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 2006

The Board of Directors (the "Board") of Kerry Properties Limited (the "Company") is pleased to announce the consolidated final results of the Company, its subsidiaries and associated companies (the "Group") for the year ended 31 December 2006. The Audit Committee of the Board, comprising three Non-executive Directors (two of whom are independent), has met to review the results and the financial statements of the Group for the year ended 31 December 2006 prior to recommending them to the Board for approval.

OVERALL 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. In accordance with Hong Kong Accounting Standard 40 "Investment Property", the Group measured its investment property portfolio on a fair value basis and recorded change in fair values of investment properties (net of deferred taxation) of HK$1,745 million for the year ended 31 December 2006 (2005: HK$1,308 million). Before taking into account the effects of the aforementioned change in fair values, the Group recorded an increase of 67% in profit attributable to shareholders to HK$2,944 million for the year ended 31 December 2006 (2005: HK$1,759 million). The increase was mainly due to the profit arising from the Group's disposal of its 10.16% minority interest in Citibank Plaza by way of participation in the global offering of the Champion Real Estate Investment Trust (the "Champion REIT"), which amounted to HK$1,160 million.

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 effect on the Group's profit attributable to shareholders and earnings per share due to the net change in fair values of the Group's investment properties and related tax effects is as follows:

	Year ended 31 December		
	2006	2005	Increase
	HK$ million	*HK$ million*	
Profit attributable to shareholders before taking into account the net change in fair values of investment properties and related tax effects	**2,944**	1,759	67%
Add:			
Net change in fair values of investment properties and related tax effects	**1,745**	1,308	
Profit attributable to shareholders after taking into account the net change in fair values of investment properties and related tax effects	**4,689**	3,067	53%

	Year ended 31 December		
	2006	2005	Increase
	HK$	*HK$*	
Earnings per share before taking into account the net change in fair values of investment properties and related tax effects	**2.40**	1.45	66%
Add:			
Net change in fair values of investment properties and related tax effects per share	**1.43**	1.08	
Earnings per share after taking into account the net change in fair values of investment properties and related tax effects	**3.83**	2.53	51%

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.

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December **2006** *HK$'000*	2005 *HK$'000*
Turnover	*2*	**10,193,117**	8,008,824
Cost of sales		**(1,716,054)**	(555,226)
Direct operating expenses		**(5,685,063)**	(5,180,624)
Gross profit		**2,792,000**	2,272,974
Other income		**144,983**	158,428
Administrative expenses		**(647,020)**	(525,720)
		2,289,963	1,905,682
Change in fair value of investment properties		**2,318,701**	1,546,669
Revaluation deficit on buildings		**–**	(4,499)
Dividend income from an available-for-sale investment		**1,357,884**	–
Impairment loss on available-for-sale investments		**(197,941)**	–
Profit arising from the disposal of property interest held by an available-for-sale investment		**1,159,943**	–
Operating profit before finance costs		**5,768,607**	3,447,852
Finance costs		**(380,663)**	(201,679)
Operating profit	*2,3*	**5,387,944**	3,246,173
Share of results of associated companies		**450,917**	510,105
Profit before taxation		**5,838,861**	3,756,278
Taxation	*4*	**(889,531)**	(494,199)
Profit for the year		**4,949,330**	3,262,079
Profit attributable to:			
Company's shareholders		**4,688,950**	3,066,863
Minority interests		**260,380**	195,216
		4,949,330	3,262,079
Dividends		**1,053,462**	851,753
Earnings per share	*5*		
– Basic			
– Before change in fair value of properties		**HK$2.40**	HK$1.45
– After change in fair value of properties		**HK$3.83**	HK$2.53
– Diluted			
– Before change in fair value of properties		**HK$2.29**	HK$1.41
– After change in fair value of properties		**HK$3.60**	HK$2.43

CONSOLIDATED BALANCE SHEET

	Note	31 December 2006 HK$'000	31 December 2005 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment		**2,441,200**	2,127,365
Investment properties		**21,642,166**	20,510,591
Leasehold land and land use rights		**338,409**	325,326
Properties under development		**12,400,243**	7,855,171
Associated companies		**5,992,070**	6,331,909
Derivative financial instruments		**2,687**	11,663
Available-for-sale investments		**1,388,508**	1,431,639
Long-term receivables		**63,588**	102,503
Goodwill		**266,645**	244,061
		44,535,516	38,940,228
Current assets			
Stock of completed properties held for sale		**1,188,101**	248,557
Properties under development for sale		**–**	608,878
Accounts receivable, prepayments and deposits	6	**3,598,205**	2,796,880
Tax recoverable		**125,707**	33,840
Tax reserve certificates		**21,790**	12,188
Listed securities at fair value through profit or loss		**198,318**	25,868
Pledged bank deposits		**47,263**	32,514
Cash and bank balances		**2,691,358**	2,531,746
		7,870,742	6,290,471
Current liabilities			
Accounts payable, deposits received and accrued charges	7	**2,557,769**	2,502,615
Taxation		**302,397**	109,860
Short-term bank loans and current portion of long-term bank loans	8	**803,428**	1,016,983
Unsecured bank overdrafts		**6,690**	318
		3,670,284	3,629,776
Net current assets		**4,200,458**	2,660,695
Total assets less current liabilities		**48,735,974**	41,600,923
Non-current liabilities			
Long-term bank loans	8	**6,351,145**	8,317,403
Convertible bonds	9	**2,536,256**	2,413,095
Fixed rate bonds	10	**3,243,330**	–
Amounts due to minority shareholders		**2,336,341**	1,835,789
Derivative financial instruments		**107,005**	39,678
Deferred taxation		**2,704,817**	2,097,083
		17,278,894	14,703,048
ASSETS LESS LIABILITIES		**31,457,080**	26,897,875

Equity		
Capital and reserves attributable to the Company's shareholders		
Share capital	**1,238,289**	1,216,579
Share premium	**4,315,270**	3,918,838
Other reserves	**9,548,836**	9,699,847
Retained profits	**13,417,641**	9,777,277
Proposed final dividend	**804,888**	608,289
	29,324,924	25,220,830
Minority interests	**2,132,156**	1,677,045
TOTAL EQUITY	**31,457,080**	26,897,875

FINANCIAL HIGHLIGHTS

	31 December 2006	31 December 2005
Equity attributable to the Company's shareholders *(HK$ million)*	**29,325**	25,221
Net borrowings (including bonds) *(HK$ million)*	**10,202**	9,184
Net asset value (attributable to the Company's shareholders) per share	**HK$23.68**	HK$20.73
Gearing (Net borrowings/Equity attributable to the Company's shareholders)	**34.8%**	36.4%

Notes:

1. Basis of preparation and accounting policies

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). In addition, these consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The HKICPA has issued a number of new/revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. The Group has adopted new/revised HKFRSs that are mandatory for the financial year ended 31 December 2006. The adoption of these new/revised HKFRSs has no significant impact on the Group's results and financial position.

