KERRY PROPERTIES LIMITED

(Incorporated in Bermuda with limited liability)

嘉里建設有限公司*

website: www.kerryprops.com

(Stock Code: 00683)

FINAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2004

CHAIRMAN'S STATEMENT

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 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 in 2004

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 3, a prestigious Grade A office building and a landmark in the Kowloon Bay area. As at year end, approximately 56% of the office space in Enterprise Square 3 had been sold. During the year, the Group commenced the development of the 1.6 million square feet Enterprise Square 5, a prestigious office and retail project adjacent to Enterprise Square 3 in Kowloon Bay. The retail podium of Enterprise Square 5 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 Shibalidian, 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

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 will be discussed in more detail in the Company's 2004 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 unfailing support and confidence in the Group which has contributed significantly towards the Group's success.

Ang Keng Lam
Chairman

Hong Kong, 8 March 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Year ended 31 December	
		2004	2003
	Note	***HK$'000***	*HK$'000*
Turnover	*1*	**5,102,442**	4,204,466
Cost of sales		**(907,233)**	(1,441,512)
Direct operating expenses		**(2,332,245)**	(1,603,609)
Gross profit		**1,862,964**	1,159,345
Other revenues		**45,692**	37,436
Other income		**26,891**	52,005
Provision in respect of stock of completed properties held for sale		**–**	(69,346)
Administrative expenses		**(333,186)**	(278,002)
		1,602,361	901,438
Revaluation surplus/(deficit) on investment properties and other leasehold land and buildings		**298,601**	(290,236)
Operating profit before finance costs		**1,900,962**	611,202
Finance costs		**(145,119)**	(174,638)
Operating profit	*1, 2*	**1,755,843**	436,564
Share of results of associated companies		**629,349**	135,758
Profit before taxation		**2,385,192**	572,322
Taxation	*3*	**(266,611)**	(111,192)
Profit after taxation		**2,118,581**	461,130
Minority interests		**(163,021)**	(66,389)
Profit attributable to shareholders		**1,955,560**	394,741
Transfers to reserves	*4*	**(740)**	(8,783)
		1,954,820	385,958
Dividends		**723,948**	333,248
Earnings per share	*5*	**163.20 cents**	33.44 cents

CONSOLIDATED BALANCE SHEET

	Note	**31 December 2004** *HK$'000*	31 December 2003 *HK$'000*
Fixed assets		**24,511,383**	20,960,492
Associated companies		**4,531,570**	4,621,841
Other non-current assets		**1,495,201**	1,495,763
Goodwill/(negative goodwill)		**99,242**	(42,604)
Current assets			
Stock of completed properties held for sale		**518,225**	345,202
Properties under development for sale		**297,553**	999,777
Accounts receivable, prepayments and deposits	*6*	**1,668,775**	790,724
Tax recoverable		**47,461**	48,561
Tax reserve certificates		**19,926**	19,926
Trading securities		**3,679**	3,252
Pledged bank deposits		**73,636**	74,003
Cash and bank balances		**2,161,234**	1,520,059
		4,790,489	3,801,504
Current liabilities			
Accounts payable, deposits received and accrued charges	*7*	**2,147,976**	1,333,956
Taxation		**150,372**	60,150
Short-term bank loans and current portion of long-term liabilities	*8*	**680,428**	804,751
Unsecured bank overdrafts		**1,113**	1,921
		2,979,889	2,200,778
Net current assets		**1,810,600**	1,600,726
Total assets less current liabilities		**32,447,996**	28,636,218
Financed by:			
Share capital		**1,211,116**	1,191,527
Share premium		**3,857,220**	3,628,591
Other reserves		**10,567,892**	9,209,944
Retained profits		**6,904,640**	5,673,768
Proposed final dividend		**484,447**	178,729
Shareholders' funds		**23,025,315**	19,882,559
Minority interests and loans		**2,678,559**	2,375,499
		25,703,874	22,258,058
Long-term liabilities	*8*	**5,476,382**	5,403,213
Deferred taxation		**1,267,740**	974,947
		32,447,996	28,636,218

