

# CHAIRMAN'S STATEMENT

Mr Ang Keng Lam, Chairman of the Board of Directors



On behalf of the Board, I am pleased to report the annual results of Kerry Properties Limited (the "Company"), its subsidiaries and associated companies (collectively, the "Group") for the year ended 31 December 2006.

## YEAR 2006 FINANCIAL RESULTS

The Group's profit attributable to shareholders for the year ended 31 December 2006 was HK\$4,689 million, representing an increase of 53% compared with HK\$3,067 million reported for 2005. The increase in the Group's earnings was mainly attributable to the encouraging sales and leasing results during the year and in particular, the profit arising from the Group's disposal of its interests in the Citibank Plaza joint venture.

Earnings per share for the year were HK\$3.83, representing an increase of 51% compared with HK\$2.53 per share in 2005.

The Board has recommended the payment of a final dividend of HK\$0.65 per share for the year, with a scrip dividend alternative. Together with the interim dividend of HK\$0.20 per share, the total dividend for the year ended 31 December 2006 will be HK\$0.85 per share, representing an increase of 21.4% compared with HK\$0.70 per share in 2005.

## OPERATIONAL REVIEW

The Group's three major lines of business: Property, Logistics and Infrastructure all contributed to the Group's performance in 2006. The combination of the divisions creates a balanced portfolio with the momentum to deliver recurrent earnings well into the future.

### I. Property

The economies in Mainland China and Hong Kong were buoyant in 2006, and our property investments in each market delivered positive returns. This is attributable to the generally robust market conditions and success in implementing the Group's property investment strategy. The Group remains confident about prospects for property investment in our major markets.

The Group's property portfolio is mainly in Mainland China and Hong Kong. The portfolio includes properties under development, rental properties and properties for sale consisting of a gross floor area of approximately 30 million square-feet, of which approximately 14.4 million square-feet are projects under development in Mainland China. Out of the Mainland portfolio, approximately 11.6 million square-feet are composite developments comprising hotel, apartment and other residential accommodation, office and retail space. These mixed-use developments are landmark projects situated respectively in Tianjin, Shanghai, Hangzhou and Yangzhou. These mixed-use developments, combined with the management skills within the Group and the prime locations in which the developments are undertaken, shape our view that these investments will make a significant contribution to the financial performance of the Group into the future.

We continue to invest in mixed-use development projects to take advantage of efficiencies of scope and scale. The Kerry Centres in Beijing and Shanghai are examples of successful projects of this kind that provides a convenient and high quality environment for customers and tenants. They enjoy high occupancy and deliver consistently good returns. These flagship properties make a great contribution to the profile and presence of the Group and to our recurrent earnings.

In Hong Kong, perhaps the most exciting development in the Group's portfolio is the 1.6 million square-foot development that includes a twin office tower which provides 500,000 square-feet of office space and MegaBox, a composite proprietary 1.1 million square-foot retail and entertainment complex that is scheduled to open in mid-2007. MegaBox revolves around the "Big Box" retail concept. With a unique mix of retail, entertainment and dining facilities, it is destined to become a key shopping landmark and major tourist attraction in Hong Kong. Our development at Homantin Hill was completed in 2006, further enhancing the Group's reputation as a preeminent developer of luxury residential accommodation.

Going forward, the Group will continue to invest in prime locations, typically in areas where quality land is in limited supply. We continue to focus on large-scale mixed-use property projects that lend themselves to the creation of scale, scope and synergy effects that enhance their attractiveness. Increasingly, our emphasis will be on opportunities in Mainland China.

## II. Logistics Network

Strategic alliances and acquisitions extended our Logistics network throughout Asia, India, Europe, Australia and North America. The Division is positioned as a leading Asian-based international logistics operator.

Further developing the Mainland China business is a priority for the Division. Through a 70% holding in Kerry EAS Logistics Limited (KEAS), the Division now leads Mainland China in terms of logistics coverage. The Division also remains active in various markets across Asia, with the fastest growth taking place in Vietnam. The Group's logistics network is preeminent in terms of its reach throughout Asia and Southeast Asia.

The consolidation effort undertaken in 2005 is yielding synergies between Kerry Logistics and KEAS. Rationalization of the Division's investment portfolio through the timed sale of non-strategic assets continued in 2006. The capital freed in this process is then redeployed within the Group. Further investment into the warehouse management business is one example of how this strategy is being applied.

The Division will continue to focus on coordinating and integrating a variety of logistics related services in a way that supports the growth and development of our customers' businesses. Whether it be managing client inventory, expediting product transfer to meet urgent demand, managing warehouse and assembly activities, cooking and delivering food to customer outlets, transporting non-standard cargoes or creating end to end logistics solutions, the Division delivers quality service to its clients. Our high standards, and the scope of services we offer, will continue to position us as a reliable and dependable partner for all the transactions we manage.

# CHAIRMAN'S STATEMENT (Continued)

## III. Infrastructure

The Division made a positive contribution to the Group's recurrent income for the year. The performance of the Division improved during the year. This is mainly attributable to an increase of 8% year-on-year in the number of vehicles using the Western Harbour Crossing in Hong Kong.

## STRATEGY

The Group's results reflect the success of its underlying strategy involving a focus on quality development catering to the premium end of the market in which the Group has working knowledge and experiences. The Group also seeks to continually strategize by following closely macro-economic development in Mainland China and Hong Kong. We possess the local market knowledge in each location to ensure that opportunities are quickly identified and acted upon. The Group's emphasis on innovation, commitment to quality and service, and our desire to benefit the communities we serve also contributed to the excellent progress during the year.

