Management Discussion & Analysis
Overall Results

The Group's turnover for the year ended 31 December 2004 was HK$5,102 million (2003: HK$4,204 million), comprising proceeds from the sale of properties, rental income, revenue from hotel operations, warehouse rental and logistics services. The increase in 2004 is mainly attributable to the significant increase in turnover derived from the logistics and warehousing business, which increased by 50% from HK$1,667 million in 2003 to HK$2,502 million in 2004.

The Group recorded a consolidated net profit attributable to shareholders of HK$1,956 million for the year ended 31 December 2004 (2003: HK$395 million), which represents an increase of 395% when compared with 2003. In accordance with the Group's accounting policies, the Group conducted a revaluation of its investment property portfolio as at 31 December 2004 which resulted in the Group's attributable share of revaluation surplus (after deducting minority interests) of HK$1,689 million. In accordance with the Group's accounting policies on investment properties, the Group recognized a revaluation surplus of HK$299 million in its 2004 profit and loss account, which amount is equal to the aggregate amount of revaluation loss on investment properties charged to the profit and loss account in previous financial years. After deducting minority interests, the Group recognized a revaluation gain of HK$275 million in its 2004 profit and loss account. The remaining balance of the Group's attributable share of revaluation surplus on its investment property portfolio in 2004, being HK$1,414 million, has been credited to the Group's investment properties revaluation reserve as at 31 December 2004.

In 2003 and 2004, the Group recorded revaluation surplus/loss on its property portfolio and investment properties held by associated companies, provisions and deferred tax credits. During 2004, the abovementioned items recorded in the profit and loss account amounted to an aggregate gain of HK$313 million (2003: aggregate loss of HK$429 million). Excluding the aforementioned items, the consolidated net profit attributable to shareholders amounted to HK$1,643 million in 2004 (2003: HK$824 million).

Review of Property Division

Balanced Portfolio, Premium Brand, Delivering Quality, Regional Focus.

Overview

The Group's property division has established a significant presence in the retail, office and residential property sectors in selected markets in the Asia Pacific region, primarily with particular focus on the Hong Kong and the Mainland China markets. The division specializes in developing properties for sale or for investment and in managing a balanced portfolio of premium quality development and investment properties in key locations.

The division maintains a diversified and well-balanced earnings profile, comprising a portfolio of 11.03 million square feet in gross floor area ("GFA") of properties under development, 7.98 million square feet of completed investment properties and 0.56 million square feet of properties held for sale as of the end of 2004.

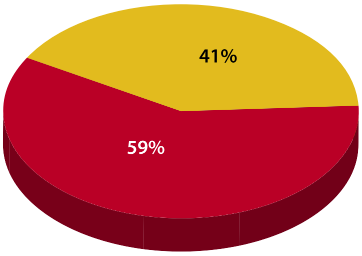
2004 was a successful year for the Group's property development and investment businesses. Improved market conditions in Hong Kong and Mainland China led to higher achieved rentals and occupancy rates in the division's investment property portfolio and improved contributions from property sales in these markets.

Mainland China

In 2004, the Group's Mainland China property business operation recorded a 9% year-on-year increase in total revenue to HK$1,351 million (2003: HK$1,241 million), accounting for 26% of the Group's turnover. Excluding the gain of HK$107 million arising from the revaluation surplus and the deferred tax credit (2003: loss of HK$1 million arising from revaluation deficits net of deferred tax credit), profit attributable to shareholders also increased by 51% to HK$456 million (2003: HK$301 million), largely attributable to the successful sales of Central Residences Phase I in Shanghai and Arcadia Court in Shenzhen.

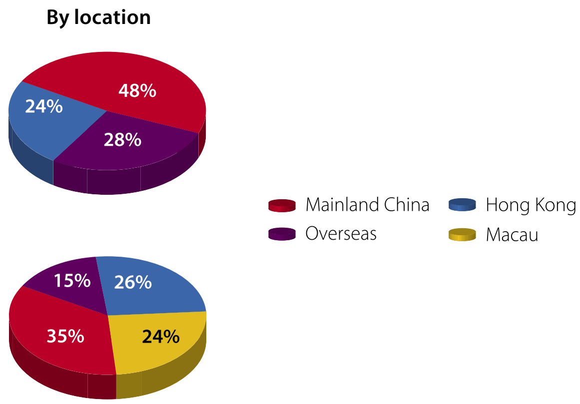
Property Portfolio Composition

19.57 million square feet of GFA



Investment Properties
7.98 million square feet

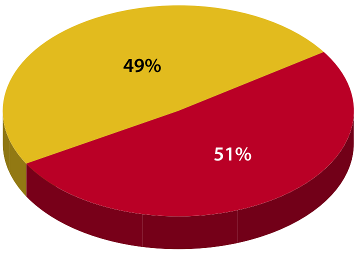
Properties Under Development/ Held for Sale
11.59 million square feet



	Mainland China	Hong Kong	Macau	Overseas	Total GFA (square feet)
Investment Properties	3,867,321	1,879,746	–	2,234,891	7,981,958
Properties under Development	3,862,621	2,603,381	2,800,000	1,768,507	11,034,509
Held for Sale	147,860	383,069	–	27,278	558,207
Total GFA (square feet)	**7,877,802**	**4,866,196**	**2,800,000**	**4,030,676**	**19,574,674**