FINANCIAL HIGHLIGHTS

	31 December 2004 HK$'000	31 December 2003 HK$'000
Shareholders' equity	**23,025,315**	19,882,559
Net borrowings	**3,923,053**	4,615,823
Net asset value per share (HK$)	**HK$19.01**	HK$16.69
Gearing (%)	**17.0%**	23.2%
Number of issued shares ('000)	**1,211,116**	1,191,527

NOTES TO THE ACCOUNTS

1. Principal activities and segmental analysis of operations

An analysis of the Group's turnover and contribution to operating profit for the year by principal activities and markets is as follows:

	Turnover Year ended 31 December 2004 HK$'000	Turnover 2003 HK$'000	Operating profit Year ended 31 December 2004 HK$'000	Operating profit 2003 HK$'000
Principal activities:				
Property rental				
– PRC	492,595	470,541	426,840	270,451
– Hong Kong	303,289	317,482	346,242	(4,107)
	795,884	788,023	773,082	266,344
Property sales				
– PRC	595,313	596,418	195,763	88,893
– Hong Kong	901,761	937,597	311,551	(150,283)
	1,497,074	1,534,015	507,314	(61,390)
Hotel operations	262,880	174,628	105,653	56,163
Logistics and warehouse operations				
– warehouse	396,486	358,928	211,582	82,988
– logistics	2,105,564	1,307,786	113,538	44,383
	2,502,050	1,666,714	325,120	127,371
Infrastructure	–	–	(920)	(614)
Project, property management and others	44,554	41,086	45,594	48,690
	5,102,442	4,204,466	1,755,843	436,564
Principal markets:				
PRC	1,558,925	1,342,449	743,407	409,671
Hong Kong	2,353,351	2,012,608	968,674	13,090
United Kingdom	748,286	595,608	15,614	10,275
Others	441,880	253,801	28,148	3,528
	5,102,442	4,204,466	1,755,843	436,564

An analysis of the Group's revenue and results for the year by business segments is as follows:

	Year ended 31 December 2004							
	PRC Property *HK$'000*	Hong Kong Property *HK$'000*	Overseas Property *HK$'000*	Logistics and Warehouse *HK$'000*	Infrastructure *HK$'000*	Others *HK$'000*	Eliminations *HK$'000*	Consolidated *HK$'000*
REVENUE								
Turnover	**1,350,788**	**1,205,050**	**–**	**2,502,050**	**–**	**44,554**	**–**	**5,102,442**
Inter-segment revenue	**448**	**–**	**–**	**–**	**–**	**218,195**	**(218,643)**	**–**
Inter-segment interest income	**–**	**–**	**–**	**–**	**–**	**256,428**	**(256,428)**	**–**
	1,351,236	**1,205,050**	**–**	**2,502,050**	**–**	**519,177**	**(475,071)**	**5,102,442**
RESULTS								
Segment results before revaluation surplus on properties	**691,248**	**537,504**	**(2,921)**	**368,624**	**(920)**	**219,562**	**(256,428)**	**1,556,669**
Revaluation surplus on properties	**63,337**	**235,086**	**–**	**178**	**–**	**–**	**–**	**298,601**
Segment results	**754,585**	**772,590**	**(2,921)**	**368,802**	**(920)**	**219,562**	**(256,428)**	**1,855,270**
Dividend income	**–**	**6,299**	**5,270**	**–**	**–**	**–**	**–**	**11,569**
Interest income	**8,164**	**12,931**	**–**	**804**	**4,487**	**7,737**	**–**	**34,123**
Interest expenses	**(34,493)**	**(134,027)**	**–**	**(44,486)**	**(4,487)**	**(184,054)**	**256,428**	**(145,119)**
Operating profit/(loss)	**728,256**	**657,793**	**2,349**	**325,120**	**(920)**	**43,245**	**–**	**1,755,843**
Share of results of associated companies	**40,687**	**319,700**	**28,738**	**201,538**	**38,686**	**–**	**–**	**629,349**
Profit before taxation	**768,943**	**977,493**	**31,087**	**526,658**	**37,766**	**43,245**	**–**	**2,385,192**
Taxation	**(65,384)**	**(113,987)**	**(4,391)**	**(72,334)**	**(7,220)**	**(3,295)**	**–**	**(266,611)**
Profit after taxation	**703,559**	**863,506**	**26,696**	**454,324**	**30,546**	**39,950**	**–**	**2,118,581**
Minority interests	**(140,067)**	**(8,879)**	**–**	**(14,114)**	**35**	**4**	**–**	**(163,021)**
Profit attributable to shareholders	**563,492**	**854,627**	**26,696**	**440,210**	**30,581**	**39,954**	**–**	**1,955,560**

