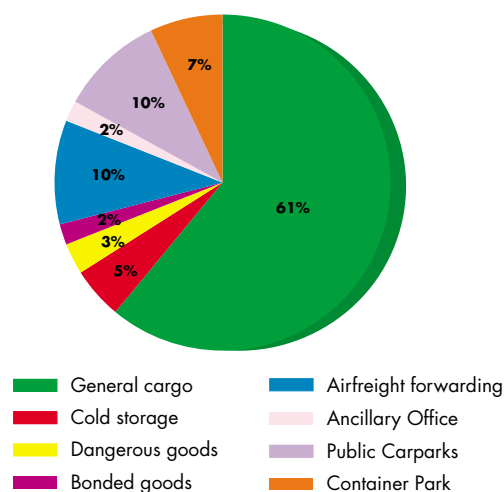


Logistics and Warehouse Division

The Logistics and Warehouse Division is one of the major contributors of revenue to the Group in 2001, accounting for approximately 17% of the Group's total turnover. With a vision to be one of the leading third party logistics service providers in Asia, the division has made significant progress in strengthening its network by extending its operations to various countries in the Asia Pacific region during the year. The division will continue to intensify its development efforts to extend its logistics network to other countries in Asia whilst at the same time further develop its competitive advantages in order to establish a leading position in the region.

EXTENSIVE AND COMPREHENSIVE WAREHOUSE COVERAGE



Total GFA of approximately 6.8 million sq.ft. attributable to Kerry Properties Limited as at 31 December 2001

	GFA sq.ft.
General cargo	4,127,385
Cold storage	337,918
Dangerous goods	226,814
Bonded goods	129,486
Airfreight forwarding	693,196
Ancillary office	133,683
Public carparks	649,894
Container park	484,380
Total	6,782,756

LOGISTICS

The division is committed to repositioning itself in the logistics and warehouse market and to building up a strong and comprehensive logistics network in the Asia Pacific region. Today, "Kerry Logistics" is known to be one of the fastest growing third-party logistics service providers in the Asia Pacific region, providing a top quality service with extensive capabilities. In addition to warehousing, the division offers a comprehensive range of logistics solutions encompassing web-based logistics, warehousing, inventory management, freight management, transportation, distribution, e-fulfillment, e-commerce solutions and value-added services.

During the year, the division has successfully extended its supply chain competencies and operating network to various countries in the Asia Pacific region out of Hong Kong, including Mainland China, Thailand, Korea, Australia and the United States. As at December 2001, the division operates in 5 countries and 12 cities around the world. A number of these operations are involved in the businesses of freight forwarding, logistics and distribution services. Logistics revenue recorded a strong growth of approximately 350% from HK\$71 million in 2000 to HK\$318 million in 2001.



Air cargo palletization

In Hong Kong, the division has more than 400,000 square feet of warehouse space dedicated to the logistics division. The division is also operating a fleet of 90 vehicles which is capable of providing premier distribution services. Capitalizing on its strengths and leading position in warehousing in Hong Kong, the division's logistics business has taken off rapidly from having less than 5 customers in 1999 to over 70 customers at the present time with clients in multiple market segments, including industrial products, telecommunications, branded consumer goods, fast food shops and convenient stores. The division will continue to enhance its competencies and develop its competitive advantages in order to command and secure a leading position in the logistics business in Hong Kong within the next few years.

PAN-ASIA EXPANSION

Korea

In January 2001, the division successfully established its first logistics foothold outside Hong Kong with the acquisition of a 51% interest in Kerry Freight (Korea) Inc., a leading Korean freight forwarding company in Korea.

PRC

The division has a joint venture with Beijing Holdings Group to develop a northern logistics hub for Beijing and other northern Chinese cities. The venture commenced operations in the first half of 2001.

In order to capture the businesses from the vast manufacturing and retail industries of Shanghai and its neighboring cities along the Yangtze River, the division has set up warehouses in the Shanghai Waigaoqiao Free Trade Zone. The operations of these warehouses commenced during the year. The division is also exploring opportunities to further extend its logistics capability in the Shanghai area where the division has plans to develop a logistics centre.