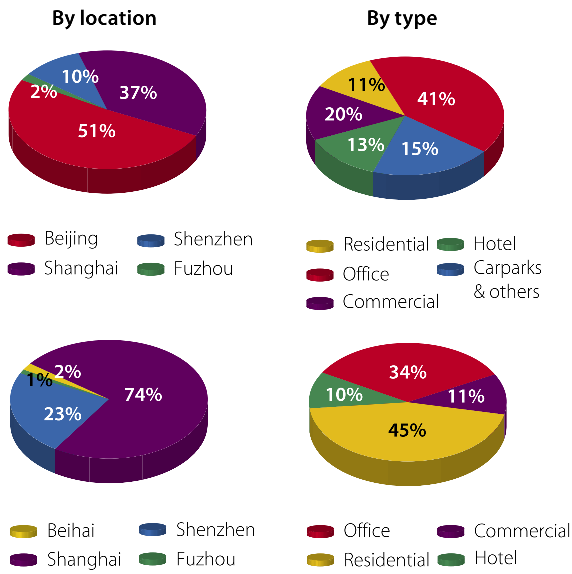
Mainland China Property Portfolio

7.88 million square feet of GFA



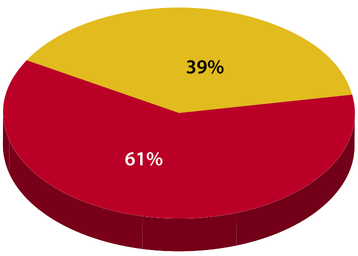
Investment Properties
3.87 million square feet

Properties under Development/Held for Sale
4.01 million square feet



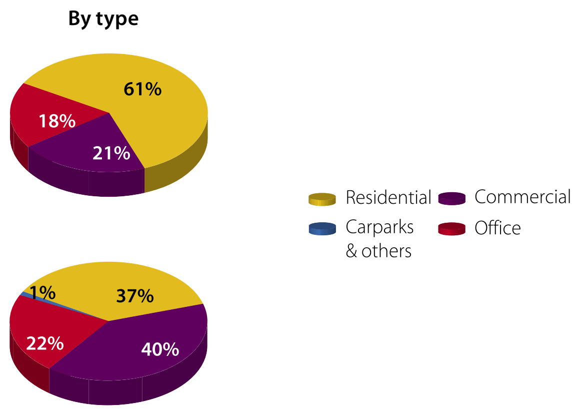
Hong Kong Property Portfolio

4.87 million square feet of GFA



Investment Properties
1.88 million square feet

Properties Under Development/Held for Sale
2.99 million square feet



Shanghai Kerry Centre, Mainland China (Left)

Lobby of Beijing Kerry Centre, Mainland China (Right)

Included in revenue attributable to Mainland China's property business were HK$493 million (2003: HK$471 million) in gross rental income and HK$595 million (2003: HK$596 million) in gross proceeds from property sales. The investment property portfolio enjoyed occupancy rates as at 31 December 2004 of 97% (2003: 95%), 97% (2003: 97%) and 72% (2003: 63%) for the office, retail and residential portfolios, respectively.

Investment Properties

As a leading developer and investor in the property market in Mainland China, the Group is well-positioned to benefit from the continuing rise in property prices, driven by strong economic growth and an increasingly affluent middle class. By building up a portfolio of quality investment properties in key locations, the Group believes that it will be in a good position to capture long term value from asset appreciation as well as to build up a strong and stable recurrent earnings flow from leasing and managing these properties.

The principal contributors to investment property earnings in 2004 were Beijing Kerry Centre, Shanghai Kerry Centre and Shenzhen Kerry Centre.

The Group's newly developed 'integrated neighbourhood' concept of KERRY RESIDENCE™ is now being established in Mainland China and Hong Kong to provide the Group's tenants with a high-quality living environment. In addition to providing further value-added services to tenants, the KERRY RESIDENCE™ brand strategy also creates a cross-marketing platform for the provision of related facilities and services to the Group's tenants in Hong Kong and Mainland China.

Average occupancy rates at the Beijing Kerry Centre Hotel increased from 60% in 2003 to 78% in 2004 after the SARS epidemic. A higher average tariff of US$124 (2003: US$111) per night was also achieved.

Investment Properties in Mainland China

	Beijing	Shanghai	Shenzhen	Fuzhou	Total GFA (square feet)
Residential	277,330	148,688	–	–	426,018
Office	814,665	632,259	160,589	–	1,607,513
Commercial	184,998	403,086	107,256	66,831	762,171
Hotel	499,642	–	–	–	499,642
Carparks & Others	194,698	235,075	142,204	–	571,977
Total GFA (square feet)	**1,971,333**	**1,419,108**	**410,049**	**66,831**	**3,867,321**

Arcadia Court,
Shenzhen,
Mainland China (Left)

Central Residences,
Shanghai,
Mainland China (Right)

Significant Developments Sold/Pre-sold as at 31 December 2004 in Mainland China

Project	Location	Usage	Group's Interest	Percentage GFA Sold/Pre-sold at the year end	Percentage GFA remaining
Arcadia Court	Shenzhen	Residential	100%	92%	8%
Shenzhen Regency Park Phase IIIB	Shenzhen	Residential	100%	69%	31%
Central Residences	Fuzhou	Residential	100%	88%	12%
Central Residences Phase I	Shanghai	Residential	100%	99%	1%

Development Properties

It is the Group's strategy to focus on the development of large multi-purpose properties for which there is increasing demand in Mainland China. In addition, the division also adopts a tactical approach of adding value to joint venture properties through active participation in project and property management.

