 99-year leasehold condominium projects, Palm Gardens and The Mayfair were launched amidst a downturn in the property cycle. So far, 139 units of Palm Gardens and 45 units of The Mayfair had been sold. Pebble Bay, the waterfront condominium with 510 luxurious apartments located in the Tanjong Rhu area, obtained its Temporary Occupation Permit in October 1997. The remaining 61 units will be either sold or leased out.



**Top:**  
Keppel Land adds to its Raffles Place portfolio with its latest office development, Capital Square.

**Bottom:**  
The Mayfair drew enthusiastic response during its sales launch.

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Villa Verde, a 99-year leasehold landed project with 515 terrace houses, was launched in March 1998. Reasonably priced, the development which carries several themes from Mediterranean to American Colonial, met with good market response and the 435 units launched were all sold.

During the year, Keppel Land also took the opportunity to build up a sizeable prime freehold residential landbank of about 720,000 square feet in good locations, such as in the prestigious Sixth Avenue and Newton areas. These sites will be developed at the opportune time to maximise profits.



Apart from the redevelopment of the 32 ha Keppel Harbour site, for which Keppel Land will act as development manager and co-developer, the Keppel Group is also looking at jointly developing with the PSA the adjoining 20.3 ha World Trade Centre/ International Cruise Centre site.

The regional slowdown has affected the performance and outlook for Keppel Land's overseas projects, especially its hotels and resorts.

Following a thorough review of these projects, the Group has selectively scaled back operations to reduce costs.



**Top:**  
*Villa Verde is a sell-out success.*

**Bottom:**  
*Keppel Harbour will be transformed into a world-class waterfront development.*

Phase I of Saigon Centre in Vietnam, a 25-storey mixed development located in the heart of Ho Chi Minh City's Central Business District is substantially leased. The 89 serviced apartments, managed by Sedona Hotels International as Sedona Suites, enjoy good occupancy. In Hanoi, Phase I of Royal Park, which is also managed by Sedona Suites, will be completed in mid-1998. Marketing has commenced and the first batch of tenants will begin moving in during the second quarter.

Spring City Golf and Lake Resort in Kunming, China, with its 18-hole Jack Nicklaus designed golf course and exclusive lodges, has commenced operations. To date, some 1,500 golfers have test-played the course. In Bintan, Indonesia, Club Med Ria Bintan was opened in December 1997. It continues to attract a loyal following despite the regional economic slowdown.

Another project launched during the regional economic crisis is Taman Jernih, a joint-venture mixed development project at Bukit Mertajam, Malaysia. Phase I, comprising 101 residential units, launched in October 1997 was well received, with 80% of non-bumiputra units sold. However with the slackening demand, Phase II will be deferred for the time being. Situated on a 14.4 ha site, this development when completed will comprise more than 500 residential units.

In Sydney, Australia, Keppel Land sold the 31-storey building known as 9 Castlereagh Street for A\$112.7 million, and purchased Huntley Park, a 6.9 ha residential development site just 7 km west of Sydney Harbour Bridge. The project with 224 townhouses/apartments is expected to be launched in the second half of 1998, ahead of Sydney Olympics in Year 2000. Demand is expected to come from mostly locals.



*Spring City Golf and Lake Resort, a 500-hectare integrated resort located in Kunming, China features one of Asia's best golf courses designed by Jack Nicklaus.*

# Chairman's Message

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## Future Directions and Prospects

Economic growth in Singapore and the region is being adversely affected by the present crisis in the currency and stock markets. We believe that the full effect of this downturn will be felt this year. The financial sector has already seen a shake-up with the closure or downsizing of a few major companies, and retrenchment of staff. Whilst this will reduce the demand for office space in Singapore in the short-term, the government's measures to develop the fund management industry will help to counteract the contraction. In the residential property sector in Singapore, the outlook is, at this stage, still uncertain.

Keppel Land's response has been to re-direct efforts to generate new sources of profits. The Company's business development teams are actively scanning the region and beyond to look for opportunities to acquire quality assets in troubled economies, as well as trading projects in countries not directly affected by the regional economic turmoil. Steps are also being taken to maximise yields from all existing projects through business process re-engineering. The thrust is to reduce costs further and improve project revenues.

At the same time, every effort will be made to upgrade the skills of our staff at all levels. The temporary slack in some divisions will enable staff to be released to attend post graduate courses and other skills enhancement programmes so that every staff member will be better equipped to increase the Company's performance even further. The re-training and re-deployment of our human resources will ensure that we are well-placed to meet the challenges of the new millenium.

The regional markets will continue to face economic uncertainties in the near term. Although this is going to be a difficult period, I am confident that Keppel Land

has the talents and commitment in its staff, and the financial strength to ride it out. We shall emerge from this regional crisis a much stronger company, ready to grasp the opportunities that will present themselves as the regional economies recover over the next few years.



Prudential Tower (left), a Grade A 30-storey office development in Raffles Place is 56% sold (A computer generated graphic representation is depicted).

On the whole, 1998 is expected to be a difficult year. The Group's profits for the year will, however, be underpinned by rentals from its office buildings, profits realised from the progressive profit booking of Prudential Tower sales as well as recent sales of 9 Castlereagh Street in Sydney and the remaining space in Bukit Timah Plaza.

### **Acknowledgements**

Keppel Land's best assets are its dedicated and experienced management and staff. On behalf of the Board, I wish to thank each and every one of our staff for their efforts in the past year, and encourage them to prepare themselves for the challenges of the next few difficult years.

Mr Thai Chee Ken was appointed Director on 1 June 1997 while Mr Khor Poh Hwa joined the Board on 1 April 1998. The Board is pleased to welcome them, and is confident that the Company will benefit from their extensive knowledge and experience.

Dr Tan Swan Beng, who has been a Director since 1989, passed away on 2 January 1998. He was an invaluable team member, and his death is a very sad loss. My Board colleagues and I would like to place on record our deepest appreciation for the sterling service he has given to Keppel Land.



*Recognising people as its most important asset, Keppel Land is committed to training and developing its employees.*

**Lim Chee Onn**  
**Chairman**

Singapore, 2 April 1998