2. 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 **2006** *HK$'000*	 2005 *HK$'000*	Operating profit Year ended 31 December **2006** *HK$'000*	 2005 *HK$'000*
Principal activities:				
Property rental				
– People's Republic of China ("PRC")	**578,195**	541,412	**403,004**	428,227
– Hong Kong	**384,606**	352,022	**85,622**	134,995
	962,801	893,434	**488,626**	563,222
Property sales				
– PRC	**73,152**	149,445	**2,589**	37,090
– Hong Kong	**2,442,890**	1,063,000	**1,913,998**	516,393
– Warehouses	**345,000**	–	**179,451**	–
	2,861,042	1,212,445	**2,096,038**	553,483
Hotel operations	**354,915**	320,615	**124,906**	111,023
Logistics and warehouse operations				
– warehouse	**427,772**	399,435	**208,348**	200,249
– logistics	**5,543,018**	5,141,772	**195,317**	201,565
	5,970,790	5,541,207	**403,665**	401,814
Infrastructure	**–**	–	**(10,775)**	(4,159)
Project, property management and others	**43,569**	41,123	**(33,217)**	78,620
	10,193,117	8,008,824	**3,069,243**	1,704,003
Change in fair value of investment properties	**–**	–	**2,318,701**	1,546,669
Revaluation deficit on buildings	**–**	–	**–**	(4,499)
	10,193,117	8,008,824	**5,387,944**	3,246,173
Principal markets:				
PRC	**4,033,860**	3,958,804	**1,660,521**	813,883
Hong Kong	**4,708,333**	2,780,724	**3,685,689**	2,368,465
United Kingdom	**808,668**	691,981	**36,879**	20,102
Others	**642,256**	577,315	**4,855**	43,723
	10,193,117	8,008,824	**5,387,944**	3,246,173

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

	Year ended 31 December 2006 *HK$'000*							
	PRC Property	**Hong Kong Property**	**Overseas Property**	**Logistics and Warehouse**	**Infrastructure**	**Others**	**Eliminations**	**Consolidated**
REVENUE								
Turnover	1,006,262	2,827,496	–	6,315,790	–	43,569	–	10,193,117
Inter-segment revenue	434	–	–	–	–	53,056	(53,490)	–
Inter-segment interest income	–	–	–	–	–	553,115	(553,115)	–
	1,006,696	2,827,496	–	6,315,790	–	649,740	(606,605)	10,193,117
RESULTS								
Segment results before change in fair value of properties	567,337	1,037,060	(7,660)	635,838	(10,411)	529,490	(553,115)	2,198,539
Change in fair value of properties	1,013,654	710,555	–	594,492	–	–	–	2,318,701
Segment results	1,580,991	1,747,615	(7,660)	1,230,330	(10,411)	529,490	(553,115)	4,517,240
Dividend income	–	1,364,736	8,301	–	–	31	–	1,373,068
Interest income	10,092	20,416	1	13,409	7,039	25,283	–	76,240
Interest expenses	(46,930)	(224,651)	–	(66,131)	(7,403)	(588,663)	553,115	(380,663)
Impairment loss on available-for-sale investments	–	(197,941)	–	–	–	–	–	(197,941)
Operating profit/(loss)	1,544,153	2,710,175	642	1,177,608	(10,775)	(33,859)	–	5,387,944
Share of results of associated companies	36,980	114,912	35,585	223,134	40,306	–	–	450,917
Profit before taxation	1,581,133	2,825,087	36,227	1,400,742	29,531	(33,859)	–	5,838,861
Taxation	(560,784)	(142,439)	–	(185,726)	–	(582)	–	(889,531)
Profit for the year	1,020,349	2,682,648	36,227	1,215,016	29,531	(34,441)	–	4,949,330
Profit attributable to:								
Company's shareholders	807,153	2,675,562	36,227	1,173,036	31,420	(34,448)	–	4,688,950
Minority interests	213,196	7,086	–	41,980	(1,889)	7	–	260,380
	1,020,349	2,682,648	36,227	1,215,016	29,531	(34,441)	–	4,949,330

	Year ended 31 December 2005 *HK$'000*							
	PRC Property	Hong Kong Property	Overseas Property	Logistics and Warehouse	Infrastructure	Others	Eliminations	Consolidated
REVENUE								
Turnover	1,011,472	1,415,022	–	5,541,207	–	41,123	–	8,008,824
Inter-segment revenue	450	–	–	–	–	32,504	(32,954)	–
Inter-segment interest income	–	–	–	–	–	285,758	(285,758)	–
	1,011,922	1,415,022	–	5,541,207	–	359,385	(318,712)	8,008,824
RESULTS								
Segment results before change in fair value of properties	594,251	773,359	(3,627)	459,002	(3,998)	256,881	(285,758)	1,790,110
Change in fair value of properties	161,885	716,293	–	663,992	–	–	–	1,542,170
Segment results	756,136	1,489,652	(3,627)	1,122,994	(3,998)	256,881	(285,758)	3,332,280
Dividend income	–	6,922	7,014	–	–	–	–	13,936
Interest income	23,347	17,230	28	4,644	5,607	50,780	–	101,636
Interest expenses	(41,258)	(146,123)	–	(61,832)	(5,768)	(232,456)	285,758	(201,679)
Operating profit/(loss)	738,225	1,367,681	3,415	1,065,806	(4,159)	75,205	–	3,246,173
Share of results of associated companies	10,942	176,839	64,676	215,336	42,312	–	–	510,105
Profit before taxation	749,167	1,544,520	68,091	1,281,142	38,153	75,205	–	3,756,278
Taxation	(227,258)	(102,898)	–	(162,864)	–	(1,179)	–	(494,199)
Profit for the year	521,909	1,441,622	68,091	1,118,278	38,153	74,026	–	3,262,079
Profit attributable to:								
Company's shareholders	372,020	1,429,102	68,091	1,085,152	38,473	74,025	–	3,066,863
Minority interests	149,889	12,520	–	33,126	(320)	1	–	195,216
	521,909	1,441,622	68,091	1,118,278	38,153	74,026	–	3,262,079

3. Operating profit

	Year ended 31 December 2006 HK$'000	2005 HK$'000
Operating profit is stated after crediting/charging the following:		
Crediting		
Dividend income from listed and unlisted investments	**15,184**	13,936
Dividend income from an available-for-sale investment	**1,357,884**	–
Interest income	**76,240**	101,636
Gain on sale of properties		
– Investment properties	**783,019**	180,257
– Stock of completed properties held for sale	**361,969**	476,962
	1,144,988	657,219
Charging		
Depreciation and amortisation	**161,037**	146,494
Impairment loss on available-for-sale investments	**197,941**	–
Total finance costs incurred	**621,060**	353,895
Less: amount capitalised in properties under development	**(316,558)**	(98,350)
	304,502	255,545
Fair value loss/(gain) on derivative financial instruments	**76,161**	(53,866)
Total finance costs expensed during the year	**380,663**	201,679

4. Taxation

	Year ended 31 December 2006 HK$'000	2005 HK$'000
The taxation (charge)/credit comprises:		
PRC taxation		
Current	**(217,922)**	(127,991)
Over/(under)provision in prior years	**734**	(217)
Deferred	**(363,613)**	(109,707)
	(580,801)	(237,915)
Hong Kong profits tax		
Current	**(81,769)**	(84,473)
Overprovision in prior years	**101**	25,260
Deferred	**(205,450)**	(178,584)
	(287,118)	(237,797)
Overseas taxation		
Current	**(21,160)**	(18,515)
Deferred	**(452)**	28
	(21,612)	(18,487)
	(889,531)	(494,199)

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year. Income tax 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. Land appreciation tax in the PRC is levied on properties developed by the Group for sale, at progressive rates ranging from 30% to 60% on the appreciation of land value, which under the applicable regulations is calculated based on the proceeds of sales of properties less deductible expenditures including land costs, borrowing costs and all property development expenditures.

The Group's share of taxation attributable to associated companies for the year of HK$57,881,000 (2005: HK$45,419,000) are included under share of results of associated companies.

5. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the weighted average number of shares in issue during the year.