Sale and pre-sale activities of the Group's residential properties in Mainland China gained further momentum in 2004. Approximately 92% of the 970,000 square feet wholly-owned Arcadia Court in Futian, Shenzhen, were sold as at 31 December 2004 at an average selling price of over RMB930 per square foot. This project was completed in August 2004.

Following the completion of Central Residences in Fuzhou, Fujian Province in October 2004, 88% of the 374,000 square feet residential development were sold as at 31 December 2004 at an average selling price of over RMB370 per square foot.

Status of Developments

In May, the Group announced a joint venture with Shangri-La Asia Limited ("SA") to develop a multi-purpose property on a 495,000 square feet site adjacent to the 32-storey Shanghai Kerry Centre on Nanjing Road West, in the prestigious Jingan District, Shanghai. The maximum total commitment to the project, in which the Group holds a majority stake, is US$700 million.

This Jingan development will feature a 5-star 640-room Shangri-La hotel, offices, retail, luxury residences and serviced apartments with an estimated total GFA of approximately 3.6 million square feet, which includes a 1 million square feet basement. This project is set to become a new landmark in Shanghai, further enhancing the overall value of the Jingan area and the Group's Shanghai Kerry Centre.

Penthouse of Kerry Residence, Beijing, Mainland China (Left)

Kerry Residence, Beijing, Mainland China (Right)

The Group is the project manager for the Jingan development and is also responsible for the sales of the residential properties and the leasing of the offices, serviced apartments and retail properties. The Group will work closely together with SA to leverage off their respective knowledge and expertise in the completion of this project.

Construction of Phase II of Central Residences in Shanghai is also progressing according to schedule and, after the success of Phase I, we are confident of a successful launch of Phase II in the second quarter of 2005. Central Residences Phase II will have a GFA of approximately 642,000 square feet.

Also in Shanghai, the mixed-use Kerry Everbright City Phase II project which comprises offices, residential and retail properties with a total GFA of 1.6 million square feet in Zhabei District, Shanghai is on schedule for completion in phases up to the end of 2007.

In Beijing, the planning of the Shibalidian re-settlement project is progressing to the final stage. Current occupants of the site, which covers 36.5 million square feet, will be relocated and resettled in stages. The site will accommodate exhibition and convention centre, office, hotel, retail and residential spaces. The Group holds a 20% equity interest in the project through Beijing BHL Logistics Limited.

The Grade-A office project in Futian Central District, Shenzhen, is on schedule for completion in 2007. Developed with an intelligent and environmentally friendly design concept, this state-of-the-art twin-tower complex will have a total GFA of 807,000 square feet.

Properties under Development in Mainland China

	Shanghai	Shenzhen	Beihai	Total GFA upon completion (square feet)
Residential	1,646,214	–	–	1,646,214
Office	676,334	699,660	–	1,375,994
Commercial	246,394	107,640	77,350	431,384
Hotel	409,029	–	–	409,029
Total GFA upon completion (square feet)	**2,977,971**	**807,300**	**77,350**	**3,862,621**

Mid-Levels residential properties,
Hong Kong

Investment Properties in Hong Kong

	Total GFA (square feet)
Residential	1,142,681
Commercial	391,594
Office	345,471
Total GFA (square feet)	**1,879,746**

In addition to existing property interests in major cities, the Group also acknowledges the demand for quality properties in second-tier provinces and municipalities where increasing affluence has led to the emergence of more middle to higher income earner groups and high net worth individuals. Investments in strategic locations are being actively explored.

Hong Kong

In 2004, the Hong Kong property division achieved revenue of HK$1,205 million (2003: HK$1,255 million), representing 24% of the Group's total turnover. Excluding the gain of HK$232 million arising from the revaluation surplus net of deferred tax charge (2003: loss of HK$317 million arising from revaluation deficit, provisions and deferred tax charge), profit attributable to shareholders advanced 499% to reach HK$623 million (2003: HK$104 million). The significant increase in profit was attributable to properties sold during the year at better market prices and improved profit margins.

As at the end of December 2004, the total gross asset value of the division's property portfolio in Hong Kong was HK$14,509 million (2003: HK$12,955 million).

The 2004 revenue derived from the Group's Hong Kong property portfolio comprised rental income of HK$303 million (2003: HK$317 million) from its portfolio of high-quality investment properties, and gross proceeds of HK$902 million (2003: HK$938 million) from sales of properties.

Occupancy rates as at 31 December 2004 for leased residential, retail and office portfolios in Hong Kong were 97% (2003: 90%), 89% (2003: 91%) and 93% (2003: 99%), respectively.

Investment Properties

The launch of the luxury residential development Branksome Crest in Mid-Levels was a milestone in 2004. Completed in the second half of the year, it is now a prestigious residential development in Hong Kong.

