

It gives me great pleasure to report to shareholders the annual results for the year ended 31 December 2004.

Results

The Group's profit attributable to shareholders for the year ended 31 December 2004 was HK\$1,956 million, representing an increase of 395% compared with HK\$395 million reported in 2003. The increase in the Group's earnings is largely attributable to a 12 times increase in earnings contribution from the Group's property investment and development businesses, and a 378% increase in earnings contribution from the Group's logistics and freight services operations during the year.

Earnings per share for the year were HK163.20 cents, representing an increase of 388% compared with HK33.44 cents per share in 2003.

The Board has recommended the payment of a final dividend of HK40 cents per share for the year, with a

scrip dividend alternative. Together with the interim dividend of HK20 cents per share, the total dividend for the year ended 31 December 2004 will be HK60 cents per share representing an increase of 114% from HK28 cents per share in 2003.

During 2004, the Group recorded an attributable share of revaluation surplus of HK\$1,689 million in respect of its investment property portfolio. An amount of HK\$275 million has been recognized in the Group's profit and loss account, which is accounted for as part of the Group's profit attributable to shareholders of HK\$1,956 million for 2004. The remaining balance of the Group's revaluation surplus on investment property portfolio of HK\$1,414 million has been credited to the Group's investment property revaluation reserve as at 31 December 2004.



Highlights of the Group's Operations

I. Property investment and development

Hong Kong

2004 was a positive year for the Hong Kong property division, recording net profit attributable to shareholders of HK\$855 million which represents a turnaround from the net loss of HK\$213 million in 2003.

During the year, the Group completed Branksome Crest, a luxury residential property in Mid-Levels, Hong Kong. Branksome Crest has been very well-received by corporate and expatriate tenants alike and is a high quality addition to the Group's portfolio of luxury investment properties in Hong Kong.

2004 was also a successful year for the Group's residential property sales in Hong Kong with approximately 380,000 square feet of residential property sold at three principal developments: Residence Oasis in Tseung Kwan O and Olympian City I and II at Olympic Station in West Kowloon. During the year, the Group commenced the development of a 155,000 square feet luxury residential property situated at 15 Ho Man Tin Hill Road, Kowloon, scheduled for completion in the first quarter of 2006. In addition, the Group is in preliminary planning stages in respect of two further residential projects at Kwok Shui Road, Tsuen Wan and in Ap Lei Chau which would add approximately 715,000 square feet to the Group's development portfolio.

In the office sector, the Group successfully completed Enterprise Square Three, a prestigious Grade A office building and a landmark in the Kowloon Bay area. As at the year end, approximately 56% of the office space in Enterprise Square Three had been sold. During the year, the Group commenced the development of the 1.6 million square feet Enterprise Square Five, a prestigious office and retail project adjacent to Enterprise Square Three in Kowloon Bay. The retail podium of Enterprise Square Five is scheduled for completion in the fourth quarter of 2006, and the office tower in the second quarter of 2007.

Mainland China

In Mainland China, 2004 was a successful year for the Group, recording net profit attributable to shareholders of HK\$563 million representing an 88% increase from HK\$300 million in 2003. This is attributable to the strong growth in property rental profits by 58% compared to 2003 and sales from three projects, namely Central Residences Phase I in Shanghai, Central Residences in Fuzhou and Arcadia Court in Shenzhen.

The Group continues with the development of the 642,000 square feet Central Residences Phase II in Shanghai, which is scheduled for completion in the fourth quarter of 2005, and of the 1.6 million square feet Kerry Everbright City Phase II in Shanghai comprising residential, office and retail properties which are scheduled for completion in phases to 2007.

New projects undertaken by the Group during the year include a 3.6 million square feet mixed-use joint venture project in Jingan District, a prestigious commercial district in Shanghai, which is scheduled for completion in phases between 2008 and 2009. The Group is also in the planning stages of an office and retail project in Futian District, Shenzhen, which is scheduled for completion in 2007, and a joint venture project in Shibaldian, Chaoyang District, Beijing, scheduled for completion in phases up to 2011.

Macau

We believe that the property market in Macau will offer interesting and profitable opportunities for the Group in the next few years. Substantial investment has already been committed by both the Macau SAR Government and the private sector for the development of the gaming industry as well as for road, rail and social infrastructure. This investment is having a positive impact on both values and demand for residential properties in the city and we believe this will continue in the coming years.

