OUR VISION

Parker Ranch Foundation Trust will meet its social responsibilities and achieve financial goals to provide for beneficiary and community expectations. We will be recognized for our leadership in:

- The community
- Land stewardship
- Resource management
- Industries with which we do business while providing opportunities for employees and the community to grow and develop

MISSION STATEMENT

To maintain and improve a unique quality of life in the Kamuela area by providing perpetual support for designated beneficiaries engaged in healthcare, education and charitable support, through the sound management and prudent investment of Trust assets.

CORE VALUES

Parker Ranch Foundation Trust will:

- Honor, preserve and enhance the Ranch heritage of the community and its special quality of life
- Conduct all activities with integrity and responsibility
- Value all employees, whose skills and dedication make them important resources
- Produce quality goods and services to maintain a strong economic base and industry leadership

OBJECTIVES

The Parker Ranch Foundation Trust is guided by four primary objectives

- to protect and improve the value of Trust assets,
- to understand and respond to changing beneficiary expectations,
- to balance the financial objectives of the Trust with our social responsibilities to the community of Kamuela,
- to communicate with employees, beneficiaries, and the community so as to foster an awareness and understanding of the plans and goals of the Trust.

May 2005

ALOHA,

The year 2004 was characterized by significant transition for the Ranch. We bid aloha to outgoing Trustees Carl Carlson and Tom Whittemore, and welcomed aboard new Trustees John Ray and Warren Haruki. At mid-year, Chris Kanazawa joined the team as President and CEO to lead the daily operations of Parker Ranch Inc.

From June through September, we met with the full Boards of our four beneficiary organizations — the first time this has ever been done. In October and November, beneficiary representatives and the Ranch leadership team participated in meaningful strategic planning sessions.

The goals of these strategic planning sessions were to chart the future direction of the Ranch; to share views on Waimea's future; to recommend diversification alternatives for the lands; and to discuss the values that hold this community together so closely. The dialogue and exchange of ideas were encouraging, provocative, and insightful.

Opening communication channels has been a primary focus for Chris Kanazawa and much of his time has been spent meeting with beneficiaries, employees, retirees, and the greater Waimea community in informative, informal "talk story" sessions. Chris' knowledge and wealth of experience serve us well as the Ranch strives for operational efficiency, asset diversification, and steady income production.

Finally, toward the end of December, we teamed with the beneficiaries to develop a distribution plan for 2005.

In summary, 2004 signaled a new beginning for Parker Ranch Foundation Trust. We appreciate the support and participation of our beneficiaries—North Hawaii Community Hospital, Parker School Trust Corporation, Hawaii Preparatory Academy and the Richard Smart Fund, administered by the Hawaii Community Foundation. Additionally, the support and dedication of all our Parker Ranch employees during this period of transition is gratefully acknowledged and appreciated.

We are extremely encouraged by the initiatives underway that are taking the Ranch to the next level and we look forward to achieving long-term stability for the Trust and developing ongoing distributions for our beneficiaries.

Warren H. Haruki
Trustee, Chair

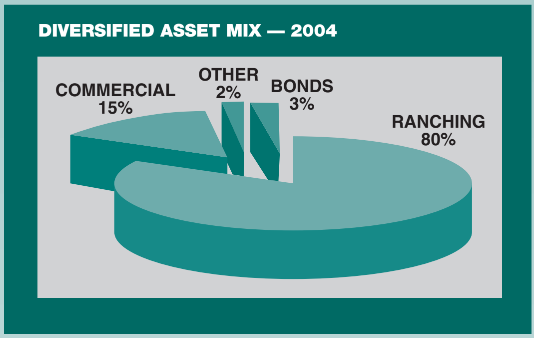
John B. Ray
Trustee

Melvin B. Hewett
Trustee

Tom Whittemore

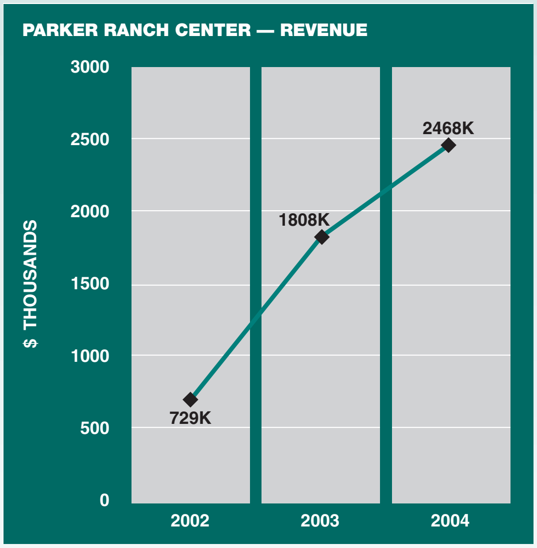
A sincere mahalo is extended to Tom Whittemore who began his appointment as a Trustee in June of 1999. Tom, who retired as Trustee on December 30, 2004, was responsible for the development and implementation of the Parker Ranch 2020 Plan, a master plan for residential, commercial and industrial improvements in Waimea. His many years of banking experience provided the Trust with strong financial and administrative leadership. Tom's reach went far beyond the boundaries of the Trust as he served numerous community boards and civic organizations before and during his tenure as Trustee, representing Parker Ranch and the Trust skillfully throughout the Big Island.

The financial results in 2004 reflected our continued effort to increase liquidity through improvements in business operations and diversification of our asset mix.

