

*The following is the text of a report received from PricewaterhouseCoopers, Certified Public Accountants, Hong Kong, our reporting accountant, for the purpose of incorporation in this prospectus. It is prepared and addressed to our Directors and to the Joint Sponsors pursuant to the requirements of Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the Hong Kong Institute of Certified Public Accountants.*



羅兵咸永道

6 December 2013

The Directors  
Kerry Logistics Network Limited

BOCI Asia Limited  
Citigroup Global Markets Asia Limited  
HSBC Corporate Finance (Hong Kong) Limited  
Morgan Stanley Asia Limited

Dear Sirs,

We report on the financial information of Kerry Logistics Network Limited (the "Company") and its subsidiaries (together, the "Group"), which comprises the consolidated statements of financial position as at 31 December 2010, 2011 and 2012 and 30 June 2013, the statements of financial position of the Company as at 31 December 2010, 2011 and 2012 and 30 June 2013, and the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 (the "Relevant Periods"), and a summary of significant accounting policies and other explanatory information. This financial information has been prepared by the directors of the Company and is set out in Sections I to III below for inclusion in Appendix I to the prospectus of the Company dated 6 December 2013 (the "Prospectus") in connection with the initial listing of shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Listing").

The Company was originally incorporated in the British Virgin Islands on 9 July 1991 and duly continued into Bermuda as an exempted company with limited liability on 20 April 2000.

As at the date of this report, the Company has direct and indirect interests in the subsidiaries and associates as set out in notes 39 and 18 of Section II below.

The audited financial statements of the companies comprising the Group as at the date of this report for which there are statutory audit requirements have been prepared in accordance with the relevant accounting principles generally accepted in their respective places of incorporation. The details of the statutory auditors of these companies are set out in note 39 of Section II below.

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The directors of the Company have prepared the consolidated financial statements of the Company and its subsidiaries for the Relevant Periods, in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") (the "Underlying Financial Statements"). The directors of the Company are responsible for the preparation of the Underlying Financial Statements that gives a true and fair view in accordance with HKFRSs. We have audited the Underlying Financial Statements in accordance with Hong Kong Standards on Auditing (the "HKSAs") issued by the HKICPA pursuant to separate terms of engagement with the Company.

The financial information has been prepared based on the Underlying Financial Statements, with no adjustment made thereon.

### **Directors' Responsibility for the Financial Information**

The directors of the Company are responsible for the preparation of the financial information that gives a true and fair view in accordance with HKFRSs, and for such internal control as the directors determine is necessary to enable the preparation of financial information that is free from material misstatement, whether due to fraud or error.

### **Reporting Accountant's Responsibility**

Our responsibility is to express an opinion on the financial information and to report our opinion to you. We carried out our procedures in accordance with the Auditing Guideline 3.340 "Prospectuses and the Reporting Accountant" issued by the HKICPA.

### **Opinion**

In our opinion, the financial information gives, for the purpose of this report, a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, 2011 and 2012 and 30 June 2013 and of the Group's results and cash flows for the Relevant Periods.

### **Review of stub period comparative financial information**

We have reviewed the stub period comparative financial information set out in Sections I to II below included in Appendix I to the Prospectus which comprises the consolidated income statements, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the six months ended 30 June 2012 and a summary of significant accounting policies and other explanatory information (the "Stub Period Comparative Financial Information").

The directors of the Company are responsible for the preparation and presentation of the Stub Period Comparative Financial Information in accordance with the accounting policies set out in note 2 of Section II below.

Our responsibility is to express a conclusion on the Stub Period Comparative Financial Information based on our review. We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of the Stub Period Comparative Financial Information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Based on our review, nothing has come to our attention that causes us to believe that the Stub Period Comparative Financial Information, for the purpose of this report, has not been prepared, in all material respects, in accordance with the accounting policies set out in note 2 of Section II below.

## I FINANCIAL INFORMATION OF THE GROUP

The following is the financial information of the Group prepared by the directors of the Company as at 31 December 2010, 2011 and 2012 and 30 June 2013 and for each of the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013 (the "Financial Information"):

## CONSOLIDATED INCOME STATEMENTS

	Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue . . . . .	5	10,879,909	16,034,311	19,294,775	8,954,237	9,521,789
Direct operating expenses . . . . .	7	(9,229,716)	(13,603,383)	(16,601,460)	(7,663,314)	(8,095,600)
Gross profit . . . . .		1,650,193	2,430,928	2,693,315	1,290,923	1,426,189
Other income and net gains . . . . .	6	21,340	7,352	28,334	5,760	30,486
Administrative expenses . . . . .	7	(855,123)	(1,286,291)	(1,403,301)	(641,679)	(738,983)
Operating profit before fair value change of investment properties . . . . .		816,410	1,151,989	1,318,348	655,004	717,692
Change in fair value of investment properties . . . . .		175,990	130,312	265,155	–	458,303
Operating profit . . . . .		992,400	1,282,301	1,583,503	655,004	1,175,995
Finance costs . . . . .	8	(23,066)	(55,394)	(63,124)	(27,432)	(45,096)
Share of results of associates . . . . .	18	208,821	148,464	136,421	69,123	71,626
Profit before taxation . . . . .		1,178,155	1,375,371	1,656,800	696,695	1,202,525
Taxation . . . . .	9	(200,074)	(253,939)	(304,928)	(150,859)	(146,511)
Profit for the years/periods . . . . .		978,081	1,121,432	1,351,872	545,836	1,056,014
Profit attributable to:						
Company's shareholder . . . . .		833,257	870,744	1,069,376	429,717	903,555
Non-controlling interests . . . . .		144,824	250,688	282,496	116,119	152,459
		978,081	1,121,432	1,351,872	545,836	1,056,014
Earnings per share – Basic and diluted . . . . .	11	HK\$0.64	HK\$0.67	HK\$0.83	HK\$0.33	HK\$0.70

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit for the years/periods . . .		978,081	1,121,432	1,351,872	545,836	1,056,014
Other comprehensive income						
Items that will not be reclassified subsequently to consolidated income statement						
Defined benefit pension plans						
– Actuarial losses . . . . .		(125,396)	(36,032)	(46,127)	–	–
– Deferred income tax . . .		56,305	4,921	8,978	–	–
Transfer from leasehold land and buildings to investment properties . . . . .	26					
– Fair value gain . . . . .		–	–	12,798	–	–
– Deferred income tax . . .		–	–	(3,200)	–	–
Items that may be reclassified to consolidated income statement						
Share of exchange reserve of associates . . . . .	26	39,253	38,053	8,833	(2,832)	7,057
Net translation differences on foreign operations . . . . .		322,970	(72,304)	146,290	(27,100)	(104,429)
Other comprehensive income/(loss) for the years/periods (net of tax) . . . . .		293,132	(65,362)	127,572	(29,932)	(97,372)
Total comprehensive income for the years/periods . . . . .		1,271,213	1,056,070	1,479,444	515,904	958,642
Total comprehensive income attributable to:						
Company's shareholder . . . . .		989,430	914,344	1,183,506	409,594	844,638
Non-controlling interests . . . . .		281,783	141,726	295,938	106,310	114,004
		1,271,213	1,056,070	1,479,444	515,904	958,642

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December			As at
		2010	2011	2012	30 June
		HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000	
<b>ASSETS AND LIABILITIES</b>					
<b>Non-current assets</b>					
Intangible assets	13	835,420	1,185,714	1,773,804	1,922,443
Investment properties	14	4,998,773	5,143,118	5,767,637	6,228,866
Leasehold land and land use rights	15	408,794	576,281	538,883	532,020
Property, plant and equipment	16	4,502,572	4,989,185	5,998,517	6,409,665
Associates	18	818,059	1,002,430	938,949	1,053,291
Available-for-sale investments	19	50,796	51,987	61,459	61,123
		<u>11,614,414</u>	<u>12,948,715</u>	<u>15,079,249</u>	<u>16,207,408</u>
<b>Current assets</b>					
Inventories	20	130,594	110,325	109,913	128,010
Accounts receivable, prepayments and deposits	21	2,509,551	3,358,575	4,325,293	4,329,172
Tax recoverable		4,674	10,831	9,279	3,354
Restricted and pledged bank deposits	23(a)	15,733	4,644	4,510	6,983
Cash and bank balances	23(b)	2,210,554	2,907,628	2,939,645	2,972,988
		<u>4,871,106</u>	<u>6,392,003</u>	<u>7,388,640</u>	<u>7,440,507</u>
<b>Current liabilities</b>					
Accounts payable, deposits received and accrued charges	24	2,312,677	3,353,172	3,923,029	3,686,654
Loans from fellow subsidiaries	29	3,491,003	3,890,967	4,181,600	3,781,580
Amount due to immediate holding company	22	74,945	94,480	64,666	93,434
Amount due to a related company	22	5,454	6,639	3,706	1,611
Taxation		129,106	83,040	117,296	131,107
Short-term bank loans and current portion of long-term bank loans	28	417,286	693,613	600,524	631,435
Bank overdrafts	23(b)	20,701	15,512	26,089	26,799
		<u>6,451,172</u>	<u>8,137,423</u>	<u>8,916,910</u>	<u>8,352,620</u>
<b>Net current liabilities</b>		<u>(1,580,066)</u>	<u>(1,745,420)</u>	<u>(1,528,270)</u>	<u>(912,113)</u>
<b>Total assets less current liabilities</b>		<u>10,034,348</u>	<u>11,203,295</u>	<u>13,550,979</u>	<u>15,295,295</u>
<b>Non-current liabilities</b>					
Loans from non-controlling interests	27	83,165	131,085	222,362	225,147
Long-term bank loans	28	236,727	404,954	1,364,562	2,284,370
Deferred taxation	30	466,201	443,326	489,622	493,573
Retirement benefit obligations	31	311,085	320,158	348,698	325,572
Other non-current liabilities	24	–	–	–	68,370
		<u>1,097,178</u>	<u>1,299,523</u>	<u>2,425,244</u>	<u>3,397,032</u>
<b>ASSETS LESS LIABILITIES</b>		<u>8,937,170</u>	<u>9,903,772</u>	<u>11,125,735</u>	<u>11,898,263</u>
<b>EQUITY</b>					
<b>Capital and reserves attributable to the Company's shareholder</b>					
Share capital	25	500	500	500	500
Retained profits		5,458,247	6,315,136	7,361,095	8,263,718
Other reserves	26	1,082,986	1,082,468	996,470	838,149
		<u>6,541,733</u>	<u>7,398,104</u>	<u>8,358,065</u>	<u>9,102,367</u>
Non-controlling interests		2,395,437	2,505,668	2,767,670	2,795,896
<b>TOTAL EQUITY</b>		<u>8,937,170</u>	<u>9,903,772</u>	<u>11,125,735</u>	<u>11,898,263</u>

## STATEMENTS OF FINANCIAL POSITION

	Note	As at 31 December			As at
		2010	2011	2012	30 June
		HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000	
<b>ASSETS</b>					
<b>Non-current asset</b>					
Subsidiaries . . . . .	17	198,931	198,931	198,931	198,931
<b>Current assets</b>					
Prepayments and deposits . . . . .	21	–	–	7,887	7,375
Amounts due from subsidiaries . . . . .	22	4,346,366	5,195,732	5,734,251	6,270,593
Amount due from a related company . .	22	240	521	1	2
Cash and bank balances . . . . .	23	5,824	6,354	187,833	10,536
		<u>4,352,430</u>	<u>5,202,607</u>	<u>5,929,972</u>	<u>6,288,506</u>
<b>Current liabilities</b>					
Accrued charges . . . . .	24	1,945	2,450	3,549	9,073
Amounts due to subsidiaries . . . . .	22	1,214,998	1,173,821	1,144,033	912,393
Amount due to a related company . . .	22	–	–	–	137
Loan from a fellow subsidiary . . . . .	29	1,915,395	2,515,395	2,606,024	2,606,024
Short-term bank loans . . . . .	28	116,588	233,550	230,000	230,000
		<u>3,248,926</u>	<u>3,925,216</u>	<u>3,983,606</u>	<u>3,757,627</u>
<b>Net current assets</b> . . . . .		<u>1,103,504</u>	<u>1,277,391</u>	<u>1,946,366</u>	<u>2,530,879</u>
<b>Total assets less current liabilities</b> . . . . .		<u>1,302,435</u>	<u>1,476,322</u>	<u>2,145,297</u>	<u>2,729,810</u>
<b>Non-current liability</b>					
Long-term bank loans . . . . .	28	–	200,000	877,200	1,496,000
<b>ASSETS LESS LIABILITIES</b> . . . . .		<u>1,302,435</u>	<u>1,276,322</u>	<u>1,268,097</u>	<u>1,233,810</u>
<b>EQUITY</b>					
Share capital . . . . .	25	500	500	500	500
Retained profits . . . . .		<u>1,301,935</u>	<u>1,275,822</u>	<u>1,267,597</u>	<u>1,233,310</u>
<b>TOTAL EQUITY</b> . . . . .		<u>1,302,435</u>	<u>1,276,322</u>	<u>1,268,097</u>	<u>1,233,810</u>

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Operating activities</b>						
Net cash generated from operations . . . . .	32(a)	765,115	1,366,683	1,178,757	123,656	844,401
Interest paid . . . . .	8	(17,896)	(49,017)	(57,691)	(25,420)	(41,979)
Income tax paid . . . . .		(140,271)	(298,414)	(250,321)	(97,771)	(114,984)
Net cash generated from operating activities . . . . .		606,948	1,019,252	870,745	465	687,438
<b>Investing activities</b>						
Additions of property, plant and equipment . . . . .	16	(603,730)	(852,596)	(1,467,999)	(617,056)	(669,332)
Additions of investment properties . . . . .	14	–	(3,821)	(18)	(18)	–
Purchase of available-for-sale investments . . . . .		–	(3,324)	–	–	(1,295)
Purchase of leasehold land and land use rights . . . . .	15	(3,681)	(101,975)	(22,078)	(21,626)	–
Proceeds from sale of property, plant and equipment and investment properties . . . . .		41,754	100,869	84,091	49,971	35,666
Proceeds from sale of investment in associates . . . . .		1,974	6,259	1,267	–	–
Proceeds from sale of an available-for-sale investment . . . . .		1,274	–	–	–	715
Dividend income from available-for-sale investments . . . . .		1,615	2,003	21	–	838
Dividends received from associates . . . . .		158,614	30,641	296,054	18,088	10,515
Increase in balances with associates . . . . .		(29)	(39,347)	(71,374)	(66,441)	(1,905)
Decrease in balances with associates . . . . .		8,861	8,133	31,914	32,139	63,266
Interest received . . . . .		11,482	12,574	28,330	9,567	19,705
Acquisition of subsidiaries . . . . .	32(c),32(d)	64,708	(193,731)	(492,356)	(265,881)	(334,081)
Increase in investments in associates . . . . .		(55,454)	–	(53,109)	(10,447)	(107,536)
(Increase)/decrease in restricted and pledged bank deposits . . . . .	23(a)	(15,019)	10,539	228	(1,089)	(2,712)
Net cash used in investing activities . . . . .		(387,631)	(1,023,776)	(1,665,029)	(872,793)	(986,156)

	Note	Year ended 31 December			Six months ended 30 June	
		2010	2011	2012	2012	2013
		HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Financing activities						
Increase in loans from fellow subsidiaries . . . . .		298,826	393,587	285,200	198,006	–
Decrease in loans from fellow subsidiaries . . . . .		–	–	–	–	(403,137)
Repayment of bank loans . . . .		(123,057)	(350,651)	(926,790)	(557,321)	(1,600,931)
Drawdown of bank loans . . . .		281,313	775,114	1,761,397	760,662	2,535,484
Dividends of subsidiaries paid to non-controlling interests.		(6,338)	(66,046)	(80,145)	(761)	(21,733)
Capital injection from non-controlling interests . . . . .		–	32,587	12,715	9,715	–
Return of capital to non-controlling interests. . .		–	(98)	–	–	–
Drawdown of loans from non-controlling interests. . .		2,242	60,481	90,128	20,664	4,923
Repayments of loans from non-controlling interests. . .		(689)	(13,325)	–	–	–
Settlement of recharge of share based payment with immediate holding company. . . . .		–	–	(103,798)	–	–
Acquisition of additional interest in subsidiaries . . . .	32(e)	(42,266)	(151,081)	(256,073)	(54,174)	(179,049)
Disposal of partial interest in subsidiaries . . . . .	32(e)	–	71	–	–	–
Net cash generated from financing activities. . . . .		<u>410,031</u>	<u>680,639</u>	<u>782,634</u>	<u>376,791</u>	<u>335,557</u>
Increase/(decrease) in cash and cash equivalents . . . . .		629,348	676,115	(11,650)	(495,537)	36,839
Effect of exchange rate changes .		62,525	26,148	33,090	(5,528)	(4,206)
Cash and cash equivalents at beginning of the years/periods.		<u>1,497,980</u>	<u>2,189,853</u>	<u>2,892,116</u>	<u>2,892,116</u>	<u>2,913,556</u>
Cash and cash equivalents at end of the years/periods. . . . .	23(b)	<u>2,189,853</u>	<u>2,892,116</u>	<u>2,913,556</u>	<u>2,391,051</u>	<u>2,946,189</u>

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Note	Attributable to shareholder of the Company					Total Equity HK\$'000
		Share capital	Other reserves	Retained profits	Total	Non-controlling interests	
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Balance at 1 January 2010 . . . . .		500	911,728	4,641,238	5,553,466	720,415	6,273,881
Profit for the year . . . . .		–	–	833,257	833,257	144,824	978,081
Retirement benefits – Defined benefit plans							
– Actuarial losses . . . . .		–	–	(29,356)	(29,356)	(96,040)	(125,396)
– Deferred taxation . . . . .		–	–	13,181	13,181	43,124	56,305
Share of exchange reserve of associates . . . . .	26	–	39,253	–	39,253	–	39,253
Net translation differences on foreign operations . . . . .	26	–	133,095	–	133,095	189,875	322,970
Total comprehensive income for the year . . . . .		–	172,348	817,082	989,430	281,783	1,271,213
Dividends paid . . . . .		–	–	–	–	(6,338)	(6,338)
Transfers . . . . .	26	–	73	(73)	–	–	–
Acquisition of subsidiaries . . . . .	33(a)	–	–	–	–	1,429,612	1,429,612
Acquisition of additional interest in subsidiaries . . . . .	32(e)	–	(12,231)	–	(12,231)	(30,035)	(42,266)
Capital contribution from immediate holding company from share option scheme . . . . .	26	–	11,068	–	11,068	–	11,068
Total transactions with owners . . . . .		–	(1,090)	(73)	(1,163)	1,393,239	1,392,076
Balance at 31 December 2010 . . . . .		<u>500</u>	<u>1,082,986</u>	<u>5,458,247</u>	<u>6,541,733</u>	<u>2,395,437</u>	<u>8,937,170</u>

		Attributable to shareholder of the Company					
Note	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total Equity	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
	Balance at 1 January 2011. . . . .	500	1,082,986	5,458,247	6,541,733	2,395,437	8,937,170
	Profit for the year . . . . .	–	–	870,744	870,744	250,688	1,121,432
	Retirement benefits – Defined benefit plans						
	– Actuarial losses . . . . .	–	–	(10,794)	(10,794)	(25,238)	(36,032)
	– Deferred taxation . . . . .	–	–	1,262	1,262	3,659	4,921
	Share of exchange reserve of associates . . . . .	26	–	38,053	–	38,053	–
	Net translation differences on foreign operations . . . . .	26	–	15,079	–	15,079	(87,383)
	Total comprehensive income for the year . . . . .	–	53,132	861,212	914,344	141,726	1,056,070
	Dividends paid . . . . .	–	–	–	–	(66,046)	(66,046)
	Transfers . . . . .	26	–	4,323	(4,323)	–	–
	Dissolution of a subsidiary . . . . .	–	–	–	–	(98)	(98)
	Capital injection from non-controlling interests . . . . .	–	–	–	–	32,587	32,587
	Acquisition of subsidiaries . . . . .	33(b)	–	–	–	93,298	93,298
	Acquisition of additional interest in subsidiaries . . . . .	32(e)	–	(59,774)	–	(59,774)	(91,307)
	Disposal of partial interest in subsidiaries . . . . .	32(e)	–	–	–	71	71
	Capital contribution from immediate holding company from share option scheme . . . . .	26	–	1,801	–	1,801	–
	Total transactions with owners . . . . .	–	(53,650)	(4,323)	(57,973)	(31,495)	(89,468)
	Balance at 31 December 2011 . . . . .	500	1,082,468	6,315,136	7,398,104	2,505,668	9,903,772

