CHAIRMAN'S MESSAGE

Chairman Lim Chee Onn

On behalf of the Board, I present the Keppel Land Group report for the year ended 31 December 1998.

Financial Performance

1998 was a very difficult year for the Group.

The severity of the financial crisis, which started in Thailand in July 1997, was quite unexpected. It tripped other economies in the region in quick succession, and triggered social and political unrest in the process. Singapore went into recession in October 1998 despite being more resilient. Like many companies with regional investments, Keppel Land suffered from the effects of the downturn.

Keppel Land's revenues fell by 48.8% from the previous year to $317.9 million. At the attributable result level, the Group incurred a loss of $350.6 million compared with a profit of $104.7 million for the year before. This was due to lower sales from property trading, and substantial provisions made for two 99-year leasehold residential developments and the Group's freehold landbank. The exceptional gain of $31.7 million from the sale of 9 Castlereagh Street, an office building in Sydney, Australia, helped to alleviate the loss.

In the first half-year, provisions of $48 million were made for the two leasehold developments, Palm Gardens and The Mayfair. However, as the market softened further, the Company decided to make further provisions of $348 million - $85 million for Palm Gardens and The Mayfair, and $263 million for five freehold sites. Total provisions amounted to $396 million for the year.

As capital values fell across Asia, the Group revalued downward its long-term properties in Singapore and overseas. In all, the total decline in value recognised for these properties amounted to $614 million for the year. With these reductions, Keppel Land now has 15.2% of its assets overseas, with 1.6% in Indonesia.

The effective tax rate for the Group before provisions was 29.1% in 1998 compared with 31% for 1997. Profits of certain subsidiaries could not be offset against losses incurred by the other Group companies resulting in the relatively high effective tax rate.

During the year, shareholders' funds declined by $996 million to $1.8 billion due to the provisions made and the downward revaluation of the Group's investment properties. As a result, the Company's net tangible asset per share fell to $2.80 at end-1998 from $4.32 a year ago. Net borrowings at $2.1 billion represented 114% of shareholders' funds.

Proposed Dividend

The Board is recommending a final gross dividend of 6% or 3 cents per share less tax, amounting to $14.5 million on the existing issued share capital. The recommended dividend, if approved by shareholders at the Annual General Meeting on 7 June 1999, will be paid on 24 June 1999.

In the previous year, the dividend distribution was 8% or 4 cents per share less tax at 26%, amounting to $19.4 million.

Major Developments

In Singapore, Capital Square and Prudential Tower, the Group's new office towers in Raffles Place, obtained their Temporary Occupation Permits in the third quarter of 1998. With their addition, Keppel Land is now one of the largest landlords in Raffles Place, the prime office district in Singapore. The Group's office portfolio has grown to eight buildings with more than two million square feet in the Central Business District. Despite the difficult market, Prudential Tower and Capital Square have been able to achieve good take-up of 85% and 65% respectively.

The re-launch of Palm Gardens and The Mayfair at $400-$410 psf achieved 100% sales. Villa Verde, a 99-year leasehold landed development with 515 terrace houses, is also completely sold.

Nassim Woods, an exclusive condominium in District 10 which obtained Temporary Occupation Permit in August 1998, has achieved 100% tenancy for its 35 units.

On the redevelopment of the Keppel Harbour site in which Keppel Land will participate both as project manager and equity stakeholder, provisional permission has been obtained for three residential plots within the 32-hectare site. When developed, the plots will yield 2,500-3,000 residential units. As for the commercial component, which is a joint venture with PSA, the development plan is currently being finalised. Ground-breaking is expected to take place in 1999.

As for Keppel Land's prime freehold residential landbank of five sites totalling 720,000 square feet, development will commence when the market recovers sufficiently for the Group to maximise value out of them.

Capitalising on the run-up to the Olympic Games in 2000, Keppel Land acquired a 6.9-hectare site for A$25.4 million to develop premier residences along the Sydney waterfront. The development, named Botanic Cove, offers 224 units of apartments and town houses. Phase One comprising 75 units has achieved a take-up of almost 70%.

Towards the close of the year, Keppel Land opened its Spring City Golf & Lake Resort in Kunming, China and its serviced villas and apartments at Royal Park Sedona Suites in Hanoi, Vietnam. Spring City's first collection of 50 resort homes named The Primrose has been completely sold, while the response to the second collection of 86 resort villas known as The Magnolia has been encouraging. At Royal Park Sedona Suites Hanoi, more than 80% of the 170 apartments and villas have been leased to expatriates. In Ho Chi Minh City, its sister development Sedona Suites Saigon Centre is achieving a similarly high occupancy.

In Manila, Philippines, Keppel Land will proceed with the construction of the five-storey retail podium of SM-KL Tower. The podium with a gross floor area of 265,000 square feet will house a leisure complex with popular theme restaurants, and other lifestyle-related establishments. It is targeted to complete in 2001.

In Skudai, Malaysia, Keppel Land's 498-hectare township project Taman Sutera, more than 80% of the 1,040 launched units of terrace houses, semi-detached houses and shop offices have been sold. Taman Jernih, another township located in Bukit Mertajam, Penang, achieved 86% sales of the 101 launched units of terrace and semi-detached houses.