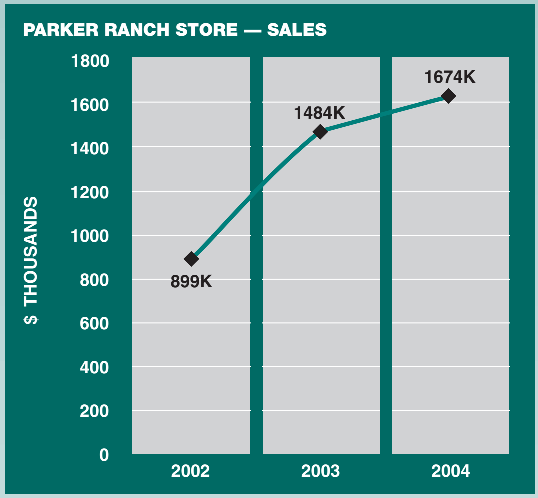


In 2004, we continued to increase our operational efficiencies through updating old and building new livestock infrastructure. Despite a spike in beef prices to a record high in the fall of 2003, the Livestock Division was still able to achieve revenues nearly equal to the 2003 results. This was primarily because of higher average price ($.94/lb in 2003 vs. $1.00/lb in 2004) received throughout the year. Total revenues from cattle sales for 2004 of $10,959,698 were just slightly under 2003 revenues of $11,048,403.

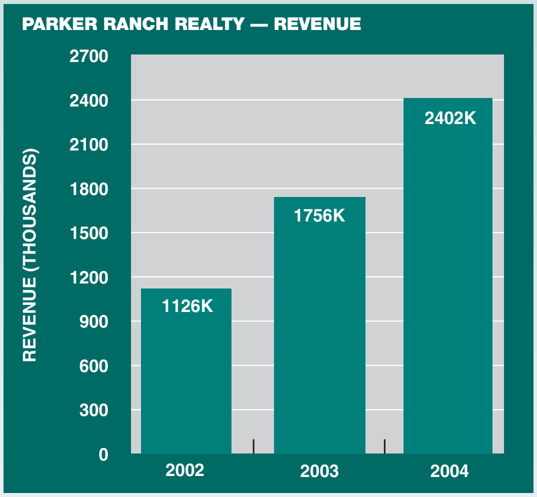
With cattle ranching characterized as a commodity business, Parker Ranch participates in two programs that provide opportunities to obtain premium prices over those provided by commodity markets. Parker Ranch is part of the Oregon Country Beef program that provides higher priced, natural beef products. In addition, Parker Ranch maintains a membership in Ranchers Renaissance Cooperative, Inc., an agricultural cooperative principally involved in marketing and selling cattle to end users.



With Parker Ranch Center at nearly 83% occupancy, in 2004 we experienced a 36.5% increase in revenues over 2003. The Center achieved total revenues of $2,467,863 in 2004, as compared to $1,807,540 in 2003. This follows a 148% increase in revenues in 2002.



Parker Ranch Store and Parker Ranch Realty experienced 12.8% and 36.8% increases in revenue, respectively. Parker Ranch Store revenues in 2004 were $1,673,904 as compared to $1,483,872 in 2003. Parker Ranch Realty generated $2,401,496 in revenues in 2004 as compared to $1,755,974 in 2003.



Consistent with the objective to diversify our asset mix and to improve the Trust's liquidity, Parker Ranch generated $17,322,710 in land sales. Through the use of these proceeds we were able to pay down $1,359,544 of debt, reducing the outstanding debt principal to $27,449,961. In addition, we were able to establish an investment portfolio of $11,484,026.

The 2004 Parker Ranch operations before land sales resulted in a net loss of ($3,928,638). Included in this net loss was $2,347,974 of interest expense and $2,022,802 of depreciation and amortization expense. The net loss was more than offset by earnings on an investment in a joint venture of $504,260 and the net gain on sales of land and improvements of $10,071,949. This resulted in an increase in net assets of $6,647,571. The Trust net assets ended 2004 at $316,172,213. This compares to net assets ending 2003 at $309,524,642.

With the commitment of the management and employees of Parker Ranch, we anticipate that 2005 will reflect the continued diversification of our asset mix, improved efficiency in our cattle operation and growth in our other business segments. In addition, we continue to build on the relationships with our beneficiaries and the community.

Chris J. Kanazawa
President/CEO

Parker Ranch Diversification

A Legacy Spanning More Than 155 Years

Bees
Chicken
Corn
Dairy
Fruit Trees
Horses (Military)
Horses (Racing)
Livery Stable
Lumbering
Forestry
Property Management
Mules
Pigs
Post Office
Potatoes
Restaurant
Sheep
Ships
Turkeys
Retail*
Cattle*
Real Estate*
Tourism*
Quarries*
Commercial*
Waste Water Treatment*
Environmental*
Timber*

*DENOTES CURRENT RANCH ACTIVITIES

NORTH HAWAII COMMUNITY HOSPITAL

North Hawaii Community Hospital (NHCH) in Waimea is a full-service, acute-care hospital that is licensed for 50 beds. Governed by a local board of directors, NHCH also has a management agreement with Adventist Health of Roseville, California. Opened in May 1996, NHCH serves the 30,000 plus residents and visitors of the northern region of the Big Island. Offering a full spectrum of acute and outpatient services, NHCH delivers high-quality care on a consistent basis. With the Harry & Jeanette Weinberg Patient Care and Imaging Pavilions, NHCH has the most modern technology available today. This is combined with a mission of caring for the whole person and a commitment to honoring blended-care practices and procedures. The Waimea Women's Center, a division of the hospital, offers complete healthcare to women of all ages. New to the hospital is the Hawaii Heart Brain Center of NHCH bringing high-quality cardio and neurovascular care to the service area. NHCH is a grateful recipient of support from the Parker Ranch Foundation Trust.

RICHARD SMART FUND
administered by the Hawaii Community Foundation

The Richard Smart Fund is a component of the Hawaii Community Foundation and supported by income from the Parker Ranch Foundation Trust. Richard Smart created the fund to support health care, educational and charitable purposes that improve the general welfare and quality of life for the people of the Kamuela area.

