OVERALL RESULTS

The Group continued to demonstrate a strong financial performance during the year ended 31 December 2005. Turnover of the Group for the year was HK$8,009 million, which registered an increase of 57% when compared with the turnover of HK$5,102 million for 2004. The Group's turnover mainly comprises proceeds from the continuing sales of properties, rental income as well as revenue from hotel operations, warehouse operations and logistics services. The increase in turnover during the year was attributable to the growth in rental income, the improved performance of Beijing Kerry Centre Hotel and the revenue contribution from logistics services.

In accordance with the new Hong Kong accounting standard on accounting for investment properties, the change in fair values of investment properties is recorded in the income statement. During the year ended 31 December 2005, the net change in fair values of the Group's investment properties and related tax effects in the aggregate amount of HK$1,308 million was recognized in the Group's consolidated income statement.

The effect on the Group's profit attributable to shareholders due to the net change in fair values/revaluation surplus of the Group's investment properties and related tax effects is as follows:

	Year ended 31 December		
	2005 HK$ million	2004 HK$ million	Increase
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%

Excluding the effect of the net change in fair values/ revaluation surplus of the Group's investment properties and related tax effects, the 11% year-on-year increase in the profit attributable to shareholders is mainly attributable to the Hong Kong Property Division and the Logistics Network Division, which demonstrated a year-on-year increase of 29% and 16%, respectively.

Review of

PROPERTY BUSINESS

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

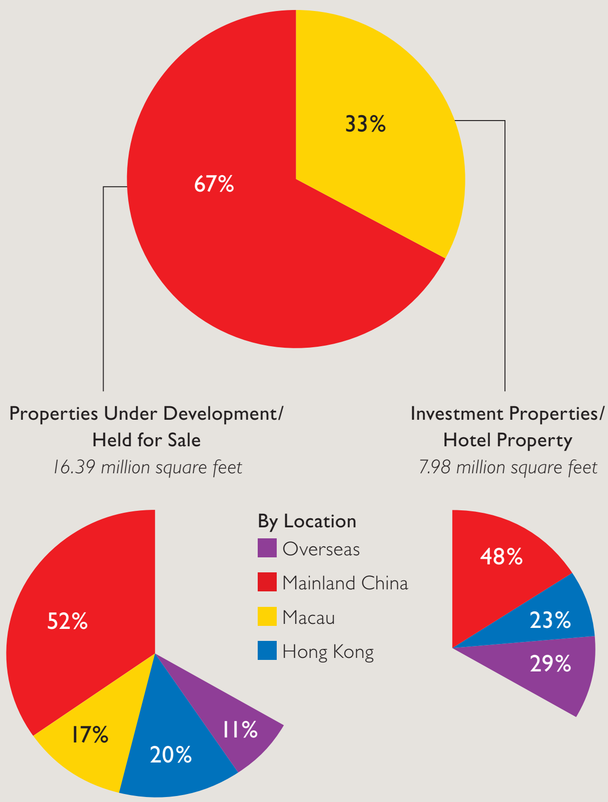
OVERVIEW

During the year ended 31 December 2005, the Group acquired a number of new property sites in Hong Kong and Mainland China. These acquisitions effectively increased the Group's land bank, and enabled the Group to reap the benefits of the positive outlook of the property sectors in these territories.

As at 31 December 2005, the Group maintained a portfolio (measured in gross floor area ("GFA")) comprising 16.17 million square feet (2004: 11.03 million square feet) of properties under development, 7.47 million square feet (2004: 7.48 million square feet) of completed investment properties and 0.22 million square feet (2004: 0.56 million square feet) of properties held for sale. Such a portfolio provides the Group with an opportunity to enjoy the attractive financial returns arising from the sales of properties, as well as from leased properties. This portfolio will generate a strong sales and recurrent income maintaining the Group's positive growth momentum going forward.

PROPERTY PORTFOLIO COMPOSITION

24.37 million square feet of GFA



PROPERTY PORTFOLIO COMPOSITION

	Mainland China (sq.ft.)	Hong Kong (sq.ft.)	Macau (sq.ft.)	Overseas (sq.ft.)	Total GFA (sq.ft.)
Investment Properties	3,334,070	1,803,751	-	2,336,897	7,474,718
Properties Under Development	8,446,719	3,146,151	2,800,000	1,780,695	16,173,565
Properties Held for Sale	27,714	179,068	-	13,304	220,086
Hotel Property	499,642	-	-	-	499,642
Total GFA	**12,308,145**	**5,128,970**	**2,800,000**	**4,130,896**	**24,368,011**

MAINLAND CHINA PROPERTY DIVISION

During the year ended 31 December 2005, the Mainland China Property Division reported turnover of HK$1,012 million (2004: HK$1,351 million) and a net profit attributable to the Group of HK$372 million (2004: HK$548 million), after taking into account the increase in fair values of investment properties (after deferred taxation) of HK$77 million (2004: HK$107 million). Excluding the effect of the increase in fair value of investment properties (after deferred taxation), net profit attributable to the Group amounted to HK$295 million (2004: HK$441 million). The decrease in turnover and net profit in 2005 is mainly due to the decrease in the sales of properties in Mainland China compared with 2004.

The Division remains extremely selective in its choice of new investments. In terms of new property developments, prime locations are preferred where land supply is relatively restricted, in order to ensure sustainable asset value and strong resilience during periods of market uncertainties. Behind this strategy also lies a long-standing mission for the Group to build on its expertise and reputation in Mainland China's property market in creating a profile of strategically-located, high-end properties in élite neighbourhoods.

The Group continues to focus on the development of large-scale, mixed-use property projects in key locations. The cross-marketing effect between the various categories of a mixed-use property development project will inevitably enhance property values and rental rates.

Investment Properties

During the year ended 31 December 2005, the Group's portfolio of investment properties in Mainland China generated rental turnover and operating profit from rental activities of HK$542 million and HK$428 million, respectively (2004: HK$493 million and HK$363 million, respectively).