In Hong Kong, KERRY RESIDENCE™ has also gained increasing acceptance from corporate and expatriate tenants for the Group's luxury residential properties in the Mid-Levels.

Penthouse of Branksome Crest, Mid-Levels, Hong Kong (Left)

MegaBox* - Enterprise Square Five, Kowloon Bay, Hong Kong (Right)

*Artist's impression

Significant Developments Sold/Pre-sold as at 31 December 2004 in Hong Kong

Project	Location	Usage	Group's interest	Precentage GFA Sold/Pre-sold at the year end	Precentage GFA remaining
Constellation Cove	Tai Po, New Territories	Residential	75%	95%	5%
The Cliveden	Tsuen Wan, New Territories	Residential	50%	93%	7%
Island Harbourview at Olympian City	MTR Olympic Station, Kowloon	Residential	20%	97%	3%
Park Avenue at Olympian City	MTR Olympic Station, Kowloon	Residential	32.5%	98%	2%
Central Park at Olympian City	MTR Olympic Station, Kowloon	Residential	32.5%	96%	4%
Residence Oasis	MTR Hang Hau Station, Tseung Kwan O	Residential	40%	92%	8%
Enterprise Square Three	Kowloon Bay, Kowloon	Office	100%	56%	44%

Development Properties

Development of Enterprise Square Three, a new landmark in Kowloon Bay, was completed in 2004. As at 31 December 2004, 56% of approximately 552,000 square feet of the office GFA was sold.

The Group's 50%-owned joint venture residential development, The Cliveden in Tsuen Wan, was 93% in terms of GFA sold as at the end of 2004. The Group's joint venture developments, Island Harbourview, Park Avenue and Central Park, at Olympian City next to the Olympic MTR station in Tai Kok Tsui, were 97%, 98% and 96% sold in terms of GFA as at the end of 2004, respectively.

Pre-sales of the Group's 40%-held Residence Oasis above the MTR Hang Hau Station in Tseung Kwan O continued in 2004, with 92% of the GFA successfully sold as at the end of December 2004.

Status of Developments

The development of Enterprise Square Five accounts for more than 60% of the Group's GFA available for development in Hong Kong. Enterprise Square Five represents a natural progression of the Group's strategy of creating a core cluster of high-quality commercial properties in the rapidly developing Kowloon Bay district. With foundation works already completed and completion scheduled in the second quarter of 2007, Enterprise Square Five will add approximately 1.6 million square feet of Grade-A retail/office space to the Group's portfolio in Kowloon Bay.

Enterprise Square Five is an office and commercial complex developed in accordance with the innovative 'MegaBox' concept. The idea is to incorporate an integrated entertainment centre targeting young families, with individual floors - each directly accessible by car - designated for different merchandise and activity categories. This new development will further enhance the overall market value

15 Ho Man Tin Hill Road,
Hong Kong

Properties under Development in Hong Kong

	Residential	Commercial	Office	Carparks	Total GFA upon completion (square feet)
For Sale	969,663	–	–	–	969,663
For Investment	–	1,188,575	407,956	37,187	1,633,718
Total GFA upon completion (square feet)	**969,663**	**1,188,575**	**407,956**	**37,187**	**2,603,381**

of the neighbourhood by enabling interaction between the Group's existing properties in Kowloon Bay.

The Group's luxury residential project at 15 Ho Man Tin Hill Road is currently slated for completion on schedule in the first quarter of 2006. This 155,000 square feet landmark property comprising 69 units will further enhance the Group's visibility in the luxury residential sector in Kowloon.

The Tsuen Wan residential project at Kwok Shui Road, with approximately 395,000 square feet of GFA, is progressing on schedule for completion in the fourth quarter of 2007.

The joint venture residential project in Ap Lei Chau is expected to be completed as scheduled in the fourth quarter of 2007. The Group holds a 35% interest in the project, which will provide the Group with approximately 320,000 square feet GFA upon completion.

Macau

We believe that Macau is a market of phenomenal potential growth and opportunity and the Group is in negotiation with regard to the development of a premier residential project in this market. We believe that such project will provide further profitable opportunities to the Group and will, in addition, further diversify the geographical reach of the Group's property portfolio.

The Group aims to leverage its expertise to cater for the quality end of the Macau property market.

Overseas Properties

The Group continues to derive stable income from its overseas property investments in Australia and the Philippines, representing approximately 2.23 million square feet (2003: 2.23 million square feet) of investment properties and 1.8 million square feet (2003: 640,000 square feet) of properties held for development and for sale.

Jacksons Landing, Sydney, Australia (Left)

Shangri-La Plaza Mall, Manila, Philippines (Right)

Australia

In Australia, the Group's 25%-owned Jacksons Landing is a 12-hectare mixed use residential and commercial development on the Pyrmont peninsula in Sydney. When completed, the development will be an upscale neighbourhood, with 1,350 waterfront apartments, terraced houses, heritage buildings and stylish converted loft apartments. The neighbourhood is complemented by a full range of ancillary developments including dining facilities, offices, a 3.5-hectare park and lavish recreational space along the 600-metre waterfront promenade.

During the year, the Group derived its share of net profit after tax of HK$9 million (2003: HK$14 million) from the sales and pre-sales of the Pyrmont peninsula property project. As at the end of 2004, 837 out of the 1,016 units released for sales have been sold.