The fund supports the building of social capital and organizational capacity in the Waimea area. The goal of the social capital program is to strengthen networks among people and thereby their ability to develop and implement solutions together for meaningful and sustainable community change. Organizational capacity building helps an organization grow its ability to accomplish its mission. This grant program focuses on strengthening the organizational infrastructures, internal management and board governance of nonprofits.

HAWAII PREPARATORY ACADEMY

Founded in 1949, Hawaii Preparatory Academy (HPA) is one of the premier independent college preparatory boarding and day schools in the Pacific Region attracting students from around the world. The school offers a full range of academic and extracurricular opportunities for more than 600 students in grades K-12 on two campuses in the heart of the world-famous Parker Ranch on the Big Island of Hawaii.

Students pursue an ambitious, well-rounded course of studies and achieve strong basic skills and knowledge in the humanities, sciences, and visual and performing arts. The challenging academic curriculum takes advantage of Hawaii's geographic and social setting to give students a strong sense of Hawaii and its culture. The marine science program, in collaboration with NOAA, National Marine Fisheries Service, offers unrivaled encounters with the island's remarkable ocean environment. Partnerships with high-tech neighbors such as the Mauna Loa Observatory enable participation in real-world, cutting edge research.

HPA is accredited by the Western Association of Schools and Colleges and is a member of the Hawaii Association of Independent Schools.

PARKER SCHOOL TRUST CORPORATION

The Parker School Trust was established by Richard Smart in 1978 to provide for private education in North Hawaii. During Mr. Smart's lifetime Parker School developed both secondary and adult educational programs. The Trust supports Parker School's community based board of directors and supports and administers Waimea Community Education, the adult education program.

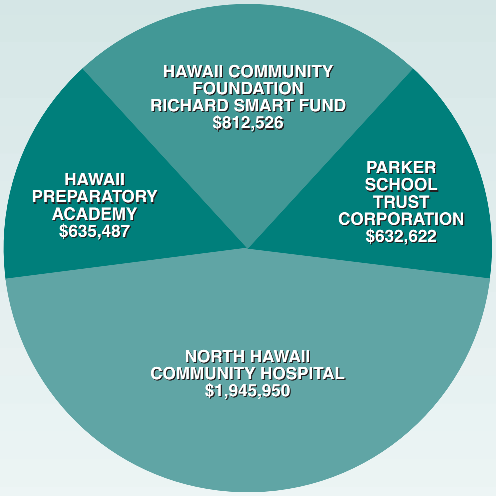
Parker School is an independent, college-preparatory day school serving students in grades 1-12. Located in the heart of Waimea, Parker strives for personal excellence in the classroom and on the athletic field. Students enjoy small class sizes in a "family atmosphere." Parker integrates community service and physical challenges into its curriculum and focuses on developing personal character, teaching values, and providing an awareness of the world.

Waimea Community Education (formerly known as the Parker School Continuing Education Program) offers over 25 adult education classes each year serving more than 500 adults in Waimea and North Hawaii.

Parker Ranch Foundation Trust, through its Distribution Committee, has cumulatively distributed a total of $4,026,585 in cash and land through 2004 to its beneficiaries.

Cumulative distributions include North Hawaii Community Hospital $1,945,950, Richard Smart Fund of the Hawaii Community Foundation $812,526, Hawaii Preparatory Academy $635,487 and Parker School Trust Corporation $632,622.

Applicable Year	Year Paid	Amount
1996	1998	$ 250,000
1997	1999	$ 275,000
1998	2000	$ 300,000
1999	2000	$ 325,000
2000	2001	$ 850,000
2000	2002	$ 350,000
2000	2003	$1,301,585
2001	2003	$ 375,000



Consolidated Financial Statements

December 31, 2004 and 2003

Together with Report of Independent Public Accountants

PARKER RANCH FOUNDATION TRUST

Consolidated Statements of Financial Position
For the Years Ended December 31, 2004 and 2003

Assets

	2004	2003
Cash	$ 3,641,290	$ 2,877,921
Investment Portfolio	11,484,026	-
Accounts Receivable, net of allowances of $735,000 in 2004 and $545,000 in 2003	636,131	1,000,575
Cattle Inventory	8,471,371	8,143,120
Notes Receivable, net	525,178	604,262
Investments in Joint Venture and Other	1,819,112	1,314,504
Other Assets	1,036,894	959,268
Property and Equipment:		
Commercial property, net	34,942,198	35,970,249
Ranch land and related assets, net	291,168,769	297,951,361
Total assets	$ 353,724,969	$ 348,821,260

Liabilities and Net Assets

	2004	2003
Accounts Payable and Accrued Expenses	$ 2,536,641	$ 3,366,662
Income Taxes Payable	781,000	-
Reserve for Land Remediation	500,000	645,356
Capital Lease Obligations	972,621	1,153,991
Post Employment Benefits Payable	1,441,366	1,850,386
Post Retirement Benefits Payable	3,871,167	3,470,718
Notes Payable	27,449,961	28,809,505
Total liabilities	37,552,756	39,296,618
Commitments and Contingencies		
Net Assets	316,172,213	309,524,642
Total liabilities and net assets	$ 353,724,969	$ 348,821,260

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST

Consolidated Statements of Activities
For the Years Ended December 31, 2004 and 2003