	Year ended 31 December 2003							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE								
Turnover	1,241,587	1,255,079	–	1,666,714	–	41,086	–	4,204,466
Inter-segment revenue	447	–	–	–	–	306,862	(307,309)	–
Inter-segment interest income	–	–	–	–	–	266,872	(266,872)	–
	1,242,034	1,255,079	–	1,666,714	–	614,820	(574,181)	4,204,466
RESULTS								
Segment results before provision and revaluation deficit on properties	510,919	176,636	2,106	265,962	(614)	245,211	(266,872)	933,348
Provision in respect of stock of completed properties held for sale	–	(69,346)	–	–	–	–	–	(69,346)
Revaluation deficit on properties	(40,378)	(158,375)	–	(91,483)	–	–	–	(290,236)
Segment results	470,541	(51,085)	2,106	174,479	(614)	245,211	(266,872)	573,766
Dividend income	–	8,077	3,341	–	–	–	–	11,418
Interest income	4,211	10,009	–	1,599	4,497	5,702	–	26,018
Interest expenses	(59,245)	(121,391)	–	(48,707)	(4,497)	(207,670)	266,872	(174,638)
Operating profit/(loss)	415,507	(154,390)	5,447	127,371	(614)	43,243	–	436,564
Share of results of associated companies	28,133	(56,891)	17,170	(2,056)	149,402	–	–	135,758
Profit/(loss) before taxation	443,640	(211,281)	22,617	125,315	148,788	43,243	–	572,322
Taxation	(57,839)	(21,357)	3,586	(33,874)	381	(2,089)	–	(111,192)
Profit/(loss) after taxation	385,801	(232,638)	26,203	91,441	149,169	41,154	–	461,130
Minority interests	(86,140)	19,900	–	812	–	(961)	–	(66,389)
Profit/(loss) attributable to shareholders	299,661	(212,738)	26,203	92,253	149,169	40,193	–	394,741

2. Operating profit

	Year ended 31 December	
	2004	2003
	HK$'000	*HK$'000*
Operating profit is stated after crediting/charging the following:		
Crediting		
Dividend income from listed and unlisted investments	**11,569**	11,418
Interest income	**34,123**	26,018
Gain on sale of properties		
– Investment properties	**910**	–
– Properties under development and completed properties for sale	**588,931**	113,429
	589,841	113,429
Amortisation of negative goodwill	**4,578**	4,465
Charging		
Depreciation	**82,397**	68,122
Amortisation of goodwill	**3,608**	2,429
Loss on sale of properties		
– Investment properties	**–**	20,926
Total finance costs incurred	**218,529**	264,093
Less: amount capitalised in properties under development	**(73,410)**	(89,455)
Total finance costs expensed during the year	**145,119**	174,638

3. Taxation

	Year ended 31 December 2004 *HK$'000*	2003 *HK$'000*
The taxation charge comprises:		
PRC taxation		
Current	**104,883**	72,608
Overprovision in prior years	**(1,380)**	(375)
Deferred	**(50,585)**	(22,140)
	52,918	50,093
Hong Kong profits tax		
Current	**89,527**	39,439
Overprovision in prior years	**(770)**	(3,396)
Deferred	**38,421**	10,909
	127,178	46,952
Overseas taxation		
Current	**14,559**	5,442
Overprovision in prior years	**–**	(162)
Deferred	**(899)**	(923)
	13,660	4,357
Share of taxation attributable to associated companies		
Current	**61,357**	18,532
Deferred	**11,498**	(8,742)
	72,855	9,790
	266,611	111,192

Hong Kong profits tax has been provided at 17.5% (2003: 17.5%) on the estimated assessable profit for the year. Taxation on PRC and overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC and the overseas countries in which the Group operates, respectively.