The Group's investment property portfolio in Mainland China as at 31 December 2005 comprised an aggregate GFA of 3.33 million square feet (2004: 3.37 million square feet). The geographical distribution of the Group's investment properties in Mainland China is set out in the table below.

INVESTMENT PROPERTIES IN MAINLAND CHINA

	Beijing (sq.ft.)	Shanghai (sq.ft.)	Shenzhen (sq.ft.)	Fuzhou (sq.ft.)	Total GFA (sq.ft.)
Office	814,665	632,259	132,204	-	1,579,128
Commercial	184,998	400,707	107,256	63,986	756,947
Residential	277,330	148,688	-	-	426,018
Carparks & Others	194,698	235,075	142,204	-	571,977
Total GFA	**1,471,691**	**1,416,729**	**381,664**	**63,986**	**3,334,070**

REVIEW OF PROPERTY BUSINESS (Continued)

As at 31 December 2005, the Group's investment property portfolio of office, commercial and residential properties achieved occupancy rates of 95%, 92% and 72%, respectively (2004: 97%, 97% and 72%, respectively). Highlights of the occupancy rates of the Group's major investment properties in Mainland China as at 31 December 2005 were as follows:

OCCUPANCY RATES OF MAJOR INVESTMENT PROPERTIES IN MAINLAND CHINA

Property	***Occupancy rate as at 31 December 2005***	*Occupancy rate as at 31 December 2004*
Beijing Kerry Centre	**89%**	89%
Shanghai Kerry Centre	**91%**	89%
Shenzhen Kerry Centre	**96%**	96%
Kerry Everbright City Phase I	**95%**	98%

Sales of Completed Properties

Sales of completed properties during the year ended 31 December 2005 contributed turnover and operating profit of HK$149 million and HK$37 million, respectively (2004: HK$595 million and HK$196 million, respectively). Turnover and profit contributions from property sales in Mainland China recorded during 2005 were generated mainly from the sales of units of Arcadia Court and Regency Park Phase IIIB in Shenzhen and Central Residences in Fuzhou.

Properties under Development

The Group made key investments in Mainland China during the year ended 31 December 2005, with a view to develop a balanced portfolio of properties for sale, development and investment. The Group continues to build on its strong presence in Shanghai, Beijing and Shenzhen, and has begun to explore property development opportunities in major secondary cities which are experiencing economic growth in order to tap into their market potential and increasingly affluent consumer sectors.

In relation to the mixed-use property development project in Jingan District, Shanghai, the Company and Shangri-La Asia Limited ("SA") jointly announced in December 2005 that all the underlying contract approvals had been obtained

PROPERTIES UNDER DEVELOPMENT IN MAINLAND CHINA

	Shanghai (sq.ft.)	*Shenzhen (sq.ft.)*	*Beihai (sq.ft.)*	*Hangzhou (sq.ft.)*	*Yangzhou (sq.ft.)*	*Manzhouli (sq.ft.)*	*Total GFA upon completion (sq.ft.)*
Residential	1,367,638	-	-	-	-	-	1,367,638
Apartments	328,747	-	-	376,740	494,283	627,444	1,827,214
Office	1,076,372	807,300	-	-	-	-	1,883,672
Commercial	384,737	-	77,350	861,120	-	88,868	1,412,075
Hotel	825,900	-	-	592,020	538,200	-	1,956,120
Total GFA upon completion	**3,983,394**	**807,300**	**77,350**	**1,829,880**	**1,032,483**	**716,312**	**8,446,719**

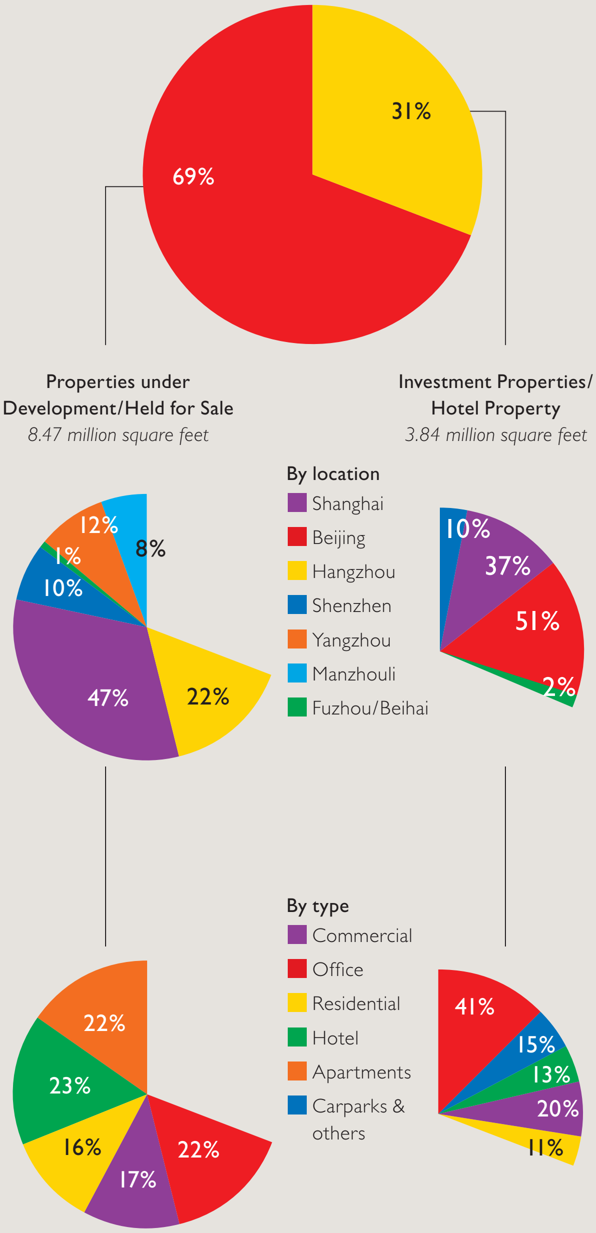
Futian Office,*
Shenzhen, Mainland China (right)

Kerry Everbright City Phase II,*
Shanghai, Mainland China (far right)

* Artist's impression

MAINLAND CHINA PROPERTY PORTFOLIO

12.31 million square feet of GFA



from the PRC Government, apart from one supplemental contract relating to one of the sites within the project. Accordingly, the deadline for the execution of all the underlying contracts for the project was extended to 30 June 2006 (or such other date as the Company and SA may agree). Development and construction works of the project are expected to commence in the fourth quarter of 2006.