	2004	2003
Revenues:		
Cattle sales	$ 10,959,698	$ 11,048,403
Rental income	3,056,233	2,320,483
Real estate commissions	2,401,496	1,755,974
Visitor attractions	2,136,024	1,919,746
Aggregate sales	622,408	779,179
Other	886,174	1,169,126
Total revenues	20,062,033	18,992,911
Costs and Expenses:		
Cost of cattle sales	9,456,402	9,361,100
Real estate commissions expense	1,805,985	1,307,794
Cost of visitor attractions	816,063	728,722
Operating costs	4,370,614	4,063,081
General and administrative	1,743,392	1,973,678
Income tax expense	781,000	-
Post retirement benefits	603,472	535,016
Post employment benefits	104,925	120,000
Land remediation	(61,958)	(296,000)
Interest	2,347,974	2,462,210
Depreciation and amortization	2,022,802	1,966,023
Total costs and expenses	23,990,671	22,221,624
	(3,928,638)	(3,228,713)
Earnings (Loss) on Investment in Joint Venture	504,260	(65,458)
Gain on Sales of Land and Improvements, net of costs of $7,251,000 in 2004 and $10,912,000 in 2003	10,071,949	3,261,998
Increase (decrease) in net assets	6,647,571	(32,173)
Net Assets, beginning of year	309,524,642	309,556,815
Net Assets, end of year	$ 316,172,213	$ 309,524,642

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST

Consolidated Statements of Cash Flows
For the Years Ended December 31, 2004 and 2003

	2004	2003
Cash Flows from Operating Activities:		
Increase (decrease) in net assets	$ 6,647,571	$ (32,173)
Adjustments to reconcile increase (decrease) in net assets to net cash and cash equivalents used for operating activities:		
Gain on sales of land and improvements	(10,071,949)	(3,261,998)
Depreciation and amortization	2,022,802	1,966,023
(Earnings) loss on investment in joint venture	(504,260)	65,458
Amortization of premiums and gains on marketable securities	59,073	-
Forgiveness and loss on notes receivable	25,673	171,507
Loss on disposal of fixed assets	12,402	171,244
Changes in certain assets and liabilities:		
Accrued interest receivable	(82,390)	-
Accounts receivable	364,444	(27,681)
Cattle inventory	(323,283)	726,135
Other assets	(77,626)	4,406
Accounts payable and accrued expenses	(830,021)	(1,678,939)
Income taxes payable	781,000	-
Accrued distributions	-	(375,000)
Reserve for land remediation	(145,356)	(371,644)
Post employment benefits payable	(409,020)	(1,115,308)
Post retirement benefits payable	400,449	316,368
Net cash and cash equivalents used for operating activities	(2,130,491)	(3,441,602)
Cash Flows from Investing Activities:		
Net proceeds from sales of land and improvements	17,095,269	12,466,892
Purchases of marketable securities	(8,371,630)	-
Capital expenditures	(1,328,277)	(4,024,652)
Repayments on notes receivable	201,731	1,408,496
Proceeds from sale of marketable securities	129,589	-
Purchase of accrued interest on marketable securities	(113,766)	-
Issuance of notes receivable	(72,892)	(186,736)
Investments	(348)	(11,010)
Net cash and cash equivalents provided by investing activities	7,539,676	9,652,990
Cash Flows from Financing Activities:		
Payments on notes payable	$ (1,359,544)	$ (6,333,492)
Proceeds from notes payable	-	2,225,000
Payments on capital lease obligations	(181,370)	(196,399)
Net cash and cash equivalents used for financing activities	(1,540,914)	(4,304,891)
Net increase in cash and cash equivalents	3,868,271	1,906,497
Cash and Cash Equivalents, beginning of year	2,877,921	971,424
Cash and Cash Equivalents, end of year	$ 6,746,192	$ 2,877,921
Reconciliation of Cash and Cash Equivalents:		
Cash	$ 3,641,290	$ 2,877,921
Cash equivalents in investment portfolio	3,104,902	-
Cash and Cash Equivalents, end of year	$ 6,746,192	$ 2,877,921
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	$ 2,330,000	$ 2,465,000
Supplemental Disclosure of Non-Cash Information:		
Notes issued related to land sales	$ -	$ 330,000
Unrealized losses on marketable securities	$ 20,304	$ -

See accompanying notes to consolidated financial statements.

PARKER RANCH FOUNDATION TRUST

Notes to Consolidated Statements
For the Years Ended December 31, 2004 and 2003

1. Summary of Operations and Significant Accounting Policies

a. Description of Organization

The Organization is comprised of Parker Ranch Foundation Trust (the Trust), Richard Smart Irrevocable Trust (RST) and all wholly-owned subsidiaries (collectively, the Organization), which include Parker Ranch, Inc. (PRI), Parker Ranch Center LLC (PRC) and Parker Ranch Broiler, Inc. (PRB). PRC was formed to hold and operate the Parker Ranch Center which was substantially completed and placed into service during 2002 (See Note 5). PRB is a Hawaii corporation with no significant operations.

PRI, a Hawaii corporation, was incorporated on February 8, 1995 to own and operate the Organization's cattle ranching, real estate and tourism activities and holds the beneficial interest of the Parker Land Trust. PRI's wholly-owned subsidiaries include Waimea Wastewater Company, Inc. (WWC), Parker Ranch Realty, Inc. (PRR), Parker Ranch Livestock LLC (PRL) and Hawaii Meat Company LLC (HMC). WWC was formed to operate the assets of a wastewater treatment and collector system in Waimea, Hawaii and PRR was incorporated to provide real estate brokerage services for the Organization and third parties. PRL was formed to hold ownership interests in Champion Feeders Cattle Co., LLC and Champion Feeders, LLC (together, Champion Feeders), cattle and feed yard operations located in Texas. HMC holds a land lease formerly held by a liquidated subsidiary.