		Attributable to shareholder of the Company					
	Note	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total Equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2012 . . . . .		500	1,082,468	6,315,136	7,398,104	2,505,668	9,903,772
Profit for the year . . . . .		-	-	1,069,376	1,069,376	282,496	1,351,872
Retirement benefits – Defined benefit plans							
– Actuarial losses . . . . .		-	-	(18,683)	(18,683)	(27,444)	(46,127)
– Deferred taxation . . . . .		-	-	2,731	2,731	6,247	8,978
Transfer from leasehold land and buildings to investment properties . . . . .	26						
– Fair value gain . . . . .		-	12,798	-	12,798	-	12,798
– Deferred taxation . . . . .		-	(3,200)	-	(3,200)	-	(3,200)
Share of exchange reserve of associates . . . . .	26	-	8,833	-	8,833	-	8,833
Net translation differences on foreign operations . . . . .	26	-	111,651	-	111,651	34,639	146,290
Total comprehensive income for the year . . . . .		-	130,082	1,053,424	1,183,506	295,938	1,479,444
Dividends paid . . . . .		-	-	-	-	(80,145)	(80,145)
Transfers . . . . .	26	-	7,465	(7,465)	-	-	-
Capital injection from non-controlling interests . . . . .		-	-	-	-	12,715	12,715
Acquisition of subsidiaries . . . . .	33(c)	-	-	-	-	113,385	113,385
Acquisition of additional interest in subsidiaries . . . . .	32(e)	-	(176,182)	-	(176,182)	(79,891)	(256,073)
Cash settlement of recharge of share based payment with immediate holding company . . . . .	26	-	(103,798)	-	(103,798)	-	(103,798)
Capital contribution from immediate holding company from share option scheme . . . . .	26	-	56,435	-	56,435	-	56,435
Total transactions with owners . . . . .		-	(216,080)	(7,465)	(223,545)	(33,936)	(257,481)
Balance at 31 December 2012 . . . . .		500	996,470	7,361,095	8,358,065	2,767,670	11,125,735

	Attributable to shareholder of the Company					Total Equity HK\$'000
	Share capital	Other reserves	Retained profits	Total	Non- controlling interests	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
(unaudited)						
Balance at 1 January 2012 . . . . .	500	1,082,468	6,315,136	7,398,104	2,505,668	9,903,772
Profit for the period . . . . .	-	-	429,717	429,717	116,119	545,836
Share of exchange reserve of associates . . . . .	-	(2,832)	-	(2,832)	-	(2,832)
Net translation differences on foreign operations . . . . .	-	(17,291)	-	(17,291)	(9,809)	(27,100)
Total comprehensive income for the period . . . . .	-	(20,123)	429,717	409,594	106,310	515,904
Dividends paid . . . . .	-	-	-	-	(761)	(761)
Transfers . . . . .	-	4,686	(4,686)	-	-	-
Capital injection from non-controlling interests . . . . .	-	-	-	-	9,715	9,715
Acquisition of subsidiaries . . . . .	-	-	-	-	88,245	88,245
Acquisition of additional interest in subsidiaries . . . . .	-	(33,642)	-	(33,642)	(20,532)	(54,174)
Capital contribution from immediate holding company from share option scheme . . . . .	-	20,963	-	20,963	-	20,963
Total transactions with owners . . . . .	-	(7,993)	(4,686)	(12,679)	76,667	63,988
Balance at 30 June 2012 . . . . .	<u>500</u>	<u>1,054,352</u>	<u>6,740,167</u>	<u>7,795,019</u>	<u>2,688,645</u>	<u>10,483,664</u>

		Attributable to shareholder of the Company					
	Note	Share capital	Other reserves	Retained profits	Total	Non-controlling interests	Total Equity
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2013 . . . . .		500	996,470	7,361,095	8,358,065	2,767,670	11,125,735
Profit for the period . . . . .		-	-	903,555	903,555	152,459	1,056,014
Share of exchange reserve of associates . . . . .	26	-	7,057	-	7,057	-	7,057
Net translation differences on foreign operations . . . . .	26	-	(65,974)	-	(65,974)	(38,455)	(104,429)
Total comprehensive income for the period . . . . .		-	(58,917)	903,555	844,638	114,004	958,642
Dividends paid . . . . .		-	-	-	-	(21,733)	(21,733)
Transfers . . . . .	26	-	932	(932)	-	-	-
Acquisition of subsidiaries . . . . .	33(d)	-	-	-	-	1,061	1,061
Acquisition of additional interest in subsidiaries . . . . .	32(e)	-	(113,943)	-	(113,943)	(65,106)	(179,049)
Capital contribution from immediate holding company from share option scheme . . . . .	26	-	13,607	-	13,607	-	13,607
Total transactions with owners . . . . .		-	(99,404)	(932)	(100,336)	(85,778)	(186,114)
Balance at 30 June 2013 . . . . .		500	838,149	8,263,718	9,102,367	2,795,896	11,898,263

## II NOTES TO THE FINANCIAL INFORMATION

### 1 General information

Kerry Logistics Network Limited (the "Company") was incorporated in the British Virgin Islands in 1991 and migrated to Bermuda to become an exempted company with limited liability in 2000. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of logistics, freight and warehouse leasing and operations services. The Company is directly and wholly owned by Kerry Properties Limited ("KPL"), a Hong Kong listed company incorporated in Bermuda. The Directors regard Kerry Group Limited, a private company incorporated in Cook Islands, as being the ultimate holding company.

The Financial Information is presented in thousands of Hong Kong dollars (HK\$'000), unless otherwise stated.

### 2 Summary of significant accounting policies

The significant accounting policies applied in the preparation of the Financial Information are set out below. These policies have been consistently applied to all the years and periods presented, unless otherwise stated.

#### (a) Basis of preparation

As at 31 December 2010, 2011, 2012 and 30 June 2013, the Group's current liabilities exceeded its current assets by HK\$1,580,066,000, HK\$1,745,420,000, HK\$1,528,270,000 and HK\$912,113,000 respectively. The net current liabilities mainly comprise loans from fellow subsidiaries, accounts payable, deposits received, accrued charges and bank loans. KPL has confirmed its intention to provide financial support to the Company so as to enable the Group/Company to meet its obligation when the liabilities fall due and to enable the Group to continue its operations in the coming twelve months from the date of this report or the completion of the Listing, whichever is earlier. Subject to the Listing, the Group will take the following steps to improve its net current assets/liabilities position:

- Sale of 100% equity interest in Kerry D.G. Warehouse (Kowloon Bay) Limited to a subsidiary of KPL for a consideration of HK\$400 million;
- Capitalisation of loans amounting to HK\$1,381,580,000 due to a subsidiary of KPL by the issuance of 1,439,477,612 new ordinary shares of the Company at HK\$0.50 per share; and
- Repayment of the remaining portion of the loans from a subsidiary of KPL in cash and new loans to be drawn down from existing unutilised bank loan facilities.

The Directors have prepared cash flow projections for the 12 months from the date of this report, taking into account the above as well as the proceeds from the Listing. Based on these cash flow projections, the Directors believe the Group will continue as a going concern and consequently have prepared the Financial Information on a going concern basis.

The significant accounting policies applied in the preparation of the Financial Information which are in accordance with the HKFRSs issued by the HKICPA are set out below. The Financial Information has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets and investment properties, which are carried at fair value.

The preparation of Financial Information in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the accounting policies of the Group. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the Financial Information, are disclosed in note 4.

#### Standards and amendments which are not yet effective

The following standards and amendments to existing standards, which are relevant to the operations of the Group, have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2014. The Group has not early adopted any of these standards or amendments:

	<u>Applicable for accounting periods beginning on/after</u>
HKAS 32 (amendment), 'Offsetting financial assets and financial liabilities'	1 January 2014
Amendments to HKAS 36, 'Recoverable amount disclosures for non-financial assets'	1 January 2014
Amendments to HKAS 27 (2011), HKFRS 10 and HKFRS 12, 'Investment entities'	1 January 2014
HKFRS 9, 'Financial instruments'	1 January 2015
HKFRS 7 and HKFRS 9 (amendments), 'Mandatory effective date and transition disclosures'	1 January 2015
HK (IFRIC) Interpretation 21 'Levies'	1 January 2014

The Group will adopt the above new standards and amendments to existing standards as and when they become effective. The Group has already commenced the assessment of their impact to the Group but is not yet in a position to state whether these would have a significant impact on its results of operations or financial position.

**(b) Consolidation****(i) Subsidiaries**

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights or when control is obtained by the Group through participation in the board of directors of the entity. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's statement of financial position, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

**(ii) Transactions with non-controlling interests**

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**(iii) Partial disposal**

When the Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

**(c) Associates**

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights or when significant influence is obtained by the Group through participation in the board of directors of the entity. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the impairment loss in the income statement.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the consolidated income statement.

**(d) Foreign currency translation****(i) Functional and presentation currency**

Items included in the Financial Information of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Financial Information is presented in Hong Kong dollars (HK\$), which is the Company's functional and the Group's presentation currency.

**(ii) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss and other changes in carrying amount are recognised in other comprehensive income.

Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the other comprehensive income.

**(iii) Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position of the Group's entities are translated at the closing rate at the date of the reporting period;
- income and expenses for each income statement of the Group's entities are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

**(e) Property, plant and equipment**

Construction in progress represents logistics centres and warehouses under construction and is stated at cost less impairment losses. It will be reclassified to the relevant property, plant and equipment category upon completion and depreciation begins when the relevant assets are available for use.

Properties comprise mainly warehouses and logistics centres (including leasehold land classified as finance lease), staff quarters, freehold land and buildings and port facilities. All property, plant and equipment are stated at historical cost less aggregate depreciation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their cost less their residual values over their estimated useful lives as follows:

Leasehold land	Over their remaining lease term ranging from 20 to 50 years
Port facilities	2.5% to 3.6%
Properties	Shorter of remaining lease term of 20 to 50 years or useful lives
Leasehold improvements	Shorter of remaining lease term of 20 to 50 years or useful lives
Warehouse operating equipment	5% to 25%
Motor vehicles, furniture, fixtures and office equipment	5% to 50%

No amortisation is provided for freehold land.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

The gain or loss on disposal of all property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant assets and is recognised in the consolidated income statement.

**(f) Investment properties**

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property.

Investment property comprises land held under operating leases, warehouse and office held for long-term rental yields.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at cost, including related transaction costs and borrowing costs.

After initial recognition, investment property is carried at fair value. Fair value is based on valuations carried out by professional valuers. Investment property that is being redeveloped for continuing use as investment property, or for which the market has become less active, continues to be measured at fair value.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed in the consolidated income statement during the financial period in which they are incurred.

Changes in fair values of investment property are recognised in the consolidated income statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, except that the land portion is reclassified as leasehold land and land use right if it is operating lease in nature, and its fair value at the date of reclassification becomes its cost for accounting purposes.

If an item of owner-occupied property becomes an investment property because its use has changed, any increase from the carrying amount to the fair value of this item at the date of transfer is recognised in equity as a revaluation reserve of property, plant and equipment under HKAS 16, except any increase which reverses a previous impairment loss is recognised in the income statement. Any decrease in the carrying amount of the property is charged to the consolidated income statement. Upon the subsequent disposal of the investment property, any revaluation reserve balance of the property is transferred to retained profits and is shown as a movement in equity.

**(g) Intangible assets**

**(i) Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is recognised separately as a non-current asset. Goodwill on acquisitions of associates is included in investments in associates and is tested for impairment as part of the overall balance. Separately recognised goodwill on acquisitions of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

**(ii) Customer relationships**

Customer relationships acquired in a business combination are recognised at fair value at the acquisition date. The customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate its cost over the expected life of the customer relationships, which range from five to ten years.

**(iii) Non-compete agreements**

Non-compete agreements acquired in a business combination are recognised at fair value at the acquisition date. The non-compete agreements have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate its cost over the term of the agreements, which range from five to ten years.

**(iv) Trademark**

Separately acquired trademarks are shown at historical cost. Trademarks acquired in a business combination are recognised at fair value at the acquisition date. Trademarks have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks over their estimated useful lives of five years.

**(h) Impairment of investments in subsidiaries and non-financial assets**

Assets that have an indefinite useful life – for example, goodwill or intangible assets not ready to use – are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating unit). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

**(i) Financial assets**

The Group classifies its financial assets in the following categories: loans and receivables and available-for-sale investments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

**(i) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets. Loans and receivables included accounts receivable, deposits, restricted and pledged bank deposits, cash and bank balances and amounts due from associates.

**(ii) Available-for-sale investments**

Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the end of the reporting period.

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale investments are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities related to changes in amortised cost are recognised in the consolidated income statement and the other changes in fair value are recognised in other comprehensive income. Translation differences and other changes in fair value on non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as gains and losses from investment securities.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income and net gains. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income and net gains when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its costs is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. Impairment testing of receivables is described in note 2(k).

**(j) Inventories**

Inventories of finished goods are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

**(k) Accounts receivable and amounts due from associates**

The receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the receivable is impaired. The amount of

the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statement within administrative expenses. When a receivable is uncollectible, it is written off against the allowance account for accounts receivable. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statement.

**(l) Cash and cash equivalents**

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown as a separate current liability in the consolidated statement of financial position.

Restricted and pledged bank deposits are not included in cash and cash equivalents.

**(m) Accounts payable**

Accounts payable are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Accounts payable are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

**(n) Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after each of the reporting period.

**(o) Current and deferred income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company and its subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts. However, deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary difference arising on investments in subsidiaries and associates, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority.

**(p) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

**(q) Financial guarantees**

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the original or modified terms of a debt instrument. The Group does not recognise liabilities for financial guarantees at inception, but perform a liability adequacy test at each reporting date by comparing its carrying amount of the net liability regarding the financial guarantee with its present legal or constructive obligation amount. If the carrying amount of the net liability is less than its present legal or constructive obligation amount, the entire difference is recognised in the consolidated income statement immediately.

**(r) Leases****(i) The Group is the lessee**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Payments made under operating leases (net of any incentives received from the lessor), including upfront prepayment made for leasehold land and land use rights are charged to the consolidated income statement in accordance with the pattern of benefit provided or on a straight-line basis over the period of the lease term.

**(ii) The Group is the lessor**

When assets are leased out under an operating lease, the assets are included in the consolidated statement of financial position based on the nature of the assets. Lease income from operating lease is recognised over the term of the lease on a straight-line basis.

**(s) Leasehold land and land use rights**

The Group made upfront payments to obtain operating leases of leasehold land and land use rights on which properties will be developed. Other than those classified as finance lease, the upfront payments of the leasehold land and land use rights are recorded as separate assets and amortised over the lease term in accordance with the pattern of benefit provided or on a straight-line basis over the lease term. The amortisation during the period of construction of the properties is capitalised as the cost of construction in progress. The amortisation during the period before the commencement and after the completion of the construction of the properties is expensed in the consolidated income statement.

**(t) Employee benefits****(i) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

**(ii) Defined contribution plan**

A defined contribution plan is a pension plan which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expenses when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

**(iii) Defined benefit plan**

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the consolidated statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. When there is significant change to the plan and key assumptions, the defined benefit obligation will be recalculated by independent actuaries. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using government bonds yield that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

Remeasurements arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income and immediately recognised in retained profits in the period in which they arise.

**(iv) Share-based compensation**

KPL operates an equity-settled, share-based compensation plan. The fair value of the employee services received by the Group in exchange for the grant of the options is recharged by KPL and is recognised as an expense in the consolidated income statement of the Group.

(v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

(vi) Bonus plans

The Group recognises a liability and an expense for bonuses when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of such obligation can be made.

**(u) Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue, cost incurred or to be incurred in respect of a transaction can be reliably measured, neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold are retained, it is probable that future economic benefits will flow to the Group and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

- (i) Revenue from the provision of logistics services, including freight forwarding services, is recognised in the accounting period in which the services rendered, by reference to stage of completion of specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.
- (ii) Revenue from general storage and other ancillary services is recognised when the services are rendered. Revenue from leased storage is recognised on a straight-line basis over the periods of the respective leases.
- (iii) Revenue from sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and the passing of title.
- (iv) Dividend income is recognised when the right to receive payment is established.
- (v) Interest income is recognised on a time proportion basis, using the effective interest method.

**(v) Direct operating expenses**

Direct operating expenses mainly represent the freight and transportation costs and direct labour costs directly attributable to the business operation of the Group.

**(w) Borrowing costs**

Borrowing costs are accounted for on the accrual basis and charged to the consolidated income statement in the year in which they are incurred, except for costs related to funding of construction or acquisition of qualifying assets which are capitalised as part of the cost of that asset during the construction period and up to the date of completion of construction. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

**(x) Contingent liabilities and contingent assets**

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resource will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the Financial Information. When a change in the probability of an outflow occurs so that outflow is probable and the amount can be reliably estimated, it will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the Financial Information when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

**(y) Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the executive directors that makes strategic decisions.

**(z) Dividend distribution**

Dividend distribution to the Company's shareholder is recognised as a liability in the Group's Financial Information in the period in which the dividends are declared by the Directors in the case of interim dividends or approved by the Company's shareholder in the case of final dividends.

### 3 Financial risk management

#### (a) Financial risk factors

The Group's major financial instruments include available-for-sale investments, accounts receivable, cash and bank balances, restricted and pledged bank deposits, accounts payable, bank overdrafts, bank loans, balances with group companies and a related company, balances with associates and loans from non-controlling interests. Details of these financial instruments are disclosed in respective notes.

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's management under the supervision of the Board of Directors. The Group's management identifies, evaluates and manages significant financial risks in the Group's individual operating units. The Board of Directors provides guidance for overall risk management.

##### (i) Market risk

###### (I) Foreign exchange risk

Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group entities' functional currency.

The Group has certain investments in foreign operations, whose net assets are exposed to foreign exchange risk. Income in foreign currencies are generated from the Group's investments outside Hong Kong and cash in these foreign currencies are maintained for operational needs. The Group ensures that its exposure to fluctuations in foreign exchange rates is minimised.

Major financial instruments under foreign currencies (other than the functional currencies of the Group's entities), that are exposed to foreign exchange risk, are denominated in United States dollar which is pegged to Hong Kong dollar. Accordingly, no sensitivity analysis is performed as the impact would not be significant to the profit for the period. Management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure by using foreign exchange forward contracts when the need arises.

###### (II) Interest rate risk

The Group is primarily exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits, bank borrowings and loans from fellow subsidiaries which carry prevailing market interest rates. The Group has not entered into any interest rate swap contracts to hedge the exposure as the Board of Directors consider the risk is not significant.

###### Interest rate sensitivity

For the years ended 31 December 2010, 2011 and 2012 and for the period ended 30 June 2013, if interest rates had increased/decreased by 25, 25, 25 and 25 basis points and all other variables were held constant, the profit of the Group would have decreased/increased by approximately HK\$2,426,500, HK\$1,500,000, HK\$6,893,000 and HK\$3,053,000 respectively, resulting from the change in interest income on bank deposits and borrowing costs of bank borrowings and loans from fellow subsidiaries.

##### (ii) Credit risk

The carrying amounts of cash and bank balances, restricted and pledged bank deposits, accounts receivable and amounts due from associates represent the Group's maximum exposure to credit risk in relation to financial assets. The Group reviews the recoverable amount of accounts receivable and amounts due from associates on a regular basis and an allowance for doubtful debts is made when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables.

In order to minimise the credit risk, management of the Company has delegated a team in each business unit responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors of the Company consider that the Group's credit risk is adequately covered.

There is no concentration of credit risk with respect to accounts receivable from third party customers as the Group has a large number of customers which are internationally dispersed.

The Group monitors the exposure to credit risk in respect of the financial assistance provided to associates through exercising influence over their financial and operating policy decisions and reviewing their financial positions on a regular basis.

The credit risk on bank balances and restricted and pledged bank deposits is limited because the counterparties are banks with high credit rankings.