Completion of Central Residences Phase II, a luxury residential development in Changning District, Shanghai, is scheduled for the second quarter of 2006. Structural, mechanical and electrical works have been completed and interior finishes are in progress. The project will have a total developable GFA of 641,000 square feet.

Upon completion, the mixed-use Kerry Everbright City Phase II development in Shanghai will deliver a total GFA of 1,576,000 square feet, and is designated for office, residential and retail purposes. With the Phase IIa foundation works completed and basement works in progress, the residential towers are expected to be completed in the second quarter of 2007. Phase IIb foundation works are currently in progress.

In Shenzhen, development of the 807,000 square-feet grade-A office complex in Futian Central District is scheduled for completion in the third quarter of 2007. Meanwhile, development of a 323,000 square-feet site in Manzhouli, Inner Mongolia, is expected to be completed by 2009.

REVIEW OF PROPERTY BUSINESS (Continued)

In November 2005, the Group announced its successful acquisition from the Hangzhou Bureau of Land Resources of a site in Xia Cheng District, Hangzhou, Zhejiang Province. The total developable site area is 710,000 square feet, offering a total buildable GFA of 1,830,000 square feet and will be earmarked for a mixed-use development comprising a hotel, apartments and a commercial shopping complex. It is scheduled for completion in 2009. The site is strategically located close to the famous Xihu (West Lake) tourist attraction and the major commercial district along Yan An Road. The rapid economic growth of the Yangtze River Delta Region is expected to generate a strong demand for high-end residential and commercial properties in the area including Hangzhou, giving the Group a competitive advantage with long-term growth prospects.

In November 2005, the Group also acquired a land site in Yangzhou, Jiangsu Province. The site has an area of 469,000 square feet and offers a total buildable GFA of 1,032,000 square feet for hotel and apartment developments, which are scheduled for completion in 2009.

In December 2005, the Group jointly announced with SA the acquisition of a 634,000 square-feet site in Pudong, Shanghai, to be developed into a mixed-use property comprising hotel, offices, serviced suites/serviced apartments, commercial properties and related ancillary facilities. The site is located adjacent to the Shanghai New International Expo Centre. The site is expected to offer an above-ground buildable GFA of 2,476,000 square feet, and is scheduled for completion in 2009. The Group has a 40.8% interest in this joint venture project, for which the Group's maximum commitment is US$240,720,000 (approximately HK$1,877,616,000).

Based on the new projects mentioned above, the Group acquired four land sites with a total buildable GFA measuring 4.6 million square feet during the year which comprise the following:

TOTAL BUILDABLE GFA OF LAND SITES ACQUIRED DURING THE YEAR

Project	*Location*	*Usage*	*Group's Interest*	*Group's attributable buildable GFA as at 31 December 2005 (sq.ft.)*
Manzhouli Apartments/ Commercial	Manzhouli, Inner Mongolia	Apartments/Commercial	100%	716,312
Hangzhou Complex Development	Hangzhou	Apartments/Commercial/ Hotel	100%	1,829,880
Yangzhou Complex Development	Yangzhou	Apartments/Hotel	100%	1,032,483
Shanghai New International Expo Complex Development	Pudong, Shanghai	Office/Apartments/ Commercial/Hotel	40.8%	1,010,094
Total buildable GFA				**4,588,769**

Beijing Kerry Centre Hotel

During the year ended 31 December 2005, Beijing Kerry Centre Hotel generated turnover and operating profit of HK$321 million and HK$111 million, respectively (2004: HK$263 million and HK$84 million, respectively), representing year-on-year increases of 22% and 32%, respectively. During the year, Beijing Kerry Centre Hotel achieved an average occupancy rate of 79% (2004: 78%), and an increase in average room tariff by 16% compared with 2004.

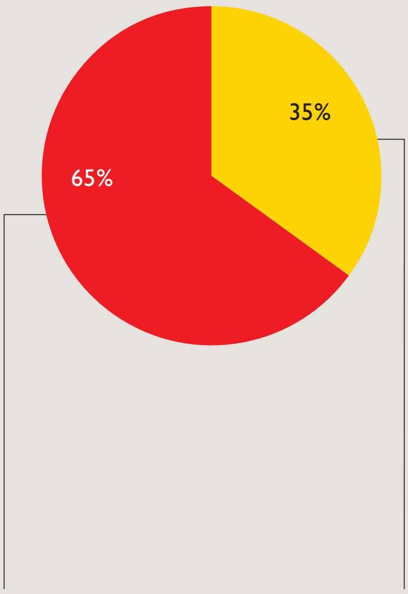
HONG KONG PROPERTY DIVISION

During the year ended 31 December 2005, the Division contributed turnover of HK$1,415 million (2004: HK$1,205 million) to the Group, representing an increase of 17% year-on-year. Net profit attributable to the Group also increased by 20% to HK$1,429 million (2004: HK$1,187 million) during the year, after taking into account the increase in fair values of investment properties (after deferred taxation) of HK$649 million (2004: HK$584 million). Excluding the effect of the increase in fair value of investment properties (after deferred taxation), net profit attributable to the Group increased by 29% to HK$780 million (2004: HK$603 million).

Benefiting from a healthy Hong Kong property market, the rental and occupancy rates of the Group's investment properties in Hong Kong were sustained at high levels during the year, with sales of completed properties contributing to satisfactory profit margins for the Division.