The Trust is a not-for-profit entity that has been recognized by the Internal Revenue Service (IRS) as exempt from income tax under Section 501(c)(3) of the U.S. Internal Revenue Code and exempt under Hawaii Revised Statutes on income related to the exempt purpose. The Trust's primary objective is to support certain health care, educational and charitable organizations in Waimea, Hawaii. The original trust principal was contributed from RST, as determined by the Last Will and Testament of Richard Smart (the Will). The beneficiaries of the Trust (the Beneficiaries) include the following organizations:

North Hawaii Community Hospital, Inc. (NHCH)
Richard Smart Fund, of the Hawaii Community Foundation (Smart Fund)
Hawaii Preparatory Academy (HPA)
Parker School Trust Corporation (PSTC)

The Trustees, based on recommendations from a Distribution Committee (the Committee), determine distributions from the Trust. The six-member Committee reviews the programs, purposes, and financial needs of the Beneficiaries in order to make recommendations to the Trustees regarding distributions of principal, accumulation of net income and re-allocation of the distribution of net income. Recommendations are made based on a simple majority, except if the recommendation relates to the re-allocation of the distribution of net income, which requires a vote of five of the six Committee members. The Committee is comprised of three members appointed by the Trustees and three members appointed by the Beneficiaries.

Net income, exclusive of principal transactions, is to be distributed at least annually to the Beneficiaries, as follows:

NHCH	48%
Smart Fund	20%
HPA	16%
PSTC	16%
	100%

To the extent net income is unavailable for distribution, the Trustees, in consultation with the Committee, may distribute to any beneficiary up to 5 percent of that portion of the principal of the Trust normally allocable to that beneficiary under the proportions indicated above. Such a distribution results in a reduction of the portion of the Trust principal allocable to that beneficiary. Whenever the Trustees make a distribution of principal, the Trustees may accumulate net income normally distributable to the beneficiary who received a principal distribution, until such time as the distributed principal has been restored. As of December 31, 2004, cumulative authorized distributions to Beneficiaries were approximately $4,027,000, including distributions of approximately $3,440,000 from the principal of the Trust.

Except for the finishing and marketing of cattle on the U.S. Mainland, substantially all of the Organization's assets and operations are located on the Big Island of Hawaii. Accordingly, the Organization's operations are dependent on the economic and climatic conditions of the Island and subject to the inherent risks of agricultural commodities. The majority of the Organization's assets are illiquid real estate holdings, which will be used for ranch operations, developed for commercial use or marketed to diversify the Organization's holdings. The Organization's diversification plan outlined in its strategic plan and its ability to realize its assets and generate adequate cash flows to meet its operating and debt service requirements are dependent upon, among other things, the sale of certain parcels of land at sufficient prices and at requisite times. Although the Organization has not committed to the sale of specific parcels of land and future sales are subject to the existence of favorable market conditions, as of December 31, 2004 management intends to sell land with values of approximately $50 to $75 million in future years.

b. Financial Statement Presentation

The consolidated financial statements are presented in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, Financial Statements of Not-for-Profit Organizations, as required by accounting principles generally accepted in the United States of America. SFAS No. 117 provides for three basic financial statements and the classification of resources into three separate classes of net assets – permanently restricted, temporarily restricted and unrestricted. All assets of the Organization are classified unrestricted, as defined by SFAS No. 117, as they are generally available to be utilized for the purposes of the Will, as determined by the Trustees. The initial contribution of assets and liabilities to the Trust was recorded at fair value at November 12, 1992.

c. Principles of Consolidation

The consolidated financial statements include the accounts of the Trust, RST, and all wholly-owned subsidiaries. Intercompany accounts and transactions have been eliminated.

The equity method is used to account for PRI's investment in Kaomalo LLC (see Note 4), as PRI has significant influence over the entity and not more than a 50 percent ownership interest. The cost method is used to account for investments with an ownership interest of less than 20 percent.

d. Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at December 31, 2004 and 2003 and reported amounts of revenues and expenses during the years then ended. Actual results could differ from those estimates.

e. Cash and Cash Equivalents

The Organization primarily maintains its operating cash in bank deposit accounts and had approximately $3,400,000 and $2,783,000 in excess of federally insured limits at December 31, 2004, and 2003, respectively. The Organization has not experienced losses in these accounts and management believes there is no significant credit risk related to cash.

Cash equivalents in the Organization's investment portfolio include uninsured money market funds, government agency notes and corporate bonds with maturities of 3 months or less at the time of purchase.

f. Marketable Securities

Marketable securities included in the Organization's investment portfolio are stated at fair value, as determined by quoted market prices. Gains and losses on marketable securities are recorded as increases or decreases in net assets, respectively. The cost of securities sold is determined on the specific identification method.

g. Cattle Inventory

Cattle inventory is recorded under the cost method and stated at the lower of cost or market. Cost of sales is determined by the first-in, first-out method. Costs capitalized to cattle inventory include the costs of breeding and depreciation of breeding livestock.

h. Other Assets

Other assets include deferred financing and leasing costs, merchandise inventories, prepaid expenses and deposits. Deferred financing and leasing costs are amortized on a straight line basis over the term of the related agreement. Merchandise inventories are stated at the lower of average cost or market.

i. Accounting for Long-Lived Assets

The carrying values of long-lived assets are reviewed when events or changes in circumstances indicate that the carrying amount of assets may not be recoverable. If the undiscounted future cash flows (without interest charges) are less than the carrying amount of an asset, an impairment loss is recognized to the extent that the asset's carrying amount exceeds its fair value. Fair value is reduced by the amount of estimated selling costs for impaired assets that are held for sale.

The estimation of future cash flows is inherently uncertain, and relies significantly upon the availability of capital and the Organization's ability to market real estate in an orderly fashion at prices equal to or exceeding the related carrying values. The future availability of capital, the timing of real estate sales and changes in the estimates of future cash flows could impact the carrying amount of real estate assets.