The Group and the Company have executed guarantees to banks for facilities granted to certain subsidiaries. The utilised amount of such facilities covered by the guarantees of the Group and the Company which also represents the financial exposure as follows:

	Group and Company maximum exposure			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Credit risk exposure relating to off-balance sheet items				
Financial guarantees . . . . .	115,121	594,296	437,018	1,335,489

(iii) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due.

The Group measures and monitors its liquidity through the maintenance of prudent ratio regarding to the liquidity structure of the overall assets, liabilities, loans and commitments of the Group.

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

The following tables detail the contractual maturity of the Group and the Company for financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the Company can be required to pay.

	Group				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010					
Bank loans . . . . .	431,730	94,315	161,858	–	687,903
Accounts payable, deposits received and accrued charges . . . . .	2,312,677	–	–	–	2,312,677
Bank overdrafts . . . . .	20,701	–	–	–	20,701
Loans from fellow subsidiaries . . . . .	3,497,403	–	–	–	3,497,403
Loans from non-controlling interests . . . . .	–	83,165	–	–	83,165
Amount due to immediate holding company . . . . .	74,945	–	–	–	74,945
Amount due to a related company . . . . .	5,454	–	–	–	5,454
At 31 December 2011					
Bank loans . . . . .	726,342	111,486	323,521	–	1,161,349
Accounts payable, deposits received and accrued charges . . . . .	3,353,172	–	–	–	3,353,172
Bank overdrafts . . . . .	15,512	–	–	–	15,512
Loans from fellow subsidiaries . . . . .	3,894,458	–	–	–	3,894,458
Loans from non-controlling interests . . . . .	–	131,085	–	–	131,085
Amount due to immediate holding company . . . . .	94,480	–	–	–	94,480
Amount due to a related company . . . . .	6,639	–	–	–	6,639
At 31 December 2012					
Bank loans . . . . .	652,736	207,716	1,177,331	50,594	2,088,377
Accounts payable, deposits received and accrued charges . . . . .	3,923,029	–	–	–	3,923,029
Bank overdrafts . . . . .	26,089	–	–	–	26,089
Loans from fellow subsidiaries . . . . .	4,188,313	–	–	–	4,188,313
Loans from non-controlling interests . . . . .	–	222,362	–	–	222,362
Amount due to immediate holding company . . . . .	64,666	–	–	–	64,666
Amount due to a related company . . . . .	3,706	–	–	–	3,706
At 30 June 2013					
Bank loans . . . . .	682,393	316,183	1,989,179	71,120	3,058,875
Accounts payable, deposits received and accrued charges . . . . .	3,686,654	–	–	–	3,686,654
Bank overdrafts . . . . .	26,799	–	–	–	26,799
Loans from fellow subsidiaries . . . . .	3,781,580	–	–	–	3,781,580
Loans from non-controlling interests . . . . .	–	225,147	–	–	225,147
Amount due to immediate holding company . . . . .	93,434	–	–	–	93,434
Amount due to a related company . . . . .	1,611	–	–	–	1,611

	Company				
	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 31 December 2010					
Bank loans . . . . .	118,026	–	–	–	118,026
Accrued charges . . . . .	1,945	–	–	–	1,945
Amounts due to subsidiaries . . . . .	1,214,998	–	–	–	1,214,998
Loan from a fellow subsidiary . . . . .	1,915,395	–	–	–	1,915,395
At 31 December 2011					
Bank loans . . . . .	236,738	3,080	209,232	–	449,050
Accrued charges . . . . .	2,450	–	–	–	2,450
Amounts due to subsidiaries . . . . .	1,173,821	–	–	–	1,173,821
Loan from a fellow subsidiary . . . . .	2,515,395	–	–	–	2,515,395
At 31 December 2012					
Bank loans . . . . .	247,873	15,453	904,970	–	1,168,296
Accrued charges . . . . .	3,549	–	–	–	3,549
Amounts due to subsidiaries . . . . .	1,144,033	–	–	–	1,144,033
Loan from a fellow subsidiary . . . . .	2,606,024	–	–	–	2,606,024
At 30 June 2013					
Bank loans . . . . .	254,831	24,831	1,536,218	–	1,815,880
Accrued charges . . . . .	9,073	–	–	–	9,073
Amounts due to subsidiaries . . . . .	912,393	–	–	–	912,393
Loan from a fellow subsidiary . . . . .	2,606,024	–	–	–	2,606,024
Amount due to a related company . . . . .	137	–	–	–	137

**(b) Capital risk management**

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the loan and equity balance.

The Directors of the Company regularly monitor the capital structure, which consists of the equity attributable to the Company's shareholder as disclosed in the statement of financial position. The Directors of the Company could balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

The Group monitors capital by maintaining prudent gearing ratio based on prevailing market environment and economic condition. This ratio is calculated as total external debt dividing by equity attributable to the Company's shareholder.

The gearing ratios at 31 December 2010, 2011 and 2012 and 30 June 2013 were as follows:

	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$ million	HK\$ million	HK\$ million	HK\$ million
Bank loans and overdraft . . . . .	675	1,114	1,991	2,943
Equity attributable to the Company's shareholder . . . . .	6,542	7,398	8,358	9,102
Gearing ratio . . . . .	10%	15%	24%	32%

The Group's overall strategy remains unchanged throughout the years/period. The increase in the net gearing ratio is mainly attributable to the increase in new bank loans raised, which have been substantially invested in funding business combinations.

**(c) Fair value estimation**

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

All available-for-sale investments are classified as level 3, which requires recurring fair value measurement at each year/period end. There were no transfers between levels during the years/periods.

**Level 3 financial instruments**

The following table presents the changes in level 3 instruments.

	Available-for-sale investments			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Opening balance . . . . .	3,838	50,796	51,987	61,459
Acquisition of subsidiaries . . . . .	44,682	–	7,479	–
Additions . . . . .	–	3,324	–	1,295
Disposals . . . . .	(1,163)	–	–	(715)
Impairment . . . . .	–	(515)	(82)	–
Exchange adjustment . . . . .	3,439	(1,618)	2,075	(916)
Closing balance . . . . .	50,796	51,987	61,459	61,123

The Group established fair value of unlisted available-for-sale investments by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no changes in valuation techniques during the years/periods.

**Valuation processes of the Group**

The Group's finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including level 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at each reporting date. Reasons for the fair value movements are explained during the discussions.

**Fair value of financial assets and liabilities measured at amortised cost**

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Accounts receivable, prepayments and deposits
- Cash and bank balances
- Accounts payable, deposits received and accrued charges
- Bank loans

**4 Critical accounting estimates and judgements**

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

**(a) Critical accounting estimates and assumptions**

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

**(i) Estimate of fair value of investment properties**

The valuation of investment properties is performed in accordance with the 'The HKIS Valuation Standards on Properties ((First Edition 2005) and (2012 Edition))' published by the Hong Kong Institute of Surveyors and the 'International Valuation Standards' published by the International Valuation Standards Committee. The valuation is performed by qualified valuers by adopting the investment approach of valuation by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests at appropriate capitalisation rates or wherever appropriate the direct comparison approach by making reference to comparable sales evidence as available in the relevant market subject to suitable adjustments between the subject properties and the comparable properties including but not limited to location, time, size, age and maintenance standard etc.

For certain investment properties in Vietnam, due to the specific nature and restricted use of the buildings and structures, and absence of relevant market evidence, we have valued the property interests by reference to the Depreciated Replacement Cost ("DRC"). DRC is based on an estimate of the market value for the existing use of the land (which is by reference to relevant land sales comparables subject to appropriate adjustments including but not limited to location, time, size etc.), plus the current gross replacement (reproduction) costs of the improvements, less allowances for physical deterioration and all relevant forms of obsolescence and optimisation. The values are subject to service potential of the entity from the use of assets as a whole.

(ii) Income taxes

The Group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers it probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. The outcome of their actual utilisation may be different.

(iii) Estimated impairment of goodwill

The Group tests whether goodwill (note 13) has suffered any impairment, in accordance with the accounting policy stated in note 2(g)(i). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of estimates. The key assumptions and sensitivity test was disclosed in note 13.

(iv) Useful lives of property, plant and equipment

The Group's management determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

(v) Impairment of non-financial assets

Management regularly reviews whether there are any indications of impairment and will recognise an impairment loss if the carrying amount of an asset, including property, plant and equipment, leasehold land and land use rights and inventories, is lower than its recoverable amount which is the greater of its fair value less costs to sell or its value in use. In determining the value in use, management assesses the present value of the estimated future cash flows expected to arise from the continuing use of the asset and from its disposal at the end of its useful life. Estimates and judgements are applied in determining these future cash flows and the discount rate. Management estimates the future cash flows based on certain assumptions, such as market competition and development and the expected growth in business.

(vi) Impairment of intangible assets with a definite useful life

Intangible assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Intangible assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(vii) Impairment of associates

The Group determines whether an investment in associates is impaired by evaluating the duration and extent to which the recoverable amount of the investment is less than its carrying amount. This evaluation is subject to changes in factors, such as industry and sector performance and operational cash flows.

(viii) Retirement benefit obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost or income for pensions include the discount rate and future salary. Any changes in these assumptions will impact the carrying amount of retirement benefit obligations.

The Group determines the appropriate discount rate at the end of each period. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the defined benefit obligations. In determining the appropriate discount rate, the Group considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement benefit liability.

**(b) Critical judgements in applying the Group's accounting policies**

(i) Distinction between investment properties and owner-occupied properties

The Group determines whether a property qualifies as investment property. In making its judgement, the Group considers whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable to the property and other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes. If these portions can be sold separately (or leased out separately under a finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. Judgement is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgement at the end of each period.

## (ii) Control in Kerry TJ Logistics Company Limited ("Kerry TJ")

The Group has obtained de facto control over Kerry TJ since mid 2010 and the Group's effective interest in Kerry TJ as at 31 December 2010 (23.41%), 2011 (25.65%) and 2012 (30.42%) and 30 June 2013 (33.15%) is accounted for and consolidated into the consolidated Financial Information of the Group as a subsidiary. Key judgements adopted in concluding the Group has obtained de facto control in Kerry TJ are as follows:

- The Group has consistently and regularly held a majority of the voting rights exercised at Kerry TJ's shareholders' meetings and no other single shareholder directly or indirectly controls more voting rights than the Group.
- The shareholding of other non-controlling interests is dispersed and the chance of all other shareholders getting together to vote against the Group is remote.
- The Group has obtained effective control over majority of the board of Kerry TJ (four out of seven board seats) since mid 2010.
- The Group has obtained the support from another major shareholder since mid 2010.

## 5 Principal activities and segmental analysis of operations

## (a) Revenue recognised during the Relevant Periods is as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Integrated Logistics					
Logistics Operations . . . . .	4,332,968	6,392,868	7,423,720	3,418,287	3,958,921
Hong Kong Warehouse . . . . .	477,605	496,966	474,242	233,686	234,067
International Freight Forwarding . . . . .	6,069,336	9,144,477	11,396,813	5,302,264	5,328,801
	<u>10,879,909</u>	<u>16,034,311</u>	<u>19,294,775</u>	<u>8,954,237</u>	<u>9,521,789</u>

## (b) An analysis of the Group's financial results by operating segment is as follows:

	For the year ended 31 December 2010					
	Logistics Operations	Hong Kong Warehouse	International Freight Forwarding	Total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Turnover . . . . .	4,332,968	477,605	6,069,336	10,879,909	-	10,879,909
Inter-segment revenue . . . . .	208,350	137,036	584,554	929,940	(929,940)	-
	<u>4,541,318</u>	<u>614,641</u>	<u>6,653,890</u>	<u>11,809,849</u>	<u>(929,940)</u>	<u>10,879,909</u>
Results						
Segment results . . . . .	434,120	349,157	95,571	878,848	-	878,848
Unallocated administrative expenses . . . . .						(73,920)
Finance income . . . . .						11,482
Operating profit before fair value change of investment properties . . . . .						816,410
Change in fair value of investment properties . . . . .						175,990
Operating profit . . . . .						992,400
Finance costs . . . . .						(23,066)
Share of results of associates . . . . .						208,821
Profit before taxation . . . . .						1,178,155
Taxation . . . . .						(200,074)
Profit for the year . . . . .						<u>978,081</u>
Profit attributable to:						
Company's shareholder . . . . .						833,257
Non-controlling interests . . . . .						144,824
Depreciation and amortisation . . . . .	154,902	24,683	30,831	210,416	-	210,416

For the year ended 31 December 2011

	Logistics Operations	Hong Kong Warehouse	International Freight Forwarding	Total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Turnover . . . . .	6,392,868	496,966	9,144,477	16,034,311	-	16,034,311
Inter-segment revenue . . . . .	509,993	156,721	444,732	1,111,446	(1,111,446)	-
	<u>6,902,861</u>	<u>653,687</u>	<u>9,589,209</u>	<u>17,145,757</u>	<u>(1,111,446)</u>	<u>16,034,311</u>
Results						
Segment results . . . . .	588,525	370,852	255,913	1,215,290	-	1,215,290
Unallocated administrative expenses . . . . .						(75,875)
Finance income . . . . .						12,574
Operating profit before fair value change of investment properties . . . . .						1,151,989
Change in fair value of investment properties . . . . .						130,312
Operating profit . . . . .						1,282,301
Finance costs . . . . .						(55,394)
Share of results of associates . . . . .						148,464
Profit before taxation . . . . .						1,375,371
Taxation . . . . .						(253,939)
Profit for the year . . . . .						<u>1,121,432</u>
Profit attributable to:						
Company's shareholder . . . . .						870,744
Non-controlling interests . . . . .						250,688
Depreciation and amortisation . . . . .	226,166	24,658	45,206	296,030	-	296,030

For the year ended 31 December 2012

	Logistics Operations	Hong Kong Warehouse	International Freight Forwarding	Total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Turnover . . . . .	7,423,720	474,242	11,396,813	19,294,775	-	19,294,775
Inter-segment revenue . . . . .	627,812	230,470	511,675	1,369,957	(1,369,957)	-
	<u>8,051,532</u>	<u>704,712</u>	<u>11,908,488</u>	<u>20,664,732</u>	<u>(1,369,957)</u>	<u>19,294,775</u>
Results						
Segment results . . . . .	729,619	411,055	300,228	1,440,902	-	1,440,902
Unallocated administrative expenses . . . . .						(150,884)
Finance income . . . . .						28,330
Operating profit before fair value change of investment properties . . . . .						1,318,348
Change in fair value of investment properties . . . . .						265,155
Operating profit . . . . .						1,583,503
Finance costs . . . . .						(63,124)
Share of results of associates . . . . .						136,421
Profit before taxation . . . . .						1,656,800
Taxation . . . . .						(304,928)
Profit for the year . . . . .						<u>1,351,872</u>
Profit attributable to:						
Company's shareholder . . . . .						1,069,376
Non-controlling interests . . . . .						282,496
Depreciation and amortisation . . . . .	250,645	24,644	92,063	367,352	-	367,352

For the period ended 30 June 2012 (unaudited)

	Logistics Operations	Hong Kong Warehouse	International Freight Forwarding	Total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Turnover . . . . .	3,418,287	233,686	5,302,264	8,954,237	–	8,954,237
Inter-segment revenue . . . . .	347,861	108,988	168,794	625,643	(625,643)	–
	<u>3,766,148</u>	<u>342,674</u>	<u>5,471,058</u>	<u>9,579,880</u>	<u>(625,643)</u>	<u>8,954,237</u>
Results						
Segment results . . . . .	338,730	201,672	160,282	700,684	–	700,684
Unallocated administrative expenses . . . . .						(55,247)
Finance income . . . . .						9,567
Operating profit . . . . .						655,004
Finance costs . . . . .						(27,432)
Share of results of associates . . . . .						69,123
Profit before taxation . . . . .						696,695
Taxation . . . . .						(150,859)
Profit for the period . . . . .						<u>545,836</u>
Profit attributable to:						
Company's shareholder . . . . .						429,717
Non-controlling interests . . . . .						116,119
Depreciation and amortisation . . . . .	121,015	11,283	38,751	171,049	–	171,049

For the period ended 30 June 2013

	Logistics Operations	Hong Kong Warehouse	International Freight Forwarding	Total	Eliminations	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue						
Turnover . . . . .	3,958,921	234,067	5,328,801	9,521,789	–	9,521,789
Inter-segment revenue . . . . .	318,991	127,395	235,588	681,974	(681,974)	–
	<u>4,277,912</u>	<u>361,462</u>	<u>5,564,389</u>	<u>10,203,763</u>	<u>(681,974)</u>	<u>9,521,789</u>
Results						
Segment results . . . . .	401,163	207,487	157,292	765,942	–	765,942
Unallocated administrative expenses . . . . .						(67,955)
Finance income . . . . .						19,705
Operating profit before fair value change of investment properties . . . . .						717,692
Change in fair value of investment properties . . . . .						458,303
Operating profit . . . . .						1,175,995
Finance costs . . . . .						(45,096)
Share of results of associates . . . . .						71,626
Profit before taxation . . . . .						1,202,525
Taxation . . . . .						(146,511)
Profit for the period . . . . .						<u>1,056,014</u>
Profit attributable to:						
Company's shareholder . . . . .						903,555
Non-controlling interests . . . . .						152,459
Depreciation and amortisation . . . . .	152,151	14,998	48,648	215,797	–	215,797

## (c) Information about operating segment:

Management has determined the operating segments based on the reports reviewed by the executive directors.

The executive directors assess the performance of the three principal activities of the Group namely logistics operations, Hong Kong warehouse and international freight forwarding business.

Logistics operations segment derives revenue from provision of logistics services and sales of goods.

Hong Kong warehouse segment derives revenue from provision of warehouse leasing, general storage and other ancillary services.

International freight forwarding segment derives revenue primarily from provision of freight forwarding services.

The executive directors assess the performance of the operating segments based on segment results.

## (d) An analysis of the Group's segment revenue and segment non-current assets by geographical area is as follows:

	Segment revenue <sup>*</sup>					Segment non-current assets <sup>#</sup>			
	Year ended 31 December			Six months ended 30 June		As at 31 December			As at 30 June
	2010	2011	2012	2012	2013	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong . . . . .	2,016,799	2,300,557	2,469,115	1,190,783	1,304,359	5,294,294	5,459,327	5,846,095	6,274,571
PRC . . . . .	4,721,560	7,144,450	8,745,181	3,920,098	4,249,191	1,945,749	2,624,846	3,463,928	3,727,110
Taiwan . . . . .	847,453	1,871,936	1,978,659	916,179	972,602	2,417,605	2,565,456	2,701,589	2,656,609
South & South East Asia .	1,320,696	2,298,332	2,395,398	1,168,927	1,404,041	1,628,999	1,807,820	2,534,815	2,825,404
Europe . . . . .	1,623,177	1,917,370	3,083,974	1,478,356	1,308,470	150,293	320,636	317,755	523,826
Others . . . . .	350,224	501,666	622,448	279,894	283,126	126,678	118,643	153,608	138,765
	<u>10,879,909</u>	<u>16,034,311</u>	<u>19,294,775</u>	<u>8,954,237</u>	<u>9,521,789</u>	<u>11,563,618</u>	<u>12,896,728</u>	<u>15,017,790</u>	<u>16,146,285</u>

\* Segment revenue derived from geographical areas which are based on the geographical location of the operation.