The Philippines

The Group's investments in the Philippines are held through its 73.88% interest, held both directly and through the purchase of Philippine depository receipts, in EDSA Properties Holdings Inc. ("EPHI"), a company listed on the Philippines Stock Exchange.

The principal holdings of EPHI include a 78.72% stake in the Shangri-La Plaza Mall and indirect interests in

Overseas Property Division

	Philippines	Australia	Total GFA (square feet)
Investment Properties			
Hotel Lease	191,832	–	191,832
Shopping Centre Lease	217,938	–	217,938
Carpark Lease	243,726	–	243,726
Shopping Centre	1,092,757	–	1,092,757
Commercial	5,514	–	5,514
Office	160,660		160,660
Carparks and others	322,464	–	322,464
Sub-total	**2,234,891**	**–**	**2,234,891**
Properties under Development/Held for Sale			
Residential	1,594,100	165,825	1,759,925
Office	–	35,860	35,860
Sub-total	**1,594,100**	**201,685**	**1,795,785**
Total GFA (square feet)	**3,828,991**	**201,685**	**4,030,676**

Enterprise Square developments in Kowloon Bay, Hong Kong

The Enterprise Centre, an office property development in Manila. Both developments reported strong performance in 2004, with occupancy rates of 98% (2003: 98%) and 87% (2003: 81%) as at 31 December 2004, respectively.

Construction of The Shang Grand Tower, a new 250-unit luxury residential condominium project, is in satisfactory progress with completion scheduled for the end of 2005. EPHI holds a 68% beneficial interest in this project. As at the end of 2004, only 82 units (2003: 141 units) remained available for sale.

EPHI has also started the construction of the St. Francis Towers which comprise two 60-storey towers with a total of approximately 1,200 units. Completion of this development is scheduled for 2008.

Outlook

Hong Kong has seen a strong rebound both in economic activity and also in market sentiment, on the back of sustained economic growth in Mainland China, improved personal and corporate balance sheets, and continued integration with the Pearl River Delta. This has been partly fuelled by the implementation of the Closer Economic Partnership Arrangement (CEPA) between Hong Kong and Mainland China in 2003. We believe that Mainland China will continue to benefit from a continuing economic growth in the run-up to the Beijing Olympics in 2008 and the Shanghai Expo in 2010, and that the growth of an affluent consumer sector, particularly in principal metropolitan cities and major secondary cities, is likely to continue and even accelerate. The Group will step up its efforts to explore property development opportunities in the prime locations of major secondary cities to capitalize on such growth.

The Group's healthy land reserve for future property development in Hong Kong and Mainland China will enable the Group to enjoy sustained and balanced growth, and favourable market rental levels should allow the Group to continue to enjoy stable recurrent income from its portfolio of premium investment properties. Given our positive market outlook for the property sector in Hong Kong and Mainland China, the Group is optimistic with regard to the prospects of its property development projects over the next few years.

Management Discussion & Analysis

Review of Logistics Network Division

Asia Based,
China Focus,
Global Network.

Overview

Kerry Logistics Network Limited ("Kerry Logistics") is rapidly becoming the premier service provider of supply chain management and third-party logistics services in Asia. From its roots as a traditional Hong Kong warehousing company, the business has transformed itself over the past few years into a truly Asian based global logistics operator.

Supported by advanced information technology, Kerry Logistics is able to provide customers with integrated services in international freight forwarding, warehousing, transportation, distribution and trading, and third-party contract logistics. In addition, Kerry Logistics utilizes its extensive experience and systems to provide sophisticated solutions to clients' supply chain bottlenecks, as part of a package of value-added services to its growing and sophisticated client base.

During the year, Kerry Logistics has invested extensively in the development of the infrastructure and network of the logistics business in order to expand geographical coverage, improve customer penetration and enhance service quality to customers.

Kerry Logistics has also continued to invest in essential physical infrastructure including warehouses, distribution centres, terminals, ports and container facilities which has resulted in improved general operational efficiency. In addition, the Group's 15% interest in Asia Airfreight Terminal ("AAT") at the Hong Kong International Airport and 25% interest in Chiwan Container Terminal ("CCT") in Shenzhen were transferred to Kerry Logistics which enabled Kerry Logistics to better leverage the synergies and the opportunities with the division's existing operations.

Kerry Logistics had a portfolio of completed warehouses, logistics centres and port facilities of approximately 9.78 million square feet as at 31 December 2004.

Turnover generated by Kerry Logistics during the year ended 31 December 2004 were HK$2,502 million (2003: HK$1,667 million), making it the Group's largest contributor of recurrent revenue in 2004. Profit attributable to shareholders for the year generated by Kerry Logistics increased by 378% to HK$440 million (2003: HK$92 million), or by 174% to HK$252 million if contributions from AAT and CCT were excluded.

Pro-active efforts to expand customer servicing generated an increase in turnover from logistics operation, by 61% to HK$2,106 million in 2004 after a record turnover of HK$1,308 million in 2003.

Logistics and Distribution

From its home base in Hong Kong, Kerry Logistics has expanded its logistics operation in phases, first to Mainland China, then the Asian region and ultimately building a global network.