Writedowns of approximately $481,000 were recorded during the year ended December 31, 2004 to reduce parcels of land held for sale to their net realizable value. The writedowns are included in the gain on sales of land and improvements in the accompanying statements of activities.

j. Property and Equipment

Property and equipment additions are carried at adjusted cost, net of depreciation. Breeding livestock are stated at purchase costs or inventory transfer amounts equal to the lower of cost or market. The cost of normal repairs and maintenance are charged to expense as incurred.

Depreciation is provided using straight-line and accelerated methods over the following estimated useful lives:

Buildings and improvements	15 to 40 years
Machinery, fixtures, and equipment	3 to 10 years
Breeding livestock	5 years

k. Financial Instruments

The carrying amounts of the Organization's financial instruments approximate fair values, except for those related to the notes payable. As of December 31, 2004, the carrying amounts of notes payable of approximately $27,450,000 had an estimated fair value of approximately $31,020,000. Management estimated the fair value of the notes payable using an interest rate of 6 percent.

l. Income Taxes

Activities of the Trust are generally exempt from income taxes. Operations conducted through RST and PRI are taxable. Accordingly, income taxes are provided for the tax effects of transactions reported in the financial statements and consist of current and deferred income taxes.

Deferred income tax assets and liabilities are computed at effective tax rates for the temporary differences between the financial statement and income tax bases of assets and liabilities in PRI. Deferred tax assets are also recognized for operating loss carryforwards and alternative minimum tax credits that are available to offset future income taxes. A valuation allowance is provided for deferred tax assets considered unrealizable.

m. Reclassifications

Certain 2003 amounts were reclassified to conform to their 2004 presentation.

2. Investment Portfolio

At December 31, 2004, the amortized cost, unrealized losses, and estimated market value of marketable securities, as well as the cash equivalents and accrued interest receivable included in the investment portfolio, were are as follows:

	Amortized Cost	Unrealized Losses	Estimated Market Value
Corporate debt securities	$ 6,295,574	$ (16,884)	$ 6,278,690
Government debt securities	1,907,698	(3,420)	1,904,278
Total marketable securities	$ 8,203,272	$ (20,304)	8,182,968
Cash equivalents			3,104,902
Accrued interest			196,156
Total investment portfolio			$ 11,484,026

At December 31, 2004, approximately $7,187,000 of debt securities mature within 1 year and the remainder mature by September 2007. Expected maturities may differ from stated due dates because borrowers may have the right to call or prepay obligations.

3. Notes Receivable

The following is a summary of notes receivable at December 31:

	2004	2003
Principal due on interest-only subordinated notes from Champion Feeders, net of a reserve of approximately $148,000, bearing interest of 6 percent, due July 2009.	$ 285,539	$ 285,539
Principal due on employee and other notes, bearing interest of 5 to 10 percent, generally secured by real property, due at various dates through November 2021.	172,211	168,723
Principal due on unsecured non-interest bearing note, due in monthly installments through May 2007; prior year note was repaid during 2004.	67,428	150,000
	$ 525,178	$ 604,262

The notes receivable from employees relate to land sales and educational loans, including notes that provide for the forgiveness of annual principal and interest if certain performance measures are achieved. Net principal forgiven related to these notes was approximately $26,000 and $24,000 during the years ended December 31, 2004 and 2003, respectively.

4. Investments in Joint Venture and Other

Investments in a joint venture and other entities at December 31 include the following:

	2004	2003
Kaomalo LLC	$ 1,672,766	$ 1,168,506
Champion Feeders	119,988	119,988
Cooperatives	26,358	26,010
	$ 1,819,112	$ 1,314,504

PRI previously entered into an operating agreement as a 50 percent member of Kaomalo LLC (Kaomalo) with Schuler Homes, Inc. (Schuler), the managing member, in order to develop residential units on certain parcels of land in Waimea, Hawaii. During 2003, PRI contributed land with a carrying value of approximately $795,000 and Schuler contributed cash of approximately $163,000 to Kaomalo for the second phase of development. PRI recorded its contribution to Kaomalo at a fair value of approximately $795,000 during 2003. PRI's costs in excess of Schuler's investment for phase two will be adjusted in Kaomalo through the allocation of the first $632,000 of phase two profits to Schuler. Profits in excess of this amount will be shared equally; distributions are allocated with respect to members' interests.

Kaomalo ends its fiscal year on September 30 and the Organization includes Kaomalo's results in the accompanying financial statements on that basis. Total assets and members' equity of Kaomalo were approximately $5,458,000 and $2,713,000 at September 30, 2004 and approximately $6,083,000 and $457,000 at September 30, 2003. Kaomalo's net income (and loss) on phase one of the development were approximately $1,298,000 and ($131,000) during 2004 and 2003, respectively, and were shared equally between PRI and Schuler. PRI's share of this income was reduced by costs in excess of Schuler's investment in phase one of approximately $145,000 as units were sold during 2004.

PRL has an ownership interest of approximately 11 percent in Champion Feeders. The combined total assets and members' equity (deficit) of Champion Feeders were approximately $19,561,000 and $940,000 at December 31, 2004 and approximately $16,872,000 and 79,000 at December 31, 2003. Combined net income was approximately $857,000 and $189,000 in 2004 and 2003, respectively. Capital contributions in 2004 were approximately $4,000 and capital distributions in 2003 were approximately $16,000.

Management evaluated the operations of Champion Feeders during 2003 and determined that a reserve of approximately $148,000 was necessary to reduce notes receivable from Champion Feeders to their net realizable value. Due to operating enhancements by the entities and the related improvements in financial performance during 2004, management believes this reserve is adequate and that the entities' future operations will not have a significant adverse effect on the realizability of PRL's investments in and notes receivable from Champion Feeders.

Investments in cooperatives primarily relate to Ranchers Renaissance Cooperative, Inc. (Ranchers Renaissance), an agricultural cooperative principally involved in marketing and selling cattle to end users, thereby providing for premium prices over those provided by commodity markets.