4. Transfers to reserves

	Year ended 31 December 2004 *HK$'000*	2003 *HK$'000*
Transfers to:		
Enterprise expansion reserve	**(80)**	(61)
Share of general reserve funds of associated companies	**(660)**	(8,722)
	(740)	(8,783)

5. Earnings per share

The calculation of basic earnings per share is based on the Group's profit attributable to shareholders of HK$1,955,560,000 (2003: HK$394,741,000) and the weighted average number of 1,198,224,808 shares in issue during the year ended 31 December 2004 (2003: 1,180,548,013 shares).

There was no dilution arising from the outstanding share options granted by the Company in 1997. The dilution from the outstanding share options granted by the Company in 1999, 2000, 2001 and 2002 was immaterial. Accordingly, diluted earnings per share had not been shown.

6. Accounts receivable, prepayments and deposits

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables as at 31 December 2004 is as follows:

	31 December 2004 *HK$'000*	31 December 2003 *HK$'000*
Below 1 month	**579,505**	137,410
Between 1 month and 3 months	**317,642**	130,200
Over 3 months	**75,661**	20,538
	972,808	288,148

7. Accounts payable, deposits received and accrued charges

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables as at 31 December 2004 is as follows:

	31 December 2004 *HK$'000*	31 December 2003 *HK$'000*
Below 1 month	**304,995**	140,587
Between 1 month and 3 months	**114,710**	33,418
Over 3 months	**107,150**	19,171
	526,855	193,176

8. Short-term bank loans and long-term liabilities

	31 December 2004 *HK$'000*	31 December 2003 *HK$'000*
Bank loans – unsecured	**5,747,132**	6,033,808
Bank loans – secured	**409,678**	174,156
Total bank loans *(note)*	**6,156,810**	6,207,964
Short-term bank loans and current portion of long-term liabilities	**(680,428)**	(804,751)
Long-term liabilities	**5,476,382**	5,403,213

Note:

At 31 December 2004, the Group's bank loans were repayable as follows:

	31 December 2004 *HK$'000*	31 December 2003 *HK$'000*
Within one year	**680,428**	804,751
In the second to fifth year		
In the second year	**764,259**	315,822
In the third year	**4,136,551**	650,244
In the fourth year	**362,987**	4,208,933
In the fifth year	**212,585**	224,292
	5,476,382	5,399,291
Over five years	**–**	3,922
	6,156,810	6,207,964

9. Contingent liabilities

	31 December 2004 *HK$'000*	31 December 2003 *HK$'000*
(a) Banking facilities		
Guarantees for banking and other facilities of certain associated companies, investee companies and the set-up office of a project undertaken by the Group *(note(i))*	**493,493**	789,061
Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC *(note(ii))*	**382,234**	210,041
	875,727	999,102

Notes:

(i) The Group has executed guarantees for banking and other facilities granted to certain associated companies, investee companies and the set-up office of a project undertaken by the Group. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2004 amounted to approximately HK$493,493,000 (2003: HK$789,061,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK$676,047,000 (2003: HK$1,406,842,000).

(ii) The Group has executed guarantees to certain banks for mortgage facilities granted to first buyers of certain properties developed by the Group in the PRC. The utilised amount of such facilities covered by the Group's guarantees which also represented the financial exposure of the Group as at 31 December 2004 amounted to approximately HK$382,234,000 (2003: HK$210,041,000). The total amount of such facilities covered by the Group's guarantees amounted to approximately HK$903,110,000 (2003: HK$1,416,925,000).

(b) *Litigation*

EAS International Transportation Ltd. ("EAS PRC"), which is a subsidiary acquired by the Group during the year ended 31 December 2004 and in which the Group has a 50% interest as at 31 December 2004, is involved in a legal case in which an airline operator, together with five other plaintiffs, including the insurers of the aircraft, are claiming for damages, costs and interest, against six defendants, including EAS PRC, on a joint and several basis in relation to the alleged damages amounting to approximately US$65.6 million (equivalent to approximately HK$511.7 million, based on the exchange rate of US$1 = HK$7.80) caused to an aircraft in 2000 in respect of the transportation of certain chemical substance.