China Focus

Kerry Logistics is positioned as a premium logistics services provider certified with ISO9001 quality accreditation in Hong Kong. Its customer focus covers industries with rapidly growing requirements for third-party logistics services including electronics, healthcare, components, technology, fashion, retailing, chemical and industrial. During the year, Kerry Logistics has achieved penetration into more niche sectors such as food and beverages, healthcare and luxury brands.

In 2004, Kerry Logistics secured a number of integrated logistics accounts in the food and beverages sector, leveraging on its strength in cold storage and refrigerated trucking. Kerry Logistics now provides a full range of logistics services including handling of food supplies and direct shop distribution to several major food retail chains.

The 464,700 square feet Yantian Port logistics centre in Shenzhen, completed in late 2003, now serves as Kerry Logistics' regional hub in

Kerry Siam Seaport, Laem Chabang, Thailand (Right)

Warehouse/Logistics Facilities Portfolio

	Warehouse	Logistics	Total GFA (square feet)
General Cargo	3,541,709	804,233	4,345,942
Cold Storage	555,692	19,456	575,148
Dangerous Goods	166,961	38,005	204,966
Bonded Goods	83,770	–	83,770
Freight Forwarding	693,196	–	693,196
Ancillary Office	116,245	–	116,245
Public Carparks	718,490	–	718,490
Container Park	–	422,218	422,218
Logistics Centres	–	722,233	722,233
Port Facilities	–	1,901,279	1,901,279
Total GFA (square feet)	**5,876,063**	**3,907,424**	**9,783,487**

the Pearl River Delta. In May 2004, the division acquired a 322,900 square feet site in the Tianjin Free Trade Zone for the development of a 173,300 square feet logistics centre, which is scheduled for completion in mid 2005. In July 2004, the division acquired a 129,200 square feet bonded warehouse facility in Beijing through the acquisition of a subsidiary by Kerry BHL Logistics Limited, an associated company in which the Group has a 50% interest. In August 2004, the division also completed the construction of a 152,700 square feet bonded logistics centre in Shanghai's Waigaoqiao Free Trade Zone. In December 2004, Kerry Logistics also acquired a 107,600 square feet site in Futian Free Trade Zone, Shenzhen for the development of a logistics centre. Completion is scheduled for the first quarter of 2006.

On 31 December 2004, Kerry Logistics acquired a 50% interest in the state-owned EAS International Transportation Ltd. ("EAS PRC"), and acquired an additional 20% interest in EAS PRC in January 2005. EAS PRC is one of the largest logistics companies in Mainland China. Kerry Logistics is now integrating the business operations of EAS PRC with Kerry Logistics' existing operations in Mainland China. EAS PRC has changed its name to Kerry EAS Logistics Limited ("Kerry EAS Logistics"), which will become a new flagship for Kerry Logistics to further spearhead its business expansion in Mainland China.

The acquisition of EAS PRC gives Kerry Logistics a leading nationwide logistics operation which has 120 offices covering all provinces, with 11 strategically-positioned distribution hubs in Mainland China.

The pan-China coverage of the Kerry EAS Logistics facility infrastructure, combined with more than 700 operating licences in Mainland China, enables the division to offer a comprehensive range of logistics solutions and services both to Kerry Logistics' existing and potential client portfolio.

Asia Based

As part of its strategy to expand coverage and secure its position as an Asia specialist, Kerry Logistics has been growing its logistics network across Southeast Asia. On the back of this expansion, freight forwarding recorded 46% and 110% growth in turnover and attributable profit, respectively, during the year.

Kerry Logistics' developments in Southeast Asia commenced in 2001 with the development of a 180,800 square feet logistics centre in Laem Chabang, south of Bangkok, Thailand, which commenced operation in 2002. In March 2004, the division further acquired a 54.98% interest in Siam Seaport Terminal & Warehouses Co., Ltd. ("SSP"), located near Laem Chabang. SSP was subsequently renamed as Kerry Siam Seaport Limited. Currently with four berths, this facility is equipped to load and discharge up to four 100,000 DWT bulk carriers and also provides warehousing and distribution services within Thailand.

In 2003, Kerry Logistics established operations in the Philippines and Vietnam. In 2004, Kerry Logistics restructured its operations in Singapore, Malaysia and Indonesia by forming a joint venture with Pacific Carriers Limited and, through Kerry Logistics' 67%-owned subsidiary Kerry Logistics (Malaysia) Sdn Bhd., acquired a 46.6% interest in Kuok Pengangkutan Sdn Bhd ("KP"). KP is a Kuok Group company with over 30 years of logistics experience in Malaysia.

In May 2004, Kerry Logistics established Kerry Freight (Taiwan) Limited in Taiwan, in which Kerry Logistics has 51% interest.

Global Network

Kerry Logistics is steadily increasing its access to global markets by expanding its network and through strategic alliances with key local players.

In April 2002, Kerry Logistics made its first advance in Europe by acquiring a 91% interest in Trident International Limited, now re-named Kerry Logistics (UK) Limited. To provide further integration of the European market into its global network, Kerry Logistics entered into a strategic alliance with Rhenus AG & Co. KG ("Rhenus") in late 2002 to form a 50%-owned Kerry Rhenus Logistics (Far East) Limited. Under this joint venture arrangement, Kerry Logistics and Rhenus will be the preferred partner for contract logistics projects in Asia and Europe, respectively.