	Year ended 31 December	
	2006	2005
Weighted average number of shares in issue	**1,224,938,512**	1,213,558,181

Including the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

	HK$'000	*HK$'000*
Profit attributable to shareholders	**4,688,950**	3,066,863
Basic earnings per share	**HK$3.83**	HK$2.53

Excluding the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

	HK$'000	*HK$'000*
Profit attributable to shareholders	**2,944,327**	1,759,560
Basic earnings per share	**HK$2.40**	HK$1.45

Diluted

Diluted earnings per share is calculated by adjusting the profit attributable to shareholders of the Company and the weighted average number of shares outstanding for the effects of all dilutive potential shares.

	Year ended 31 December	
	2006	2005
Weighted average number of shares in issue	**1,224,938,512**	1,213,558,181
Adjustment for convertible bonds	**96,320,554**	70,723,038
Adjustment for share options	**8,708,293**	7,060,260
Weighted average number of shares for calculation of diluted earnings per share	**1,329,967,359**	1,291,341,479

Including the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

	HK$'000	*HK$'000*
Profit attributable to shareholders	**4,688,950**	3,066,863
Adjustment for finance cost on convertible bonds	**101,608**	65,435
Profit used to determine diluted earnings per share	**4,790,558**	3,132,298
Diluted earnings per share	**HK$3.60**	HK$2.43

Excluding the effect of the change in fair value of investment properties and buildings and the related deferred taxation:

	HK$'000	*HK$'000*
Profit attributable to shareholders	**2,944,327**	1,759,560
Adjustment for finance cost on convertible bonds	**101,608**	65,435
Profit used to determine diluted earnings per share	**3,045,935**	1,824,995
Diluted earnings per share	**HK$2.29**	HK$1.41

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 2006 is as follows:

	31 December 2006 ***HK$'000***	31 December 2005 *HK$'000*
Below 1 month	**1,636,354**	459,297
Between 1 month and 3 months	**274,310**	361,819
Over 3 months	**191,397**	96,964
	2,102,061	918,080

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 2006 is as follows:

	31 December 2006 ***HK$'000***	31 December 2005 *HK$'000*
Below 1 month	**404,326**	326,336
Between 1 month and 3 months	**117,889**	117,952
Over 3 months	**91,425**	115,184
	613,640	559,472

8. Bank loans

	31 December 2006 HK$'000	31 December 2005 HK$'000
Bank loans – unsecured	**6,852,888**	9,086,981
Bank loans – secured	**301,685**	247,405
Total bank loans *(note (i))*	**7,154,573**	9,334,386
Less: Short-term bank loans and current portion of long-term bank loans	**(803,428)**	(1,016,983)
	6,351,145	8,317,403

(i) As at 31 December 2006, the Group's bank loans were repayable as follows:

	31 December 2006 HK$'000	31 December 2005 HK$'000
Within one year	**803,428**	1,016,983
In the second to fifth year		
– In the second year	**384,535**	4,213,695
– In the third year	**295,256**	326,157
– In the fourth year	**121,761**	3,759,586
– In the fifth year	**5,075,549**	15,128
	5,877,101	8,314,566
Over five years	**474,044**	2,837
	7,154,573	9,334,386

9. Convertible bonds

On 8 April 2005, Wise Insight Finance Limited, a wholly-owned subsidiary of the Company, issued an aggregate principal amount of HK$2,500,000,000 zero-coupon guaranteed convertible bonds which are due in April 2010. The bonds are guaranteed by the Company as to repayment, and are convertible into ordinary shares of HK$1 each in the Company.

During the years ended 31 December 2006 and 31 December 2005, there had been no conversion of the convertible bonds into shares of the Company by the bondholders and no redemption of the convertible bonds by Wise Insight Finance Limited.

10. Fixed rate bonds

On 25 August 2006, Gain Silver Finance Limited, a wholly-owned subsidiary of the Company, issued fixed rate bonds in the aggregate principal amount of US$420,000,000. The fixed rate bonds are guaranteed by the Company as to repayment, and carry a coupon rate of 6.375% per annum and have a maturity term of 10 years.

11. Contingent liabilities

The following material changes are noted in relation to guarantees given by the Group for banking and other facilities:

	31 December 2006 *HK$'000*	31 December 2005 *HK$'000*
– Guarantees for banking and other facilities of certain associated companies and investee companies *(note (a))*	**1,685,232**	413,517
– Guarantees to certain banks for mortgage facilities granted to first buyers of certain properties in the PRC *(note (b))*	**445**	48,346
	1,685,677	461,863

(a) The Group has executed guarantees for banking and other facilities granted to certain associated companies and investee companies. 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 2006, amounted to approximately HK$1,685,232,000 (2005: HK$413,517,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2006 amounted to approximately HK$1,714,236,000 (2005: HK$423,617,000).

(b) 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 2006, amounted to approximately HK$445,000 (2005: HK$48,346,000). The total amount of such facilities covered by the Group's guarantees as at 31 December 2006 amounted to approximately HK$445,000 (2005: HK$148,922,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2005.

12. Pledge of assets

As at 31 December 2006, the Group's total bank loans of HK$7,154,573,000 (2005: HK$9,334,386,000) included an aggregate amount of HK$6,852,888,000 (2005: HK$9,086,981,000) which is unsecured and an aggregate amount of HK$301,685,000 (2005: HK$247,405,000) which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

(i) legal charges over certain properties and port facilities of the Group with an aggregate net book value of HK$564,116,000 (2005: HK$494,302,000);

(ii) charges on all assets, including bank deposits amounting to HK$47,263,000 (2005: HK$32,514,000), of certain subsidiaries of the Company; and

(iii) assignments of insurance proceeds of certain properties of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF PROPERTY BUSINESS

OVERVIEW

During the year ended 31 December 2006, the Group made solid progress in property developments and sales and site acquisitions in line with the Group's strategy of developing and managing premium quality properties in strategic locations across its key markets. The resultant increase in land bank and the pipeline of development projects will help sustain the Group's growth momentum going forward.

As at 31 December 2006, the Group held a portfolio (measured in gross floor area ("GFA")) comprising 21.15 million square feet (2005: 16.17 million square feet) of properties under development, 7.47 million square feet (2005: 7.47 million square feet) of completed investment properties, 0.54 million square feet (2005: 0.50 million square feet) of hotel properties and 0.64 million square feet (2005: 0.22 million square feet) of properties held for sale. This healthy portfolio will enable the Group to create long-term value by sustaining a strong recurrent income stream generated from rental properties, and for capturing attractive financial returns from the sales of properties.

MAINLAND CHINA PROPERTY DIVISION

For the year ended 31 December 2006, the Mainland China Property Division reported turnover of HK$1,006 million (2005: HK$1,012 million) and a net profit attributable to the Group of HK$807 million (2005: HK$372 million), after taking into account the increase in fair values of investment properties (after deferred taxation) of HK$594 million (2005: HK$77 million). Excluding the effect of the increase in fair values of investment properties (after deferred taxation), net profit attributable to the Group was HK$213 million (2005: HK$295 million). The decrease in profit (before effects of investment property revaluation) attributable to the Group from Mainland China Property Division is mainly due to the decrease in the sales of properties in Mainland China compared with 2005.

The Division remains extremely selective in its choice of new property developments where prime locations are preferred and in which land supply is relatively restricted, in order to ensure sustainable asset value and strong resilience during periods of market uncertainties. Behind this strategy also lies the Group's objective to build on its expertise and reputation in Mainland China's property market in creating a profile of strategically-located, high-end properties in élite neighbourhoods.

The Group continues to focus on the development of large-scale, mixed-use property projects in key locations. The cross-marketing effect between the various categories of a mixed-use property development project will inevitably enhance property values and rental rates.