# Other than available-for-sale investments.

## 6 Other income and net gains

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Interest income from banks . . . . .	11,482	12,574	24,835	8,823	18,783
Interest income from associates . . . . .	-	-	3,495	744	922
Dividend income from available-for-sale investments . . . . .	1,615	2,003	21	-	838
Deemed gain on revaluation of previously held equity interest in acquiree company . . . . .	54,203	-	-	-	-
Gain on disposal of an available-for-sale investment . . . . .	110	-	-	-	-
(Loss)/gain on disposal of an associate . . . . .	(1,486)	3,482	-	-	-
Impairment of available-for-sale investments . . . . .	-	(515)	(82)	-	-
Impairment of goodwill (note 13) . . . . .	(40,407)	(7,303)	(7,000)	(7,000)	-
(Loss)/gain on disposal of property, plant and equipment . . . . .	(4,177)	(2,889)	7,065	3,193	9,943
	<u>21,340</u>	<u>7,352</u>	<u>28,334</u>	<u>5,760</u>	<u>30,486</u>

## 7 Expenses by nature

Expenses included in direct operating expenses and administrative expenses are analysed as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Auditor's remuneration . . . . .	13,329	13,604	14,870	7,777	7,982
Business tax . . . . .	59,378	93,102	72,928	38,875	17,996
Cost of goods sold . . . . .	642,425	805,885	868,595	430,879	392,847
Freight and transportation costs . . . . .	7,234,152	10,606,536	13,102,393	6,007,065	6,319,737
Depreciation of property, plant and equipment . . . . .	205,838	284,915	321,355	155,164	191,662
Amortisation of leasehold land and land use rights . . . . .	4,578	7,394	7,954	3,804	4,632
Amortisation of intangible assets . . . . .	–	3,721	38,043	12,081	19,503
Provision for impairment of receivables . . . . .	22,124	3,962	22,097	6,570	9,402
Reversal of provision for impairment of receivables . . . . .	(1,108)	(4,984)	(479)	(454)	(874)
Operating leases charges on land and buildings . . . . .	132,652	351,961	349,824	164,222	199,136
Employee benefit expenses (note 12) . . . . .	1,423,421	2,144,883	2,597,381	1,210,530	1,400,975
Fair value loss on contingent payment for acquisition of subsidiaries . . . . .	–	9,973	310	–	–

## 8 Finance costs

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Interest expenses on loans from fellow subsidiaries (note 29) . . . . .	5,170	6,377	5,433	2,012	3,117
Interest expenses on bank loans and overdrafts . . . . .	17,896	49,017	57,691	25,420	41,979
	23,066	55,394	63,124	27,432	45,096

## 9 Taxation

## Hong Kong and overseas profits tax

Hong Kong profits tax has been provided at the rate of 16.5% for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013 on the estimated assessable profit for the period. Income tax on the overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the overseas countries in which the Group operates.

## PRC enterprise income tax

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the "CIT Law"), which is effective from 1 January 2008. Under the CIT Law, for Group's subsidiaries originally entitling to a tax rate of 15%, the tax rate will gradually increase to 25% over the next five years. For the Group's subsidiaries originally entitling to a tax rate of 33%, the tax rate decreased to 25% effective on 1 January 2008.

## Withholding tax on distributed/undistributed profits

Withholding tax is levied on profit distribution upon declaration/remittance at the rates of taxation prevailing in the PRC and overseas countries.

(a) The amount of taxation charged to the consolidated income statement represents:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Hong Kong profits tax					
– Current	51,287	53,292	61,179	30,589	34,100
– Under/(over)provision in prior years	3,082	(1,140)	(79)	(17)	(1,241)
– Deferred	12,843	18,541	25,450	10,095	7,238
	67,212	70,693	86,550	40,667	40,097
PRC taxation					
– Current	86,331	78,354	88,284	52,279	49,644
– (Over)/underprovision in prior years	(10,674)	–	497	555	(57)
– Deferred	(25,605)	(10,749)	5,021	(3,337)	(450)
	50,052	67,605	93,802	49,497	49,137
Overseas taxation					
– Current	76,084	113,626	114,991	58,635	57,045
– Under/(over)provision in prior years	864	(5,494)	1,618	1,551	(2,972)
– Deferred	5,862	7,509	7,967	509	3,204
	82,810	115,641	124,576	60,695	57,277
	200,074	253,939	304,928	150,859	146,511

The Group's share of associates' taxation for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 2013 are HK\$36,332,000, HK\$32,504,000, HK\$27,629,000, HK\$15,386,000 and HK\$14,986,000 and included in the share of results of associates in the consolidated income statement.

(b) The taxation on the Group's profit before taxation differs from the theoretical amount that would arise using the taxation rate of Hong Kong as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation	1,178,155	1,375,371	1,656,800	696,695	1,202,525
Less: Share of results of associates	(208,821)	(148,464)	(136,421)	(69,123)	(71,626)
	969,334	1,226,907	1,520,379	627,572	1,130,899
Calculated at Hong Kong profits tax rate of 16.5%	159,940	202,440	250,863	103,549	186,598
Tax effect of different taxation rates in other countries	31,732	49,987	49,912	24,974	21,454
Income not subject to taxation	(29,414)	(21,771)	(43,883)	(1,703)	(69,585)
Expenses not deductible in determining taxable profit	28,607	17,528	14,089	11,424	1,474
Tax losses not recognised	12,514	11,190	19,246	12,231	6,438
Utilisation of previously unrecognised tax losses	(5,178)	(7,981)	(5,333)	(5,182)	(5,049)
(Over)/underprovision in prior years	(6,728)	(6,634)	2,036	2,088	(4,270)
Withholding tax on undistributed profits	8,601	9,180	17,998	3,478	9,451
Taxation charge	200,074	253,939	304,928	150,859	146,511

## 10 Profit/(loss) attributable to shareholders

The profit/(loss) attributable to shareholder dealt with in the Financial Information of the Company is HK\$115,065,000, HK\$(26,113,000), HK\$(8,225,000), HK\$13,546,000 and HK\$(34,287,000) for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013 respectively.

## 11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to shareholders of the Company by the adjusted weighted average number of ordinary shares in issue during the years/periods. The adjusted weighted average number of shares have taken into account the impact of the loan capitalisation and the share split as described in notes 2(a) and 25 respectively.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012 (unaudited)	2013
Adjusted weighted average number of ordinary shares in issue ('000) . . . . .	1,295,048	1,295,048	1,295,048	1,295,048	1,295,048
Profit attributable to shareholders (HK\$'000) . . . . .	833,257	870,744	1,069,376	429,717	903,555
Basic earnings per share (HK\$). . . . .	0.64	0.67	0.83	0.33	0.70

No diluted earnings per share are presented as the Company did not have any dilutive potential ordinary shares during the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013.

## 12 Employee benefit expenses

	Year ended 31 December			Six months ended 30 June	
	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2012 HK\$'000 (unaudited)	2013 HK\$'000
Staff costs, including directors' emoluments . . . . .	1,299,458	1,990,395	2,344,607	1,096,360	1,282,540
Share option expense . . . . .	11,068	1,801	56,435	20,963	13,607
Pension costs					
– defined contribution plans . . . . .	103,949	139,250	185,583	87,864	99,328
– defined benefit plans (note 31) . . . . .	8,946	13,437	10,756	5,343	5,500
	1,423,421	2,144,883	2,597,381	1,210,530	1,400,975

Out of the total employee benefit expenses for the years ended 31 December 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013 of HK\$1,423,421,000, HK\$2,144,883,000, HK\$2,597,381,000, HK\$1,210,530,000 and HK\$1,400,975,000 respectively, HK\$902,015,000, HK\$1,405,143,000, HK\$1,750,567,000, HK\$817,669,000 and HK\$944,912,000 respectively was included in direct operating expenses.

## (a) Directors' emoluments

The remuneration of the Directors for the year ended 31 December 2010, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (note)	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeo George Yong-boon <sup>3</sup> . . . . .	–	–	–	–	–	–
Ma Wing Kai William* . . . . .	–	3,540	6,550	–	120	10,210
Erni Edwardo <sup>1</sup> . . . . .	–	–	–	–	–	–
Pang David Jung <sup>6</sup> . . . . .	–	–	–	–	–	–
Gaw Bryan Pallop <sup>6</sup> . . . . .	–	–	–	–	–	–
Ang Keng Lam <sup>4</sup> . . . . .	–	2,082	8,000	–	120	10,202
Lui Kim Ming <sup>2</sup> . . . . .	–	1,740	680	–	120	2,540
Kuok Khoon Hua <sup>5</sup> . . . . .	–	–	–	–	–	–
Qian Shaohua <sup>5</sup> . . . . .	–	–	–	–	–	–
Wong Yu Pok Marina <sup>5</sup> . . . . .	–	–	–	–	–	–
Wan Kam To <sup>5</sup> . . . . .	–	–	–	–	–	–
Yeo Philip Liat Kok <sup>5</sup> . . . . .	–	–	–	–	–	–

The remuneration of the Directors for the year ended 31 December 2011, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (note)	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeo George Yong-boon <sup>3</sup>	-	-	-	-	-	-
Ma Wing Kai William*	-	3,780	7,560	-	120	11,460
Erni Edwardo <sup>1</sup>	-	1,133	2,042	562	70	3,807
Pang David Jung <sup>6</sup>	-	-	-	-	-	-
Gaw Bryan Pallop <sup>6</sup>	-	-	-	-	-	-
Ang Keng Lam <sup>4</sup>	-	2,400	8,000	-	120	10,520
Lui Kim Ming <sup>2</sup>	-	912	30	-	60	1,002
Kuok Khoon Hua <sup>5</sup>	-	-	-	-	-	-
Qian Shaohua <sup>5</sup>	-	-	-	-	-	-
Wong Yu Pok Marina <sup>5</sup>	-	-	-	-	-	-
Wan Kam To <sup>5</sup>	-	-	-	-	-	-
Yeo Philip Liat Kok <sup>5</sup>	-	-	-	-	-	-

The remuneration of the Directors for the year ended 31 December 2012, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (note)	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeo George Yong-boon <sup>3</sup>	-	600	125	725	20	1,470
Ma Wing Kai William*	-	4,020	9,560	-	120	13,700
Erni Edwardo <sup>1</sup>	-	2,219	4,022	1,161	120	7,522
Pang David Jung <sup>6</sup>	-	-	-	-	-	-
Gaw Bryan Pallop <sup>6</sup>	-	788	1,187	713	34	2,722
Ang Keng Lam <sup>4</sup>	-	1,435	2,333	-	70	3,838
Kuok Khoon Hua <sup>5</sup>	-	-	-	-	-	-
Qian Shaohua <sup>5</sup>	-	-	-	-	-	-
Wong Yu Pok Marina <sup>5</sup>	-	-	-	-	-	-
Wan Kam To <sup>5</sup>	-	-	-	-	-	-
Yeo Philip Liat Kok <sup>5</sup>	-	-	-	-	-	-

The remuneration of the Directors for the six months ended 30 June 2012 (unaudited), excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (note)	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeo George Yong-boon <sup>3</sup>	-	-	-	-	-	-
Ma Wing Kai William*	-	2,010	60	-	60	2,130
Erni Edwardo <sup>1</sup>	-	1,109	-	581	60	1,750
Pang David Jung <sup>6</sup>	-	-	-	-	-	-
Gaw Bryan Pallop <sup>6</sup>	-	328	20	-	14	362
Ang Keng Lam <sup>4</sup>	-	1,230	2,000	-	60	3,290
Kuok Khoon Hua <sup>5</sup>	-	-	-	-	-	-
Qian Shaohua <sup>5</sup>	-	-	-	-	-	-
Wong Yu Pok Marina <sup>5</sup>	-	-	-	-	-	-
Wan Kam To <sup>5</sup>	-	-	-	-	-	-
Yeo Philip Liat Kok <sup>5</sup>	-	-	-	-	-	-

The remuneration of the Directors for the six months ended 30 June 2013, excluding share option benefits, is set out below:

Name of Director	Fees	Salary	Discretionary bonuses	Other benefits (note)	Employer's contribution to pension scheme	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Yeo George Yong-boon <sup>3</sup>	–	1,440	–	1,392	48	2,880
Ma Wing Kai William*	–	2,190	60	–	60	2,310
Erni Edwardo <sup>1</sup>	–	1,222	–	644	60	1,926
Pang David Jung <sup>6</sup>	–	–	–	–	–	–
Gaw Bryan Pallop <sup>6</sup>	–	490	20	–	20	530
Kuok Khoon Hua <sup>5</sup>	–	–	–	–	–	–
Qian Shaohua <sup>5</sup>	–	–	–	–	–	–
Wong Yu Pok Marina <sup>5</sup>	–	–	–	–	–	–
Wan Kam To <sup>5</sup>	–	–	–	–	–	–
Yeo Philip Liat Kok <sup>5</sup>	–	–	–	–	–	–

Note:

Other benefits represent housing allowance or personal income tax borne by the Group.

\* Group Managing Director

1 Appointed on 8 June 2011

2 Resigned on 8 June 2011

3 Appointed on 1 August 2012

4 Resigned on 1 August 2012

5 Appointed on 25 November 2013

6 Resigned on 25 November 2013

#### (b) Senior management's emoluments

The Group considers a team of nine senior executives who report to the Board of Directors as senior management. The emoluments of these nine individuals, excluding share option benefits, are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Salaries and other short-term benefits . . . . .	25,901	27,809	30,524	8,328	10,212

#### (c) Share options granted by KPL to the directors of the Company

Certain directors of the Company held share options of KPL during the years and periods presented as follows:

During the year ended 31 December 2010, shares were issued to certain directors of the Company pursuant to exercise of the following share options under the option scheme:

No. of share options exercised	Exercise Price	Exercise Period
180,000 . . . . .	HK\$18.74	17/03/2006-16/03/2015
20,000 . . . . .	HK\$18.74	17/03/2007-16/03/2015
125,000 . . . . .	HK\$17.58	06/02/2010-05/02/2019

During the year ended 31 December 2011, shares were issued to certain directors of the Company pursuant to exercise of the following share options under the option scheme:

No. of share options exercised	Exercise Price	Exercise Period
280,000 . . . . .	HK\$18.74	17/03/2007-16/03/2015
125,000 . . . . .	HK\$17.58	06/02/2011-05/02/2019

During the year ended 31 December 2012, and the six periods ended 30 June 2012 and 2013, no share was issued to directors of the Company pursuant to exercise of the share options.

As at 31 December 2010, certain directors held the following share options to acquire shares of KPL:

No. of share options	Exercise Price	Exercise Period
1,180,000 . . . . .	HK\$18.74	17/03/2007-16/03/2015
387,500 . . . . .	HK\$47.70	02/04/2009-01/04/2018
387,500 . . . . .	HK\$47.70	02/04/2010-01/04/2018
775,000 . . . . .	HK\$47.70	02/04/2011-01/04/2018
400,000 . . . . .	HK\$ 17.58	06/02/2010-05/02/2019
525,000 . . . . .	HK\$ 17.58	06/02/2011-05/02/2019

As at 31 December 2011, certain directors held the following share options to acquire shares of KPL:

No. of share options	Exercise Price	Exercise Period
900,000 . . . . .	HK\$18.74	17/03/2007-16/03/2015
325,000 . . . . .	HK\$47.70	02/04/2009-01/04/2018
325,000 . . . . .	HK\$47.70	02/04/2010-01/04/2018
650,000 . . . . .	HK\$47.70	02/04/2011-01/04/2018
400,000 . . . . .	HK\$ 17.58	06/02/2010-05/02/2019
400,000 . . . . .	HK\$ 17.58	06/02/2011-05/02/2019

As at 31 December 2012, certain directors held the following share options to acquire shares of KPL:

No. of Share Options	Exercise Price	Exercise Period
200,000 . . . . .	HK\$ 18.74	17/03/2007-16/03/2015
325,000 . . . . .	HK\$ 47.70	02/04/2009-01/04/2018
325,000 . . . . .	HK\$ 47.70	02/04/2010-01/04/2018
650,000 . . . . .	HK\$ 47.70	02/04/2011-01/04/2018
150,000 . . . . .	HK\$ 17.58	06/02/2010-05/02/2019
150,000 . . . . .	HK\$ 17.58	06/02/2011-05/02/2019
615,000 . . . . .	HK\$35.45	31/10/2012-29/04/2022
615,000 . . . . .	HK\$35.45	31/10/2013-29/04/2022

As at 30 June 2013, certain directors held the following share options to acquire shares of KPL:

No. of Share Options	Exercise Price	Exercise Period
200,000 . . . . .	HK\$ 18.74	17/03/2007-16/03/2015
325,000 . . . . .	HK\$ 47.70	02/04/2009-01/04/2018
325,000 . . . . .	HK\$ 47.70	02/04/2010-01/04/2018
650,000 . . . . .	HK\$ 47.70	02/04/2011-01/04/2018
150,000 . . . . .	HK\$ 17.58	06/02/2010-05/02/2019
150,000 . . . . .	HK\$ 17.58	06/02/2011-05/02/2019
615,000 . . . . .	HK\$35.45	31/10/2012-29/04/2022
615,000 . . . . .	HK\$35.45	31/10/2013-29/04/2022

The closing market price of the KPL shares as at 31 December 2010, 2011, 2012 and 30 June 2013 was HK\$40.50, HK\$25.70, HK\$40.25 and HK\$30.40 respectively.

## (d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2010 included 2 Directors. The emoluments payable to the remaining 3 highest paid individuals during the year are as follows:

The five individuals whose emoluments were the highest in the Group for the years ended 31 December 2011, 2012 and six months ended 30 June 2012 and 2013 included 3 Directors. The emoluments payable to the remaining 2 highest paid individuals during the years/periods are as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Basic salaries, housing allowances, share options, other allowances and benefits in kind . . . . .	6,681	5,301	5,575	2,787	3,019
Discretionary bonuses . . . . .	6,315	4,480	5,089	–	–
Pension contributions . . . . .	367	248	253	126	136
	<u>13,363</u>	<u>10,029</u>	<u>10,917</u>	<u>2,913</u>	<u>3,155</u>

The emoluments fell within the following bands:

	Number of individuals				
	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
				(unaudited)	
HK\$1,000,001-HK\$1,500,000 . . . . .	–	–	–	2	1
HK\$1,500,001-HK\$2,000,000 . . . . .	–	–	–	–	1
HK\$3,000,001-HK\$3,500,000 . . . . .	1	–	–	–	–
HK\$4,000,001-HK\$4,500,000 . . . . .	1	1	–	–	–
HK\$4,500,001-HK\$5,000,000 . . . . .	–	–	1	–	–
HK\$5,500,001-HK\$6,000,000 . . . . .	1	1	–	–	–
HK\$6,000,001-HK\$6,500,000 . . . . .	–	–	1	–	–
	<u>3</u>	<u>2</u>	<u>2</u>	<u>2</u>	<u>2</u>

## 13 Intangible assets

	Group				
	Goodwill	Customer relationships	Non-competive agreements	Trademark	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010					
Cost . . . . .	417,993	–	–	–	417,993
Accumulated amortisation and impairment . . . . .	(17,510)	–	–	–	(17,510)
	<u>400,483</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>400,483</u>
At 1 January 2010 . . . . .	400,483	–	–	–	400,483
Acquisition of subsidiaries (note 33(a)) . . . . .	475,344	–	–	–	475,344
Impairment . . . . .	(40,407)	–	–	–	(40,407)
At 31 December 2010 . . . . .	<u>835,420</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>835,420</u>
At 31 December 2010					
Cost . . . . .	893,337	–	–	–	893,337
Accumulated amortisation and impairment . . . . .	(57,917)	–	–	–	(57,917)
	<u>835,420</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>835,420</u>
At 1 January 2011 . . . . .	835,420	–	–	–	835,420
Acquisition of subsidiaries (note 33(b)) . . . . .	270,904	42,005	37,017	12,275	362,201
Impairment . . . . .	(7,303)	–	–	–	(7,303)
Amortisation . . . . .	–	(1,813)	(1,702)	(206)	(3,721)
Exchange adjustment . . . . .	–	(1,225)	277	65	(883)
At 31 December 2011 . . . . .	<u>1,099,021</u>	<u>38,967</u>	<u>35,592</u>	<u>12,134</u>	<u>1,185,714</u>
At 31 December 2011					
Cost . . . . .	1,164,241	40,813	37,326	12,340	1,254,720
Accumulated amortisation and impairment . . . . .	(65,220)	(1,846)	(1,734)	(206)	(69,006)
	<u>1,099,021</u>	<u>38,967</u>	<u>35,592</u>	<u>12,134</u>	<u>1,185,714</u>
At 1 January 2012 . . . . .	1,099,021	38,967	35,592	12,134	1,185,714
Acquisition of subsidiaries (note 33(c)) . . . . .	533,354	74,930	9,244	14,466	631,994
Impairment . . . . .	(7,000)	–	–	–	(7,000)
Amortisation . . . . .	–	(28,335)	(6,966)	(2,742)	(38,043)
Exchange adjustment . . . . .	–	768	358	13	1,139
At 31 December 2012 . . . . .	<u>1,625,375</u>	<u>86,330</u>	<u>38,228</u>	<u>23,871</u>	<u>1,773,804</u>
At 31 December 2012					
Cost . . . . .	1,697,595	116,841	47,037	26,833	1,888,306
Accumulated amortisation and impairment . . . . .	(72,220)	(30,511)	(8,809)	(2,962)	(114,502)
	<u>1,625,375</u>	<u>86,330</u>	<u>38,228</u>	<u>23,871</u>	<u>1,773,804</u>
At 1 January 2013 . . . . .	1,625,375	86,330	38,228	23,871	1,773,804
Acquisition of subsidiaries (note 33(d)) . . . . .	167,244	–	–	–	167,244
Amortisation . . . . .	–	(14,949)	(2,867)	(1,687)	(19,503)
Exchange adjustment . . . . .	–	469	374	55	898
At 30 June 2013 . . . . .	<u>1,792,619</u>	<u>71,850</u>	<u>35,735</u>	<u>22,239</u>	<u>1,922,443</u>
At 30 June 2013					
Cost . . . . .	1,864,839	117,804	47,468	26,915	2,057,026
Accumulated amortisation and impairment . . . . .	(72,220)	(45,954)	(11,733)	(4,676)	(134,583)
	<u>1,792,619</u>	<u>71,850</u>	<u>35,735</u>	<u>22,239</u>	<u>1,922,443</u>

The amortisation of intangible assets was charged to administrative expenses.

## Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) that are expected to benefit from business combination and impairment testing is performed annually on goodwill allocated to their operating segments and CGUs.

A segment-level summary of the goodwill allocation based on geographical regions is presented below:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
<b>Logistics operations</b>				
PRC . . . . .	135,133	199,014	215,512	216,250
Taiwan . . . . .	303,545	309,103	327,009	327,009
South and South East Asia . . . . .	86,512	89,340	195,848	195,848
Hong Kong . . . . .	–	425	32,837	32,837
Others . . . . .	–	–	14,089	14,089
	<u>525,190</u>	<u>597,882</u>	<u>785,295</u>	<u>786,033</u>
<b>International freight forwarding</b>				
PRC . . . . .	–	95,205	406,994	406,994
Europe . . . . .	118,102	213,669	244,821	381,325
South and South East Asia . . . . .	171,576	175,371	171,371	171,371
Hong Kong . . . . .	20,552	16,894	16,894	16,894
Others . . . . .	–	–	–	30,002
	<u>310,230</u>	<u>501,139</u>	<u>840,080</u>	<u>1,006,586</u>
	<u>835,420</u>	<u>1,099,021</u>	<u>1,625,375</u>	<u>1,792,619</u>

The recoverable amount of a CGU is determined based on higher of an asset's fair value less costs to sell and value-in-use calculations. The recoverable amounts of all CGUs were determined based on value-in-use calculation except for Taiwan which was determined based on fair value less costs to sell with reference to the market share price of the subsidiary which is listed in Taiwan. The value-in-use calculations use cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below:

## Key assumptions used for value-in-use calculations

For the year ended 31 December 2010

## Logistics operations

	Hong Kong	PRC	South and South East Asia
Gross margin . . . . .	N/A	4%-5%	9%-42%
Growth rate . . . . .	N/A	3%	1%-2%
Discount rate . . . . .	N/A	12%	10%-12%

## International freight forwarding

	Hong Kong	PRC	South and South East Asia	Europe
Gross margin . . . . .	5%	N/A	3%-16%	4%-8%
Growth rate . . . . .	1%	N/A	1%-5%	1%-2%
Discount rate . . . . .	10%	N/A	12%-14%	11%-12%

For the year ended 31 December 2011

Logistics operations

	Hong Kong	PRC	South and South East Asia
Gross margin . . . . .	5%	5%-10%	9%-44%
Growth rate . . . . .	2%	3%	2%-3%
Discount rate . . . . .	12%	13%	11%-12%

International freight forwarding

	Hong Kong	PRC	South and South East Asia	Europe
Gross margin . . . . .	5%	3%	3%-13%	2%-14%
Growth rate . . . . .	2%	3%	3%-5%	2%-4%
Discount rate . . . . .	12%	13%	13%-15%	9%

For the year ended 31 December 2012

Logistics operations

	Hong Kong	PRC	South and South East Asia
Gross margin . . . . .	4%-8%	5%-10%	9%-32%
Growth rate . . . . .	2%-3%	2%-3%	2%-5%
Discount rate . . . . .	12%	13%	11%-20%

International freight forwarding

	Hong Kong	PRC	South and South East Asia	Europe
Gross margin . . . . .	6%	2%-6%	4%-10%	2%-6%
Growth rate . . . . .	2%	3%	3%-5%	2%-4%
Discount rate . . . . .	12%	13%	15%-20%	9%

For the six months ended 30 June 2013

Logistics operations

	Hong Kong	PRC	South and South East Asia
Gross margin . . . . .	3%-8%	2%-8%	6%-36%
Growth rate . . . . .	2%-4%	3%-5%	2%-5%
Discount rate . . . . .	12%	13%	11%-20%

International freight forwarding

	Hong Kong	PRC	South and South East Asia	Europe
Gross margin . . . . .	5%	3%-7%	2%-18%	5%
Growth rate . . . . .	2%	3%	2%	2%
Discount rate . . . . .	12%	12%-13%	9%-11%	9%

Management determined budgeted gross margin and growth rates based on past performance and its expectations of the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. Assuming growth rate decreased by 50 basis points and discount rate increased by 50 basis points, further impairment charge of HK\$3,160,000, HK\$2,812,000, HK\$5,504,000 and HK\$2,896,000 respectively would be required for the goodwill at 31 December 2010, 2011 and 2012 and 30 June 2013.

## 14 Investment properties

	Group			
	Year ended 31 December			Six months ended
	2010	2011	2012	30 June 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At beginning of year/period . . . . .	4,793,042	4,998,773	5,143,118	5,767,637
Additions . . . . .	–	3,821	18	–
Disposals . . . . .	–	(8,279)	–	–
Acquisition of a subsidiary (note 32(d)) . . . . .	–	–	59,048	–
Change in fair value . . . . .	175,990	130,312	265,155	458,303
Transfer from leasehold land and land use right/property, plant and equipment . . . . .	17,184	–	296,685	–
Exchange adjustment . . . . .	12,557	18,491	3,613	2,926
At end of year/period . . . . .	<u>4,998,773</u>	<u>5,143,118</u>	<u>5,767,637</u>	<u>6,228,866</u>

- (a) Investment properties were valued by independent professional valuers, namely DTZ Debenham Tie Leung Limited and Savills Valuation and Professional Services Limited as at 31 December 2010 and 2011; DTZ Debenham Tie Leung Limited, Savills Valuation and Professional Services Limited and ECG Consultancy Pte Ltd as at 31 December 2012; and DTZ Debenham Tie Leung Limited as at 30 June 2013, by mainly adopting the investment approach of valuation.
- (b) The Group's investment properties at their net book values are analysed as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
In Hong Kong, held on:				
Leases of between 10 to 50 years . . . . .	4,428,800	4,557,600	4,793,200	5,193,800
Outside Hong Kong, held on:				
Leases of between 10 to 50 years . . . . .	569,973	585,518	974,437	1,035,066
	<u>4,998,773</u>	<u>5,143,118</u>	<u>5,767,637</u>	<u>6,228,866</u>

As at 31 December 2012 and 30 June 2013, investment properties amounting to HK\$171,953,000 and HK\$229,466,000 respectively were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

- (c) Amounts recognised in profit and loss for investment properties:

	Group			
	Year ended 31 December			Six months ended
	2010	2011	2012	30 June 2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Rental income . . . . .	300,037	309,620	319,983	188,380
Direct operating expenses from property that generated rental income . . . . .	(99,303)	(79,413)	(69,492)	(35,602)
Direct operating expenses from property that did not generate rental income . . . . .	–	(4)	(18)	(60)
	<u>200,734</u>	<u>230,203</u>	<u>250,473</u>	<u>152,718</u>

## (d) Valuation basis:

As stated in note 4(a)(i), the fair value was mainly derived from the capitalised rental incomes with due provision for any reversionary income potential of the property interests at appropriate capitalisation rates.

Capitalisation rate is estimated based on the market rent over market price on comparables. The higher the capitalisation rates used, the lower the fair values of investment property. The capitalisation rates used are as follows:

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
Capitalisation rate . . . . .	6%-11%	6%-11%	6%-11%	6%-11%

The following tables show the increase/(decrease) of the fair value of the investment properties if the capitalisation rate was to increase or decrease by 10%.

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease of capitalisation rate by 10% . . . . .	453,886	457,410	496,853	548,936

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase of capitalisation rate by 10% . . . . .	(373,213)	(331,133)	(417,241)	(471,844)

The following tables show the (decrease)/increase of the fair value of the investment properties if the reversionary income was to increase or decrease by 10%.

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Decrease of reversionary income by 10% . . . . .	(391,299)	(405,557)	(433,509)	(497,892)

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Increase of reversionary income by 10% . . . . .	392,296	408,590	434,233	504,620

## (e) Leasing arrangements:

The group leases various offices and warehouses to tenants under non-cancellable operating lease agreements with rentals receivable monthly. The lease terms are between 2 months and 12 years, and the majority of lease agreements are renewable at the end of the lease period at market rate. No contingent rents are recognised during the Relevant Periods.

Minimum lease payments receivable on leases of investment properties are as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Land and buildings:				
Within one year . . . . .	291,547	272,029	246,893	308,560
In the second to fifth year, inclusive . . . . .	319,338	204,479	212,338	288,292
Over five years . . . . .	236,914	143,600	149,449	148,292
	<u>847,799</u>	<u>620,108</u>	<u>608,680</u>	<u>745,144</u>

## 15 Leasehold land and land use rights

	Group			
	Year ended 31 December			Six months
	2010	2011	2012	ended
	HK\$'000	HK\$'000	HK\$'000	30 June
				2013
				HK\$'000
At beginning of year/period . . . . .	291,311	408,794	576,281	538,883
Additions . . . . .	3,681	101,975	22,078	–
Acquisition of subsidiaries (note 33) . . . . .	108,840	73,775	–	–
Amortisation . . . . .	(4,578)	(7,394)	(7,954)	(4,632)
Transfer to investment properties . . . . .	(4,607)	(6,809)	(57,444)	–
Exchange adjustment . . . . .	14,147	5,940	5,922	(2,231)
At end of year/period . . . . .	<u>408,794</u>	<u>576,281</u>	<u>538,883</u>	<u>532,020</u>

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book values are analysed as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Outside Hong Kong, held on:				
Lease of over 50 years . . . . .	97,669	83,551	81,528	74,838
Leases of between 10 to 50 years . . . . .	311,125	492,730	457,355	457,182
	<u>408,794</u>	<u>576,281</u>	<u>538,883</u>	<u>532,020</u>

As at 31 December 2010, 2011 and 2012 and 30 June 2013, leasehold land and land use rights amounting to HK\$91,761,000, HK\$202,297,000, HK\$110,526,000 and HK\$163,904,000 respectively were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35).

## 16 Property, plant and equipment

## Group

	Warehouse and logistics centres	Staff quarters	Freehold land and buildings	Port facilities	Leasehold improvements	Warehouse operating equipment	Motor vehicles, furniture, fixtures and office equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>									
At 1 January 2010 . . . . .	717,616	18,456	419,275	289,587	122,266	582,877	557,177	115,670	2,822,924
Additions, at cost . . . . .	–	331	22,567	–	24,052	103,660	137,346	315,774	603,730
Acquisition of subsidiaries (note 33(a)) . . . . .	113,722	2,423	1,773,602	–	106,322	34,489	72,250	17,530	2,120,338
Disposals . . . . .	–	(3,785)	(13,865)	–	(31,381)	(54,146)	(53,542)	–	(156,719)
Transfer and reclassification . . . . .	314,605	–	–	–	–	–	–	(327,182)	(12,577)
Exchange adjustment . . . . .	20,963	1,014	231,031	24,725	39,786	47,309	93,125	2,660	460,613
At 31 December 2010 . . . . .	1,166,906	18,439	2,432,610	314,312	261,045	714,189	806,356	124,452	5,838,309
<b>Accumulated depreciation</b>									
At 1 January 2010 . . . . .	166,607	8,086	72,230	71,743	73,293	326,389	370,220	–	1,088,568
Charge for the year . . . . .	18,575	767	21,486	9,165	16,730	58,191	80,924	–	205,838
Disposals . . . . .	–	(1,325)	(8,875)	–	(30,334)	(23,548)	(46,706)	–	(110,788)
Exchange adjustment . . . . .	2,365	580	10,130	607	26,472	28,249	83,716	–	152,119
At 31 December 2010 . . . . .	187,547	8,108	94,971	81,515	86,161	389,281	488,154	–	1,335,737
<b>Net book value as at</b>									
31 December 2010 . . . . .	979,359	10,331	2,337,639	232,797	174,884	324,908	318,202	124,452	4,502,572
<b>Net book value as at</b>									
1 January 2010 . . . . .	551,009	10,370	347,045	217,844	48,973	256,488	186,957	115,670	1,734,356

	Warehouse and logistics centres	Staff quarters	Freehold land and buildings	Port facilities	Leasehold improvements	Warehouse operating equipment	Motor vehicles, furniture, fixtures and office equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost									
At 1 January 2011	1,166,906	18,439	2,432,610	314,312	261,045	714,189	806,356	124,452	5,838,309
Additions, at cost	8,867	-	264,093	-	62,435	264,742	131,605	120,854	852,596
Acquisition of subsidiaries (note 33(b))	73,282	-	-	-	1,187	21,600	30,266	-	126,335
Disposals	(258)	-	(30,973)	-	(22,241)	(137,857)	(119,406)	-	(310,735)
Transfer and reclassification	57,355	-	48,889	-	72,821	209,637	(282,458)	(99,435)	6,809
Exchange adjustment	3,302	630	(99,088)	(15,534)	(11,416)	(25,465)	(18,000)	1,289	(164,282)
At 31 December 2011	1,309,454	19,069	2,615,531	298,778	363,831	1,046,846	548,363	147,160	6,349,032
Accumulated depreciation									
At 1 January 2011	187,547	8,108	94,971	81,515	86,161	389,281	488,154	-	1,335,737
Charge for the year	34,240	872	40,186	7,942	24,121	106,354	71,200	-	284,915
Disposals	-	-	(2,009)	-	(17,996)	(94,657)	(100,594)	-	(215,256)
Transfer and reclassification	-	-	-	-	46,886	102,455	(149,341)	-	-
Exchange adjustment	3,432	356	(5,150)	(4,302)	(8,514)	(11,455)	(19,916)	-	(45,549)
At 31 December 2011	225,219	9,336	127,998	85,155	130,658	491,978	289,503	-	1,359,847
Net book value as at									
31 December 2011	1,084,235	9,733	2,487,533	213,623	233,173	554,868	258,860	147,160	4,989,185

	Warehouse and logistics centres	Staff quarters	Freehold land and buildings	Port facilities	Leasehold improvements	Warehouse operating equipment	Motor vehicles, furniture, fixtures and office equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cost									
At 1 January 2012	1,309,454	19,069	2,615,531	298,778	363,831	1,046,846	548,363	147,160	6,349,032
Additions, at cost	44,116	–	136,362	–	93,777	289,085	163,113	741,546	1,467,999
Acquisition of subsidiaries (notes 32(d) and 33(c))	1,801	–	–	–	1,776	42,563	9,174	–	55,314
Disposals	–	(3,273)	(12,355)	–	(17,427)	(86,205)	(79,713)	–	(198,973)
Transfer and reclassification	135,428	–	42,007	–	–	–	–	(404,524)	(227,089)
Exchange adjustment	4,890	290	89,523	8,738	17,140	43,836	3,059	606	168,082
At 31 December 2012	1,495,689	16,086	2,871,068	307,516	459,097	1,336,125	643,996	484,788	7,614,365
Accumulated depreciation									
At 1 January 2012	225,219	9,336	127,998	85,155	130,658	491,978	289,503	–	1,359,847
Charge for the year	34,477	833	40,952	7,793	31,257	122,554	83,489	–	321,355
Disposals	–	(2,085)	(30)	–	(14,326)	(55,744)	(49,762)	–	(121,947)
Transfer and reclassification	(646)	–	–	–	–	–	–	–	(646)
Exchange adjustment	757	142	5,297	2,591	10,960	33,294	4,198	–	57,239
At 31 December 2012	259,807	8,226	174,217	95,539	158,549	592,082	327,428	–	1,615,848
Net book value as at									
31 December 2012	1,235,882	7,860	2,696,851	211,977	300,548	744,043	316,568	484,788	5,998,517

	Warehouse and logistics centres	Staff quarters	Freehold land and buildings	Port facilities	Leasehold improvements	Warehouse operating equipment	Motor vehicles, furniture, fixtures and office equipment	Construction in progress	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>									
At 1 January 2013	1,495,689	16,086	2,871,068	307,516	459,097	1,336,125	643,996	484,788	7,614,365
Additions, at cost	819	–	126,960	–	28,928	205,760	55,848	251,017	669,332
Acquisition of subsidiaries (note 33(d))	–	–	50,002	–	180	444	2,446	29,827	82,899
Disposals	–	(841)	(11,941)	–	(5,257)	(37,182)	(13,403)	–	(68,624)
Transfer and reclassification	–	–	2,923	85,319	(744)	18,051	(10,163)	(95,386)	–
Exchange adjustment	(20,936)	95	(97,865)	(4,733)	(17,456)	(43,460)	(4,536)	3,355	(185,536)
At 30 June 2013	1,475,572	15,340	2,941,147	388,102	464,748	1,479,738	674,188	673,601	8,112,436
<b>Accumulated depreciation</b>									
At 1 January 2013	259,807	8,226	174,217	95,539	158,549	592,082	327,428	–	1,615,848
Charge for the period	17,441	289	21,386	4,612	31,782	70,615	45,537	–	191,662
Disposals	–	(769)	(78)	–	(3,464)	(31,972)	(6,618)	–	(42,901)
Transfer and reclassification	23	–	–	–	(406)	2,678	(2,295)	–	–
Exchange adjustment	(6,493)	78	(7,841)	(1,642)	(11,228)	(30,858)	(3,854)	–	(61,838)
At 30 June 2013	270,778	7,824	187,684	98,509	175,233	602,545	360,198	–	1,702,771
<b>Net book value as at</b>									
30 June 2013	1,204,794	7,516	2,753,463	289,593	289,515	877,193	313,990	673,601	6,409,665

- (a) As at 30 June 2013, construction in progress, freehold land and buildings, warehouse and logistics centres and port facilities were pledged as securities for bank loan facilities and bank overdrafts granted to the Group (note 35) with aggregate net book values as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Construction in progress . . . . .	–	25,713	–	217,178
Freehold land and buildings . . . . .	1,479,680	1,409,623	1,511,473	1,100,879
Warehouse and logistics centres . . . . .	34,481	90,167	189,026	180,952
Port facilities . . . . .	232,797	213,623	211,977	289,593
	<u>1,746,958</u>	<u>1,739,126</u>	<u>1,912,476</u>	<u>1,788,602</u>

- (b) The Group's warehouse and logistics centres at their net book values are analysed as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
In Hong Kong, held on:				
Leases of between 10 to 50 years . . . . .	498,357	484,764	471,061	464,238
Outside Hong Kong, held on:				
Lease of over 50 years . . . . .	130,086	58,672	78,727	72,784
Leases of between 10 to 50 years . . . . .	350,916	540,799	686,094	667,772
	<u>979,359</u>	<u>1,084,235</u>	<u>1,235,882</u>	<u>1,204,794</u>

## 17 Subsidiaries

	Company			As at
	As at 31 December			30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted shares, at cost (note) . . . . .	<u>198,931</u>	<u>198,931</u>	<u>198,931</u>	<u>198,931</u>

Note: Details of the subsidiaries are set out in note 39 to the Financial Information.