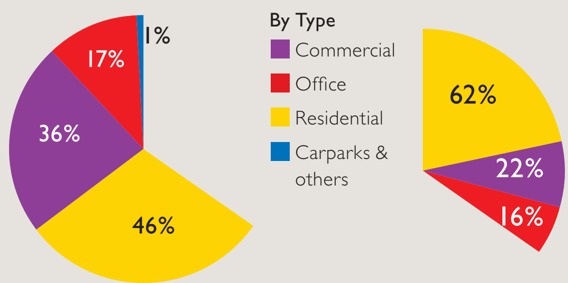
HONG KONG PROPERTY PORTFOLIO

5.13 million square feet of GFA



Properties under Development/Held for Sale
3.33 million square feet

Investment Properties
1.80 million square feet



Beijing Kerry Centre, Beijing, Mainland China (far left)

Mid-Levels residential properties, Hong Kong (left)

REVIEW OF PROPERTY BUSINESS (Continued)

Investment Properties

The Group's premium portfolio of investment properties continue to provide steady income and earnings contributions to the Group. During the year ended 31 December 2005, the Group's portfolio of investment properties in Hong Kong generated rental turnover of HK$352 million (2004: HK$303 million) and operating profit of HK$135 million (2004 : HK$111 million).

As at 31 December 2005, the Group held an investment property portfolio in Hong Kong measuring an aggregate GFA of 1.8 million square feet which comprises the following:

INVESTMENT PROPERTIES IN HONG KONG

	Total GFA (sq.ft.)
Residential	1,117,697
Commercial	391,594
Office	294,460
Total GFA	**1,803,751**

As at 31 December 2005, the Group's investment property portfolio of office, commercial and residential properties achieved occupancy rates of 96%, 94% and 93%, respectively (2004 : 93%, 89% and 97%, respectively).

The KERRY RESIDENCE™ brand was created to address the Group's value-added services for tenants of its prestigious residential investment properties. This initiative is currently being replicated throughout the Group's fast-growing networks in Hong Kong and Mainland China. To extend its service pledge, the Group has introduced new cross-boundary tenant benefits and other exclusive lifestyle services.

Sales of Completed Properties

Sales of completed properties during the year ended 31 December 2005 were HK$1,063 million (2004: HK$902 million), representing an increase of 18% year-on-year. The turnover in 2005 was mainly generated from the sales of (i) the remaining residential units at Constellation Cove; (ii) certain units at Tregunter Towers on a strata-title basis; (iii) one luxury residential unit at Branksome Crest, Mid-Levels; (iv) office units at Enterprise Square Three, Kowloon Bay; and (v) the Group's entire property interests in AXA Centre, an office property in Wanchai. The Division generated operating profit of HK$516 million from property sales during the year (2004: HK$312 million), which represents an increase of 65% year-on-year.

15 Homantin Hill Road,
Ho Man Tin, Kowloon, Hong Kong (right)

The Ball Atrium of MegaBox*,
Kowloon Bay, Hong Kong (far right)

* Artist's impression

Properties under Construction

Enterprise Square Five is another major grade-A retail, entertainment and office project in the Group's development blueprint. The development has a planned GFA of 1.6 million square feet, of which 1.1 million square feet have been assigned to accommodate MegaBox, a proprietary family destination and the largest commercial mall in East Kowloon. Pre-leasing activities of MegaBox commenced in the fourth quarter of 2005, whilst the pre-leasing activities of the office properties of Enterprise Square Five is expected to commence in the third quarter of 2006. With a scheduled completion date of mid-2007, Enterprise Square Five is expected to add further value to the Group's existing portfolio of quality properties in Kowloon Bay, and will certainly enhance the Group's presence and profile in the Kowloon Bay area.

The Group's high-end residential property project at 15 Homantin Hill Road, Kowloon, is scheduled for completion in the second quarter of 2006. This project will add a further 155,000 square feet of GFA to the Group's prominent residential portfolio in Hong Kong.

In July 2005, the Group acquired a site in Central Mid-Levels at No. 38 Shelley Street. A residential tower with commercial facilities, measuring an estimated developable GFA of 45,000 square feet, is scheduled for completion at the end of 2007.

Properties under Planning

Hong Kong

The redevelopment of No. 5 and No. 9 Yuk Yat Street in To Kwa Wan, Kowloon, progressed further. With the demolition plan approved by Buildings Department, the demolition work has commenced in March 2006. Construction works are expected to commence in the fourth quarter of 2006, with completion scheduled for the fourth quarter of 2009. The site has a developable GFA of 163,000 square feet and has been earmarked for residential and commercial purposes.

REVIEW OF PROPERTY BUSINESS (Continued)

The Group has completed its site investigation work in respect of a site located at First Street/Second Street Mid-Levels West, Hong Kong. This 394,000 square-feet residential and commercial development, which is a joint development with the Urban Renewal Authority, is scheduled for completion in the fourth quarter of 2008. This development will become a landmark in the Mid-Levels West which has a well-established neighbourhood of commercial activities as well as élite secondary and tertiary education.

Furthermore, in December 2005, the Group acquired a property with GFA measuring 37,000 square feet, located at 26-30 Des Voeux Road West, Hong Kong for redevelopment purposes.

During the year, the Group paid the land premium for the 398,000 square-feet residential property development project in Kwok Shui Road, Tsuen Wan. Project planning has progressed according to schedule and with commencement of construction in the third quarter of 2006, the project is scheduled for completion by the second quarter of 2009. Furthermore, the Group also paid the land premium for the residential property development project in Ap Lei Chau, in which the Group has a 35% interest. The Group has an attributable share of GFA measuring 320,000 square feet in this development project, which is scheduled for completion by the second quarter of 2009.

Macau

Negotiations with the Macau SAR Government on the Group's land acquisition made further progress during the year. The Group commenced discussions with the Macau SAR Government on the conceptual design for the planned residential development for a maximum GFA of 2,800,000 square feet, and approval is expected to be granted in the coming months.

The residential property development project in Macau has been conceived in line with the Macau SAR Government's objective of providing a low to medium-density, high-quality living environment in Macau. With Macau's growing economy and its progressive integration with the Pearl River Delta Region driven by infrastructure investments and positive economic performances, the Group remains optimistic about the future prospects of the property market in Macau.