5. Property and Equipment

Commercial property at December 31 includes the following:

	2004	2003
Land	$ 7,306,143	$ 7,306,143
Buildings and improvements	30,909,421	31,040,413
Machinery, fixtures, and equipment	472,211	462,631
Construction in progress	-	54,558
	38,687,775	38,863,745
Accumulated depreciation	(3,745,577)	(2,893,496)
	$ 34,942,198	$ 35,970,249

Substantially all costs included in commercial property are related to Parker Ranch Center, which is centrally located in Waimea, Hawaii and was redeveloped to enhance the Organization's surrounding property values. See Note 14 for a discussion of a subsequent event related to the shopping center.

Ranch land and related assets at December 31 consist of the following:

	2004	2003
Land	$ 271,910,215	$ 278,784,409
Buildings and improvements	21,036,898	20,583,074
Breeding livestock	6,562,714	6,644,808
Water rights	2,670,000	2,670,000
Machinery, fixtures, and equipment	2,728,989	2,469,713
Equipment under capital lease	1,715,022	1,716,864
Art collection	882,140	882,140
Construction in progress	2,644,453	2,061,005
	310,150,431	315,812,013
Accumulated depreciation	(18,981,662)	(17,860,652)
	$ 291,168,769	$ 297,951,361

Depreciation charges and amounts capitalized to cattle inventory were approximately $2,483,000 and $460,000 in 2004 and approximately $2,430,000 and $464,000 in 2003. Net transfers from cattle inventory to breeding livestock were approximately $455,000 and $557,000 in 2004 and 2003, respectively.

6. Debt

PRI previously entered into a loan agreement with an insurance company and executed $10,000,000 and $20,000,000 mortgage notes bearing interest at 7.81 and 7.96 percent, respectively. The notes require PRI to make aggregate semi-annual principal and interest payments of approximately $1,309,000. Interest rates are scheduled to be renegotiated in December 2009 and remain fixed until the maturity date of December 2014. Prepayments are subject to penalties until the interest rate renegotiation date. In addition, prepayments on the $10 million note are prohibited for the first five years. The mortgage notes are secured by approximately 94,400 acres of land, with a carrying value of approximately $131 million.

Additionally, PRI maintains a $2 million line of credit with a bank. The line is collateralized by 480 acres of land with a carrying value of approximately $3.1 million and a security interest in the furniture, fixtures and equipment situated on the related land. There were no outstanding draws against the line at December 31, 2004 and 2003.

The approximate annual principal payments on notes payable at December 31, 2004 are as follows:

For the years ending December 31,	
2005	388,000
2006	419,000
2007	453,000
2008	489,000
2009	529,000
Thereafter	25,171,961
	$ 27,449,961

7. Income Taxes

PRI has deferred tax assets of approximately $43.7 and $48.1 million at December 31, 2004 and 2003, respectively. The significant temporary differences that gave rise to the deferred tax assets include basis differences related to property and equipment, net operating loss (NOL) carryforwards and reserves related to certain accrued obligations. A valuation allowance equivalent to the amount of the deferred tax assets has been recorded due to the uncertainty of their realization.

During the year ended December 31, 2004, PRI recorded a provision for deferred income taxes of approximately $4.4 million and a reversal of the offsetting valuation allowance. PRI recorded deferred income tax benefits and an offsetting increase in the valuation allowance of approximately $0.3 million during the year ended December 31, 2003. In addition, management recorded a current income tax provision of $640,000 for state income taxes and $141,000 for alternative minimum taxes (AMT) during the year ended December 31, 2004.

PRI has approximately $37.5 million of NOL carryforwards available to offset future taxable income. These carryforwards expire in various years from 2015 through 2024. PRI also has approximately $141,000 of AMT credits for use in future years.

8. Related Party Transactions

Richard Smart selected the original Trustees for the Trust. Successor Trustees are selected by the remaining Trustees. The Trust calls for a minimum of three Trustees and a maximum of five. The Trust currently has three Trustees who are responsible for the administration, control and safekeeping of the Trust's assets.

In 2003, the Company entered in to an agreement with a PRFT Trustee to provide real estate consulting services. The Company paid approximately $61,000 and $26,000 related to this agreement in 2004 and 2003, respectively. As of December 31, 2004, a 90-day notice was given to terminate the consulting contract effective March 31, 2005.

9. Leases

a. Lessor

The Organization leases its commercial property and certain ranch lands under operating leases expiring in various years through 2059. Commercial leases typically provide for percentage rents, reimbursement of certain costs and renewal options.

Approximate minimum future lease rentals to be received, excluding percentage rents and cost reimbursements, are as follows:

For the years ending December 31,	
2005	1,715,000
2006	1,699,000
2007	1,642,000
2008	1,372,000
2009	1,153,000
Thereafter	7,210,000
	$ 14,791,000

b. Lessee

PRI leases pasture land, commercial space and equipment under operating and capital leases expiring in various years through 2032. Pasture land leases expiring in 2011 provide for renegotiations of rent in 2006. Commercial leases provide for the payment of percentage rents, reimbursement of certain costs and renewal options. Capital leases have remaining terms of up to 8 years.

At December 31, 2004, approximate future minimum lease payments are as follows:

For the years ending December 31,	Capital	Operating
2005	$ 246,000	$ 115,000
2006	193,000	106,000
2007	170,000	101,000
2008	170,000	101,000
2009	170,000	101,000
Thereafter	280,000	319,000
Future minimum lease payments	1,229,000	$ 843,000
Amounts representing interest at interest rates from 6.9 to 7.8 percent	(256,379)	
Present value of minimum lease payments	$ 972,621	

Accumulated amortization related to equipment held under capital leases was approximately $674,000 and $526,000 at December 31, 2004 and 2003, respectively. The related amortization expense is included in depreciation and amortization expense in the accompanying statements of activities and was approximately $149,000 and $176,000 in 2004 and 2003. Rent expense related to operating leases was approximately $259,000 and $284,000 for the years ended December 31, 2004 and 2003, respectively.

