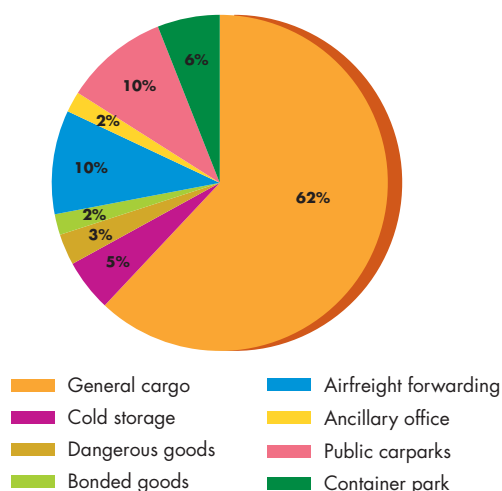


Logistics Network Division

The Logistics Network Division is one of the major contributors of revenue to the Group in 2002, accounting for approximately 26% of the Group's total turnover. Already established as a significant player in Hong Kong, during the year, the Division continues to implement its long-term strategic plan to build a strong and comprehensive logistics network focusing on Asia. As at 31 December 2002, the Division operates in 12 countries and 29 cities around the world. In 2003, the Division will continue to strengthen its logistics competency in order to meet with the ever-increasing competition in the industry.

EXTENSIVE AND COMPREHENSIVE WAREHOUSE COVERAGE



Total GFA of approximately 6.7 million sq.ft. attributable to Kerry Properties Limited as at 31 December 2002

	GFA sq.ft.
General cargo	4,121,691
Cold storage	337,918
Dangerous goods	226,814
Bonded goods	129,486
Airfreight forwarding	693,196
Ancillary office	124,275
Public car parks	649,894
Container park	376,740
Total	6,660,014

"Kerry Logistics" is known to be one of the fastest growing third-party logistics services providers in the Asia Pacific region, with its extensive logistics capabilities encompassing contract logistics, distribution center, international air and sea freight forwarding, transportation, distribution and value-added services. The Division is committed to a high level of professionalism and will continue to deliver top quality service to customers as well as superior financial returns for shareholders.

LEASING OF WAREHOUSES

Commencing from 2002, the warehousing business in Hong Kong has been facing one of the toughest times seen in decades. The tough economic environment in Hong Kong, the development of less expensive facilities in the Pearl River Delta area, as well as the gradual relaxation of rules governing cargos moving directly in and out of the PRC, has led to a decrease in demand for warehouse space in Hong Kong.



Regional expertise

The Division has been approaching this adverse market condition by implementing effective strategies to secure both cargo volume as well as tenants by taking a proactive approach and a continuous improvement in service quality. Revenue from warehousing dropped slightly from HK\$426 million in 2001 to HK\$399 million in 2002 versus decrease in market rental of over 20% during the year 2002. The occupancy rate for the entire warehouse portfolio operated by the Division stood at 92% as at 31 December 2002.

Subsequent to the year end, on 9 January 2003 the Division acquired a 40% equity interest in Kerry BCI Warehouse Holdings Limited ("Kerry BCI") for a consideration of HK\$110 million. Subsequent to the acquisition, Kerry BCI became a wholly owned subsidiary of the Division and its principal assets are two cold storage warehouses in Hong Kong.

As at 31 December 2002, the Group's attributable share of the gross floor area of its portfolio of completed warehouses and logistics centres was approximately 6.7 million square feet with a gross asset value of approximately HK\$3,384 million (2001: HK\$3,539 million).

LOGISTICS BUSINESS

Already established as a significant player in Hong Kong, the Division continues to implement its long-term strategic plan to build a strong and comprehensive logistics network focusing on Asia. During the year, the Division has successfully extended its logistics competencies and operating network to countries outside the Asia Pacific region. Logistics revenue increased by 189% from HK\$318 million in 2001 to HK\$919 million in 2002, with 59% of such revenues generated from outside Hong Kong. The volume, customer base as well as cargo throughput handled by the Division has increased by more than 100% during the year. As at 31 December 2002, the Division operates in 12 countries and 29 cities around the world with approximately 1,200 staff.



Solution-oriented management



Yantian Logistics Centre, Shenzhen, PRC

PRC

With the rapid growth in China's economy and its accession to the WTO, we believe there is huge potential in China's logistics industry. In view of this, the Division has continued to focus its development efforts in the PRC during the year, with four offices being set up in the first quarter of 2002, including Shenzhen, Qingdao, Shanghai and Tianjin. Another office in Xiamen was opened in early 2003.