To capitalize on this opportunity, the Group acquired 71% of Centro de Convenções e Exposições Macau, Limitada, a company which owns a parcel of land in Cotai, Macau. The Macau SAR Government, however, has decided to re-zone the Cotai area pursuant to their town planning requirement, and as a result has proposed an alternative residential plot of land for our consideration. This proposal would accommodate a total gross floor area of up to a maximum of approximately 2.8 million square feet upon completion of development. The Group has agreed to surrender the Cotai land to the Macau SAR Government upon finalization of details on the proposed land exchange.

II. Logistics Network

2004 has been a year of rapid growth and important developments for the Group's logistics business. In September, Kerry Logistics announced the acquisition of a 70% interest in EAS International Transportation Ltd., a major logistics, warehousing, parcel express and freight forwarding operator in Mainland China. The acquisition, completed on 13 January 2005, marks an important development in the continued expansion of Kerry Logistics' pan-China logistics network. EAS International Transportation Ltd. has changed its name to Kerry EAS Logistics Limited ("Kerry EAS Logistics"). Kerry EAS Logistics now serves its customers in over 1,100 cities from 120 offices covering all provinces of Mainland China. The Group is in the process of fully integrating Kerry EAS Logistics' network with the existing Mainland China operations of Kerry Logistics, in order to leverage off the strengths of the respective businesses and to maximize the synergies of the two groups.

Other acquisitions completed during the year include a 54.98% interest in Siam Seaport Terminal & Warehouses Co., Ltd. (now renamed as Kerry Siam Seaport Limited) in Thailand which provides loading, unloading and other ancillary services to bulk carriers, as well as warehousing and transportation services in Thailand. This acquisition builds on the Group's

coverage of the South East Asian market and is strategically placed to capitalize on growth in international and intra-Asia trade in the region.

In Mainland China, the Group completed the construction of a 152,700 square feet bonded logistics centre in Shanghai's Waigaoqiao Free Trade Zone, and acquired a site for a 173,300 square feet bonded logistics centre in Tianjin's Free Trade Zone, scheduled for completion in mid 2005. In addition, the Group began the planning process for the development of a 269,000 square feet bonded logistics centre in Futian Free Trade Zone, Shenzhen, which is expected to be completed by the first quarter of 2006. These new bonded logistics centres will further strengthen Kerry Logistics' operations in Mainland China, by offering customers a network of modern facilities which complement and build on the existing freight forwarding and distribution businesses of Kerry Logistics and Kerry EAS Logistics in Mainland China.

During the year, the Group transferred its investments in Asia Airfreight Terminal ("AAT") and Chiwan Container Terminal ("CCT") from the Infrastructure division of the Group to Kerry Logistics. This restructuring exercise is intended to enable Kerry Logistics to take a more active role in the management of AAT and CCT

and for the different operations to leverage off the synergies and the business opportunities arising from enhanced integration and co-operation.

III. Infrastructure

The Group entered into two new infrastructure investments in Mainland China during 2004. The first investment is in a partnership with China Guodian Corporation, a major state-owned power plant operator in Mainland China, for the development and operation of a coal-fired electricity power plant in Yugan County, Jiangxi Province which is scheduled for completion at the end of 2007. The second investment is in the ownership, operation and maintenance of certain water treatment facilities in Hohhot, Inner Mongolia through a partnership with Chemquest Sdn. Bhd. ("Chemquest"), a company with extensive experience investing in and managing environmental engineering projects.

The Group has taken a minority interest in each of these infrastructure projects in line with the Group's strategy to leverage off its knowledge of the China market to identify infrastructure opportunities, and to enter into joint ventures with strategic partners who possess technical expertise, experience and successful track records in the development and operation of specific projects.

Prospects

2004 witnessed strong performance in the world economy, in which both the United States and Mainland China played key pivotal roles. Mainland China's economy has shown impressive resilience in the face of increased commodity prices, such as crude oil, aluminium and steel, and has responded well to the Central Government's macro-economic policies to control fixed assets investments. Despite facing an upward interest rate cycle in the region, we believe these increases will be measured and remain confident in the economic outlook for both Hong Kong and Mainland China. We believe, therefore, that the prospects for the Group will continue to improve in the coming years.

During 2004, Hong Kong experienced a recovery in both economic conditions and market sentiment with GDP growth of around 8% for the year, compared with 3.2% for 2003, and Hong Kong's total export value had also increased by about 16% to HK\$2,019 billion. We believe that continued stability and growth in Mainland China, combined with further integration of Hong Kong with the Pearl River Delta and aided by policies such as the Closer Economic Partnership Arrangement (CEPA), will be key to sustaining Hong Kong's growth into 2005.