## 18 Associates

	Group			As at
	As at 31 December			30 June
	2010	2011	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Share of net assets (note (b)) . . . . .	816,578	808,175	874,295	1,005,595
Amounts due from associates (note (d)) . . . . .	1,481	194,255	64,654	47,696
	<u>818,059</u>	<u>1,002,430</u>	<u>938,949</u>	<u>1,053,291</u>

(a) The Group held interests in the following principal associated companies:

	Company	Place of incorporation	Principal activities	Class of shares/ registered capital	Interest held indirectly			
					31 December			30 June 2013
					2010	2011	2012	
(1)(4)(6)	Asia Airfreight Terminal Company Limited	Hong Kong	Air cargo handling terminal operation	Ordinary	15%	15%	15%	15%
(1)(2)(3)	Beijing Bei Jian Tong Cheng International Logistics Co., Ltd	The People's Republic of China ("PRC")	Logistics business	RMB500,000,000	–	–	24%	24%
(1)(3)	Chiwan Container Terminal Co., Ltd.	PRC	Port terminal operation	US\$95,300,000	25%	25%	25%	25%
(1)(5)	KERRY LOGISTICS (SPAIN), S.A.U. (Formerly known as KERRY SALVAT LOGISTICS, S.A.)	Spain	Freight forwarding	Ordinary	50%	50%	–	–

The statutory auditors of associated companies that are not audited by PricewaterhouseCoopers were as following:

Name	Name of statutory auditors			
	2010	2011	2012	June 2013
Asia Airfreight Terminal Company Limited	KPMG	KPMG	KPMG	KPMG
Beijing Bei Jian Tong Cheng International Logistics Co., Ltd	N/A	N/A	Ernst & Young	Ernst & Young
Chiwan Container Terminal Co., Ltd.	PricewaterhouseCoopers	PricewaterhouseCoopers	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu
KERRY LOGISTICS (SPAIN), S.A.U. (Formerly known as KERRY SALVAT LOGISTICS, S.A.)	Grant Thornton	Grant Thornton	N/A	N/A

Notes:

- (1) Companies not audited by PricewaterhouseCoopers
- (2) English translation of name only
- (3) Sino-foreign equity joint venture enterprise
- (4) Companies having a financial accounting period which is not conterminous with the Group
- (5) Became wholly-owned subsidiary of the Group (note 39)
- (6) Significant influence is obtained by the Group through participant in the board of directors of the associate

(b) The Group's share of results of its associates and its aggregate assets and liabilities are as follows:

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Aggregate attributable amounts of total assets . . . . .	1,249,282	1,359,397	1,342,244	1,436,968
Aggregate attributable amounts of total liabilities . . . . .	432,704	551,222	467,949	431,373
Aggregate attributable amounts of total revenue . . . . .	913,275	709,944	535,947	270,417
Aggregate attributable amounts of net profit after tax . . . . .	208,821	148,464	136,421	71,626

(c) The amounts due from associates are unsecured, interest-free and not expected to be received within twelve months for the respective end of the reporting periods. They are denominated mainly in Hong Kong dollars.

(d) The carrying amounts of the amounts due from associates are denominated in the following currencies:

	Amounts due from associates			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi . . . . .	-	165,666	63,304	176
Hong Kong dollar . . . . .	1,481	1,973	1,350	45,615
Euro . . . . .	-	26,616	-	-
Singapore dollar . . . . .	-	-	-	1,905
	<u>1,481</u>	<u>194,255</u>	<u>64,654</u>	<u>47,696</u>

#### 19 Available-for-sale investments

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Unlisted equity securities, at fair value . . . . .	50,796	51,987	61,459	61,123
	<u>50,796</u>	<u>51,987</u>	<u>61,459</u>	<u>61,123</u>

#### 20 Inventories

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Finished goods . . . . .	130,594	110,325	109,913	128,010
	<u>130,594</u>	<u>110,325</u>	<u>109,913</u>	<u>128,010</u>

The cost of inventories recognised as expense and included in direct operating expenses for the years ended 31 December 2010, 2011 and 2012 and for the period ended 30 June 2013 amounted to HK\$642,425,000, HK\$805,885,000, HK\$868,595,000 and HK\$392,847,000.

#### 21 Accounts receivable, prepayments and deposits

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade receivables . . . . .	2,070,866	2,435,280	3,436,635	3,534,757	-	-	-	-
Less: Provision for impairment of receivables (note (b)) . . . . .	(41,978)	(30,085)	(46,921)	(62,607)	-	-	-	-
Trade receivables – net . . . . .	2,028,888	2,405,195	3,389,714	3,472,150	-	-	-	-
Prepayments (note (c)) . . . . .	136,947	203,952	172,788	233,960	-	-	-	7,375
Deposits (note (d)) . . . . .	177,236	252,774	249,680	220,738	-	-	7,838	-
Others (note (e)) . . . . .	166,480	496,654	513,111	402,324	-	-	49	-
	<u>2,509,551</u>	<u>3,358,575</u>	<u>4,325,293</u>	<u>4,329,172</u>	<u>-</u>	<u>-</u>	<u>7,887</u>	<u>7,375</u>

Notes:

- (a) The ageing analysis of the trade receivables based on date of the invoice and net of provision for impairment were as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Below 1 month . . . . .	1,163,936	1,500,308	2,050,915	2,024,833
Between 1 month and 3 months . . . . .	687,059	785,437	1,149,776	1,220,521
Over 3 months . . . . .	177,893	119,450	189,023	226,796
	<u>2,028,888</u>	<u>2,405,195</u>	<u>3,389,714</u>	<u>3,472,150</u>

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers. Trade receivables that were neither past due nor impaired represents those due from counterparties with good credit history and low default rate.

According to credit terms, trade receivables that are less than three months past due are not considered impaired. As of 31 December 2010, 2011 and 2012 and 30 June 2013, trade receivables of HK\$492,476,000, HK\$733,552,000, HK\$660,885,000 and HK\$1,124,332,000 were past due but not impaired. These relate to a number of independent customers of whom there is no recent history of default. The ageing analysis of these trade receivables based on due date is as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Up to 3 months . . . . .	389,061	733,552	624,763	1,124,332
Over 3 months . . . . .	103,415	–	36,122	–
	<u>492,476</u>	<u>733,552</u>	<u>660,885</u>	<u>1,124,332</u>

- (b) As of 31 December 2010, 2011 and 2012 and 30 June 2013, trade receivables of HK\$41,978,000, HK\$30,085,000, HK\$46,921,000 and HK\$62,607,000 were impaired and fully provided. The individually impaired receivables mainly relate to those customers which are in unexpected difficult financial situations.

Movements on the provision for impairment of receivables are as follows:

	Group			
	Year ended 31 December			Six months ended
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
At beginning of year/period . . . . .	22,383	41,978	30,085	46,921
Provision for impairment of receivables . . . . .	22,124	3,962	22,097	9,402
Reversal of provisions . . . . .	(1,108)	(4,984)	(479)	(874)
Receivables written off during the year as uncollectible . . . . .	(2,230)	(11,466)	(8,113)	(636)
Exchange adjustment . . . . .	809	595	3,331	7,794
At end of year/period . . . . .	<u>41,978</u>	<u>30,085</u>	<u>46,921</u>	<u>62,607</u>

- (c) The balances of the Group mainly comprise prepaid rent and freight and transportation costs.
- (d) The balances of the Group mainly comprise rental deposits and deposits to suppliers.
- (e) The balances of the Group mainly comprise temporary payment made on behalf of the customers.

(f) The carrying amounts of the accounts receivable, prepayments and deposits are denominated in the following currencies:

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Renminbi . . . . .	995,595	1,414,949	1,951,938	1,921,640	-	-	-	-
Hong Kong dollar . . . . .	373,402	399,332	533,881	445,701	-	-	123	7,375
Taiwan dollar . . . . .	388,301	425,547	476,290	464,794	-	-	-	-
Thai Baht . . . . .	104,584	172,373	237,812	205,019	-	-	-	-
United States dollar . . . . .	23,904	168,717	223,693	154,951	-	-	7,764	-
Euro . . . . .	148,225	293,576	222,168	459,341	-	-	-	-
Pound sterling . . . . .	173,398	137,520	180,269	159,610	-	-	-	-
Indian Rupee . . . . .	86,135	93,569	138,647	150,550	-	-	-	-
Malaysian Ringgit . . . . .	82,495	93,262	121,605	66,397	-	-	-	-
Australian dollar . . . . .	45,820	64,801	67,483	53,381	-	-	-	-
Vietnamese Dong . . . . .	-	-	59,624	79,782	-	-	-	-
Other currencies . . . . .	87,692	94,929	111,883	168,006	-	-	-	-
	<u>2,509,551</u>	<u>3,358,575</u>	<u>4,325,293</u>	<u>4,329,172</u>	<u>-</u>	<u>-</u>	<u>7,887</u>	<u>7,375</u>

(g) The carrying amount of accounts receivable approximates the fair value of these balances. The provision and reversal of provision for impairment of receivables have been included in administrative expenses in the consolidated income statement. Amounts charged to the allowance account are written off when there is no expectation of recovery.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivables mentioned above.

## 22 Amounts due from/(to) subsidiaries/immediate holding company/a related company

The amounts due from/(to) subsidiaries/immediate holding company/a related company are unsecured, interest-free and have no fixed terms of repayment. They are denominated mainly in Hong Kong dollars.

## 23 Restricted and pledged bank deposits and cash and cash equivalents

(a) Restricted and pledged bank deposits

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the Group's bank balances amounting to approximately HK\$15,733,000, HK\$4,644,000, HK\$4,510,000 and HK\$6,983,000 represented guarantee deposits for bank facilities of the Group.

(b) Cash and cash equivalents

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Cash at bank and in hand . . . . .	2,178,120	2,894,630	2,517,210	2,512,674	5,824	6,354	63,744	9,599
Short-term bank deposits . . . . .	32,434	12,998	422,435	460,314	-	-	124,089	937
Cash and bank balances . . . . .	<u>2,210,554</u>	<u>2,907,628</u>	<u>2,939,645</u>	<u>2,972,988</u>	<u>5,824</u>	<u>6,354</u>	<u>187,833</u>	<u>10,536</u>

Cash and cash equivalents include the following for the purposes of the consolidated statement of cash flows:

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Cash and bank balances . . . . .	2,210,554	2,907,628	2,939,645	2,972,988
Secured bank overdrafts . . . . .	-	(15,215)	(23,960)	(19,487)
Unsecured bank overdrafts . . . . .	(20,701)	(297)	(2,129)	(7,312)
	<u>2,189,853</u>	<u>2,892,116</u>	<u>2,913,556</u>	<u>2,946,189</u>

Cash and cash equivalents are denominated in the following currencies:

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Renminbi . . . . .	1,002,031	997,662	1,054,679	1,203,465	-	-	124,089	9,365
Hong Kong dollar . . . . .	464,041	742,663	872,734	648,349	5,824	5,504	62,896	323
United States dollar . . . . .	45,796	467,615	285,387	253,901	-	850	848	848
Taiwan dollar . . . . .	391,671	267,486	185,652	234,748	-	-	-	-
Pound sterling . . . . .	133,145	153,853	176,053	183,802	-	-	-	-
Euro . . . . .	48,019	80,021	121,933	95,316	-	-	-	-
Vietnamese Dong . . . . .	-	-	54,579	167,506	-	-	-	-
Singapore dollar . . . . .	30,933	72,738	47,863	52,574	-	-	-	-
Other currencies . . . . .	74,217	110,078	114,676	106,528	-	-	-	-
	<u>2,189,853</u>	<u>2,892,116</u>	<u>2,913,556</u>	<u>2,946,189</u>	<u>5,824</u>	<u>6,354</u>	<u>187,833</u>	<u>10,536</u>

#### 24 Accounts payable, deposits received and accrued charges

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade payables . . . . .	788,462	1,287,341	1,663,301	1,679,511	-	-	-	-
Accrued charges (note (c)) . . . . .	522,761	487,275	546,498	592,259	1,945	2,450	3,549	9,073
Customer deposits . . . . .	89,104	88,827	97,051	123,870	-	-	-	-
Consideration payable for acquisition of subsidiaries . . . . .	36,721	300,903	424,827	310,327	-	-	-	-
Others (note (d)) . . . . .	875,629	1,188,826	1,191,352	1,049,057	-	-	-	-
	<u>2,312,677</u>	<u>3,353,172</u>	<u>3,923,029</u>	<u>3,755,024</u>	<u>1,945</u>	<u>2,450</u>	<u>3,549</u>	<u>9,073</u>
Less: non-current consideration payable for acquisition of a subsidiary . . . . .	-	-	-	(68,370)	-	-	-	-
	<u>2,312,677</u>	<u>3,353,172</u>	<u>3,923,029</u>	<u>3,686,654</u>	<u>1,945</u>	<u>2,450</u>	<u>3,549</u>	<u>9,073</u>

(a) The ageing analysis of trade payables of the Group is as follows:

	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Below 1 month . . . . .	576,891	629,721	848,793	784,145
Between 1 month and 3 months . . . . .	133,194	405,425	511,014	512,939
Over 3 months . . . . .	78,377	252,195	303,494	382,427
	<u>788,462</u>	<u>1,287,341</u>	<u>1,663,301</u>	<u>1,679,511</u>

- (b) The carrying amounts of the Group's and Company's accounts payable, deposits received and accrued charges are denominated in the following currencies:

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Renminbi . . . . .	651,281	1,612,670	1,836,048	1,628,877	-	-	-	-
Hong Kong dollar . . . . .	504,776	339,142	560,910	558,003	1,945	2,450	3,549	9,073
Taiwan dollar . . . . .	439,318	419,507	408,486	409,915	-	-	-	-
United States dollar . . . . .	3,007	134,837	383,064	286,357	-	-	-	-
Euro . . . . .	137,316	329,951	203,179	228,003	-	-	-	-
Pound sterling . . . . .	225,415	182,730	180,812	134,762	-	-	-	-
Thai baht . . . . .	85,460	118,088	137,871	133,856	-	-	-	-
Indian Rupee . . . . .	94,217	65,531	73,613	77,152	-	-	-	-
Malaysian Ringgit . . . . .	45,239	56,793	28,126	92,281	-	-	-	-
Swedish Krona . . . . .	-	-	-	94,201	-	-	-	-
Other currencies . . . . .	126,648	93,923	110,920	111,617	-	-	-	-
	<u>2,312,677</u>	<u>3,353,172</u>	<u>3,923,029</u>	<u>3,755,024</u>	<u>1,945</u>	<u>2,450</u>	<u>3,549</u>	<u>9,073</u>

- (c) The balances of the Group mainly comprise accrued employee benefit expenses and freight and transportation costs.
- (d) The balances of the Group mainly comprise freight charges received in advance, deposits received from customers and value added tax payables.

## 25 Share capital

	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Authorised, issued and fully paid:				
500,000 ordinary shares of HK\$1 each . . . . .	<u>500</u>	<u>500</u>	<u>500</u>	<u>500</u>

Note: As at 25 November 2013, each of the 500,000 shares with a par value of HK\$1 will be split into two shares with a par value of HK\$0.5 each, such that thereafter, the total number of issued shares shall in aggregate be 1,000,000 shares with a par value of HK\$0.5 each.

## 26 Other reserves

	Group						
	Other properties revaluation reserve	Share options reserve	Capital reserve (note (a))	Enterprise expansion and general reserve funds (note(b))	Exchange fluctuation reserve	Acquisition reserve (note (c))	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2010 . . . . .	31,640	34,494	593,052	1,377	251,165	–	911,728
Share of exchange reserve of associates . . . . .	–	–	–	–	39,253	–	39,253
Net translation differences on foreign operations . . . . .	–	–	–	–	133,095	–	133,095
Capital contribution from immediate holding company from share option scheme. . . . .	–	11,068	–	–	–	–	11,068
Acquisition of additional interest in subsidiaries. . . . .	–	–	–	–	–	(12,231)	(12,231)
Transfer from retained profits. . . . .	–	–	–	73	–	–	73
At 31 December 2010. . . . .	<u>31,640</u>	<u>45,562</u>	<u>593,052</u>	<u>1,450</u>	<u>423,513</u>	<u>(12,231)</u>	<u>1,082,986</u>
At 1 January 2011 . . . . .	31,640	45,562	593,052	1,450	423,513	(12,231)	1,082,986
Share of exchange reserve of associates . . . . .	–	–	–	–	38,053	–	38,053
Net translation differences on foreign operations . . . . .	–	–	–	–	15,079	–	15,079
Capital contribution from immediate holding company from share option scheme. . . . .	–	1,801	–	–	–	–	1,801
Acquisition of additional interest in subsidiaries. . . . .	–	–	–	–	–	(59,774)	(59,774)
Transfer from retained profits. . . . .	–	–	–	4,323	–	–	4,323
At 31 December 2011 . . . . .	<u>31,640</u>	<u>47,363</u>	<u>593,052</u>	<u>5,773</u>	<u>476,645</u>	<u>(72,005)</u>	<u>1,082,468</u>
At 1 January 2012 . . . . .	31,640	47,363	593,052	5,773	476,645	(72,005)	1,082,468
Fair value gain recognised upon the transfer from leasehold land and buildings to investment properties, net of tax. . . . .	9,598	–	–	–	–	–	9,598
Share of exchange reserve of associates . . . . .	–	–	–	–	8,833	–	8,833
Net translation differences on foreign operations . . . . .	–	–	–	–	111,651	–	111,651
Capital contribution from immediate holding company from share option scheme. . . . .	–	56,435	–	–	–	–	56,435
Cash settlement of recharge of share based payment with immediate holding company. . . . .	–	(103,798)	–	–	–	–	(103,798)
Acquisition of additional interest in subsidiaries. . . . .	–	–	–	–	–	(176,182)	(176,182)
Transfer from retained profits. . . . .	–	–	–	7,465	–	–	7,465
At 31 December 2012. . . . .	<u>41,238</u>	<u>–</u>	<u>593,052</u>	<u>13,238</u>	<u>597,129</u>	<u>(248,187)</u>	<u>996,470</u>
At 1 January 2013 . . . . .	41,238	–	593,052	13,238	597,129	(248,187)	996,470
Share of exchange reserve of associates . . . . .	–	–	–	–	7,057	–	7,057
Net translation differences on foreign operations . . . . .	–	–	–	–	(65,974)	–	(65,974)
Capital contribution from immediate holding company from share option scheme. . . . .	–	13,607	–	–	–	–	13,607
Acquisition of additional interest in subsidiaries. . . . .	–	–	–	–	–	(113,943)	(113,943)
Transfer from retained profits. . . . .	–	–	–	932	–	–	932
At 30 June 2013. . . . .	<u>41,238</u>	<u>13,607</u>	<u>593,052</u>	<u>14,170</u>	<u>538,212</u>	<u>(362,130)</u>	<u>838,149</u>

## Notes:

- (a) Capital reserve of the Group arose from the Group's reorganisation in preparation for the listing of Kerry Properties Limited, its immediate holding company, on the Stock Exchange of Hong Kong Limited in August 1996, adjusted by the excess or deficit of the fair values of the net assets of subsidiaries and associates subsequently acquired over the cost of investment at the date of acquisition before 1 January 2001.
- (b) Enterprise expansion and general reserve funds are set up by a subsidiary established and operating in the PRC. According to the PRC Foreign Enterprise Accounting Standards, upon approval, the enterprise expansion reserve fund may be used for increasing capital while the general reserve fund may be used for making up losses and increasing capital.
- (c) The acquisition reserve arose from the acquisition of additional interest or disposal of interest in subsidiaries that do not result in a change of control by the Group, and represents any differences between the amount by which the non-controlling interests are adjusted (to reflect the changes in the interests in the subsidiaries) and the fair value of the consideration paid or received.

**27 Loans from non-controlling interests**

Loans from non-controlling interests of certain subsidiaries are unsecured, interest-free and not repayable within twelve months from the end of each reporting period.