The damages sought by the plaintiffs of approximately US$65.6 million represent the market value of the aircraft at the time when the damage occurred less the resale value of the aircraft after repairs. According to the pleadings and the affidavits of the five other plaintiffs, the actual compensation made by them to the airline operator amounted to 15% of the total loss. The remaining 85% of the total loss was compensated by other reinsurers. These reinsurers have not brought any legal action against the six defendants as at the date of the Group's 2004 results announcement. Under the PRC laws, the maximum liability of the six defendants under the current legal case is only 15% of the total loss.

Based on the opinion of the legal advisers of the Group, it is unlikely that EAS PRC will be found liable for the claimed damages and losses. Accordingly, no provision has been made in the accounts.

Pursuant to the sale and purchase agreement, the vendor of EAS PRC has undertaken to indemnify Kerry Logistics Network Limited and/or its subsidiaries in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising in respect of various litigations against the EAS PRC Group, including the abovementioned legal case.

(c) *Guarantees*

EAS PRC has provided guarantees for bank loans granted to third parties as at 31 December 2004 amounting to RMB78.7 million, of which RMB40 million and RMB25 million granted to two borrowers respectively are in default. Such guarantees of RMB78.7 million were provided by EAS PRC before its acquisition by the Group. In respect of the RMB40 million guarantee, the borrower, its holding company, EAS PRC and the lending bank have been in negotiation for the extension of the loan and for a counter guarantee to be given by the holding company of the borrower to EAS PRC. In respect of the RMB25 million guarantee, the borrower and EAS PRC are in negotiation to seek to recover the assets of the borrower in order to reduce the exposure of EAS PRC. As at the date of this announcement, the above negotiations are still ongoing. No provision has been made as a reliable estimate of the ultimate liability, if any, which will be attributable to EAS PRC as a result of these guarantees cannot be made.

The vendor of EAS PRC has undertaken to indemnify Kerry Logistics Network Limited and/or its subsidiaries in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising from guarantees granted by the EAS PRC Group before the acquisition.

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2003.

10. Pledge of assets

At 31 December 2004, the Group's total bank loans of HK$6,156,810,000 (2003: HK$6,207,964,000) included an aggregate amount of HK$5,747,132,000 (2003: HK$6,033,808,000) which is unsecured and an aggregate amount of HK$409,678,000 (2003: HK$174,156,000) which is secured by the following:

(i) legal charges over certain properties with an aggregate net book value of HK$1,655,233,000 (2003: HK$1,459,514,000) and port facilities of HK$115,488,000 (2003: Nil);

(ii) charges on all assets, including bank balances amounting to HK$73,636,000 (2003: HK$74,003,000), of certain subsidiaries; and

(iii) an assignment of insurance proceeds of certain properties.

MANAGEMENT DISCUSSION AND ANALYSIS

The Directors of Kerry Properties Limited ("KPL") are pleased to announce the audited consolidated final results of the Company, its subsidiaries and associated companies (together, the "Group") for the year ended 31 December 2004. The Audit Committee of the Board has met to review the results and the financial statements of the Group for the year ended 31 December 2004 prior to recommending them to the Board for approval.

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 the Group's 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 OPERATIONS

PROPERTY

Overview

The property division of KPL 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 and 7.98 million square feet of completed investment properties 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 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: the 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.

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, KPL 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.

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.

KPL 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. KPL and SA will work closely together 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 for 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.

In addition to existing property interests in major cities, KPL 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: the 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.

Development Properties

Development of Enterprise Square 3, 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% 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 as at the end of 2004, respectively.

Pre-sale of the Group's 40%-held Residence Oasis above the Hang Hau MTR station in Tseung Kwan O continued in 2004, with 94% of the units successfully sold as at the end of December 2004.

Status of Developments

The development of Enterprise Square 5 accounts for more than 60% of the Group's GFA available for development in Hong Kong. Enterprise Square 5 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 5 will add approximately 1.6 million square feet of Grade-A retail/office space to the Group's portfolio in Kowloon Bay.