Investment Properties

During the year ended 31 December 2006, the Group's portfolio of investment properties in Mainland China generated rental turnover and operating profit from rental activities of HK$578 million and HK$403 million, respectively (2005: HK$542 million and HK$428 million, respectively).

As at 31 December 2006, the Group's investment property portfolio in Mainland China comprised an aggregate GFA of 3.63 million square feet (2005: 3.33 million square feet), the geographical distribution of which is set out in the table below:

	Beijing	**Shanghai**	**Shenzhen**	**Fuzhou**	**Total GFA**
	(sq. ft.)	*(sq. ft.)*	*(sq. ft.)*	*(sq. ft.)*	*(sq. ft.)*
Office	814,665	632,259	82,099	–	1,529,023
Commercial	184,998	400,707	107,256	63,986	756,947
Residential	277,330	435,789	–	–	713,119
Carparks and Others	194,698	290,057	142,204	–	626,959
Total GFA	**1,471,691**	**1,758,812**	**331,559**	**63,986**	**3,626,048**

As at 31 December 2006, the Group's investment property portfolio of office, commercial and residential properties reported occupancy rates of 95%, 92% and 67%, respectively (2005: 95%, 92% and 72%, respectively). Highlights of the occupancy rates of the Group's major investment properties in Mainland China as at 31 December 2006 are as follows:

Property	**Occupancy rate as at 31 December 2006**	Occupancy rate as at 31 December 2005
Beijing Kerry Centre	**90%**	89%
Shanghai Kerry Centre	**86%**	91%
Shenzhen Kerry Centre	**97%**	96%
Kerry Everbright City Phase I	**95%**	95%

Construction of Tower 3 of the approximately 342,000 square-feet luxury residential development, Central Residences Phase II in Changning District, was completed at the end of 2006. Leasing of Tower 3 as serviced apartments has commenced since October 2006, and an aggregate GFA of approximately 26,000 square feet was leased as at 31 December 2006.

Upon completion, Central Residences Phase II was added to the Group's prestigious portfolio of deluxe properties under the Kerry Residence brand, signifying the Group's dedication to bringing its tenants the highest possible levels of service and attention. Kerry Residence represents an exclusive lifestyle delivered through total service by professional and committed management teams.

Sales of Completed Properties

Sales of completed properties during the year ended 31 December 2006 generated turnover and operating profit of HK$73 million and HK$3 million, respectively (2005: HK$149 million and HK$37 million, respectively), mainly in relation to the sales of office units in Shenzhen Kerry Centre.

Properties under Development

The Group engages in a balanced portfolio of property development projects for sale and investment purposes, as well as large-scale, mixed-use property projects in key locations across Mainland China. With an excellent track record of premium quality developments in Shanghai, Beijing and Shenzhen, the Group is bringing its expertise and experience to the major secondary cities to maximize the market potential created by the increasingly affluent consumer sectors in Mainland China.

Shanghai

The approximately 1,598,000 square-feet Kerry Everbright City Phase II development, which comprises office, residential and commercial properties, is located in a prime area of Zhabei District. Completion of Phase IIa of the project, which consists of an office tower with a two-storey retail podium and four residential towers, is currently scheduled for the third quarter of 2007. Phase IIb of the development will deliver four additional residential towers, which is currently expected to be completed in first quarter of 2008. The pre-sale of the residential towers in Phase IIa commenced in February 2007.

With regard to the mixed-use property development project in Jingan District, all the underlying contract approvals have been obtained from the PRC government authorities. Development and construction works of the project are currently expected to commence in the second quarter of 2007, with completion currently scheduled in phases between 2010 and 2011. Being a development project of the Group in form of a joint venture with Shangri-La Asia Limited ("SA") on a 51%/49% basis, this mixed-use project will comprise two luxury hotels, office and retail properties with an aggregate aboveground GFA of approximately 2,536,000 square feet.

Development of a mixed-use property project located on a site adjacent to the Shanghai New International Expo Centre in Pudong is currently scheduled for completion in second quarter of 2010. The site is expected to deliver an aboveground GFA of approximately

2,476,000 square feet, comprising hotel, offices, serviced suites/serviced apartments, commercial properties and related ancillary facilities. The Group holds a 40.8% interest in this joint venture project.

Shenzhen

The grade-A office complex project in Futian Central District is under construction with completion currently scheduled for the fourth quarter of 2007. The project is expected to deliver a GFA of approximately 807,000 square feet.

In May 2006, the Group acquired another approximately 85,000 square-feet site adjacent to the above-mentioned project in Futian Central District. Also planned for office property development comprising a developable GFA of approximately 850,000 square feet, this additional site will enable the Group to create maximum value from the development of this large project in this prime location.

Manzhouli

In Manzhouli, Inner Mongolia, an apartment and commercial property project is under development with a buildable GFA of approximately 914,000 square feet. The project is currently scheduled to be completed in phases to 2010.

Hangzhou

Project planning works are underway on a site adjacent to Xihu (West Lake) in Xia Cheng District, where the Group is planning a new mixed-use property project to incorporate a hotel, offices, apartments and a commercial shopping complex under its master development plan. The site offers a total buildable GFA of approximately 1,895,000 square feet and is currently scheduled for phased completion between 2009 and 2010.

In October 2006, the Group acquired another site in Xia Cheng District which is designated for residential property development and generates a planned GFA of approximately 2,700,000 square feet. The Group considers that this site offers business opportunities which capitalizes on the growing demand for residential properties generated by the emerging affluent consumer sector in Hangzhou.

Yangzhou

The hotel and apartment development project in Yangzhou is progressing on schedule, with completion currently scheduled for 2009 which offers a total buildable GFA of approximately 1,032,000 square feet.

Tianjin

The Group engages in a mixed-use property development project in Hedong District, Tianjin in June 2006. Located in Tianjin's central business district, the project offers an aboveground GFA of approximately 5,371,000 square feet and is currently planned for the development of hotel, serviced apartments, offices, residence, shopping mall and related ancillary facilities. Upon completion, the development will comprise a major component of investment properties which are expected to generate a recurrent income stream to the Group. The Group holds a 49% interest in this project, which is currently scheduled for completion in phases between 2009 and 2011.

Beijing Kerry Centre Hotel

For the year ended 31 December 2006, Beijing Kerry Centre Hotel contributed turnover and operating profit of HK$355 million and HK$125 million, respectively (2005: HK$321 million and HK$111 million, respectively), and achieved an average occupancy rate of 77% (2005: 79%) with a 14% increase in average room tariff compared with 2005.

HONG KONG PROPERTY DIVISION

During the year ended 31 December 2006, the Hong Kong Property Division reported turnover of HK$2,827 million (2005: HK$1,415 million) and a net profit attributable to the Group of HK$2,676 million (2005: HK$1,429 million), after taking into account the increase in fair values of investment properties (net of deferred taxation) of HK$653 million (2005: HK$649 million).

During the year ended 31 December 2006, the Group recorded a profit of HK$1,160 million from the disposal of its 10.16% minority interest in Citibank Plaza by way of participation in the global offering of the Champion REIT. Furthermore, the Group disposed of its non-core assets during the year, namely the investment properties situated at 111 High Street and 34th Floor, 36th Floor and 37th Floor of Citibank Tower.

On the back of the positive outlook for the Hong Kong property market, the Group's investment properties in Hong Kong have sustained steady rental levels and occupancy rates during the year. Sales of completed properties also contributed to satisfactory profit margins for the Division.

Investment Properties

The Division's premium portfolio of investment properties provides a steady stream of rental income and earnings contributions to the Group. During the year ended 31 December 2006, the Group's portfolio of investment properties in Hong Kong contributed rental turnover of HK$384 million (2005: HK$352 million) and operating profit of HK$86 million (2005: HK$135 million).