First Street/Second Street Project*,
Mid-Levels West, Hong Kong (left)

Jacksons Landing,
Sydney, Australia (right)

* Artist's impression

OVERSEAS PROPERTY DIVISION

During the year ended 31 December 2005, the Overseas Property Division generated a net profit to the Group of HK$68 million (2004: HK$27 million). The significant increase in the Group's share of profit from this Division is mainly attributable to a reduction in the deferred taxation rate in respect of revaluation gain on investment properties, and the change in fair value of investment properties during the year.

As at 31 December 2005, the Group had an investment property portfolio of 2.34 million square feet (2004: 2.23 million square feet) in the Philippines, and a portfolio of properties held for development and for sale of 1.8 million square feet (2004: 1.8 million square feet) in Australia and the Philippines.

Australia

As at 31 December 2005, sales of 868 units (2004: 837 units) of the Group's 25%-owned Jacksons Landing project were completed, representing 85% of a total of 1,024 units available for sale. This project, located at the Pyrmont Peninsula in Sydney, covers a site of 12 hectares and is designated for residential and commercial property development.

OVERSEAS PROPERTY PORTFOLIO

	Australia (sq.ft.)	*The Philippines (sq.ft.)*	*Total GFA (sq.ft.)*
Investment Properties			
Hotel lease	-	191,832	191,832
Shopping centre lease	-	240,697	240,697
Carpark lease	-	211,203	211,203
Shopping centre	-	1,191,763	1,191,763
Commercial	-	11,316	11,316
Office	-	174,522	174,522
Carpark and others	-	315,564	315,564
Sub-total	**-**	**2,336,897**	**2,336,897**
Properties under Development/Held for Sale			
Residential	151,851	1,606,288	1,758,139
Office	35,860	-	35,860
Sub-total	**187,711**	**1,606,288**	**1,793,999**
Total GFA	**187,711**	**3,943,185**	**4,130,896**

REVIEW OF PROPERTY BUSINESS (Continued)

The Philippines

The Group's investments in property interests in the Philippines continue to be held through its 73.88% aggregate direct and indirect interests in EDSA Properties Holdings Inc. ("EPHI"). EPHI is listed on the Philippines Stock Exchange and holds a 78.72% interest in the Shangri-La Plaza Mall, Manila, and indirect interests in The Enterprise Centre, an office and commercial property in Makati, Manila's financial district.

As at 31 December 2005, the Shangri-La Plaza Mall reported an occupancy rate of 96% (2004: 98%), whilst the occupancy rate at The Enterprise Centre was 96% (2004: 87%).

The Shang Grand Tower in Manila, in which EPHI holds a 67% beneficial interest, was completed in the first quarter of 2006. As at 31 December 2005, 84% (2004: 53%) of the units of The Shang Grand Tower was sold. Development of The St. Francis Towers project, which is designed to deliver approximately 1,200 residential units from the project's two 60-storey towers, is scheduled for completion at the end of 2008.

OUTLOOK

Mainland China

The year 2005 witnessed a continuation of the Group's expansion policy into Mainland China's property market. Despite the State Council's policies to control overheating in property markets in the metropolitan cities, the Group remains optimistic about Mainland China's property market in the long term. This is primarily due to the continuing economic growth of Mainland China and the constantly improving living standards of the urban community.

Land reform policies launched by the State Council at the end of 2004 and higher resettlement costs have raised public awareness of the increased protection being afforded by civil rights, which make land clearance more difficult and hence result in a more restricted land supply. This will, in turn, lead to greater stability in property prices in the future.

Moreover, the property market in Mainland China will continue to be supported by the increasing level of foreign investments, which generate a continuous demand for quality residential, office and commercial properties. To this end, the Group will maintain its strategy in the development of high-end mixed-use properties in the primary and major secondary cities in order to accommodate the demand from both domestic and foreign users.

Shangri-La Plaza Mall,
Manila, The Philippines (left)

Lobby of Kerry Residence,
Beijing, Mainland China (centre)

Swimming Pool of Branksome Crest,
Mid-Levels, Hong Kong (far right)

Looking ahead, the Group will continue to explore development opportunities in the primary and major secondary cities in Mainland China, which are enjoying economic growth and hence an increasingly affluent consumer sector. The Group plans to apply its successful business model and established track record which have worked in property developments in Beijing, Shanghai and Shenzhen, so as to take advantage of the new opportunities offered by the major secondary cities.

Hong Kong

The Group holds a positive future outlook of the Hong Kong property market, which is reinforced by the growing Hong Kong economy, the stabilized unemployment rate, improved household wealth and affordability, and the expectation of an end to the interest rate hikes in 2006. On the other hand, land supply through the application system with the Hong Kong Government, or by way of private tenders or public auctions, have proceeded in an orderly manner creating a favourable demand and supply dynamics for Hong Kong's property market.

Despite the recent softening in property sales, the long term prospects for luxury and high-end properties are expected to remain positive. The Directors maintain the view that rental rates and property prices for luxury residences and grade-A offices will maintain an upward trend.

Capitalizing on the positive outlook for the property market, the Group will continue to explore development opportunities of high-end properties to uphold the Group's status as a leading developer of premium properties. Furthermore, as part of the Group's ongoing marketing strategy, the Group will continue to leverage off its KERRY RESIDENCE™ brand to cover both its existing and future luxury property portfolio.

Review of

LOGISTICS BUSINESS

Asia Based, China Focus, Global Network.

OVERVIEW

During the year ended 31 December 2005, the Division recorded a turnover of HK$5,541 million which represents a strong growth of 121% when compared with HK$2,502 million in 2004. Profit attributable to shareholders for the year amounted to HK$1,085 million (2004: HK$438 million). Excluding the effects of the increase in fair values of the warehouse properties, logistics centres and buildings (after deferred taxation) of HK$578 million (2004: nil), profit for the year attributable to operations amounted to HK$507 million which represents a growth of 16% when compared with 2004 and of which (i) HK$163 million (2004: HK$176 million) was contributed by warehousing operations; (ii) HK$129 million (2004: HK$74 million) was contributed by logistics operations; and (iii) HK$215 million (2004: HK$188 million) was contributed by the Division's investments in associated companies.

