

Chairman's STATEMENT

Mr Ang Keng Lam
Chairman of the Board of Directors



It gives me great pleasure to report to shareholders the annual results of Kerry Properties Limited (the "Company"), its subsidiaries and associated companies (collectively, the "Group") for the year ended 31 December 2005.

RESULTS

The Group's profit attributable to shareholders for the year ended 31 December 2005 was HK\$3,067 million, representing an increase of 35% compared with HK\$2,271 million reported for 2004. The increase in the Group's earnings is attributable to the 29% increase in earnings contribution from the Hong Kong property business, the 16% increase from the logistics business and the increase in fair values of investment properties which were recognized in the Group's income statement during the year.

Earnings per share for the year were HK\$2.53, representing an increase of 33% compared with HK\$1.90 per share in 2004.

Shareholders should note that these are the first annual results published by the Company following the adoption of a number of new or revised Hong Kong accounting standards which took effect from 1 January 2005. The most significant of these is the adoption of the fair value model in the accounting treatment of investment properties. Set out below are the effects of adopting this accounting policy on the Group's profit attributable to shareholders.

	Year ended 31 December		Increase
	2005 HK\$ million	2004 HK\$ million	
Profit attributable to shareholders before taking into account the net change in fair values/revaluation surplus of investment properties and related tax effects	1,759	1,580	11%
Add: Net change in fair values/revaluation surplus of investment properties and related tax effects	1,308	691	
Profit attributable to shareholders	3,067	2,271	35%

The Board has recommended the payment of a final dividend of HK\$0.50 per share for the year, with a scrip dividend alternative. Together with the interim dividend of HK\$0.20 per share, the total dividend for the year ended 31 December 2005 will be HK\$0.70 per share, representing an increase of 17% compared with HK\$0.60 per share in 2004.

HIGHLIGHTS OF THE GROUP'S OPERATIONS IN 2005

I. Property investment and development

Mainland China

Our Mainland China Property Division recorded a net profit attributable to shareholders of HK\$372 million during the year, representing a decrease from HK\$548 million in 2004.

As a result of the Central Government's policy to relieve pricing pressures, the past year was characterized by a slowdown in residential property sales in Mainland China. However, our investment property portfolio, including Beijing Kerry Centre, Shanghai Kerry Centre and Shenzhen Kerry Centre, continued to enjoy high occupancy rates and generated strong recurrent earnings for the Group. During the year, we also took the opportunity to add quality sites measuring a total developable GFA of 4.6 million square feet to our development land bank.

In October 2005, we entered a joint venture agreement with Shangri-La Asia Limited, Allgreen Properties Limited and Shanghai Lujiazui Finance & Trade Zone Development Co. Ltd. to develop a mixed-use project in Shanghai's prestigious Pudong District, located near the Shanghai New International Expo Centre. We have a 40.8% interest in this prime development which measures a total of 2.48 million square feet in GFA. This project will complement the

development of Shanghai's Pudong District in the lead-up to the 2010 Shanghai Expo event.

The Group is also investing in and capitalizing on the growth of major secondary cities which are undergoing economic expansion. We have acquired prime sites in Hangzhou with a buildable GFA of 1.8 million square feet, and in Yangzhou with a buildable GFA of 1 million square feet.

These investments are in line with the Group's core business strategy of developing large scale mixed-use properties, catering to the needs of the increasingly affluent consumers in Mainland China.

Hong Kong

Our Hong Kong Property Division recorded a net profit attributable to shareholders of HK\$1,429 million during the year, representing an increase from HK\$1,187 million in 2004.

In 2005, Hong Kong's strong economy led to a significant upward movement in both residential and office rental rates. The Group capitalized on the high demand for quality office space and luxury residential properties, by selling certain properties at attractive profit margins during the year.

Before the year end, we have settled the land premiums for the property developments in Ap Lei Chau and Tsuen Wan. Furthermore, the Group acquired a number of prime sites on Hong Kong Island this year; these include one located at Shelley Street in the popular "SOHO" District, and another located at First Street/Second Street in Mid-Levels West. These sites offer excellent development potential for the Group.

During the year, the Group made strong progress with the Enterprise Square Five development in Kowloon Bay. It is a large retail entertainment complex (known as "MegaBox") with twin tower grade-A offices, and is a major component of our property portfolio in Hong Kong. Upon its completion in mid-2007, Enterprise Square Five will become a leading landmark within the district, and will further enhance the value of the Group's adjacent existing office and commercial properties.