10. Benefit Plans

a. Post Retirement Benefits

The Organization provides retired employees with certain post retirement benefits, primarily related to health care coverage. The unfunded benefit obligation at December 31, 2004 was computed based on management's current estimates of benefits to be paid, discounted at 6 percent and assuming health care costs increase 8.5 percent in 2005, 7.5 percent in 2006, 6.5 percent in 2007, 5.5 percent in 2008, 5.0 percent in 2009 and 5.0 percent thereafter. The Organization paid post retirement benefits of approximately $204,000 and $219,000 in 2004 and 2003, respectively, and incurred post retirement benefit costs of approximately $604,000 and $535,000 in 2004 and 2003, respectively.

The post retirement benefit costs incurred during 2004 consist of approximately $198,000 related to interest costs and approximately $405,000 related to the net effect of plan changes. Plan changes in 2004 primarily related to updated health care cost trend rates and the assumption that 10 percent of participants electing to receive cash payments in lieu of coverage will return to coverage. The costs incurred during 2003 were primarily related to insuring the plan's previously self-insured medical and prescription drug coverage and eliminating the plan's beef benefit.

At December 31, 2004, future estimated benefit payments during the next 10 years are as follows:

For the years ending December 31	
2005	$ 221,000
2006	224,000
2007	237,000
2008	249,000
2009	249,000
2010 - 2014	1,374,000
	$ 2,554,000

During December 2003, the federal government enacted the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the Act) into law. The Act introduced prescription drug benefits under Medicare as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. In accordance with FASB Staff Position FAS 106-2, the Organization has elected to defer recognition of the effects of the Act until the detailed regulations necessary to implement the Act have been issued. Authoritative guidance on the accounting for the federal subsidy is pending and that guidance, when issued, could require the Company to change reported information. Although information is not currently available to evaluate the benefit of the federal subsidy, management does not expect the Act to have an adverse effect on the Organization's financial position.

b. Post Employment Benefits

During January 2002, PRI offered a voluntary separation program (the Program) to eligible employees as part of the Organization's efforts to reduce its fixed overhead cost structure. In addition to salary continuation payments, as defined, the Program also offered a variety of benefits to be paid for a specified period to employees who chose to participate in the Program. The Organization incurred post employment costs related to the Program of approximately $105,000 related to a separation and release agreement in 2004 and approximately $120,000 related to a legal settlement in 2003. During 2004 and 2003, the Organization paid benefits of approximately $514,000 and $1,235,000, respectively.

c. 401(k) Retirement Savings Plan

PRI sponsors the Parker Ranch 401(k) Retirement Savings Plan (the Plan), which covers substantially all employees. The Plan provides for PRI to make minimum annual contributions of 3 percent of eligible employee compensation and allows for discretionary contributions to a maximum of 15 percent. Eligible employees may make contributions not to exceed amounts allowable under the Internal Revenue Code. PRI made contributions of approximately $95,000 and $78,000 in 2004 and 2003, respectively.

11. Reserve for Land Remediation

During 2002, leasehold interests expired on lands previously used by PRI for grazing cattle. Pursuant to the conditions of the leases and related agreements, PRI may have a commitment to help control the perimeter of a noxious weed infestation on the leased lands. In order to resolve any contingencies related to PRI's responsibilities for controlling the infestation, management proposed and accrued a settlement of approximately $1,017,000 in 2002 to be paid to the lessor over a period of approximately 6 years. During 2003, PRI paid approximately $76,000 related to the control of this infestation and reversed approximately $296,000 of the liability based on management's further analysis of the future expected costs of the project. Additionally, PRI recorded a loss of approximately $171,000 during 2003 related to the fences and pens on the previously leased land. Although negotiations with the lessor of the previously leased land are ongoing, management does not expect the outcome of these negotiations to have a material adverse effect on the Organization's financial position.

12. Concentrations

To obtain premium pricing on cattle, PRI markets its cattle through a limited number of customers. Cattle sales to two customers represented approximately 31 percent and 35 percent of total revenues in 2004 and 2003, respectively. As cattle are a commodity product, management believes alternative customers could be identified as necessary.

13. Contingencies

In the normal course of the Organization's activities, or the conduct of PRI's operations, the Organization is subject to potential claims and litigation. Management of the Organization believes that such matters will not have a material adverse effect on the Organization's financial position.

14. Subsequent Event

During 2004 and prior years, management intended to hold the Parker Ranch Center on a long-term basis. Subsequent to year end, the Organization began evaluating the potential sale of the shopping center as a component of their overall diversification plan and as a means to capitalize on favorable market conditions and interest rates. Management is currently in the process of retaining a sales agent and establishing a marketing plan to solicit offers from potential buyers. As of December 31, 2004, preliminary estimates indicate an estimated valuation of approximately $3 to $6 million less than the carrying value of the shopping center.

PARKER RANCH FOUNDATION TRUST

Consolidated Financial Statements
December 31, 2004 and 2003
Together with Report of Independent Public Accountants

To the Trustees of
Parker Ranch Foundation Trust:

We have audited the accompanying consolidated statements of financial position of Parker Ranch Foundation Trust and its subsidiaries (the Organization) as of December 31, 2004 and 2003 and the related consolidated statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used, and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Parker Ranch Foundation Trust and its subsidiaries as of December 31, 2004 and 2003 and the changes in their net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

KMH LLP

KMH LLP

Honolulu, Hawaii
March 18, 2005

PARKER RANCH INCORPORATED

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Chairman of the Board

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