Under the name of Kerry Logistics Network Limited ("Kerry Logistics"), the Division operates a portfolio of warehouses, logistics centres and port facilities of over 16 million square feet and a truck fleet of over 2,000 vehicles, with operations in more than 150 cities in 13 countries worldwide.

LOGISTICS AND DISTRIBUTION

Being recognized as a key logistics player in the Asia region, Kerry Logistics strives to strengthen and expand its logistics presence across the world. During the year, the volumes of both air and sea cargoes handled by Kerry Logistics have more than doubled in growth when compared with 2004.

In addition to the ISO9001 quality accreditation which the Division has secured since 1998, during the year, Kerry Logistics' Hong Kong logistics operation was also proud to be awarded the Technology Asset Protection Association Asia Certification in recognition of its high-value electronic and technology products logistics solutions.

In Hong Kong, the Division continued to secure large logistics contracts during the year, including an integrated logistics contract with one of the largest wine distributors in Hong Kong. Meanwhile, the Division also assists some high-end fashion brands and chemical clients in establishing their regional logistics hubs in Hong Kong to support their Asian and Mainland China markets.

The trading arm of the Division, KerryFlex Supply Chain Solutions Limited ("KerryFlex"), demonstrated significant growth in its businesses during the year. Supported by the Division's infrastructure, KerryFlex has a diverse and sizable customer base ranging from healthcare to catering, and lately to fast-moving grocery establishment. In March 2006, KerryFlex completed the acquisition of a 100% interest in a Hong Kong local company which is engaged in the business of import and distribution of non-perishable products for over 50 years. The acquisition enables KerryFlex to establish its foothold in the food service sector, and paves the way for the Division to participate in procurement projects for hotel chains.

China Focus

During the year, Kerry Logistics further strengthened its logistics foothold in Mainland China by the acquisition of a 70% equity stake in EAS International Transportation Ltd. (now renamed Kerry EAS Logistics Limited ("KEAS")), which was completed in January 2005. The acquisition marks an important development in the continuing expansion of Kerry Logistics' network and creates a strong and valuable platform for growth. The acquisition provides Kerry Logistics with a leading nationwide logistics operation network in Mainland China, serving over 1,100 cities in over 32 provinces with over 120 offices, 4,000 staff, 1,500 vehicles and over two million square feet of warehouse and logistics facilities.

The first year of operation following the establishment of KEAS has been a success, where the synergies between Kerry Logistics and KEAS begin to materialize. With the integration of KEAS's business with Kerry Logistics' existing operations in Mainland China, the KEAS-Kerry Logistics business combination provides the Division with a pan-China coverage of extensive facility infrastructure. With more than 700 operating licenses in Mainland China, the strengthened China network of Kerry Logistics offers a comprehensive range of high-quality logistics solutions to its existing clients. The new KEAS implements a modern management approach to strengthen its existing operational platform, and to support modern logistics demand of its customers. KEAS also intends to expand to overseas markets and reinforce its business growth by tapping into Kerry Logistics' global network. Other internal re-engineering programme within the combined operations of KEAS and Kerry Logistics, including the restructuring of management systems, agency network and other overseas businesses, are now underway and are scheduled to be completed by the end of 2006.

During the year, construction of the 173,000 square-feet bonded logistics centre in Tianjin's Free Trade Zone was completed in October 2005. This facility, located near the biggest container hub in Northern China – Tianjin Xingang, incorporates multi-functional warehouses for general cargoes as well as temperature-controlled cargoes and is the Division's biggest bonded facility in the Northern China region. Commencement of operation is scheduled in the second quarter of 2006.

The construction of the 269,000 square-feet bonded logistics centre in Shenzhen's Futian Free Trade Zone is also in progress and is scheduled to be completed by the first half of 2006. Meanwhile, the Division is also exploring the possibility to construct its own logistics facilities in other coastal cities in Mainland China, such as Shanghai and Xiamen.

REVIEW OF LOGISTICS BUSINESS (Continued)

Asia Based

During the year, Kerry Siam Seaport Limited ("KSSP") completed the construction of a 800,000 square-feet Inland Container Depot ("ICD") in Siam Seaport and obtained the official operating license in July 2005. The ICD, together with the container berth expansion which is under construction and is scheduled for completion by late 2006, will spearhead the Division's efforts in entering the container cargo handling business, and thereby adding value to its existing conventional and bulk cargo services. The extended facility will enable KSSP to handle a maximum of seven ocean vessels at any point in time. Meanwhile, Kerry Logistics is also exploring the possibility of further expanding its warehousing and logistics operations in Thailand through construction of depots and a nationwide distribution network.

2005 also saw a significant growth of Kerry Logistics' freight forwarding and logistics operations in Singapore, Malaysia and Indonesia in which Kerry Logistics has a 66.67% interest. These business operations commenced in early 2004, and have since developed into sizable operations in their respective regions.

Global Network

Leveraged off its growing international network, Kerry Logistics is steadily increasing its geographical presence in the European and the United States markets through acquisitions and strategic alliances with key local players.

During the year, Orion Shipping and Forwarding Limited ("Orion"), one of the leading export freight forwarders in the United Kingdom, joined Kerry Logistics' growing network of freight operation. Founded and based in the United Kingdom with offices in Manchester and Birmingham, Orion provides clients with sea, air and long-haul services together with specialist handling of large-scale project cargoes. The acquisition was completed in August 2005 when Kerry Logistics (UK) Limited ("KLUK"), a 91% subsidiary of Kerry Logistics, acquired a 63.5% interest in Orion. Orion and KLUK will be strategically placed to handle the logistics requirements of Kerry Logistics' clients in the rapidly expanding Asian markets, particularly Mainland China.

In June 2005, Kerry Logistics entered an exclusive contractual agreement with Lynden International ("Lynden"), a leading freight forwarding company in the United States, to combine the sales and operating resources in North America with those in Asia. Such a partnership offers Kerry Logistics' customers a comprehensive trans-Pacific network of services covering Mainland China and various Asian countries.

Other infrastructure and logistics centres under construction outside Asia includes the construction of a 88,000 square-feet logistics centre in Australia. The facility is scheduled for completion in early 2007.