In terms of market focus, our Property Division is active with projects in Mainland China and Hong Kong. Our Logistics Division has a wider reach and is best described as being Asia-based, but China focused. In Logistics, our Asia base allows us to take advantage of opportunities around the region and the globe, while our China presence allows us to benefit from the development of one of the world's most dynamic economies.

Business in Mainland China will have a positive financial impact on the Group in the future. Even after more than two decades of impressive growth, China's GDP still registered a real growth of 10.7% in 2006. China's property sector has seen substantial growth and value appreciation in recent years. In addition, there are over 100 cities in Mainland China with a population of more than 1 million. Combined with rapid urbanization and improving infrastructure, this points to the creation of new and sustainable opportunities for urban property developments and investments.

Growing affluence, rising exports and imports, greater geographic diversification of economic development, and increased investment in transportation systems will continue to generate opportunities for capable logistics operators in Mainland China. This is particularly true given estimates that logistics costs in Mainland China represent twice the percentage of GDP as measured against some OECD economies. Mainland China's vast infrastructure needs should also continue to provide investment opportunities for the Group.

A key advantage for the Group in capitalizing on investment opportunities is that our capabilities are broader than many other competing organizations. The connectivity between our businesses, and those within the parent group, creates synergies that are unique to the Group. This has been, and will continue to be, a source of competitive strength.

Our commitment to quality and service is demonstrated by the Group's reputation and the satisfaction registered by our customers. In properties, the Group is known as a developer of high-end accommodation that builds and manages properties to high standards. In logistics, the Group's focus on technology driven innovation has led to major international companies looking to the Group to provide logistics services integral to their strategies in the region.

Importantly, the Group seeks to take on projects that contribute to the communities it serves as well as to the bottom line. In Hong Kong, we have been involved in projects that are revitalizing and renewing older areas of the city. The Group's large-scale, mixed-use sites in emerging cities in Mainland China often act as a catalyst to further development in the surrounding area. This makes the Group a positive change agent for the community, while enhancing the value of the Group's own investments.

## PEOPLE

Shareholders will be well aware that the skills and dedication of our staff is of paramount importance to the Group's continued success. The Group has made significant investments in their training and development. The desire to innovate, rather than to simply reproduce, is fostered among all our people. Our staff make determined efforts to immerse themselves in the business and to engage with our valued stakeholders in a variety of ways.

Our aim is to create an environment in which talented employees grow with the business. It is a source of pride that so many of our staff have chosen to make their careers with the Group. Their loyalty and hard work is the cornerstone on which all else stands.

## CORPORATE GOVERNANCE AND CORPORATE SOCIAL RESPONSIBILITY

The Group aspires to uphold the highest standards of corporate governance, and to be a model corporate citizen in every respect. Beyond merely complying with mandatory reporting requirements, we are firmly committed to making voluntary disclosures when we feel that greater transparency is in the interests of shareholders. We also do this to enhance our internal code of conduct. Over the years, this commitment has resulted in a number of commendations. Most recently, the Company was nominated for a "Citation for Achievement in Corporate Governance Disclosure" in the 2006 HKMA Best Annual Reports Awards Competition.

Our Independent Non-executive Directors play an important role in ensuring that the Group performs well in corporate governance terms. They hold a perfect record of attendance for all Board and Committee meetings held during the year. Additionally, they are briefed monthly by the senior executive team to ensure that they are across all major issues. The Group is well served by them, and I appreciate their support and guidance.

The Listing Rules in Hong Kong encourage companies to extend their reporting framework to cover community, ethical, social and environmental issues. In addition to making contributions to a host of charitable organizations, we diligently pursue opportunities to care for the environment by utilizing technologies designed to minimize both resource depletion and the environmental impact of construction and development projects. We are also dedicated to re-cycling and to energy conservation. Our Corporate Social Responsibility Report outlines more fully the various ways in which we have responded to the challenge to render the Group more transparent and accountable.

## OUTLOOK

In the absence of a major external shock, the outlook for business conditions is positive in all Divisions. Our view is that, in spite of the likely introduction of additional controls by the Central Government that are intended to slow the economy's expansion to a targeted and sustainable level, Mainland China will continue to exhibit rapid economic growth and to present attractive investment opportunities. With low domestic inflation, rising domestic demand and strong exports, the case for investing in the Chinese Mainland remains compelling. The sheer size of the market and the abundant opportunities for development will continue to be an important investment focus for the Group. Our extensive experience in Mainland China, and our understanding of the uniqueness of different Chinese cities, gives the Group competitive advantages in its Chinese operations.

Hong Kong also has strong prospects. Organizations such as the World Economic Forum, the Institute for Management Development, the Economist Intelligence Unit, the World Bank, the Heritage Foundation and others, continue to rank Hong Kong among the world's most competitive, open and business-friendly economies in the world. The shortage of supply of luxury residential units, increases in disposable income, relaxed controls on cross-border investment, an influx of visitors to Hong Kong, greater integration and connectivity between Hong Kong and Mainland China, and an increase in the volume of business being done by Chinese enterprises in Hong Kong bodes well for another exceptional year.

# CHAIRMAN'S STATEMENT (Continued)

## APPRECIATION

I take this opportunity to offer sincere thanks to all those who contributed to the success of our business in 2006. The professionalism and dedication of our partners, Board members, management and staff is an essential driver of the Group's performance. Their services are integral to the stability and prosperity of the Group. Our shared commitment to excellence in all we do and our reputation for quality – a reputation that has been earned by all stakeholders working closely together over many years – should be a source of great pride to all involved.

**Ang Keng Lam**

Chairman

Hong Kong 22 March 2007