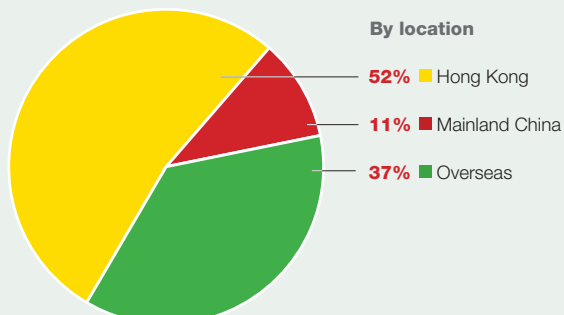
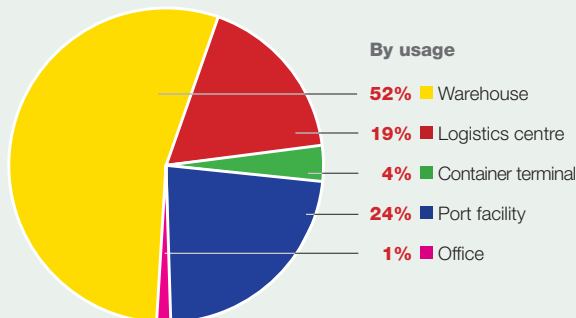




Product Customization & Consolidation Centre

PROPERTIES HELD FOR LOGISTICS OPERATIONS

11.2 million square feet in attributable GFA



OVERVIEW

The unprecedented “super-inflation” sweeping the globe starting from the first half of 2008 exacerbated the impact of the global economic downturn in late 2008. The severe contraction in manufacturing output resulted in a sharp decrease in both air and sea cargo flows in the last quarter of the year. In the midst of the challenges imposed by such global economic changes, the Logistics Network Division experienced a drop in turnover and profit in the fourth quarter compared with the same period in 2007. But with the relatively strong performance recorded in the first three quarters of the year, the Division still managed to report respectable growth in performance across its spread of operations in 2008 when compared with 2007.

REVIEW OF LOGISTICS BUSINESS

MANAGEMENT DISCUSSION & ANALYSIS

Continued

During the year under review, the Division reported a turnover of HK\$8,360 million (2007: HK\$7,682 million), an increase of 9% over the previous year. Net profit attributable to the Group for the year declined 26% to HK\$597 million (2007: HK\$812 million) which took into account HK\$27 million (2007: HK\$260 million) in fair value adjustment on warehouse properties, logistics centres and buildings. Excluding the effect of the fair value adjustment, profit for the year attributable to operations increased by 3% to HK\$570 million (2007: HK\$552 million), with (i) HK\$222 million (2007: HK\$218 million) contributed by warehousing operations in Hong Kong; (ii) HK\$143 million (2007: HK\$113 million) by logistics operations; and (iii) HK\$205 million (2007: HK\$221 million) by logistics investments.

As at the year end, the Division's portfolio of warehouses, logistics centres and port facilities aggregated to a total GFA of more than 17 million square feet, of which 13 million square feet are self-owned and 4 million square feet are rented. Its scope of operations now extends to over 150 cities in 22 countries, with a truck fleet of over 3,500 vehicles and a staff strength of over 6,700.

WAREHOUSING OPERATIONS IN HONG KONG

The Division maintains a healthy lead in the local warehousing sector, now with a total of 11 warehouses of an aggregate 5.56 million square feet GFA under its portfolio. As at the end of the year, the Division recorded an overall occupancy rate of 97% (2007: 96%) for its warehouse portfolio.

The demand for warehouse space in Hong Kong remained strong during the year until the fourth quarter of 2008, when the rental market began to weaken due to softening market conditions. It is foreseeable that the operating environment will become more challenging in the second half of 2009 after vendors clear goods in hand and lower stock holdings. The warehousing unit's ongoing target is to sustain a high utilization rate in order to achieve economies of scale, and to match its cost competitiveness with excellence in serving its clients' logistics requirements.

LOGISTICS OPERATIONS

The Division's logistics operations posted growth of over 20% in turnover for the first three quarters of 2008. With the global economy slowing down in the final quarter, the Division's international freight forwarding ("IFF") business was among



Call Centre Support

the hardest hit by the disruption to global trade. But with the Division's integrated logistics ("IL") business, which is the Division's major business focus in Mainland China and Asia, being less affected by the economic downturn, the Logistics Network Division was still able to achieve an overall growth in turnover and profit for its logistics operations as a whole for 2008.

During the reporting year, the Division generated from its logistics operations a turnover of HK\$7,919 million (2007: HK\$7,243 million) and profit attributable to the Division (before fair value adjustment on properties) of HK\$143 million (2007: HK\$113 million), representing an increase of 9% and 27% respectively.