As at 31 December 2005, properties under development in Hong Kong measured an aggregate GFA of 3.1 million square feet, which provides a strong land bank for our development programme in Hong Kong up to 2009.

Macau

Macau witnessed a thriving economy in 2005. We remain optimistic on the future of Macau and its potential economic growth, and the Group is committed to developing a luxury residential project in the city.

II. Logistics Network

Kerry Logistics Network Limited, the Group's Logistics Division, recorded net profit attributable to shareholders of HK\$1,085 million during the year, representing an increase from HK\$438 million in 2004.

The Logistics Division carried out extensive expansion plans in 2005. In Thailand, we completed the construction of an 800,000 square-foot Inland Container Depot in Siam Seaport, located near Laem Chabang, South of Bangkok. In Europe, we expanded our operations to Spain and also acquired two local companies in the United Kingdom engaged in various logistics services. We entered an agency agreement with Lynden International, a US-based company with offices in the United States, Canada, Mexico and Puerto Rico, to develop trans-Pacific freight forwarding businesses.

In Mainland China, a major milestone was marked for the division after our acquisition of a 70% equity interest in EAS International Transportation Ltd., now renamed Kerry EAS Logistics Limited ("KEAS"). Established for over 20 years with over 120 offices serving over 1,100 cities throughout Mainland China, KEAS is now one of the leading logistics operators in Mainland China. Furthermore, with the completion of a 173,000 square-foot bonded logistics centre in Tianjin's Free Trade Zone in 2005 along with others strategically located in the Free Trade Zones of Yantian, Beijing and Shanghai's Waigaoqiao, we now have a bonded logistics centre portfolio of over 1 million square feet in total.

CHAIRMAN'S STATEMENT (Continued)

Through strategic alliances and acquisitions, our network now covers Mainland China, various parts of Asia, Europe, Australia and North America. We have business operations in 13 countries, and have grown to become a major Asian-based international logistics operator.

In recognition of our outstanding achievements, Kerry Logistics was the winner of the Local (Hong Kong) Logistics Award and the Mainland Logistics (non-SME) Award at the *Logistics Awards Hong Kong 2005*, organized by the Hong Kong Trade Development Council and four other renowned local trade associations.

III. Infrastructure

The Division recorded net profit attributable to shareholders of HK\$38 million in 2005 (2004: HK\$31 million), which is mainly attributable to its investment in the Western Harbour Crossing in Hong Kong. We will continue to focus on investment opportunities in the utilities, energy recycling and environmental protection-related sectors in Mainland China to generate recurrent income for the Group.

PROSPECTS

Mainland China's economy demonstrated a robust performance in 2005, with GDP growth of 9.9%, a strong export sector and low domestic inflation. We believe this strong performance will continue in 2006. The introduction of the State Council's land tender policies has meant increased transparency and better accessibility for foreign investors to acquire land in Mainland China. We believe that the Central and Provincial Governments will continue to invest in more quality infrastructure and allocate more resources to the rural areas, as 2006 marks the first year of the Central Government's eleventh Five-Year Plan. Under such an economic environment, we expect strong liquidity and increased affordability, fuelling the local demand for quality properties.

Similarly, Hong Kong experienced a year of strong growth. With GDP growth of 7.6%, inflation maintained at 1% and an overall increase in wage levels, Hong Kong's property market experienced a rise in demand. Our outlook for 2006 remains positive; this is primarily due to the aforementioned

sustainable economic growth of Mainland China, Hong Kong's niche in the trade and financial services sectors and its booming tourism industry. The market's expectation of an end to the interest rate hikes will also have a positive effect on the property sector.

On the logistics front, we aim to widen our global client base and to enhance our international profile. We will continue to venture into new markets such as India, the Middle East and other parts of Europe, in search of strategic alliances and investments to expand our business network. We will continue to invest in advanced technology for our logistics operations as we believe that technological innovation is paramount in maintaining our competitive advantage in the industry.

In line with our mission statement of "Aspiring to Excellence", we will continue to develop a portfolio of premium assets in the property, logistics and infrastructure sectors. With a positive economic outlook for 2006, the Group will participate in development opportunities which we believe not only benefit the communities we invest in, but also offer optimal financial returns to the Group and to our shareholders.

APPRECIATION

On behalf of the Board, I would like to express my sincere appreciation to the Group's management and staff for their diligence, loyalty and dedication. I am grateful to the members of the Board for their valuable counsel and guidance, as well as to our investors and strategic partners for their unflinching support and confidence which has ultimately contributed towards the Group's success.



Ang Keng Lam

Chairman

Hong Kong, 24 March 2006