WAREHOUSING AND DISTRIBUTION CENTRES — HONG KONG

The Division continues to be the single largest warehouse owner and operator in Hong Kong, with a portfolio of 13 warehouses occupying an aggregate GFA of 6.74 million square feet. Through continuous service innovation and quality maintenance, the Division's warehouse portfolio in Hong Kong achieved an occupancy of 97% as at 31 December 2005 (2004: 96%).

The increase in market interest rates during 2005 has led to a drop in the overall demand for warehouse space during the year due to the tighter business control of the customers including a reduction in the levels of inventories, particularly with regard to dangerous goods, bonded cargoes and frozen products. Nevertheless, the Division expects a moderate growth in its warehousing operation in Hong Kong, as the continuous re-development of industrial buildings has reduced the supply of general cargo space in the market.

LOGISTICS INFRASTRUCTURE AND ASSOCIATED COMPANIES

The Division's logistics infrastructure investments continue to enjoy satisfactory growth. During the year, Chiwan Container Terminal ("CCT") and Asia Airfreight Terminal ("AAT") made very good progress and contributed a steady source of recurrent earnings to the Division.

AAT, being one of the two air cargo terminals located at the Hong Kong International Airport and in which Kerry Logistics has a 15% interest, handled an increased cargo volume throughput of 579,000 tons during the year (2004: 551,000 tons).

2005 was also a record year for CCT, in which Kerry Logistics has a 25% interest. With the construction of new berths and continuous improvement in its operational efficiency, CCT's volume throughput reached 3.6 million TEUs (Twenty-Foot Equivalent Units) in 2005. CCT, which is located on the eastern side of the Pearl River Delta in Shekou, Shenzhen, is considered to be one of the most cost-competitive terminals in the Pearl River Delta region.

During the year, the Division's equity share of profits after tax from CCT and AAT and other associated companies amounted to HK$215 million (2004: HK$188 million).

INFORMATION TECHNOLOGY

To facilitate the Division's growth in the higher-end supply chain solutions market, a new initiative "*KerrierVISION*" was introduced in the second half of 2005 to address the gap between the outsourcing of supply chain management services and the provision of third party logistics services.

"*KerrierVISION*" is an application platform on top of the existing "Kerrier" family of operational systems. It provides comprehensive visibility throughout the pipeline from both goods and costs perspectives. In addition, the events management engine can orchestrate proactive supply chain management in terms of monitoring control and execution. It enables an accurate and timely decision-making process through the use of business intelligence information facilities. "*KerrierVISION*" will continue to be the top priority for the Division's information technology initiatives in the coming year to ensure the Division's leading position in the logistics market.

In terms of emerging technology, the Division has been working closely with the "Hong Kong R&D Center for Logistics & Supply Chain Management Enabling Technology" on the latest technological developments such as Radio Frequency Identification (RFID), supply chain modelling and industry-specific solutions. We are confident that Kerry Logistics will continue to maintain its leading position in applying technology in the logistics industry.

In Mainland China, the first phase of the Kerrier Freight Management System ("KerrierFMS") Enhancement Project was completed during the year. Further enhancement will continue to be made to fit the business requirements of KEAS. In addition, a reorganization of KEAS's Beijing Headquarters' information technology initiatives was also carried out, which will help KEAS's Beijing Headquarters to demonstrate a more dominant role in the management and development of information technology for application to the logistics industry in Mainland China.

AWARDS AND ACHIEVEMENTS

In November 2005, Kerry Logistics was the winner of two major awards in the first *Logistics Awards Hong Kong 2005* – namely, the Local (Hong Kong) Logistics Award and the Mainland Logistics (non-SME) Award. Organized by the Hong Kong Trade Development Council and four other renowned local trade associations, the awards recognized and rewarded Kerry Logistics' outstanding services in the logistics industry in Hong Kong and Mainland China.

In Mainland China, KEAS was also the winner of several awards in 2005 in recognition of its outstanding performance in air freight, express and logistics services. KEAS was also certified as a "5A" Integrated Logistics Services Company by China Federation of Logistics & Purchasing. KEAS now ranks 7th amongst the top 100 international freight forwarding companies in Mainland China, and ranks 9th amongst the top 50 logistics companies in Mainland China (in terms of turnover in 2004).

OUTLOOK

Leveraging off the strengthened capabilities of the new KEAS, going forward, the Division aims to further reinforce its logistics competitiveness in Mainland China by extending its supply chain management services, further exploring the import and export markets, strengthening its infrastructure, developing its information system and operational expertise, as well as consolidating the Mainland China operations with its overseas agency network. Meanwhile, the Division will also continue to enhance the communication and coordination between its operations in Hong Kong and in Mainland China, in order to provide quality and 'one-stop-shop' services to customers on a pan-China scale. On the other hand, the Division will continue to capitalize on the fast-expanding trade between Mainland China and the rest of the world, following the opening up of Mainland China's logistics market to foreign ownership since late 2005.

Besides the Mainland China market, in view of the continuing consolidation with key players in the global logistics industry, the international logistics and freight forwarding market is expected to undergo rapid changes and increasing competition in the years to come. To cope with these changes, the Division will speed up its globalization process by strengthening its overseas sales network, particularly in the United States, Europe and Australia, in order to maintain Kerry Logistics' competitiveness with the major global logistics operators worldwide.

Review of

INFRASTRUCTURE BUSINESS

Viable Projects, Environmental Focus, Community Contribution.

OVERVIEW

The Infrastructure Division invests in a range of infrastructure, environmental protection, utilities and energy-related projects in Hong Kong and Mainland China. Through such investments, the Division aims to contribute towards the improvement of the living environment and living standards of the community, as well as the delivery of a steady stream of recurrent income to the Group. During the year ended 31 December 2005, the Division generated net profit attributable to the Group of HK$38 million (2004: HK$31 million).

HONG KONG

In Hong Kong, the Group has a 15% interest in the Western Harbour Crossing and a 15% interest in the Cross Harbour Tunnel management contract. The Group's share of net profits from these investments amounted to HK$41 million for the year ended 31 December 2005 (2004: HK$31 million).