Enterprise Square 5 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 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 KPL'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 KPL 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 KPL's property portfolio.

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

Overseas Properties

KPL 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 or for sale.

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 Philippines 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 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.

LOGISTICS NETWORK

Overview

Kerry Logistics Network Limited ("KLN") is rapidly becoming the premier service provider of supply chain management ("SCM") and third-party logistics ("3PL") 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, KLN is able to provide customers with integrated services in international freight forwarding, warehousing, transportation, distribution and trading, and third-party contract logistics. In addition, KLN 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, KLN 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.

KLN 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 KLN which enabled KLN to better leverage the synergies and the opportunities with the division's existing operations.

KLN 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 KLN 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 KLN 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, KLN has expanded its logistics operation in phases, first to Mainland China, then the Asian region and ultimately building a global network.

China Focus

KLN 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 3PL services including electronics, healthcare, components, technology, fashion, retailing, chemical and industrial. During the year, KLN has achieved penetration into more niche sectors such as food and beverages, healthcare and luxury brands.

In 2004, KLN secured a number of integrated logistics accounts in the food and beverages sector, leveraging on its strength in cold storage and refrigerated trucking. KLN 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 KLN's regional hub in 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, KLN 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, KLN 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. KLN is now integrating the business operations of EAS PRC with KLN's 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 KLN to further spearhead its business expansion in Mainland China.

The acquisition of EAS PRC gives KLN 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 KLN's existing and potential client portfolio.

Asia Based

As part of its strategy to expand coverage and secure its position as an Asia specialist, KLN 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.

KLN's 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, KLN established operations in the Philippines and Vietnam. In 2004, KLN restructured its operations in Singapore, Malaysia and Indonesia by forming a joint venture with Pacific Carriers Limited and, through KLN's 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, KLN established Kerry Freight (Taiwan) Limited in Taiwan, in which KLN has 51% interest.

Global Network

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

In April 2002, KLN 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, KLN 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, KLN and Rhenus will be the preferred partner for contract logistics projects in Asia and Europe, respectively.

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 UK with a strong focus on the UK/Asia-Pacific trade lanes, and is a key European component in the further development of KLN's 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 and Distribution Centres – Hong Kong

KLN 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. 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 KLN 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 KLN 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%.

Information Technology

Information technology is extremely important to the success of KLN's logistics operation. In March 2004, it deployed a new applications system module, 'KerrierSSS', to support the agency and distribution businesses. KLN 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, KLN will continue to bolster up its IT capabilities and keep abreast of technological innovation to further consolidate its leading position in the market.

Awards

KLN 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, KLN was also the proud winner of FTBAsia.com's Asia Logistics Awards 2004 in the 'Youth Development' category, recognizing KLN's creativity and innovation in youth training in the logistics and freight forwarding businesses.

In May 2004, Mr Ang Keng Lam, Chairman of KPL and KLN, 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. KLN will continue to capitalize on the fast expanding trade between Mainland China and the rest of the world, to strengthen and consolidate KLN's position in the markets in which it operates.

In 2005, KLN 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, KLN plans to strengthen its land transportation capabilities in South East Asia. Further expansion is also planned in other strategic locations in Europe and US through joint ventures or alliances to develop KLN into a truly global operation.

INFRASTRUCTURE

Overview

KPL'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

KPL has a diversified infrastructure investment portfolio. In Hong Kong, this includes its 15% interest in the operation of the Western Harbour Tunnel and the management of the Hunghom Cross Harbour Tunnel in Hong Kong. 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 KPL 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 KPL, 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 division 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 KPL'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 KPL over the long term, as well as making positive contributions to the communities where they are located.

KPL's infrastructure division will continue to carefully manage the Group's 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 a fully 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 has 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.

SCRIP DIVIDEND ALTERNATIVE

The directors ("Directors") of Kerry Properties Limited (the "Company") recommend a final dividend of HK40 cents per share for 2004 (2003: HK15 cents) payable to shareholders whose names appear on the registers of members of the Company on Tuesday, 26 April 2005, with a scrip alternative to offer the right to shareholders to elect to receive such final dividend wholly or partly by allotment of new shares credited as fully paid in lieu of cash (the "2004 Final Scrip Dividend Scheme"). The final dividend is expected to be paid on Wednesday, 8 June 2005.