The Hong Kong property market has benefited during 2004 from a limited supply in certain sectors, particularly the high-end luxury residential sector, as well as more favourable inflation and interest rate environments. Improved household and corporate balance sheets and continued growth in visitor arrivals from Mainland China and other countries is expected to be sustainable. We believe, therefore, that the positive sentiment and momentum experienced in the Hong Kong property sector in 2004 will continue into 2005, which will underpin the performance and prospects of the Group's property investment and development businesses in Hong Kong.

Mainland China's GDP growth of 9.5% for 2004 (2003: 9.1%) continues to be fuelled by strong growth in Mainland China's export trade, generating a trade surplus of US\$32 billion at the end of 2004. In addition, foreign investment into Mainland China also increased, showing growth of 13% during the year. These impressive growth levels are difficult to achieve without some inflationary pressure, however the Consumer Price Index rose by approximately 2.7% reflecting the gradual but controlled rise in cost of living in Mainland China.

We are of the view that Mainland China is well-positioned to continue to grow, at a more modest rate in terms of GDP growth

and capital investment without experiencing undue inflationary pressures. As a result, we expect to see the continuing development of an affluent consumer sector in Mainland China as well as an increasing focus on infrastructure investments, especially in provincial and rural areas. In addition to the Group's existing property development portfolio in metropolitan cities such as Beijing, Shanghai and Shenzhen, the Group will also continue to explore opportunities in prime locations in other provincial cities across Mainland China as the country's economic growth starts to be felt in these areas.

The Group's logistics business has benefited from the growth in global and regional trade volumes in 2004 and will, we believe, continue to grow its turnover and margins as Asia plays an even larger role in world trade. In addition, the acquisition and integration of Kerry EAS Logistics into Kerry Logistics' operations in Mainland China will add significantly to the coverage and reach of the business, as well as offering many synergies and efficiencies to Kerry Logistics' overall operations. In 2005, we will focus on the full integration of Kerry Logistics' worldwide operations with Kerry EAS Logistics' operations in Mainland China. With the strong market presence in Mainland China under the "Kerry EAS Logistics"

banner and as a leader in the third party logistics services business in Asia, Kerry EAS Logistics is in the best position to service both niche and global customers whose demands for quality supply chain management services is expected to continue to grow significantly in the coming years. The expansion of Kerry Logistics' worldwide network will result in a larger, broader customer base which will also enhance the quality and size of the earnings contribution generated by Kerry Logistics to the Group as a whole.

On the infrastructure side, the Group will continue to identify and evaluate other utilities and environmental-related project opportunities in Mainland China, which are capable of generating attractive financial returns and a stable recurrent income base to the Group.

Overall, going forward, the Group will continue to develop and expand its core business operations of property investment and development and logistics network services, and will seek to develop its infrastructure business by investing in high quality projects which are capable of generating stable and recurrent income contribution to the Group. The Group will also continue to focus on maintaining a well-balanced portfolio of quality assets and earnings whilst having regard to careful risk management, project evaluation and risk control measures.

Corporate Governance

The Group is committed to the highest standards of corporate governance and transparency to shareholders. The Group adopts a prudent financial management policy, and has very sound accounting, financial reporting and internal control systems in place. During 2004, the Group has been awarded with the "Best Listed Company Board Award" by the Hong Kong Institute of Directors. Details of the compliance measures undertaken by the Group in the area of corporate governance during 2004 are discussed in more detail in the section headed "Corporate Governance Report" of this annual report. In addition, staff members of the Group are offered training courses in their respective fields which enrich their professional knowledge, technical expertise and management skills in the areas of regulatory compliance, project evaluation and execution. These important attributes have altogether earned the continuing affirmation by Standard & Poor's of a "BBB-" credit rating for Kerry Properties Limited, one of the best credit-rated listed companies in Hong Kong.

Directorships Changes

Mrs Lee Pui Ling, Angelina resigned as an Independent Non-executive Director with effect from 29 September 2004 due to her other business commitments. On behalf of the Board, I would like to take the opportunity to thank Mrs Lee

for her valuable efforts, advice and contributions during her tenure as an Independent Non-executive Director of Kerry Properties Limited. I would also like to take this opportunity to welcome Mr William Winship Flanz, who was appointed as an Independent Non-executive Director of Kerry Properties Limited on 29 September 2004. Mr Flanz has substantial experience in the international banking and investment banking sectors.

Appreciation

On behalf of the Board, I would like to express my sincere gratitude and appreciation to the Group's management and staff for their diligence, loyalty, dedication and continuing support to the Group. I am also 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 in the Group which has contributed significantly towards the Group's success.



Ang Keng Lam
Chairman

Hong Kong, 8 March 2005