As at 31 December 2006, the Group maintained an investment property portfolio in Hong Kong measuring an aggregate GFA of 1.5 million square feet (2005: 1.8 million square feet) which comprises the following:

	Total GFA *(sq. ft.)*
Residential	964,983
Commercial	387,305
Office	152,920
Total GFA	**1,505,208**

As at 31 December 2006, the Group's investment property portfolio of residential, commercial and office properties achieved occupancy rates of 90%, 91% and 83%, respectively (2005: 93%, 94% and 96%, respectively).

Novotel Century Harbourview

The Novotel Century Harbourview, a hotel acquired by the Group in June 2006, has reported improving revenues since the acquisition, benefiting from strong tourist arrivals as well as a further expansion of the main metropolitan area on Hong Kong Island which benefits from the planned Mass Transit Railway line extensions.

Sales of Completed Properties

Sales of completed properties in Hong Kong during the year ended 31 December 2006 contributed turnover of HK$2,443 million (2005: HK$1,063 million), which were attributable mainly to the sales of units in Tregunter Towers, 15 Homantin Hill and Enterprise Square Three, as well as the sales of 34th Floor, 36th Floor and 37th Floor of Citibank Tower. Together with the disposal of the Group's 10.16% minority interest in Citibank Plaza by way of participation in the global offering of the Champion REIT, the Division recorded an operating profit of HK$1,914 million from property sales during the year (2005: HK$516 million), representing an increase of 271% year-on-year.

Properties under Development

Enterprise Square Five/"MegaBox", Kowloon Bay

Construction works at the 1.6 million square-feet Enterprise Square Five project progressed well as scheduled. This grade-A retail, entertainment and office complex is another landmark development in Kowloon Bay. The complex incorporates a 1.1 million square-feet retail portion, "**MegaBox**", which is designated to become the largest commercial mall in East Kowloon and a unique destination for shopping, dining and family entertainment. With the leased space within the shopping mall currently being handed over to tenants, "**MegaBox**" is scheduled for opening in mid-2007. As at 31 December 2006, "**MegaBox**" was over 80% pre-leased whilst the two office towers, with an aggregate GFA of approximately 500,000 square feet, were more than 70% pre-leased ahead of the expected grant of occupation permit by mid-2007.

In October 2006, the Hong Kong SAR Government announced the re-development plan for the old Kai Tak airport site, which comprises the development of hotels, office and residential accommodation, cruise terminals and a giant stadium, as well as a monorail system linking this tourist hub with neighbouring Kowloon Bay and Kwun Tong. The Group's Enterprise Square Five development in Kowloon Bay is expected to benefit from, and fits well with, the first-mover advantage offered by this Kai Tak site re-development blueprint.

Shelley Street, Central Mid-Levels

Construction works are ongoing in relation to the residential property development project in Central Mid-Levels at No. 38 Shelley Street, Hong Kong. The project comprises a residential tower with commercial facilities, with an aggregate developable GFA of approximately 50,000 square feet. A total of 79 residential units are planned for this project, which is currently expected to be completed by the fourth quarter of 2007.

First Street/Second Street, Mid-Levels West

With foundation works close to completion, superstructure construction works are expected to commence in mid-2007. This joint development project with the Urban Renewal Authority at First Street/Second Street in Mid-Levels West, Hong Kong is designed to provide residential and commercial accommodation with a total GFA of approximately 400,000 square feet which comprises a total of 468 residential units. This project is currently expected to be completed by the first quarter of 2009.

Tsuen Wan

With regard to this approximately 400,000 square-feet residential development project in Kwok Shui Road, Tsuen Wan, development works have commenced in the third quarter of 2006, with completion currently expected for the second quarter of 2009. A total of 548 units are planned for this residential project.

Ap Lei Chau

Foundation works have commenced for this joint venture residential project in Ap Lei Chau. The Group holds a 35% interest and an attributable share of GFA measuring approximately 320,000 square feet. Development works are currently scheduled for completion in the third quarter of 2009. The development is expected to offer a total of 776 residential units.

Yuk Yat Street, To Kwa Wan

The re-development of No. 5 and No. 9 Yuk Yat Street in To Kwa Wan, Kowloon, progressed further with demolition works completed. The site has a developable GFA of approximately 163,000 square feet and is designated for re-development into residential and commercial properties. This project is currently expected for completion in the fourth quarter of 2009.

Shan Kwong Road/Village Terrace, Happy Valley

With regard to this re-development of No. 20 Shan Kwong Road and No. 1-5 Village Terrace, Happy Valley, Hong Kong, demolition works have already begun. The existing site offers a developable GFA of approximately 220,000 square feet, and the Group intends to re-develop the existing residential properties with a currently expected completion date of the second quarter of 2010.

863-865 King's Road, North Point

Demolition works are currently underway. Plans are being prepared for the development of a grade-A office tower with a developable GFA of approximately 502,000 square feet. This office development project, in which the Group holds a 40% interest, is currently expected to be completed in the second quarter of 2011.

Macau

With regard to the Group's planned residential development in Macau, it is encouraging to note that the necessary reclamation scheme has been endorsed with positive environmental assessment by the authority and formal procedure leading up to the reclamation works is underway. It is currently expected that reclamation works would commence around the third quarter of 2007.

OVERSEAS PROPERTY DIVISION

The Group's Overseas Property Division holds a portfolio of properties in Australia and the Philippines. During the year ended 31 December 2006, the Division recorded a net profit after tax of HK$36 million (2005: HK$68 million). The decrease in the Group's share of profit from this Division is mainly attributable to the deferred tax credit recognized in the year ended 31 December 2005 (as a result of the reduction in profits tax rate).

Australia

As at 31 December 2006, 922 units (2005: 868 units) of the Group's 25%-owned Jacksons Landing project were sold, representing 96% of a total of 957 units available for sale. The project is located at the Pyrmont Peninsula in Sydney and covers a site of 12 hectares designated for residential and commercial property development.

The Philippines

The Group's investments in property interests in the Philippines are held through its 73.88% aggregate direct and indirect interests in EDSA Properties Holdings Inc. ("EPHI"), whose investment property interests comprise (i) a 78.72% interest in the Shangri-La Plaza Mall, Manila; and (ii) indirect interests in The Enterprise Centre, an office and commercial property in Makati, Manila's financial district.

As at 31 December 2006, the Shangri-La Plaza Mall reported an occupancy rate of 99% (2005: 96%), whilst the occupancy rate at The Enterprise Centre was 97% (2005: 96%).

EPHI was also engaged in the development of (i) The Shang Grand Tower, a residential property project in Makati, Manila, in which EPHI has 100% beneficial interest; and (ii) The St. Francis Towers, which comprise two 60-storey towers in Mandaluyong City, Manila delivering a total of 1,156 residential units upon completion of development. As at 31 December 2006, 98% (2005: 84%) of the GFA of The Shang Grand Tower in Manila was sold, and a total of 501 units of the two towers of The St. Francis Towers project were sold. Development of The St. Francis Towers project continues with completion currently scheduled for the first quarter of 2009.

OUTLOOK

Mainland China

During the year 2006, a number of government authorities in Mainland China jointly introduced and enforced new measures to further curb rapid increases in property prices in metropolitan areas and to promote the healthy future development of Mainland China's property market. These measures include (among others) (i) the requirement for at least 70% of approved land supplies for residential property development to be designated for developing low-to-medium cost and small-to-medium sized units; (ii) the requirement for 70% of residential projects approved after 1 June 2006 to consist of units each measuring less than 90 square metres in floor area; (iii) the increase in minimum down payment from 20% to 30% in respect of purchase of any underlying residential property with unit floor area measuring 90 square metres or more; and (iv) the imposition of a business tax levy on the entire proceeds from re-sale of residential properties if the holding period is shorter than 5 years.