Container Park,
Adelaide, Australia

To date, Kerry Logistics (UK) Limited continues to provide strategic penetration of the key British market. It is a leading independent logistics services provider and warehouse operator in the United Kingdom with a strong focus on the United Kingdom/Asia-Pacific trade lanes, and is a key European component in the further development of Kerry Logistics' global network.

To further develop a global freight forwarding presence, a new freight office was set up in Los Angeles in the United States in May 2004.

Warehousing — Hong Kong

Kerry Logistics continues to be the single largest warehouse owner and operator in Hong Kong, with a portfolio of 13 warehouses comprising an aggregate GFA of 6.74 million square feet which is engaged in the provision of warehouse and logistics facilities. Through continuous quality maintenance, streamlining of operations and new servicing innovations, the warehouses achieved an average occupancy rate of over 95% in 2004 (2003: 92%).

The outlook for the warehouse operation will continue to be buoyed by sustained local economic growth and a strong demand for warehouse space.

Logistics Infrastructure

In January 2004, the division extended its capabilities in logistics infrastructure through the transfer from the Infrastructure division of the Group's 15% interest in AAT, with a volume throughput exceeding 500,000 tonnes in 2004.

Also transferred to Kerry Logistics during 2004 was the Group's 25% interest in CCT, located on the eastern side of the Pearl River Delta in Shekou, Shenzhen. CCT is the most cost-competitive terminal in southern China with four berths and efficient highway connections with Shenzhen, Kowloon and Guangzhou. During 2004, volume throughput handled by CCT exceeded 2.5 million TEUs, an increase by 32% when compared with 2003.

The transfer of AAT and CCT from the Infrastructure division to Kerry Logistics offers synergies and opportunities to be generated between the AAT and CCT facilities and the division's existing operations. This was witnessed in the business volume growth achieved by these facilities, capitalising on the increasing demand for trans-Pacific logistics and freight forwarding services through air freight and sea freight.

During 2004, the Group derived total net profits of HK$188 million (2003: HK$114 million) from its investments in AAT and CCT, showing an increase of 65%.

Kerry WaiGaoQiao Logistics Centre,
WaiGaoQiao Free Trade Zone,
Shanghai, Mainland China

Information Technology

Information technology is extremely important to the success of Kerry Logistics' operation. In March 2004, it deployed a new applications system module, 'KerrierSSS', to support the agency and distribution businesses. Kerry Logistics is committed to upgrade the 'Kerrier' systems to the third generation with additional functionalities such as business intelligence, enterprise collaboration, global accessibility and visibility to facilitate its global expansion initiative. Looking forward, Kerry Logistics will continue to bolster up its IT capabilities and keep abreast of technological innovation to further consolidate its leading position in the market.

Awards

Kerry Logistics continues to receive public recognition for its outstanding performance in logistics services. In addition to being the recipient of the 'Grand Award Winner' in the Hong Kong Awards for Services 2003 in the Export Marketing Category, Kerry Logistics was also the proud winner of FTBAsia.com's Asia Logistics Awards 2004 in the 'Youth Development' category, recognizing Kerry Logistics' creativity and innovation in youth training in the logistics and freight forwarding businesses.

In May 2004, Mr Ang Keng Lam, Chairman of Kerry Properties Limited and Kerry Logistics, was awarded the 'Lifetime Achievement Award' in the AFSCA (Asian Freight & Supply Chain Awards) organized by Cargonews Asia, for his contributions and commitment to the logistics and supply chain industry, and for his leadership in managing a new global logistics network.

Outlook

The logistics industry in Asia Pacific is set to continue to experience strong growth in 2005 and beyond, benefiting from the increasing trend for global supply chain operations to focus on the Asia Pacific region, especially Mainland China. Kerry Logistics will continue to capitalize on the fast expanding trade between Mainland China and the rest of the world, to strengthen and consolidate Kerry Logistics' position in the markets in which it operates.

In 2005, Kerry Logistics will continue to focus on its core activities in Mainland China and further strengthen the scope and quality of its Mainland China coverage through Kerry EAS Logistics. The third quarter will see the commissioning of the Tianjin Logistics Centre, and by early 2006 the Futian Logistics Centre in Shenzhen will commence operation.

In a strategic bid to complete its Asian presence, Kerry Logistics plans to strengthen its land transportation capabilities in South East Asia. Further expansion is also planned in other strategic locations in Europe and the United States through joint ventures or alliances to develop Kerry Logistics into a truly global operation.

Review of Infrastructure Division

Viable Projects, Environmental Focus, Community Contribution.

Overview

The Group's infrastructure business consists of strategic investments in major infrastructure projects in Hong Kong and Mainland China. The Group's strategy is to act as a value-adding partner, sharing expertise and financial resources with strong strategic partners who possess successful track records in the targeted industries. This strategy is designed to secure recurrent income for the Group and to enable it to build up a track record in infrastructure developments which can be replicated in strategic contexts in Mainland China and elsewhere.

The division's strategy is to contribute to these joint venture projects technology know-how, project and construction management expertise, global equipment procurement capability, operations and maintenance expertise as well as financing and funding resources. The division maintains a prudent development policy, focusing on risk management and businesses that provide stable, recurrent income and attractive financial returns.