The 2004 Final Scrip Dividend Scheme is conditional upon (i) the approval of the proposed final dividend at the Company's annual general meeting to be held on Tuesday, 26 April 2005; (ii) the issue price of a new share to be issued pursuant thereto being not less than the nominal value of a share of the Company; and (iii) the granting by the Listing Committee of The Stock Exchange of Hong Kong Limited of the listing of and permission to deal in the new shares to be issued pursuant thereto. In the unlikely event that any of the conditions are not satisfied, shareholders will receive the final dividend for 2004 wholly in cash. The issue price of the new shares to be issued under the 2004 Final Scrip Dividend Scheme will be fixed after the Company's annual general meeting equivalent to the average closing prices of the shares of the Company quoted on The Stock Exchange of Hong Kong Limited for the five consecutive trading days to be determined by the Directors. Thereafter, a press announcement setting out the basis of allotment of new shares and the issue price of new shares under the 2004 Final Scrip Dividend Scheme will be published. A circular containing details of the 2004 Final Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Monday, 9 May 2005.

The Company will make enquiries with legal counsels where its overseas shareholders, if any, are based regarding legal and regulatory restrictions in allowing such overseas shareholders to participate in the 2004 Final Scrip Dividend Scheme as required by rule 13.36(2) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and may only exclude such overseas shareholders on the basis that, having made such enquiries, it would be necessary or expedient to do so.

STAFF

As at 31 December 2004, the Company and its subsidiaries had 7,288 employees. Salaries of employees are maintained at competitive levels while bonuses are granted on a discretionary basis. Other employee benefits include provident fund, insurance, medical cover, subsidized educational and training programs as well as a share option scheme.

Share Option Schemes

On 17 April 2002, the shareholders of the Company approved the termination (to the effect that no further options shall be offered) of the executive share option scheme adopted by the Company on 27 March 1997 (the "1997 Share Option Scheme") and the adoption of a new share option scheme (the "2002 Share Option Scheme"). The 2002 Share Option Scheme is designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 31 December 2004, options to subscribe for a total of 21,035,631 shares were still outstanding under the 1997 Share Option Scheme. No options have been granted under the 2002 Share Option Scheme.

CLOSURE OF REGISTERS OF MEMBERS

The registers of members of the Company will be closed from Friday, 22 April 2005 to Tuesday, 26 April 2005, both days inclusive, during which period no transfer of shares will be effected. In order to qualify for the proposed final dividend, all share transfers accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Abacus Share Registrars Limited at G/F, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong, for registration not later than 4:00 pm on Thursday, 21 April 2005. Subject to shareholders' approval of the payment of the final dividend with a scrip alternative at the annual general meeting of the Company, the dividend warrants and share certificates for the new shares to be issued pursuant to the 2004 Final Scrip Dividend Scheme will be distributed on or about Wednesday, 8 June 2005.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 2:30 pm on Tuesday, 26 April 2005 at Atrium Room, Level 39, Island Shangri-La Hotel, Pacific Place II, Supreme Court Road, Central, Hong Kong.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities during the year.

GENERAL INFORMATION

As at the date of this announcement, the Executive Directors of the Company are Messrs Ang Keng Lam, Wong Siu Kong, Ho Shut Kan and Ma Wing Kai, William and the Independent Non-executive Directors of the Company are Messrs William Winship Flanz, Lau Ling Fai, Herald and Christopher Roger Moss, O.B.E.

By Order of the Board
Ang Keng Lam
Chairman

Hong Kong, 8 March 2005

* *For identification purpose only*

Remarks:

1. *The Company's annual report 2004 will be published on the Company's website (www.kerryprops.com) around 22 March 2005 and will be available around 23 March 2005.*

2. *The website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk) will contain all the information required by paragraphs 45(1) to 45(3) inclusive of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (before amendments effective 31 March 2004) in due course.*

"Please also refer to the published version of this announcement in the South China Morning Post"