The Group is of the view that the above measures, which target mainly at the residential sector, are unlikely to have a significant impact on the Group, for reason that the Group does not have a high concentration of residential properties to be developed for sales within the Group's existing property development portfolio. On the other hand, the Group's mixed-use property development projects, such as those located in Shanghai (Jingan and Pudong Districts), Hangzhou and Tianjin, each has a diversified development mix comprising a fairly sizeable leasing portion which cover office, commercial and hotel properties. This enables the Group's property development portfolio in Mainland China to be well-positioned to capitalize on the Group's experience, expertise and successful track records in the development of high quality office, commercial and apartment complexes (such as Beijing Kerry Centre and Shanghai Kerry Centre), and to benefit from a recurrent income stream to be generated from the leasing portions of these mixed-use properties upon completion of development. This will essentially enhance the Group's overall recurrent income base going forward.

Furthermore, as of 1 February 2007, the State Administration of Taxation began to enforce more strictly the levy of land appreciation tax (which was adopted through the implementation of a regulation in 1993) on the sale or transfer of state-owned land use rights, buildings and their ancillary facilities in Mainland China at progressive rates ranging from 30% to 60% of the appreciation value, as defined by the relevant tax laws. The Group has made appropriate provisions for such land appreciation tax in the financial statements as at 31 December 2006, in respect of the properties sold prior to that date. Furthermore, the diversified development mix between leasing and sales properties within the Group's development portfolio in Mainland China also limits the Group's exposure to the impact of land appreciation tax going forward.

With a strong history of high quality property developments and an established market niche in the high-end property sector, the Group is confident that the changes in the Mainland China property market landscape will be favourable to the Group and will strengthen the Group's competitive advantages and leading position. The Group will continue to leverage its proven business models in Beijing, Shanghai and Shenzhen to pursue further opportunities, in these metropolitan cities and in the major secondary cities, which offer attractive development potential.

Hong Kong

The Hong Kong property market has entered a relatively healthy growth period, with a continuing rebound of its economy and investment sentiment giving it added momentum in 2006. The Group maintains its view that the high-end residential property sector will continue its healthy development over the long term, on the back of a sustained economic recovery, increasing marriage and birth rates, as well as improved household wealth and affordability. The Group will continue to leverage its strong brand equity in the development of premium quality residential properties in prime and strategic locations, particularly in neighbourhoods with good connectivity to Hong Kong's commuting system, facilities and amenities and which possess long term potential for further development.

Investment activity in the office sector has been strong during the year. Harnessing strong demand from corporate tenants and the reversionary cycle in rentals, the office sector has emerged as the focus of the market as was evidenced by a number of major transactions in the office property sector during the year. The Group remains optimistic about the outlook of the grade-A office property market, as Hong Kong continues to enjoy the benefits arising from institutional capital inflows in acquiring quality office and commercial properties, as well as the competitive advantages offered by the Qualified Foreign Institutional Investor (QFII) Scheme which further affirms Hong Kong's unique position as the commercial gateway to Mainland China.

The continuously improving economic environment which results in increased domestic consumption power, and a sustained healthy tourism sector, are the main factors which strengthen the fundamentals of the commercial property sector. The Group's positive outlook of Hong Kong's commercial property sector is validated by the remarkable achievements in the pre-leasing of "**MegaBox**", the Group's major retail property project in Kowloon Bay which is scheduled to open in mid-2007.

With aspiration towards the creation of value for both the Group's shareholders and the local community, the Division will continue to develop high quality properties in Hong Kong, offering its tenants and residents the best environment, facilities and services.

REVIEW OF LOGISTICS BUSINESS

OVERVIEW

During the year ended 31 December 2006, the Logistics Network Division recorded a turnover of HK$6,316 million (2005: HK$5,541 million), representing a 14% increase year-on-year. Net profit attributable to the Group for the year increased by 8% year-on-year to HK$1,173 million (2005: HK$1,085 million). Excluding the effects of the increase in fair values of the warehouse properties, logistics centres and buildings (after deferred taxation) of HK$500 million (2005: HK$578 million), profit for the year attributable to operations increased by 33% to HK$673 million (2005: HK$507 million), and of which (i) HK$343 million (2005: HK$163 million) was contributed by warehousing operations in Hong Kong; (ii) HK$107 million (2005: HK$129 million) was contributed by logistics operations; and (iii) HK$223 million (2005: HK$215 million) was contributed by the Division's logistics investments.

To date, the Division operated a portfolio of warehouses, logistics centres and port facilities measuring more than 16 million square feet backed by a truck fleet of over 3,000 vehicles, with operations stretching across over 150 cities in 18 countries and supported by around 6,000 staff in total.

WAREHOUSING OPERATIONS IN HONG KONG

During the year, the Division maintained its position as a leading warehouse operator in Hong Kong, with a portfolio of 11 warehouses occupying an aggregate GFA of 6.28 million square feet (2005: 6.74 million square feet) as at 31 December 2006. The occupancy rate for the entire Hong Kong warehouse portfolio operated by the Division was 96% as at 31 December 2006 (2005: 97%).

During the year, the Division sold its warehouse properties in Yuen Long and Fanling for an aggregate consideration of HK$345 million.

LOGISTICS OPERATIONS

The year 2006 witnessed the Division's continuing efforts in driving further growth and sustaining earnings generating power through active geographical expansion in both Asia and Europe and enhancing the sales and marketing capabilities of its operations in various markets. During the year ended 31 December 2006, the Division's logistics operations contributed turnover of HK$5,543 million (2005: HK$5,142 million). The moderate growth of 8% in turnover generated by the Division's logistics operations reflects the results of the restructuring of Kerry EAS Logistics Limited ("KEAS") which cut down certain low-margin booking agency operations. The Division has since refocused its Mainland China operations on niche international freight market and pan-China distribution. The slight drop in profit contributed from the logistics operation for the year 2006, when compared to 2005, is mainly attributable to the costs incurred in the setting up of 17 freight forwarding offices in Europe and Australia during the year, as well as the loss of businesses resulting from the termination of the previous agency operations in these countries.

Hong Kong

The Division continues with its leading position in the logistics sector in Hong Kong. Capitalizing on Hong Kong's continuing status as a key logistics hub in Asia and its excellent connectivity with Mainland China, the Division has been successful in securing large, integrated third-party logistics contracts from customers seeking to establish regional logistics hubs in Hong Kong.

During the year, KerryFlex Supply Chain Solutions Limited ("KerryFlex"), the trading arm of the Division, continued its strong growth momentum with business growth registered across its broad customer base ranging from healthcare to catering and fast-moving grocery segments. In March 2006, KerryFlex acquired Wah Cheong Company, Limited, which is a company with more than 50 years of specialist food distribution experience in Hong Kong. This acquisition strengthens KerryFlex's distribution network servicing food-and-beverage outlets and also paves the way for the Division's participation in procurement projects for hotel chains.

China Focus

After the acquisition of a 70% equity interest in KEAS, the Division now leads in terms of nationwide logistics coverage in Mainland China, serving over 1,100 cities in more than 32 provinces with around 120 offices and over 4,500 staff, 1,600 trucks and around 3,000,000 square feet of warehouse and logistics facilities. Operating profit contributed by KEAS to the Division for the year ended 31 December 2006 has increased by over 30% when compared to 2005.