The carrying amounts of the loans from non-controlling shareholders are denominated in the following currencies:

	Group			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Renminbi . . . . .	34,939	22,900	100,584	107,565
Hong Kong dollar . . . . .	13,183	57,775	60,175	59,129
Malaysian Ringgit . . . . .	15,624	25,266	31,917	27,227
Other currencies . . . . .	19,419	25,144	29,686	31,226
	<u>83,165</u>	<u>131,085</u>	<u>222,362</u>	<u>225,147</u>

**28 Banks loans**

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Non-current</b>								
– unsecured . . . . .	46,015	228,103	918,256	1,768,874	–	200,000	877,200	1,496,000
– secured (note 35) . . . . .	190,712	176,851	446,306	515,496	–	–	–	–
	<u>236,727</u>	<u>404,954</u>	<u>1,364,562</u>	<u>2,284,370</u>	<u>–</u>	<u>200,000</u>	<u>877,200</u>	<u>1,496,000</u>
<b>Current</b>								
– unsecured . . . . .	341,733	518,650	470,791	502,737	116,588	233,550	230,000	230,000
– secured (note 35) . . . . .	75,553	174,963	129,733	128,698	–	–	–	–
	<u>417,286</u>	<u>693,613</u>	<u>600,524</u>	<u>631,435</u>	<u>116,588</u>	<u>233,550</u>	<u>230,000</u>	<u>230,000</u>
<b>Total bank loans . . . . .</b>	<u>654,013</u>	<u>1,098,567</u>	<u>1,965,086</u>	<u>2,915,805</u>	<u>116,588</u>	<u>433,550</u>	<u>1,107,200</u>	<u>1,726,000</u>

- (a) The maturity of bank loans is as follows:

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Within 1 year . . . . .	417,286	693,613	600,524	631,435	116,588	233,550	230,000	230,000
Between 1 and 2 years . . . . .	84,503	98,959	175,754	278,678	–	–	–	–
Between 3 and 5 years . . . . .	152,224	305,995	1,135,483	1,940,676	–	200,000	877,200	1,496,000
Repayable within 5 years . . . . .	654,013	1,098,567	1,911,761	2,850,789	116,588	433,550	1,107,200	1,726,000
Over 5 years . . . . .	–	–	53,325	65,016	–	–	–	–
	<u>654,013</u>	<u>1,098,567</u>	<u>1,965,086</u>	<u>2,915,805</u>	<u>116,588</u>	<u>433,550</u>	<u>1,107,200</u>	<u>1,726,000</u>

(b) The effective annual interest rates of the major bank borrowings at the end of the reporting period were as follows:

	31 December 2010						31 December 2011					
	HK\$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar	United States dollar	HK\$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar	United States dollar
Bank loans . . . . .	0.78%	0.84%	5.37%	4.41%	0.73%	0.76%	1.64%	3.08%	6.68%	4.54%	1.04%	2.45%

  

	31 December 2012						30 June 2013					
	HK\$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar	United States dollar	HK\$	Singapore dollar	Renminbi	Thai baht	Taiwan dollar	United States dollar
Bank loans . . . . .	1.49%	2.81%	5.14%	4.31%	1.19%	N/A	1.58%	2.39%	5.82%	4.32%	1.32%	2.25%

(c) The carrying amounts of the bank loans approximate their fair values.

(d) The carrying amounts of the bank loans are denominated in the following currencies:

	Group				Company			
	As at 31 December			As at 30 June 2013	As at 31 December			As at 30 June 2013
	2010	2011	2012		2010	2011	2012	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Hong Kong dollar . . . . .	109,000	542,550	1,128,200	1,809,200	–	433,550	1,045,000	1,726,000
Thai baht . . . . .	226,366	205,035	371,923	438,039	–	–	–	–
Taiwan dollar . . . . .	44,966	108,362	102,451	65,761	–	–	–	–
Singapore dollar . . . . .	57,283	90,403	170,124	194,036	–	–	–	–
Renminbi . . . . .	66,399	74,133	113,993	309,206	–	–	62,200	–
United States dollar . . . . .	116,588	9,342	–	1,574	116,588	–	–	–
Other currencies . . . . .	33,411	68,742	78,395	97,989	–	–	–	–
	654,013	1,098,567	1,965,086	2,915,805	116,588	433,550	1,107,200	1,726,000

(e) The immediate holding company has executed guarantees to banks for facilities granted to certain subsidiaries of the Group. The total amount of bank loans covered by the guarantees as at 31 December 2010, 2011, 2012 and 30 June 2013 amounted to approximately HK\$88,054,000, HK\$76,000,000, HK\$76,000,000 and HK\$76,000,000.

Such guarantees were released in August 2013.

## 29 Loans from fellow subsidiaries

Loans from fellow subsidiaries of the Group are unsecured, have no fixed terms of repayment and interest free except for an amount of HK\$400,054,000, HK\$200,019,000 and HK\$400,018,000 as at 31 December 2010, 2011 and 2012, which bears interest at prevailing market rates. They are denominated in Hong Kong dollar.

Loan from a fellow subsidiary of the Company is unsecured, interest free and has no fixed term of repayment. The balance is denominated in Hong Kong dollar.

Subsequent to 30 June 2013 and subject to the Listing, the amount will be fully settled. For details, please refer to note 2(a) above.

## 30 Deferred taxation

The analysis of deferred tax assets and deferred tax liabilities is as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Deferred tax assets				
– Deferred tax asset to be recovered after more than 12 months . . . . .	(63,510)	(60,410)	(61,134)	(64,568)
Deferred tax liabilities:				
– Deferred tax liability to be settled after more than 12 months . . . . .	529,711	503,736	550,756	558,141
<b>Deferred tax liabilities (net)</b> . . . . .	<b>466,201</b>	<b>443,326</b>	<b>489,622</b>	<b>493,573</b>

The movement on the deferred income tax account is as follows:

	Group			
	Year ended 31 December			Six months ended
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
At beginning of year/period . . . . .	266,068	466,201	443,326	489,622
Acquisition of subsidiaries . . . . .	246,145	(72)	25,684	5,724
Deferred taxation (credited)/charged to income statement ( <i>note 9</i> ) . . . . .	(6,900)	15,301	38,438	9,992
Deferred taxation credited to other comprehensive income . . . . .	(56,305)	(4,921)	(5,778)	–
Transfer to tax liabilities upon the distribution of dividends. . . . .	–	(13,956)	(12,980)	–
Exchange adjustment . . . . .	17,193	(19,227)	932	(11,765)
At end of year/period . . . . .	<b>466,201</b>	<b>443,326</b>	<b>489,622</b>	<b>493,573</b>

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realisation of the related tax benefit through future taxable profits is probable. As at 31 December 2010, 2011, and 2012 and 30 June 2013, the Group has unrecognised tax losses of HK\$179,799,000, HK\$207,474,000, HK\$366,114,000 and HK\$361,866,000. These tax losses have no expiry dates except for the tax losses of HK\$94,168,000, HK\$108,204,000, HK\$163,766,000 and HK\$170,376,000 which will expire at various dates up to and including year 2019, year 2020, year 2021 and year 2021.

As at 31 December 2010, 2011 and 2012 and 30 June 2013, the aggregate amount of unrecognised deferred tax liabilities associated with undistributed earnings in subsidiaries totalled approximately HK\$27,637,000, HK\$37,429,000, HK\$50,938,000 and HK\$55,129,000, as the Directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

The movements in deferred tax (assets) and liabilities during the years/period were as follows:

	Group					Total HK\$'000
	Pension obligations	Accelerated depreciation allowances	Revaluation	Tax losses	Withholding tax on distributed profits of subsidiaries and associates	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
At 1 January 2010 . . . . .	-	216,257	49,888	(15,078)	15,001	266,068
Acquisition of subsidiaries . . . . .	-	-	246,145	-	-	246,145
Deferred taxation charged/(credited) to income statement . . . . .	3,420	(722)	(22,652)	4,453	8,601	(6,900)
Deferred taxation credited to other comprehensive income . . . . .	(56,305)	-	-	-	-	(56,305)
Exchange adjustment . . . . .	-	17,193	-	-	-	17,193
At 31 December 2010 . . . . .	<u>(52,885)</u>	<u>232,728</u>	<u>273,381</u>	<u>(10,625)</u>	<u>23,602</u>	<u>466,201</u>
At 1 January 2011 . . . . .	(52,885)	232,728	273,381	(10,625)	23,602	466,201
Acquisition of subsidiaries . . . . .	-	(72)	-	-	-	(72)
Deferred taxation charged/(credited) to income statement . . . . .	3,290	(2,215)	316	4,730	9,180	15,301
Deferred taxation credited to other comprehensive income . . . . .	(4,921)	-	-	-	-	(4,921)
Transfer to tax liabilities upon the distribution of dividends . . . . .	-	-	-	-	(13,956)	(13,956)
Exchange adjustment . . . . .	-	(19,227)	-	-	-	(19,227)
At 31 December 2011 . . . . .	<u>(54,516)</u>	<u>211,214</u>	<u>273,697</u>	<u>(5,895)</u>	<u>18,826</u>	<u>443,326</u>
At 1 January 2012 . . . . .	(54,516)	211,214	273,697	(5,895)	18,826	443,326
Acquisition of subsidiaries . . . . .	-	25,684	-	-	-	25,684
Deferred taxation charged to income statement . . . . .	4,218	2,444	9,741	4,037	17,998	38,438
Deferred taxation (credited)/charged to other comprehensive income . . . . .	(8,978)	-	3,200	-	-	(5,778)
Transfer to tax liabilities upon the distribution of dividends . . . . .	-	-	-	-	(12,980)	(12,980)
Exchange adjustment . . . . .	-	932	-	-	-	932
At 31 December 2012 . . . . .	<u>(59,276)</u>	<u>240,274</u>	<u>286,638</u>	<u>(1,858)</u>	<u>23,844</u>	<u>489,622</u>
At 1 January 2013 . . . . .	(59,276)	240,274	286,638	(1,858)	23,844	489,622
Acquisition of subsidiaries . . . . .	-	5,724	-	-	-	5,724
Deferred taxation (credited)/charged to income statement . . . . .	-	(5,800)	9,775	(3,434)	9,451	9,992
Exchange adjustment . . . . .	-	(11,107)	-	-	(658)	(11,765)
At 30 June 2013 . . . . .	<u>(59,276)</u>	<u>229,091</u>	<u>296,413</u>	<u>(5,292)</u>	<u>32,637</u>	<u>493,573</u>

## 31 Retirement benefits – Defined benefit plans

The Group operates defined benefit pension plans in Taiwan which are final salary defined benefit plans. The assets of the funded plans are held independently of the Group's assets. The contributions are placed with a government institution. The plans are valued by an independent qualified actuary, Hsu Mao-Chin Actuary, annually using the projected unit credit method.

The amounts recognised in the consolidated statement of financial position are as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
Fair value of plan assets . . . . .	1,652	5,173	3,646	4,675
Present value of funded obligations . . . . .	(312,737)	(325,331)	(352,344)	(330,247)
Total pension liabilities . . . . .	(311,085)	(320,158)	(348,698)	(325,572)

The movements in the fair value of plan assets for the years/period are as follows:

	Year ended 31 December			Six months ended
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
At beginning of years/period . . . . .	–	1,652	5,173	3,646
Acquisition of subsidiaries . . . . .	32,841	408	–	–
Remeasurements . . . . .	66	58	40	–
Employer contributions . . . . .	18,865	33,278	35,501	18,301
Benefits paid . . . . .	(50,120)	(29,754)	(37,698)	(17,164)
Exchange adjustment . . . . .	–	(469)	630	(108)
At end of year/period . . . . .	1,652	5,173	3,646	4,675

The movements in the present value of defined benefit obligations recognised in the consolidated statement of financial position are as follows:

	Year ended 31 December			Six months ended
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
At beginning of years/period . . . . .	–	312,737	325,331	352,344
Acquisition of subsidiaries . . . . .	228,449	925	–	–
Current service cost . . . . .	5,437	8,165	4,849	2,947
Interest cost . . . . .	3,509	5,272	5,907	2,553
Remeasurements . . . . .	125,462	36,090	46,167	–
Benefits paid . . . . .	(50,120)	(29,754)	(37,698)	(17,164)
Exchange adjustment . . . . .	–	(8,104)	7,788	(10,433)
At end of year/period . . . . .	312,737	325,331	352,344	330,247

The amounts recognised in the consolidated income statement were as follows:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
				(unaudited)	
Current service cost . . . . .	5,437	8,165	4,849	2,425	2,947
Interest cost, net . . . . .	3,509	5,272	5,907	2,918	2,553
Total, included in staff costs (note 12) . . . . .	8,946	13,437	10,756	5,343	5,500

Out of the total charge, for the years ended 31 December 2010, 2011 and 2012 and the period ended 30 June 2013, HK\$6,254,000, HK\$9,250,000, HK\$8,121,000 and HK\$5,270,000 were included in direct operating expenses, and HK\$2,692,000, HK\$4,187,000, HK\$2,635,000 and HK\$230,000 were included in administrative expenses, respectively.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Actual return on plan assets in the year . . . . .	66	58	40	-	-

The principal actuarial assumptions used are as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Discount rate applied to pension obligations . . . . .	1.75%-2.00%	1.75%	1.50%	1.50%
Future salary increases . . . . .	1.00%-2.00%	1.00%-2.00%	1.00%	1.00%

The sensitivity of the defined benefit obligation to changes in the weighted principal assumptions is:

	Unfavourable change			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Discount rate applied to pension obligations decreases by 0.5% . . . . .	25,004	25,996	27,469	13,328
Future salary increases by 0.5% . . . . .	23,816	24,889	27,469	13,328

	Favourable change			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Discount rate applied to pension obligations increases by 0.5% . . . . .	(22,545)	(23,440)	(24,814)	(12,040)
Future salary decreases by 0.5% . . . . .	(22,811)	(23,716)	(25,048)	(12,153)

The fair value of plan assets are comprised as follows.

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Cash and cash equivalents . . . . .	694	1,597	1,148	1,582
Debt instruments . . . . .	182	605	422	518
Equity instruments . . . . .	776	2,971	2,076	2,575
	1,652	5,173	3,646	4,675

The history of defined benefit plans as at 31 December 2010, 2011 and 2012 and 30 June 2013 are as follows:

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
Fair value of plan assets . . . . .	1,652	5,173	3,646	4,675
Present value of pension obligations . . . . .	(312,737)	(325,331)	(352,344)	(330,247)
Deficit . . . . .	(311,085)	(320,158)	(348,698)	(325,572)

Expected employer contribution to the plans of the Group for the year ending 31 December 2013 is HK\$35,858,000.

## 32 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before taxation to net cash generated from operations:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit before taxation . . . . .	1,178,155	1,375,371	1,656,800	696,695	1,202,525
Share of results of associates . . . . .	(208,821)	(148,464)	(136,421)	(69,123)	(71,626)
Interest income . . . . .	(11,482)	(12,574)	(28,330)	(9,567)	(19,705)
Dividend income from available-for-sale investments . . . . .	(1,615)	(2,003)	(21)	–	(838)
Finance costs . . . . .	23,066	55,394	63,124	27,432	45,096
Change in fair value of investment properties . . . . .	(175,990)	(130,312)	(265,155)	–	(458,303)
Gain on remeasurement of previously held equity interest in an acquiree company . . . . .	(54,203)	–	–	–	–
Gain on sale of an available-for-sale investment . . . . .	(110)	–	–	–	–
Impairment of available-for-sale investments . . . . .	–	515	82	–	–
Loss/(gain) on disposal of an associate . . . . .	1,486	(3,482)	–	–	–
Loss/(gain) on disposal of property, plant and equipment . . . . .	4,177	2,889	(7,065)	(3,193)	(9,943)
Impairment of goodwill . . . . .	40,407	7,303	7,000	7,000	–
Provision for impairment of receivables . . . . .	22,124	3,962	22,097	6,570	9,402
Reversal of provision for impairment of receivables . . . . .	(1,108)	(4,984)	(479)	(454)	(874)
Share options expense . . . . .	11,068	1,801	56,435	20,963	13,607
Fair value loss on contingent payment for acquisition of subsidiaries . . . . .	–	9,973	310	–	–
Amortisation of intangible assets . . . . .	–	3,721	38,043	12,081	19,503
Depreciation of property, plant and equipment and amortisation of leasehold land and land use rights . . . . .	210,416	292,309	329,309	158,968	196,294
Operating cash flow before working capital changes . . . . .	1,037,570	1,451,419	1,735,729	847,372	925,138
Increase in inventories and accounts receivable, prepayments and deposits . . . . .	(425,280)	(268,872)	(703,223)	(602,738)	(26,118)
Increase/(decrease) in current liabilities, excluding taxation, bank loans, bank overdrafts and loans from fellow subsidiaries . . . . .	162,744	203,977	179,373	(110,045)	(41,818)
Change in net pension liabilities . . . . .	(9,919)	(19,841)	(24,745)	(10,933)	(12,801)
Decrease in contingent payment for acquisition of subsidiaries . . . . .	–	–	(8,377)	–	–
Net cash generated from operations . . . . .	765,115	1,366,683	1,178,757	123,656	844,401

(b) Major non cash transactions

- (i) For the years ended 2010, 2011 and 2012 and for the six months ended 30 June 2012 and 2013, interest expense of HK\$5,170,000, HK\$6,377,000, HK\$5,433,000, HK\$2,012,000 and HK\$3,117,000 to fellow subsidiaries was settled through current account with immediate holding company.
- (ii) For the years ended 2010, 2011 and 2012 and for the period ended 30 June 2013, consideration to be paid of HK\$36,721,000, HK\$278,892,000, HK\$257,114,000 and HK\$117,544,000 was deferred from the acquisition of subsidiaries.

## (c) Analysis of the net cash inflow/(outflow) in respect of the acquisition of subsidiaries treated as business combinations

	Year ended 31 December			Six months ended 30 June	
	2010 HK\$'000	2011 HK\$'000	2012 HK\$'000	2012 HK\$'000 (unaudited)	2013 HK\$'000
Cash consideration paid . . . . .	(224,593)	(270,783)	(414,416)	(207,213)	(114,066)
Cash consideration paid for prior years' acquisition . . . . .	–	(24,699)	(125,122)	(91,882)	(232,028)
Cash and bank balances acquired . . . . .	306,888	101,751	106,156	92,188	12,013
Bank overdrafts acquired . . . . .	(17,587)	–	–	–	–
Net cash inflow/(outflow) in respect of the acquisition of subsidiaries . . . . .	<u>64,708</u>	<u>(193,731)</u>	<u>(433,382)</u>	<u>(206,907)</u>	<u>(334,081)</u>

## (d) Analysis of the net cash outflow in respect of the acquisition of a subsidiary treated as asset acquisition

In January 2012, the Group acquired 100% of the equity interest in Kerry Logistics Anhui Co., Ltd. (formerly known as Hefei Huaxing Automobile Parts Co., Ltd.), which owned a warehouse in Hefei Economic and Technological Development Zone.

	HK\$'000
Cash consideration paid . . . . .	(59,208)
Cash and bank balances acquired . . . . .	234
Net cash outflow in respect of the acquisition of a subsidiary . . . . .	<u>(58,974)</u>

The recognised amounts of identifiable assets acquired and liabilities assumed as at the date of acquisition are as follows:

	HK\$'000
Property, plant and equipment . . . . .	86
Investment properties . . . . .	59,048
Accounts receivable, prepayments and deposits . . . . .	13,198
Cash and bank balances . . . . .	234
Accounts payable, deposits received and accrued charges . . . . .	(13,299)
Taxation . . . . .	(59)
Total identifiable net assets . . . . .	<u>59,208</u>

## (e) Transactions with non-controlling interests

## (i) During the year ended 31 December 2010, the Group completed several transactions with non-controlling interests as follows:

During 2010, the Group acquired additional effective interests of 5.1392% and 3% in Kerry Freight (Thailand) Limited ("KFT") and Shanghai Kerry CHJ Logistics Limited ("KCHJ") at cash consideration of HK\$241,000 and HK\$1,320,000 respectively. As a result, 100% effective interests of KFT and KCHJ were held by the Group respectively. The carrying amounts of the non-controlling interests in KFT and KCHJ being acquired were HK\$241,000 and HK\$1,320,000 on the dates of acquisitions respectively.

In July 2010, Kerry TJ has been accounted for as a subsidiary of the Group obtained de facto control to govern its financial and operating policies (note 4(b)(ii)). Subsequently, further acquisition with no change of the control of Kerry TJ was included in the transaction with non-controlling interest.