In retrospect, the strategy over the previous years to build a China-focused, Asia-based global network has put the Division on the right course in terms of tapping the surge in Asian growth, while building unique skills, capital and diversity in incomes and resources. The interface with local partners and teams at the working level has also been valuable and constructive to the Division's long-term development.

Hong Kong

During the year, the Logistics Network Division's logistics operations in Hong Kong saw growth of over 20% year on year in turnover generated from IL and IFF businesses. But there was a considerable profit contraction of 13% in the face of margin-eroding inflation during the first half and an acute slowdown in both import and export activities in the last quarter of the year.



Inventory Management for Retail Chains



Direct Store Delivery

During the year, the Division has successfully extended its services to outsourced supply-chain procurement for a renowned fast food chain. In view of the coming challenges, the Division will continue to enhance its overall IL capabilities, while on the other hand implementing even more stringent cost-control measures, aiming to improve operational efficiency and thus increase the profit margin. New and sustainable logistics models will be developed in order to strengthen the Division's competitiveness and sustain its lead in the market.

To accommodate the latest supply-chain requirements as well as secure its leading position in the market, the Division has committed to build a 270,000 square feet product customization and consolidation centre in Tai Po Industrial Estate. Construction is scheduled for completion by the fourth quarter of 2010.

China Focus

The Division continues to be an active participant in Mainland China's logistics sector and remains the largest investor-operator in the industry. The Division's logistics operations in the Mainland reported a turnover of HK\$4,090 million (2007: HK\$3,706 million) with a net profit attributable to the Division (before fair value adjustment on properties) of HK\$105 million (2007: HK\$98 million), representing growth of 10% and 7%, respectively. During the year, the Division gradually shifted its operating focus in the Mainland from IFF to IL. The IL business is proven to be less affected by the slowdown in imports, exports, and manufacturing as well as international trading activities in the Mainland due to the global economic downturn. The Mainland authorities'

recent efforts to boost domestic demand are also expected to provide continued impetus for the logistics industry, thus having a positive impact on the Division's IL business in the region.

The Division currently maintains a nationwide portfolio of logistics centres totalling approximately 3 million square feet, of which 1.4 million square feet are self-owned facilities located in Shenzhen Yantian, Shenzhen Futian, Tianjin, Shanghai Waigaoqiao, and Beijing. In March 2008, the Division acquired the remaining 49% interest in the logistics centre in Shenzhen Futian. New logistics facilities with a total GFA of over 700,000 square feet are scheduled to be built in Chengdu, Chongqing and Kunshan in 2009 to 2010. Further development of new logistics facilities in Mainland China will be pursued with prudence in order to match the Division's growing IL operating platform in the Mainland.

The Mainland China segment is well on track to realize its target of becoming the biggest revenue contributor for the Division's logistics operations, and the Division is taking a further step forward to extend its footprint to the Greater China region. In November 2008, in order to capture the emerging business opportunities arising from the establishment of the "three direct links" across the Strait, the Division entered into a joint venture agreement to acquire an 18.52% effective interest in T.Join Transportation Co.,Ltd ("T.Join") and has performed a significant role in the management of the company. T.Join is a major logistics operator, which commands an extensive distribution network in Taiwan, operates a truck fleet of over 2,000 trucks and handles approximately 200,000 goods items per day.

REVIEW OF LOGISTICS BUSINESS

MANAGEMENT DISCUSSION & ANALYSIS

Continued

The year ahead will witness the Division's continued efforts to enlarge its footprints in Mainland China, Hong Kong and Taiwan, as part of its mission to become the premier logistics player in Greater China, while more focus will be placed on the IL components.

Asia Based

With the intensifying problems the world is now facing, Asia cannot remain immune from the negative momentum. On a brighter note, though, trade flows among Asian countries are still dynamic. The proposal for a trans-Pacific free-trade area will potentially create new trade flows between Asia and other parts of the world.

The Division continues with its business rollout in member countries of the Association of Southeast Asian Nations ("ASEAN") through Kerry Asia Road Transport Limited ("KART"). KART is focused on road transport network business and has completed the establishment of several cross-border routes to enable trucking of goods from Kunming to Singapore via ASEAN countries. In the first half year, the Division acquired a 51% interest in EAE Logistics Sdn. Bhd., one of Malaysia's largest cross-border trucking operators, to enhance KART's ASEAN capabilities. With the truck fleet and network in place, KART is well positioned to provide customers with a cost-effective land transportation alternative to conventional sea or air freight.