Business Focus

The Group has a diversified infrastructure investment portfolio. In Hong Kong, this includes the Group's 15% interest in the operation of the Western Harbour Tunnel and the management of the Hunghom Cross Harbour Tunnel. In Mainland China, this includes the development of a coal-fired power-plant in Jiangxi Province and the operation, ownership and maintenance of a water treatment project in Hohhot, Inner Mongolia, both announced during 2004.

In addition, the division is currently focusing on environmental-related businesses in Mainland China, where robust economic development and real GDP growth have contributed to rapid urbanization.

Rapid GDP growth in Mainland China has also led to a corresponding increase in living standards for urban residents, creating a middle class whose disposable incomes have in turn generated a demand for a higher quality of life in terms of housing and education and such environmental-related factors as cleaner water and pollution-free air. Greater awareness of environmental-related issues has thus contributed to a greater demand for facilities to purify drinking water, treat sewage and diffuse airborne effluents prior to discharge into the atmosphere.

This scenario has coincided with a timely change in the Central Government's policies, such as on the one hand enforcing greater control of pollution emissions while, on the other, relaxing controls over foreign participation in a number of environmental-related areas.

The division's focus therefore now lies in three areas: water treatment, sewage treatment and municipal solid-waste treatment (including waste-to-energy facilities).

Various operational concepts are being adopted by the division on current or future infrastructure investment projects. These consist of greenfield projects to be completed on a build-operate-transfer (BOT) basis under concession, or a build-own-manage basis; extension of current facilities, or upgrading of existing facilities on a transfer-operate-transfer (TOT) basis; and private-public participation (PPP) basis.

Major Investments In 2004

Announced in October 2004 was the Group's plan to build and operate a 2x600 megawatt power plant in Jiangxi Province with three mainland partners. Kerry Electricity (Jiangxi) Ltd., a wholly owned subsidiary of the Group, will invest RMB412.5 million in the project for a 33% stake. Upon its completion, the RMB5 billion coal-fired power plant will comprise two 600-megawatt generators, making it one of the largest power plants in Jiangxi Province.

In November 2004, the Group announced the formation of a joint venture which will invest in a water treatment project in Hohhot, Inner Mongolia. Kerry CQ JV Environmental Engineering Limited, in which the Group owns a 50% stake through its wholly-owned subsidiary Kerry Environmental Limited, will invest a maximum of RMB143 million in the ownership, operation and maintenance of water treatment facilities in the city.

Chemquest (Overseas) Limited, the joint venture partner in this water treatment project, is a Kuok Group member with strong background in the investment and management of environmental engineering projects. The Group will draw on Chemquest's expertise in strengthening its foothold in the environmental-related infrastructure sector.

Outlook

The focus for the Group's new infrastructure developments during 2005 and beyond will be mainly in Mainland China. To the Yugan power plant and Hohhot water treatment projects will be added other commercially viable investments in environmental-related businesses. The Board believes that investments in the abovementioned infrastructure projects are capable of generating stable and recurrent income to the Group over the long term, as well as making positive contributions to the communities where they are located.

The Group's Infrastructure division will continue to carefully manage its overall exposure to these ventures. The Group will continue to consider other profitable infrastructure investment opportunities as and when they arise.

Financial Review

The Group has centralized funding for all its operations at the Group level where foreign exchange exposure is also reviewed and monitored. This policy also achieves better control of treasury operations and lower average cost of funds. Foreign exchange exposure for the Group is small relative to its total asset base.

As at 31 December 2004, total foreign currency borrowings excluding Renminbi (RMB) borrowings amounted to approximately HK$690 million (2003: HK$74 million) whilst RMB loans amounted to RMB259.5 million (2003: RMB532 million).

Total borrowings for the Group as at 31 December 2004 amounted to HK$6,157 million, of which approximately 11% was repayable in one year whilst approximately 12% and 77% were repayable in two years and between three to five years, respectively. The gearing ratio for the Group as at 31 December 2004 was approximately 17%, based on net debt of HK$3,923 million and shareholders' equity of HK$23,025 million. During the year, the Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 93% of total borrowings as at 31 December 2004. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises. The Group will also continue its policy of maintaining a prudent gearing ratio.

The majority of the Group's borrowings bear interest costs which are based on floating interest rates. As at 31 December 2004, the Group had outstanding interest rate swap contracts amounting to HK$2.26 billion in total.

As at 31 December 2004, the Group had total undrawn bank loan and overdraft facilities of approximately HK$7,855 million and net cash on hand of approximately HK$2,234 million. The generation of strong recurrent cash flows from its investment property portfolio and logistics, freight and warehousing businesses provides the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

In order to take advantage of the low interest rate environment, the Group signed a syndicated loan agreement on 25 June 2004 for a five-year unsecured HK$7 billion loan facility. The interest rate for this facility is HIBOR plus 35 basis points. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK$6 billion syndicated loan facility during the year. Responses from the banking community to this loan facility were very enthusiastic with participations received from 20 reputable banks and financial institutions.

On 28 June 2004, Standard and Poor's reaffirmed a "BBB-" credit rating for Kerry Properties Limited with a stable outlook.