In addition to the Class A international freight forwarding operating license which the Division successfully obtained in Beijing in April 2002 through a 50% joint venture company in December 2002, the Division secured another comprehensive business

license in Shanghai through another 50% joint venture company, Shanghai Kerry CHJ Logistics Limited ("Kerry CHJ"), which was formed in July 2002 with the Shanghai Caohejing Hi-Tech Park Development Corporation. The total investment cost of Kerry CHJ is approximately HK\$232 million. The joint venture is engaged in the provision of domestic and international freight forwarding; warehousing, distribution and related value added services for general cargos; and import/export related services which will complement the Division's existing operations in the Waigaoqiao Free Trade Zone in capturing business from Shanghai and its neighbouring cities.

The Division's new logistics centre located in the Yantian Free Trade Zone in Shenzhen will also commence operations in mid 2003. This facility which is in excess of 40,000 square metres will serve as a regional hub for the booming Pearl River Delta market. In the meantime, the Division is also operating a 16,000 square metre leased facility in the Futian Free Trade Zone. Efforts will be made to further develop other logistics business in this area when the opportunity arises.

Hong Kong

With its global freight forwarding network gradually coming online, the Division has achieved a significant increase in cargo volume handled during the year. The increase in throughput has enabled the Division to charter two 747 freighters for the first time in November 2002, flying to the United States. The port closure in the United States west coast in October 2002 has also generated extra business for the Division as cargos must be dispatched by air in order to meet pre-Christmas orders. The Division will continue to expand its air and ocean freight business in order to enhance its bargaining power to obtain better rates and to secure space for its customers' cargos.

Leveraging on its strengths in warehousing as well as its expanding Asian Pacific network, the Division managed to secure a variety of integrated logistics accounts covering industry chemical products, FMCG (fast moving consumer goods), consumer electronics, high value consumer products as well as food and beverages.

The Division will continue with its strategy to promote its Hong Kong operation as the regional hub for Asia for its multinational clients, with distribution destined for international markets whilst having outsourced their manufacturing processes to factories in the PRC.



Logistics consultancy service

Capitalising on the well-developed logistics infrastructure in Hong Kong as well as its facilities that are of international standard, the Division's Hong Kong operation will be fulfilling its role as a provider of integrated logistics services and a total solution which can enhance supply chain efficiency for its clients. The development will also serve to increase further, cargo passing through Hong Kong bringing extra business to the Division.



Kerry Logistics (UK) Limited, United Kingdom

Overseas

Apart from the logistics facility in Yantian, Shenzhen, the Division is also in the process of constructing a 15,000 square metre logistics centre in Thailand. The facility is located in the area of Laem Chabang Port, south of Bangkok and will commence operations in mid 2003. To complement the Division's logistics development in this area, the Division has also started its long-haul transport business in Thailand during the year.

In April 2002, the Division successfully established its first logistics foothold in Europe with the acquisition of a 91% stake in Trident International Limited ("Trident"). Trident is one of the leading players in the Asia-United Kingdom trade and has built up a comprehensive range of logistics services in the United Kingdom. This acquisition has brought about material synergy to the Division's freight business in Asia, especially in the PRC and Hong Kong. In February 2003, Trident was renamed as Kerry Logistics (UK) Limited and will operate under the trade name of Kerry Logistics.

The increasing globalisation of businesses in the 21st century heralds the age of collaboration between third party logistics players with compatible strength and culture. The Division formed a joint venture with a German-based logistics operator, Rhenus AG & Co. KG ("Rhenus") in January 2003 for joint marketing in Europe and Asia. Under this co-operation, Kerry Logistics Network will be Rhenus's preferred partner for contract logistics projects in Asia and vice versa.

INFORMATION TECHNOLOGY (“IT”)

A well-developed and flexible IT capability is paramount to third party logistics (3PL) solutions. The Division has carried out a number of efficiency enhancement initiatives during the year. The in-house developed warehouse management system “KerrierWMS” has started to replace the existing warehouse operating systems since mid 2002. By mid 2003, all of the Division’s existing warehousing and logistics operations will be running under KerrierWMS. In the freight forwarding sector, the ‘KerrierFMS’ will also commence operation in March 2003. Currently, the Division is also enhancing its capability in electronic data interchange with its partners and customers. This includes direct data synchronisation; the provision of web-based system applications for both business-to-business and business-to-consumer clients; and real time data interchange with clients via the web, internet and leased lines, etc.

In 2003, the Division will continue to strengthen its logistics competency in order to meet with ever increasing competition. Geographically, the Division will continue to focus its development efforts in the PRC. Given the sheer size of the country, the potential growth of China’s 3PL business is expected to be immense. However, competition will also be extremely keen especially after the existing barriers to market entry are lifted and other limitations on foreign investments are phased out according to WTO obligations. The Division believes that it has got distinctive advantages in the PRC market with its early penetration and existing established operations which allows it to position itself effectively in securing potential customers.



Contract logistics