The terminal services delivered by Kerry Siam Seaport ("KSSP") in Thailand have demonstrated relatively stable performance. Works to redevelop two conventional warehouses into a modernized distribution centre were already completed in the second half of 2008, making KSSP a major distribution hub for steel coil in Thailand.

In Vietnam, manufacturing capacity has grown substantially over the past two years. During the year, the Division acquired another 280,000 square feet of logistics facilities in Song Than, Ho Chi Minh City on top of its existing 270,000 square feet of logistics centres in the region. In addition, another 120,000 square feet logistics facilities will be built in Hanoi in 2009.

Steady growth was also posted in India, where the Division operates through its 51%-held Kerry Reliable Logistics Private Limited. The Division's plan for the near future is to grow its coverage in India to more gateway cities and to increase its IL capabilities to tap into this growing marketplace.



Electronic Proof of Delivery

Global Network

The global economic downturn in the last few months and the ensuing economic downturn are putting enormous strains on the once booming Asia-Europe ocean trade. The Division's European segment was affected by the overall deceleration in the volume of cargo shipments between these two continents starting from the fourth quarter of 2008.

The Division currently operates a directly represented network on the European continent, with operations in 9 countries covering 22 cities. As before, the goal of the Division's activities in these countries is to build self-sustaining local businesses in its target markets. Meanwhile, the Division is consolidating its existing businesses in Europe and working on increasing market share by concentrating on sales and operational efficiency.

The Division's IFF and IL business in Australia also grew steadily during the year under review. The new 90,000 square feet warehouse completed in late 2008 has successfully strengthened the Division's IL capabilities in Adelaide, while the IFF operations in Sydney, Melbourne, Brisbane and Adelaide also started to generate positive returns for the Division during the year.

LOGISTICS INVESTMENTS

The Division's logistics investments, which include a 15% interest in Asia Airfreight Terminal ("AAT") and a 25% interest in Chiwan Container Terminal

("CCT"), suffered from the global economic downturn. During the year ended 31 December 2008, the Division's equity share of profits, after tax from its logistics investments, declined 7% to HK\$205 million (2007: HK\$221 million). The slight drop is due to the decline in cargo volume at both AAT and CCT towards the year end of 2008. It is likely that cargo volume will drop at an even faster pace in 2009, thus further eroding the profit on the Division's logistics investments.

INFORMATION TECHNOLOGY

Following the continuous enhancements to support several KerrierVISION Supply Chain Visibility initiatives, including the Kerrier Integration Platform and Electronic Proof of Delivery, the Division has been injecting new resources to research the latest software technology such as web 2.0, aiming to further improve the customer experience as well as the already rich content. In the functional aspect, the operation's carbon footprint will be the next key focus of evaluation, becoming a key feature in the next generation of KerrierVISION and enabling the Division to take the lead in the evolving green supply-chain arena.

From the infrastructure perspective, the Division is becoming a heavy computer user after years of expansion. In the middle of 2008, the technical service team outlined a new direction for a green data centre. A server-vitalization initiative has now been rolled out at the Division's primary data centres in Hong Kong and Beijing.

In promoting advanced technology, the Division was honoured to be invited together with the Hong Kong SAR Government in October 2008 to act as two new founding members of the second-generation "HK RFID CENTER – Supply Chain Innovation Center" located in the Hong Kong Science and Technology Park. Through participation as one of the Center's advisory board members, together with ten other leading multinational organizations, the Division further reinforced its position to contribute to and drive the development and implementation of leading supply-chain technologies in the region.

OUTLOOK

The year 2009 will continue to be difficult and full of challenges as a result of the global synchronized recession extending its tentacles into many industrial sectors. But with the gradual reduction of existing stock, it is expected that manufacturing activities will rebound from the second half of 2009. International cargo flows

from raw materials to finished goods will also increase and IFF traffic will resume.

The Division's strategy will maintain its focus on China, particularly in the IL sector which is expected to benefit from the growing number of retail chains and brand owners in the United States and Europe seeking to establish sales network in China as well as from domestic demand boosted by market-stimulation efforts on the part of the Chinese government. The Division will also continue to expand its businesses alongside those industries least affected by the macroeconomic changes, including food, healthcare, fashion, and automobile spare parts in the after-sale auto market.

The Division's inherent strength, endowed by its China-focus business model, has put the Division in a much better position compared with its competitors. For this reason the Group is confident that the Division will be able to sustain its development and influence in the market in the coming years despite the unfavourable market conditions ahead of us, including the continued slowdown in international trade, as well as manufacturing and consumer activities. Efforts will also be made to continue pursuing opportunities which are compatible with its experience and resources.



Electronics Products Assembling