A substantial part of KEAS' programme to rationalize its corporate and business structures, in conjunction with the integration process between the operation of Kerry Logistics' Mainland China business and KEAS, has been completed. The elimination of certain low-margin businesses for KEAS was a result of the continuing business restructuring efforts of KEAS, and has helped to enhance KEAS's operating margin despite a decrease in revenue. With the new information technology (IT) system now connecting over 100 offices in Mainland China under one IT network as well as the pan-China "Transport Operations Platform" which was launched in mid-2006, KEAS is now one of the very few logistics service providers in Mainland China which operates a truly integrated nationwide distribution network. Going forward, the Division will continue to fine-tune its business focus, and align management procedures and cultures across all operating units in Mainland China.

The newly-completed approximately 173,000 square-feet bonded logistics centre in Tianjin's Free Trade Zone commenced operations in the first half of 2006. This is the Division's largest bonded facility in Northern China and is strategically located adjacent to Tianjin Xingang, the biggest container hub in the northern region of China. In June 2006, the six-storey approximately 269,000 square-feet bonded logistics centre incorporating a multi-function warehouse in Shenzhen's Futian Free Trade Zone also commenced operations. The Division will continue to explore opportunities for building new logistics facilities to strengthen its infrastructure network in other strategic locations in Mainland China, such as Shanghai, Chengdu and Xiamen.

Asia Based

During the year, the Division pursued its geographical expansion in various markets across Asia.

Vietnam registered the fastest growth among the Division's operations in the Asia Pacific region. During the year, the Division invested in four warehouses with an aggregate GFA of approximately 268,000 square feet, and obtained licences for bonded warehouse and container freight station (CFS). The Division will examine the feasibility of acquiring further logistics facilities to support its business expansion in Vietnam.

In Thailand, the Division has dedicated major management resources to establishing its nationwide distribution network with a view to achieve distribution efficiency, as well as an IT platform to enhance operational efficiency of front-line staff. In 2007, the container berth expansion works will be completed which will further strengthen the Division's logistics foothold in Thailand.

In India, the acquisition of a 51% equity interest in Reliable Freight Forwarders Private Limited, now renamed Kerry Reliable Logistics Private Limited, was successfully completed in September 2006. Such acquisition offers a country-wide network giving the Division immediate access to this growing market in the Indian sub-continent. The Division's Indian operation is headquartered in Chennai and is supported by a staff force of around 200.

In Australia, the Division has opened three offices during the year in Sydney, Brisbane and Melbourne, as a platform for further business expansion in the country.

Global Network

Outside Asia, in addition to its established businesses in the United Kingdom and Spain, the Division has during the year further extended its operation to several countries in the European continent. With the headquarters for Central Europe and Western Europe operations located at Hamburg and Antwerp, respectively, the Division has to date set up 14 offices in Germany, Austria, Switzerland, Belgium and the Netherlands.

By setting up its own offices and thus establishing its own direct representation in these countries, the Division has successfully strengthened its global network in terms of its sales and marketing capabilities in Central and Western Europe. The Division's key trade development focus in Europe is mainly on import and export of cargoes between European countries and Asia, in particular Mainland China.

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"), continue to provide a steady source of recurrent earnings to the Group. During the year ended 31 December 2006, the Division's equity share of profits after tax from AAT, CCT and other associated companies amounted to HK$223 million (2005: HK$215 million).

The new Terminal 2 of AAT, next to the existing terminal at the Hong Kong International Airport, will commence operation in 2007. This Terminal 2 has an annual handling capacity of 910,000 tons, and the two terminals will provide an aggregate cargo-handling capacity of 1.5 million tons per annum.

CCT's performance remained steady for the year 2006 with the new berths in place and continuous improvement in its operational efficiency. CCT recorded a volume throughput of 3.9 million TEUs in 2006 (2005: 3.6 million TEUs).

INFORMATION TECHNOLOGY

The first phase of "KerrierVISION", a supply chain enhancing visibility software, was established in the fourth quarter of 2006 and is ready for commercial deployment. It complements the existing freight forwarding visibility tool, "Kerrier Track & Trace", and the contract logistics visibility tool, "KerrierWEB", in providing a unified and even broader visibility platform for achieving a higher standard of supply chain management service.

The Division's continuous input into IT development is geared towards constantly adding value to logistics solutions and enhancing the overall efficiency of the supply chain. Going forward, integration will be a key emphasis of the Divison's IT initiatives. This aims to establish a data consolidation point for universal data exchange between regions, agents and also customers. It is a crucial foundation for facilitating the global information feed to "KerrierVISION", whilst also serving internally as the EAI (Enterprise Application Integration) engine linking all application systems being used by the Division's offices in other parts of the world.

OUTLOOK

Following the disposal of two non-core warehouse properties in November 2006 which has successfully reduced the Division's interest burden, and with the renewal of major warehouses' leasing contracts during the year with improved rental rates, the Division expects a continuous but very moderate increase in warehousing revenue and profit in 2007. Meanwhile, the Division will also continue to take a proactive approach in marketing and developing new business innovation in order to secure additional cargo volume and new tenants especially in certain specialized industries.

Leveraging its dominant presence in Asia, the Division's logistics operations will actively position itself to remain competitive in the new China-ASEAN landscape. With the signing of agreements between ASEAN and Mainland China in January 2007 regarding the establishment of a China-ASEAN free trade area in phases from 2010 to 2015, the land transportation between ASEAN member countries and Mainland China is expected to be enhanced in the coming years. The Division's main target for 2007 is to extend its land transportation connectivity from Mainland China to various ASEAN countries. Besides, the Division will also continue to drive the development of niche markets, such as the Philippines and Cambodia, and plans to expand further into Bangladesh.

The Division's expansion plan will continue in 2007 and more offices will be set up in Germany, France, Poland, the Czech Republic and Hungary. Although the initial set up costs incurred in these European businesses may impact on their profitability in 2007, it is expected that break-even position would be achieved by 2008.

It is also expected that the logistics industry in Asia Pacific will continue to experience rapid growth and changes in 2007 and beyond. Global logistics operations will be increasingly focused on the Asia Pacific region along with the growth of cargo flows between Mainland China and the rest of the world. The Division will continue to strengthen and upgrade its core activities in Mainland China and Asia, whilst also actively seeking opportunities in other high growth areas within Asia, including the Middle East, with a view of developing Kerry Logistics into a truly pan-Asia operation. Our vision remains "Asia Based, China Focus, Global Network".

REVIEW OF INFRASTRUCTURE BUSINESS

OVERVIEW

The Infrastructure Division invests in a range of infrastructure, environmental protection and utilities-related projects in Hong Kong and Mainland China. Through such investments, the Division aims to play a part in improving the living environment, whilst also contributing a steady recurrent income stream to the Group. Net profit attributable to the Group from this Division during the year ended 31 December 2006 amounted to approximately HK$31 million (2005: HK$38 million).

HONG KONG

The Division holds a 15% interest in the Western Harbour Crossing and a 15% interest in the Cross Harbour Tunnel management contract. The Group's share of aggregate net profits from these investments amounted to HK$43 million during the year ended 31 December 2006 (2005: HK$41 million).

MAINLAND CHINA

The water treatment project in Hohhot Municipality, Inner Mongolia Autonomous Region, in which the Group has an effective 13% interest, commenced commercial operation in 2006. The Group's investment in this operation amounted to RMB27.7 million (equivalent to HK$27.8 million).

In collaboration with TieTong Telecommunications Corporation Shanghai Branch Company, the Group's 25%-owned REDtone Telecommunications (China) Limited, through its wholly owned subsidiary in Shanghai, launched an "e-secretary" service in 2006, and continued to roll out new packages for long distance discounted calls, initially in Shanghai. With an investment in this operation totalling US$937,500 (equivalent to approximately HK$7.3 million), the Group recorded its share of net loss of HK$3 million, arising from the initial stage of commercial operation during the year. With a promising future for this operation, plans are being considered to tap into new market segments.