As social and political unrest in Indonesia continues to stall economic recovery, several of the Group's investments were deferred. This includes Phase Two of Pasadenia Garden, a residential-cum-retail project in Jakarta as well as a retail and commercial project in Surabaya. Bucking the trend, however, Club Med Ria Bintan has performed relatively well since its opening during the year.

Meeting the Challenges

To grapple with the difficult external environment, Keppel Land took steps to rationalise operations in Singapore and overseas, and in doing so, lowered costs by a third. Recurrent savings of $10 million were achieved from reduced headcount and office space, wage cuts and a tighter control on staff benefits.

Costs were similarly trimmed at the Group's hotels, managed by Sedona Hotels International. Operating costs were reduced by more than 15%, and gross margins increased by 5%. Savings were mainly achieved by reducing the number of available rooms for hotels like Sedona Hotel Yangon and Sedona Hotel Mandalay, and deferring the opening of new hotels like Sedona Hotel Manado.

The Company is also taking steps to reduce its debt through prudent financial management and divestment of non-core assets. From the unwinding of cross-holdings within the Keppel Group, funds of about $200 million will be unlocked. Cash inflow is also expected from the sale of Prudential Tower, Capital Square, Villa Verde, Palm Gardens and The Mayfair. This will improve the Group's financial position and allow it to embark on recapitalisation to finance new projects in Singapore and overseas.

Keppel Land will be using this period of slowdown to prepare staff for the economic recovery by intensifying business process re-engineering, as well as training and skills upgrading of staff at all levels. Staff are encouraged to be multi-tasked so that they can take on greater responsibilities.

With information technology becoming increasingly important, a company-wide computer skills upgrading programme was undertaken in late-1998. In all, 250 staff ranging from department heads to support staff were sent on customised software applications courses to improve their computer skills.

Outlook for 1999

Investor sentiment and confidence in the global economy have improved. With the lower interest rate environment and greater cost competitiveness, signs of recovery are surfacing in the region.

However, now that the regional turmoil has taken on more complex socio-economic and political dimensions, instability will hang like a cloud over the region. Due to proximity and the inter-linkages with the countries, Singapore may be affected.

The Singapore residential property market, particularly the HDB upgrader segment, is bottoming out. With interest rates falling further, affordability continues to improve.
The office sector may, however, see further consolidation as the wave of mergers and acquisitions in the financial industry continues. However, the liberalisation of the financial sector will help counter the effects of downsizing due to slower economic growth.

Future Directions and Prospects

Keppel Land was among the first Singapore companies to expand into the region in the early 1990s. Anticipating that growth would be limited if activities were confined to Singapore, the Company took the stride into the region to broaden its earnings base. Currently, the overseas investments are diversified over nine countries, mainly within Asia with small projects in the UK and USA.

Although the current situation is difficult, the network of contacts, market intelligence and experience are strengths the Group can leverage on when the economies turn around. Focusing on economies in recovery, the Group will also continue to seek new investments selectively as assets in the region have become cheaper.

In the Philippines, Keppel Land will be growing the business through a majority controlling stake in Keppel Philippines Properties, a listed property entity which has emerged from the restructuring and consolidation of sister companies in the country.

To nurture an additional source of income, Keppel Land will be moving into property fund management. The Company intends to set up a property fund with a joint venture partner. This fund can co-invest with Keppel Land in the region.

The road ahead will be very challenging as there is the chance of spillover from unrest in the region. However, Keppel Land should emerge stronger from these difficult times.

With the provisions made, the cost-savings achieved, earnings underpinned by rentals from existing and new office buildings in prime locations and profits from Villa Verde, Keppel Land will stage a turnaround and be profitable in 1999.

Business process re-engineering activities will sharpen the Group's competitive edge while training and development of staff will equip them to take advantage of the upturn.

Keppel Land has always emphasised high quality in its products and services, and the professionalism of its staff. The Group will take one step further in being accountable to shareholders by implementing the Economic Value-Added approach to measure the value created by its various businesses. This is expected to take some time as the approach is more complex for companies in the property sector.

Acknowledgements

The Company's dedicated and professional staff have worked very hard in the past year to make the best out of a very difficult situation. On behalf of the Board, I wish to express my appreciation for their efforts, and assure them that the sacrifices made will not be forgotten.

Continued training will be provided for all staff so that they will be more effective, and be able to take on new roles and responsibilities. Some may be called upon either to take on additional duties or different job functions. I wish to encourage staff to take advantage of the training opportunities as the skills they pick up will not only benefit the Group but also enhance their job satisfaction and career development.

The next few years will continue to post challenges due to uncertainties in the external environment. Competition in the region will intensify as countries accelerate their attempts to restore their economies so that growth can resume. As a result, more effort will have to be made to generate profits. However, with the support of shareholders, partners and customers, and the continued dedication of all staff, I am confident Keppel Land will successfully tackle the challenges ahead and be poised for growth in the 21st Century.

Lim Chee Onn
Chairman

Singapore, 31 March 1999