MAINLAND CHINA

Due to the increasing awareness and concerns of the community towards health standards and the quality of life and the increasing demand for energy resources by the community, the Group focuses its investments on environmental protection, utilities and energy-related projects.

On 28 February 2005, the Standing Committee of the National People's Congress endorsed the Renewable Energy Law. The new law, which became effective on 1 January 2006, establishes a platform for the extensive development of renewable energy projects, particularly for commercial uses. Taking into account the market environment and capitalizing on the benefits of new policy incentives, the Division continues to focus on projects in three infrastructure areas: water treatment, sewage treatment and municipal solid-waste treatment (including waste-to-energy facilities).

In December 2004, the Group announced its investment in a water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region. Together with Chemquest (Overseas) Limited ("Chemquest"), a Kuok Group company with a strong and proven background in operating environmental engineering projects across Asia, the Group entered into a 50/50 joint venture known as Kerry CQ JV Environmental Engineering Limited, which has a 26.01% effective interest in a project company engaged in the ownership, operation and maintenance of certain water treatment facilities in Hohhot Municipality. Accordingly, the Group has an effective 13% interest in this project. The maximum total investment amount by Kerry CQ JV Environmental Engineering Limited in this project is RMB143 million (equivalent to approximately HK$138 million), of which the Group's share is RMB71.5 million (equivalent to approximately HK$69 million). The project commenced commercial operation on 19 October 2005.

In February 2005, the Group tendered for a greenfield project to build and operate the first solid waste management facilities in Changzhou, Jiangsu Province. Again, together with Chemquest, the Group entered into a 51/49 joint venture in the establishment of Kerry CQ Waste Incineration Limited which in turn has a 45% interest in a project company, with the remaining 55% interest being held by Golden State Holding Group Corporation and Beijing Golden State Engineering Co., Ltd.. Subsequent to the tender, the project company was chosen by the Changzhou Municipal Government for exclusive negotiation of a concession agreement. If the terms of the investment are acceptable to the project company as a result of the ongoing negotiations, the project will be undertaken on a build-operate-transfer (BOT) basis, which comprises the building and operation of one of the most advanced incinerator systems in Mainland China.

In August 2005, the Group invested a 25% interest in REDtone Telecommunications (China) Limited ("REDtone China"), which carries out the business operations in Mainland China of REDtone International Bhd., a leading discount telecommunication calls provider in Malaysia. REDtone China plans to invest HK$58.5 million in developing and expanding its operations in the Mainland China market by collaborating with China TieTong Telecommunications Corporation Shanghai Branch Company, in the provision of long-distance, domestic and international discount call packages to mobile phone and fixed-line subscribers. The Group's share of investment amount in REDtone China is HK$14.625 million. Capitalizing on the proven success of the business model, experience and expertise of REDtone International Bhd. in Malaysia and the Group's working knowledge of the Mainland China market, excellent synergies are being offered by the REDtone China joint venture in strengthening the Group's presence in Mainland China's telecommunications market.

OUTLOOK

Going forward, the Division will continue to identify and evaluate investment opportunities in commercially viable projects in the utilities, energy recycling and environmental protection-related sectors in Mainland China which will generate strong recurrent income for the Group. In doing so, the Group will leverage off its working knowledge of the Mainland China market and capitalize on the skills and expertise of technical project partners, thereby optimizing financial returns to the Group.

Management Discussion & Analysis

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 2005, total foreign currency borrowings (excluding Renminbi (RMB) borrowings) amounted to the equivalence of HK$652 million and RMB loans amounted to the equivalence of HK$202 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 6% and 2%, respectively, of the Group's total borrowings of HK$11,748 million as at 31 December 2005.

Out of the Group's total borrowings as at 31 December 2005, HK$1,017 million (representing approximately 9%) was repayable within one year, HK$4,214 million (representing approximately 36%) was repayable within two years, HK$6,514 million (representing approximately 55%) was repayable between three to five years and HK$3 million (representing less than 1%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 98% of total borrowings as at 31 December 2005. 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.

As at 31 December 2005, the gearing ratio for the Group was 36%, based on net debt of HK$9,184 million and shareholder's equity of HK$25,221 million.

The majority of the Group's borrowings bear interest costs which are based on floating interest rates. As at 31 December 2005, the Group had outstanding interest rate swap contracts which amounted to HK$5.8 billion in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile over the next few years.

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate principal amount of HK$2,500,000,000 (the "Convertible Bonds"). The Convertible Bonds are zero coupon-based, have a maturity term of 5 years and are convertible into the Company's ordinary shares at a conversion price of HK$25.955 per share (subject to adjustments). The issue of the Convertible Bonds provides a flexible and cost-efficient funding opportunity which is in the best interest of the Group. Upon conversion of the Convertible Bonds, the capital base of the Company will be enlarged and strengthened which will benefit the Group's future growth and developments. On 8 April 2005, Standard & Poor's awarded the Convertible Bonds with a "BBB-" credit rating.

In terms of the Group's available financial resources as at 31 December 2005, the Group had total undrawn bank loan and overdraft facilities of HK$3,750 million and net cash on hand of HK$2,564 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operation, and logistics, freight forwarding 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.

The Directors consider that the Group's property investments in Mainland China benefit from the upward revaluation of the RMB by 2%, which was announced by the People's Bank of China in July 2005. Furthermore, the upward revaluation of the RMB has a negligible impact on the Group's RMB loans, which only represent a very small proportion relative to the Group's total borrowings.

On 27 June 2005, Standard & Poor's reaffirmed a "BBB-" credit rating for Kerry Properties Limited with a stable outlook.

The Group signed a syndicated loan agreement on 27 February 2006 for an unsecured HK$6 billion revolving loan facility. The interest rate for this facility is HIBOR (Hong Kong Interbank Offered Rate) plus 29 basis points. This facility is for general corporate funding requirements of the Group including refinancing of a previous HK$4.5 billion syndicated loan facility obtained in January 2002. The facility was launched on 27 February 2006, with participations received from 18 reputable international and local banks and financial institutions.