OUTLOOK

The Division will continue to identify and evaluate investment opportunities which can contribute strong recurrent income for the Group in the long run.

FINANCIAL REVIEW

The Group has centralized funding for all its operations. This policy also achieves better control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 31 December 2006, total foreign currency borrowings (excluding Renminbi (RMB) borrowings) amounted to the equivalence of HK$4,232 million and RMB loans amounted to the equivalence of HK$164 million. Therefore, non-RMB total foreign currency borrowings and RMB loans represented approximately 33% and 1%, respectively, of the Group's total borrowings of HK$12,934 million as at 31 December 2006.

The non-RMB total foreign currency borrowings of HK$4,232 million mainly include the Fixed Rate Bonds (as referred to hereinafter) amounting to US$420 million (approximately HK$3,243 million (net of direct issue costs)). The Group has arranged cross currency swap contracts amounting to US$417 million to hedge the exchange rate exposure between Hong Kong dollars and United States dollars.

Out of the Group's total borrowings as at 31 December 2006, HK$803 million (representing approximately 6%) was repayable within one year, HK$385 million (representing approximately 3%) was repayable within two years, HK$8,029 million (representing approximately 62%) was repayable between three to five years and HK$3,717 million (representing approximately 29%) was repayable over five years. The Group continued to maintain most of its borrowings on an unsecured basis, with unsecured debt accounting for approximately 98% of total borrowings as at 31 December 2006. The Group will continue to obtain financing on an unsecured basis whenever possible, and supplement such borrowings with secured project financing as and when the need arises.

As at 31 December 2006, the gearing ratio for the Group was 34.8% (2005: 36.4%), based on net debt of HK$10,202 million and shareholder's equity of HK$29,325 million.

As at 31 December 2006, the Group had outstanding interest rate swap contracts which amounted to HK$5.8 billion in total, enabling the Group to hedge its interest rate exposure and to have a more stable interest rate profile in the next few years.

In terms of the Group's available financial resources as at 31 December 2006, the Group had total undrawn bank loan and overdraft facilities of HK$9,418 million and net cash on hand of HK$2,732 million. In addition, the generation of strong recurrent cashflows from the Group's investment property portfolio, hotel operation and logistics, freight forwarding and warehousing businesses provide the Group with a strong financial position, and enables the Group to reap the benefits of investment opportunities as and when they arise.

On 27 February 2006, the Group signed a syndicated loan agreement for an unsecured HK$6 billion revolving loan facility. The interest rate for this facility is HIBOR (Hong Kong Interbank Offered Rate) plus 29 basis points. This facility is for general corporate funding requirements of the Group including refinancing of the outstanding loan balance under a previous HK$4.5 billion syndicated loan facility obtained in January 2002. The facility received participations from 18 reputable international and local banks and financial institutions.

On 15 August 2006, Standard & Poor's reaffirmed a "BBB-" credit rating for Kerry Properties Limited with a stable outlook.

On 25 August 2006, Gain Silver Finance Limited, a wholly-owned subsidiary of the Company, issued fixed rate bonds in the aggregate principal amount of US$420,000,000 (the "Fixed Rate Bonds"), the net proceeds of which were used to repay part of the Company's outstanding corporate loans. The Fixed Rate Bonds are guaranteed by the Company and carry a coupon rate of 6.375% per annum, and have a maturity term of 10 years until 25 August 2016. The issuance of the Fixed Rate Bonds enables the Group to extend its debt maturity profile and broaden its fixed-income investor base. Standard & Poor's awarded the Fixed Rate Bonds with a "BBB-" credit rating.

On 22 February 2007, Gainlead International Limited, a wholly-owned subsidiary of the Company, issued convertible bonds in the aggregate principal amount of HK$2,350,000,000 (the "Convertible Bonds"). The Convertible Bonds are zero coupon-based, have a maturity term of 5 years until 22 February 2012 and are convertible into the Company's ordinary shares at a conversion price of HK$52.65 per share (subject to adjustments). The issuance of the Convertible Bonds provides a flexible and cost-efficient funding opportunity which is in the best interest of the Group. Upon conversion of the Convertible Bonds, the capital base of the Company will be enlarged and strengthened which will benefit the Group's future growth and developments. Standard & Poor's awarded the Convertible Bonds with a "BBB-" credit rating.

As at 21 March 2007 (being the latest practicable date prior to the publication of this announcement), an aggregate amount of HK$756,210,000 of the convertible bonds issued in 2005 was converted into an aggregate of 29,135,413 ordinary shares of HK$1 each in the Company, representing approximately 30.2% of the entire amount of the aforementioned convertible bonds of HK$2,500,000,000.

SCRIP DIVIDEND ALTERNATIVE

The Directors of the Company recommend a final dividend of HK$0.65 per share for the year ended 31 December 2006 (2005: HK$0.50) payable to shareholders whose names appear on the Registers of Members of the Company on Thursday, 3 May 2007, 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 "2006 Final Scrip Dividend Scheme"). The final dividend is expected to be paid on Friday, 8 June 2007.

The 2006 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 Thursday, 3 May 2007; (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 (the "Stock Exchange") 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 the year ended 31 December 2006 wholly in cash. The issue price of the new shares to be issued under the 2006 Final Scrip Dividend Scheme will be fixed after the Company's annual general meeting equivalent to the average closing price of the shares of the Company quoted on the Stock Exchange 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 2006 Final Scrip Dividend Scheme will be published. A circular containing details of the 2006 Final Scrip Dividend Scheme together with the relevant election form, where applicable, will be sent to each shareholder of the Company on or about Wednesday, 16 May 2007.

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 2006 Final Scrip Dividend Scheme as required by rule 13.36(2) of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") 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 2006, the Company and its subsidiaries had 8,251 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 2006, a total of 11,796,416 option shares were outstanding which comprised 4,983,916 option shares and 6,812,500 option shares granted under the 1997 Share Option Scheme and the 2002 Share Option Scheme, respectively.

CORPORATE GOVERNANCE

Compliance with Code Provisions under Appendix 14 of the Listing Rules

During the year ended 31 December 2006, the Company has complied with the provisions of the Code on Corporate Governance Practices (the "Code Provisions") as set out in Appendix 14 of the Listing Rules, except for the deviation that there is no separation between the roles of chairman and chief executive officer. After due consideration, the Board proposed not to comply with this Code Provision for reason that each executive Director of the Company is delegated individual responsibility to oversee and monitor the operations of a specific business unit, and to implement the strategies and policies set by the Board. The Company's Chairman also ensures that the Board works effectively and discharges its responsibilities, and that all key and appropriate issues are discussed by the Board in a timely manner. In addition, the Company's Independent Non-executive Directors bring along strong independence element to the Board's deliberation.

Accordingly, the Board operates in a functional manner with clearly defined objectives, strategies and responsibilities. Therefore, the Board is of the view that the separate appointment of chairman and chief executive officer for the Company is not necessary.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members of the Company will be closed from Monday, 30 April 2007 to Thursday, 3 May 2007, 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 26/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:00 p.m. on Friday, 27 April 2007. 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 2006 Final Scrip Dividend Scheme will be distributed on or about Friday, 8 June 2007.

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held at 2:30 p.m. on Thursday, 3 May 2007 at Island Ballroom, Level 5, 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 ended 31 December 2006.

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, the Non-executive Director of the Company is Mr. Tse Kai Chi 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, 22 March 2007

* *For identification purpose only*

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