In order to establish the division's network in southern China, a joint venture agreement was signed with the Yantian Port Group in Shenzhen in March 2001 to develop a 40,000 square metres logistics centre in the Yantian Free Trade Zone next to Terminal 2 of the Yantian Port. This facility is well situated at a convenient location and will be able to serve the entire Pearl River Delta. In view of the current limited supply of bonded storage facilities in the Free Trade Zone, the market potential for logistic services in this area is highly promising. Conceptual design of the logistics centre has been finalized and tenders from



Model of logistics centre at Yantian, Shenzhen, PRC

various contractors are in progress. The centre will commence operations in the second half of 2003. It is expected that the facility will be able to serve the consignees and shipping lines migrating from Hong Kong to Yantian as a result of substantial cost differentials.

Given the current low penetration rate for third party logistics ("3PL") providers in the PRC, together with the vast market to be opened up as a result of the PRC's entry into the WTO, the potential growth of 3PLs in China is expected to be significant. The division believes that it has got distinctive advantages in the PRC market with its early penetration and existing establishments which allows it to position itself effectively in securing potential customers. The division aims at establishing its position as a niche total solution provider in the PRC market within the next decade by building a competitive nation-wide network of logistics operations in the PRC.



Leading edge technology

Australia

In June 2001, the division acquired a 100% interest in Charlick Operations Pty. Limited which was subsequently renamed Kerry Logistics Holdings (Australia) Pty Ltd. The Australian companies are mainly engaged in the provision of freight and logistics services, container depot services, interstate

and local transport services, loading/unloading and storage services at rail terminals. It has over 30 years of experience as a road and rail operator. The acquisition enables the division to explore potential business synergies and to add the Australasian presence to our logistics network.



Model of logistics centre at Laem Chabang Port, Thailand

Thailand

In Thailand, the division is in the process of building a 16,000 square metres logistics centre in the area of Laem Chabang Port on a 4 hectare piece of land which is south of Bangkok. The logistics centre will commence operations in late 2002. In January 2001, the division commenced air and freight operations in the vicinity of the Siam Sea Port Terminal at Laem Chabang Port.

United States

In June 2001, Kerry Freight (USA) Inc. was incorporated in the United States. This is the division's first logistics foothold outside the Asia Pacific region. The company is mainly engaged in the business of inbound air freight from Asia in collaboration with the division's Korean subsidiary.



Small parts handling service

Development efforts in other major cities in the Asian Pacific region will intensify in 2002 with plans to extend the network to Singapore, Philippines, Malaysia and Taiwan in due course. The division is also looking for strategic alliances outside Asia which have a strong presence in terms of network that can enable us to have immediate access to multinational customers. The aim is to deliver a higher level of expertise in integrated logistics management as well as offer a wider logistics service package to customers whilst continuing to establish a network of operating points in the region.

Warehouse

Despite the general economic slowdown and the reduced market rental, the division's warehousing business delivered a good performance in a difficult market in 2001. Revenue increased by 4% from HK\$410 million in 2000 to HK\$426 million in 2001.

During the year, the division disposed of the Yuen Long 2 Warehouse at a consideration of HK\$93 million. The proceeds will be utilised to further fund the expansion of the logistics network. Notwithstanding the sale, the division still operates 16 warehouses and logistics centres with a total gross floor area of 6.8 million square feet and remains the largest warehouse owner and operator in Hong Kong.

The demand for warehouse space in Hong Kong has been adversely affected by the general economic downturn in the United States and Europe. Cargo throughput volume and total tonnage handled in Hong Kong has started to decrease in the second half of 2001. The trend of reduced tonnage passing through Hong Kong is expected to continue as China's accession to the WTO will lead to direct trade links and businesses between China and other parts of the world. Nevertheless, the division will continuously evaluate opportunities to maximize value from its warehouse portfolio by minimizing the transitional vacancy of the warehouse spaces as well as tightening control over the operating cost of the warehouses. More warehouse space will be converted to bonded storage or for logistics operations when necessary where the yield is higher than general storage. The division aims to maintain the occupancy rate of the warehouse portfolio at a minimum of 95% in 2002.

As at 31 December 2001, the Group's attributable share of the gross floor area of its portfolio of warehouses and logistics centres was approximately 7.1 million square feet with a gross asset value of approximately HK\$3,539 million (2000: HK\$4,687 million).