During July to December 2010, the Group acquired an additional 1.35% effective interest of Kerry TJ for a total consideration of HK\$40,705,000. As a result, 23.41% effective interest of Kerry TJ was held by the Group. The average carrying amount of the acquired non-controlling interests in Kerry TJ on the dates of acquisitions was HK\$28,474,000. The Group recognised a decrease in non-controlling interests of HK\$28,474,000 and a decrease in equity attributable to the shareholders of the Company of HK\$12,231,000.

The effect of the above transactions are summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests . . . . .	42,266
Carrying amount of non-controlling interests acquired . . . . .	(30,035)
Excess of consideration paid recognised in the acquisition reserve within equity . . . . .	12,231

(ii) During the year ended 31 December 2011, the Group completed several transactions with non-controlling interests as follows:

During 2011, the Group acquired additional effective interests of 2.24%, 11.64%, 10%, 5%, and 35% in Kerry TJ, Kerry Siam Seaport Limited ("KSSP"), Kerry Reliable Logistics Private Limited ("Reliable"), KART Logistics (Thailand) Limited ("KART") and Kerry Far East Logistics (HK) Limited ("Far East") at cash consideration of HK\$92,975,000, HK\$48,711,000, HK\$3,955,000, HK\$1,215,000 and HK\$4,225,000 respectively. As a result, 25.65%, 79.52%, 100%, 66% and 100% effective interests of Kerry TJ, KSSP, Reliable, KART and Far East were held by the Group as at 31 December 2011 respectively. The carrying amounts of the non-controlling interests in Kerry TJ, KSSP, Reliable, KART and Far East being acquired were HK\$44,368,000, HK\$43,175,000, HK\$1,657,000, HK\$642,000 and HK\$1,465,000 on the dates of acquisitions respectively.

The effect of the above transactions are summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests . . . . .	151,081
Carrying amount of non-controlling interests acquired . . . . .	(91,307)
Excess of consideration paid recognised in the acquisition reserve within equity . . . . .	59,774

During 2011, the Group disposed of 49% and 2% effective interest of Kerry Logistics (Macau) Limited ("KLM") and K.A.S Services Company Limited ("KAS") for a consideration of HK\$47,000 and HK\$24,000 respectively. As a result, 51% and 98% effective interest of KLM and KAS were held by the Group as at 31 December 2011 respectively. The carrying amounts of the disposed non-controlling interests in KLM and KAS on the date of acquisition were HK\$47,000 and HK\$24,000 respectively. The Group recognised an increase in non-controlling interests of HK\$71,000 in total and no change in equity attributable to the shareholders of the Company.

The effect of the above transactions are summarised as follows:

	HK\$'000
Consideration received from non-controlling interests . . . . .	71
Carrying amount of non-controlling interests disposed . . . . .	(71)
	-

(iii) During the year ended 31 December 2012, the Group completed several transactions with non-controlling interests as follows:

During 2012, the Group acquired additional effective interests of 4% and 4.77% in EAE Logistics Holding Limited ("EAE") and Kerry TJ at cash consideration of HK\$3,917,000 and HK\$252,156,000 respectively. As a result, 55% and 30.42% effective interests of EAE and Kerry TJ were held by the Group respectively. The carrying amounts of the non-controlling interests in EAE and Kerry TJ being acquired were HK\$1,324,000 and HK\$78,567,000 on the dates of acquisitions respectively.

The effect of these transactions are summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests . . . . .	(256,073)
Decrease in non-controlling interests . . . . .	79,891
Excess of consideration paid recognised in the acquisition reserve within equity . . . . .	(176,182)

(iv) During the six months ended 30 June 2012, the Group completed several transactions with non-controlling interests as follows:

During the six months ended 30 June 2012, the Group acquired additional effective interests of 4% and 1.19% in EAE Logistics Holding Limited ("EAE") and Kerry TJ at cash consideration of HK\$3,917,000 and HK\$50,257,000 respectively. As a result, 55% and 30.42% effective interests of EAE and Kerry TJ were held by the Group respectively. The carrying amounts of the non-controlling interests in EAE and Kerry TJ being acquired were HK\$1,324,000 and HK\$19,208,000 on the dates of acquisitions respectively.

The effect of these transactions are summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests . . . . .	(54,174)
Decrease in non-controlling interests . . . . .	20,532
Excess of consideration paid recognised in the acquisition reserve within equity . . . . .	<u>(33,642)</u>

(v) During the six months ended 30 June 2013, the Group completed several transactions with non-controlling interests as follows:

During the period, the Group acquired additional effective interests of 49% in Kerry Freight (USA) Incorporated, 2.73% in Kerry TJ Logistics Company Limited and 2% in K.A.S Services Company Limited. As a result, 100%, 33.15% and 100% effective interests of Kerry Freight (USA) Incorporated, Kerry TJ and KAS were held by the Group respectively.

The effect of these transactions are summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests . . . . .	(179,049)
Decrease in non-controlling interests . . . . .	65,106
Excess of consideration paid recognised in the acquisition reserve within equity . . . . .	<u>(113,943)</u>

### 33 Business combinations

(a) Details of business combinations during the year ended 31 December 2010 are as follows:

In March 2010, the Group acquired 70% interest in F.D.I Commercial and Forwarding Services Company Limited ("FDI"), which is engaged in international freight forwarding business in Vietnam.

In July 2010, the Group acquired the entire capital of Xiamen Jia Wei Logistics Co. Ltd., which was subsequently renamed as Kerry Logistics (Xiamen) Co., Ltd. The company holds a piece of land in Xiamen which was developed into a logistics centre in 2011.

In July 2010, Kerry TJ, previously an associate of the Group, became a subsidiary of the Group as the Group obtained de facto control to govern its financial and operating policies (note 4(b)(ii)). Kerry TJ is a major logistics operator which commands an extensive distribution network in Taiwan.

Fair value of equity interests held in Kerry TJ as at the date of change in control amounted to HK\$748,868,000.

In accordance with HKFRS 3 (Revised) "Business Combinations", the Group is required to re-measure its interest in Kerry TJ at fair value and recognise the related gain/(loss). Accordingly, a gain of HK\$54,203,000 was recognised and included in other income in the Group's consolidated income statement for the year ended 31 December 2010.

In August 2010, the Group acquired 30% interest of Indev Logistics Private Limited ("Indev"), which is engaged in logistics operations business in India. The Group obtained the power to govern its financial and operating policies and therefore accounted for it as a subsidiary of the Group.

In August 2010, the Group acquired 85% interest of Arie van Donge & Co. Holding B.V. ("ADCO"), which is engaged in international freight forwarding business in the Netherlands.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid . . . . .	224,593
Cash consideration to be paid . . . . .	36,721
Fair value of equity interest in an associate. . . . .	748,868
<b>Total</b> . . . . .	<b>1,010,182</b>

The aggregate fair value of identifiable assets acquired and liabilities assumed as at the respective dates of acquisition are as follows:

	HK\$'000
Property, plant and equipment . . . . .	2,120,338
Leasehold land and land use rights. . . . .	108,840
Available-for-sale investments. . . . .	44,682
Accounts receivable, prepayments and deposits . . . . .	426,040
Cash and bank balances . . . . .	306,888
Accounts payable, deposits received and accrued charges . . . . .	(510,045)
Bank overdrafts . . . . .	(17,587)
Bank loans. . . . .	(50,953)
Taxation. . . . .	(22,000)
Deferred taxation . . . . .	(246,145)
Retirement benefit obligation . . . . .	(195,608)
<b>Total identifiable net assets</b> . . . . .	<b>1,964,450</b>
Goodwill . . . . .	475,344
Non-controlling interests . . . . .	(1,429,612)
<b>Total</b> . . . . .	<b>1,010,182</b>

The goodwill of HK\$475,344,000 arising from these acquisitions is attributable to the profitability and the synergies expected to arise from the acquired businesses.

The acquired business contributed revenues of HK\$1,139,583,000 and net profit attributable to the Company's shareholders of HK\$22,480,000 for the period from acquisition up to 31 December 2010. If the acquisition had occurred on 1 January 2010, the contributed revenues and profit attributable to the Company's shareholders would have been HK\$2,372,617,000 and HK\$42,256,000 respectively.

The contingent consideration arrangement requires the Group to pay the former owner an undiscounted amount in the range between HK\$0 and HK\$47,790,000 based on multiple of the profit before taxation of the businesses for certain years. The fair value of the contingent consideration of HK\$5,993,000 has been provided in the consolidated Financial Information of the Group, based on the income approach and key assumptions, mainly discount rate.

(b) Details of business combinations during the year ended 31 December 2011 are as follows:

In January 2011, the Group acquired 70% interest of Kunshan Wisdom Logistics Co., Ltd. ("Wisdom"), which operates one of the major sea freight consolidation platforms in Shanghai serving mainly the Japan and Southeast Asia trade routes.

In January 2011, the Group acquired 70% interest of Shanghai Hui Cheng Investment Consultancy Co., Ltd. ("HCL"), which is a third-party logistics company, specialising in logistics operations in chemicals, with a special focus on dangerous goods, fast moving consumer goods, electromechanical and automotive industries.

In January 2011, the Group acquired 91% effective interest of Bergen Freight Forwarding Limited ("Bergen"), which is engaged in international freight forwarding business in the United Kingdom.

In January 2011, the Group acquired 100% interest of Nine To Five Limited, which is an established food processing and meal provider in Hong Kong.

In July 2011, the Group acquired 91% effective interest of Regency Forwarding Limited ("Regency"), which is engaged in international freight forwarding business in the United Kingdom.

In September 2011, the Group acquired 51% effective interest of ADN Berkat Sdn Bhd and Sinar Haulage Sdn Bhd, both of which are engaged in trucking business in Malaysia.

In October 2011, the Group acquired 100% interest of TOP Transmode Overseas Partners (MY) SDN. BHD., Transmode Overseas Transportgesellschaft mbH and Mark VII International GmbH ("Transmode"), which is a group of freight forwarding companies offering both import & export services as well as expertise in bulk shipments of commodities such as rubber. Its main markets are Asia, South America, USA and the Middle East.

In December 2011, the Group acquired 70% interest of the business of Shandong D-Express Management Consultancy Co., Ltd. ("D-Express"), which is a Qingdao incorporated company engaged in courier express services of document and small items serving customers mainly in Shandong.

In December 2011, Kerry TJ, a subsidiary with effective interest of 25.65% acquired 70% interest of Trust Speed Group which is engaged in pharmaceutical logistics business in Taiwan.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid . . . . .	270,783
Cash consideration to be paid . . . . .	278,892
<b>Total</b> . . . . .	<b>549,675</b>

The aggregate fair value of identifiable assets acquired and liabilities assumed as at the respective dates of acquisition are as follows:

	HK\$'000
Property, plant and equipment . . . . .	126,335
Leasehold land and land use rights . . . . .	73,775
Intangible assets	
– Customer relationships . . . . .	42,005
– Non-compete agreements . . . . .	37,017
– Trademark . . . . .	12,275
Accounts receivable, prepayments and deposits . . . . .	562,849
Cash and bank balances . . . . .	101,751
Accounts payable, deposits received and accrued charges . . . . .	(543,015)
Bank loans . . . . .	(30,526)
Taxation . . . . .	(9,069)
Deferred taxation . . . . .	72
Retirement benefit obligation . . . . .	(517)
<b>Total identifiable net assets</b> . . . . .	<b>372,952</b>
Goodwill . . . . .	270,904
Non-controlling interests . . . . .	(93,298)
Interest in an associate . . . . .	(883)
<b>Total</b> . . . . .	<b>549,675</b>

The goodwill of HK\$270,904,000 arising from these acquisitions is attributable to the profitability and the synergies expected to arise from the acquired businesses.

The acquired businesses contributed revenues of HK\$2,171,929,000 and net profit of HK\$24,288,000 to the Company's shareholders for the period from their respective acquisition up to 31 December 2011. If the acquisition had occurred on 1 January 2011, the contributed revenues and profit attributable to the Company's shareholders would have been HK\$3,327,030,000 and HK\$48,699,000 respectively.

The contingent consideration arrangement required the Group to pay former owners undiscounted amount up to maximum of HK\$353,898,000 based on multiple of the profit before taxation of the businesses for certain years. The fair value of the contingent consideration of HK\$278,892,000 has been provided in the consolidated Financial Information of the Group, based on the income approach and key assumptions, mainly discount rate.

(c) Details of business combinations during the year ended 31 December 2012 are as follows:

In January, the Group acquired an additional 50% interest in Kerry Logistics (Spain), S.A.U. (formerly known as Kerry Salvat Logistics, S.A.), an international freight forwarding company in Spain, which became a wholly-owned subsidiary of the Group.

In January, the Group acquired 100% interest in Zhongshan Dajindun Trading Limited which is engaging in food trading and wholesaling business in the PRC.

In January, the Group acquired 51% interest in Beijing Tengchang International Logistics Co., Ltd., a Non-Vessel Operating Common Carrier ("NVOCC") which operates one of the major air freight consolidation platforms in Beijing.

In January, the Group acquired 51% interest in Shanghai Tenglong International Freight Agency Co., another NVOCC which operates one of the major air freight consolidation platforms in Shanghai.

In January, the Group acquired 60% interest in Hang Fung Supply Chain Limited, which is engaging in trading, sales and distribution of food and beverage products and catering supplies in Hong Kong.

In March, the Group acquired 70% effective interest in Tin Thanh Express Joint Stock Company (subsequently renamed as Kerry TTC Express Joint Stock Company) which is engaging in domestic express delivery services in Vietnam.

In June, the Group acquired 100% interest in Taishan Insurance Brokers Limited which is engaging in insurance broking services mainly in Hong Kong and the PRC.

In June, the Group acquired 60% interest in Kerry Logistics Cold Chain (Australia) Pty Ltd. which is engaging in cold chain distribution services in Australia.

In July, the Group acquired 48.3% effective interest in CF Express Co Ltd which is engaging in domestic same-day delivery service in Taiwan. The Group has obtained the power to govern its financial and operating policies and therefore has accounted for it as a subsidiary of the Group.

In July, the Group acquired 60% effective interest in TGX Group which is engaging in local express delivery service in Hong Kong as well as international express delivery service to the PRC, Taiwan, Macau and Germany.

In August, the Group acquired 60% interest in Fast Forward Logistics Sdn. Bhd. and Able Meridian Logistics Sdn. Bhd. which are engaging in custom brokerage and container haulage business in Malaysia.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid . . . . .	414,416
Cash consideration to be paid . . . . .	257,114
<b>Total</b> . . . . .	<b>671,530</b>

The aggregate fair value of identifiable assets acquired and liabilities assumed as at the respective dates of acquisition are as follows:

	HK\$'000
Property, plant and equipment . . . . .	55,228
Intangible assets	
– Customer relationships . . . . .	74,930
– Non-compete agreements . . . . .	9,244
– Trademark . . . . .	14,466
Available-for-sale investments . . . . .	7,479
Accounts receivable, prepayments and deposits . . . . .	219,348
Cash and bank balances . . . . .	106,156
Accounts payable, deposits received and accrued charges . . . . .	(189,253)
Bank loans . . . . .	(14,212)
Taxation . . . . .	(2,158)
Deferred taxation . . . . .	(25,684)
<b>Total identifiable net assets</b> . . . . .	<b>255,544</b>
Goodwill . . . . .	533,354
Non-controlling interests . . . . .	(113,385)
Interest in an associate . . . . .	(3,983)
<b>Total</b> . . . . .	<b>671,530</b>

The goodwill of HK\$533,354,000 arising from these acquisitions is attributable to the profitability and the synergies expected to arise from the acquired businesses.

The acquired businesses contributed revenues of HK\$2,103,447,000 and net profit of HK\$42,293,000 to the Company's shareholders for the period from their respective acquisition up to 31 December 2012. If the acquisitions had occurred on 1 January 2012, the contributed revenues and profit attributable to Company's shareholders for the year ended 31 December 2012 would have been HK\$2,280,011,000 and HK\$30,923,000 respectively.

The contingent consideration arrangement required the Group to pay former owners undiscounted amount up to maximum of HK\$266,465,000 based on multiple of the profit before taxation of the businesses for certain years. The fair value of the contingent consideration of HK\$252,655,000 has been provided in the consolidated Financial Information of the Group, based on the income approach and key assumptions, mainly discount rate.

(d) Details of business combinations during the six months ended 30 June 2013 are as follows:

In May 2013, the Group acquired 50% interest in Albini & Pitigliani Sverige AB which is engaging in road transportation business within the European Continent as well as international freight forwarding business. The Group has assumed the risks and rewards of the entity and Albini & Pitigliani Sverige AB has been consolidated as a wholly owned subsidiary of the Group. Pursuant to the sale and purchase agreement and a put and call option agreement, the vendors were given put options to sell the remaining 50% equity interest to the Group over a period of time. The Group was given call option to purchase the remaining 50% equity interest from the vendors. The put options including four tranches and will be lapsed over four years and the call option has unlimited exercise period. The put and call options for the remaining 50% equity interest has been accounted for as a deferred consideration payable.

In June 2013, the Group acquired 51% interest in Braservice – Transportes Internacionais Ltda and Braservice Cargo – Transportes, Armazenagem e Logística Ltda (collectively as "Braservice") which are engaging in international freight forwarding, customs brokerage and other related logistics services in Brazil.

Aggregate consideration of the above transactions is as follows:

	HK\$'000 (provisional)
Cash consideration paid . . . . .	114,066
Cash consideration to be paid . . . . .	117,544
<b>Total</b> . . . . .	<b>231,610</b>

The aggregate provisional amounts of identifiable assets acquired and liabilities assumed as at the respective dates of acquisitions are as follows:

	HK\$'000 (provisional)
Property, plant and equipment . . . . .	82,899
Accounts receivable, prepayments and deposits . . . . .	34,789
Cash and bank balances . . . . .	12,013
Accounts payable, deposits received and accrued charges . . . . .	(40,677)
Bank loans . . . . .	(17,872)
Deferred taxation . . . . .	(5,725)
<b>Total identifiable net assets . . . . .</b>	<b>65,427</b>
Goodwill . . . . .	167,244
Non-controlling interests . . . . .	(1,061)
<b>Total . . . . .</b>	<b>231,610</b>

The goodwill of HK\$167,244,000 arising from these acquisitions is attributable to the future profitability of the acquired businesses.

The acquired businesses contributed revenues of HK\$36,123,000 and net profit of HK\$2,204,000 to the Company's shareholders for the period from their respective acquisition up to 30 June 2013. If the acquisitions had occurred on 1 January 2013, the contributed revenues and profit attributable to Company's shareholders for the six months ended 30 June 2013 would have been HK\$84,368,000 and HK\$9,429,000 respectively.

The fair value of the deferred consideration of HK\$117,544,000 has been provided in the consolidated Financial Information of the Group and shall be subject to fair value change in the consolidated income statement at each period end.

### 34 Commitments

- (a) At 30 June 2013, the Group had capital commitments in respect of property, plant and equipment and acquisition of subsidiaries not provided for in these Financial Information as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Contracted but not provided for . . . . .	170,526	1,189,902	520,290	362,740
Authorised but not contracted for . . . . .	30,017	102,086	157,521	98,558
	<u>200,543</u>	<u>1,291,988</u>	<u>677,811</u>	<u>461,298</u>

- (b) At 30 June 2013, the Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

	Group			
	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Land and buildings:				
Within one year . . . . .	138,292	294,282	280,281	352,560
In the second to fifth year, inclusive . . . . .	275,042	446,330	377,523	478,431
Over five years . . . . .	106,147	157,134	183,517	212,686
	<u>519,481</u>	<u>897,746</u>	<u>841,321</u>	<u>1,043,677</u>

The group leases various offices and warehouses under non-cancellable operating lease agreements. The lease terms are between 1 year and 15 years, and the majority of lease agreements are renewable at the end of the lease period at market rate.

- (c) The Group's future aggregate minimum lease payments receivable on leases of investment properties are disclosed in note 14(e).

### 35 Pledge of assets – Group

At 31 December 2010, 2011 and 2012 and 30 June 2013, the Group's total bank loans of HK\$654,013,000, HK\$1,098,567,000, HK\$1,965,086,000 and HK\$2,915,805,000 included an aggregate amount of HK\$266,265,000, HK\$351,814,000, HK\$576,039,000 and HK\$644,194,000 which is secured. The Group's total bank overdrafts of HK\$20,701,000, HK\$15,512,000, HK\$26,089,000 and HK\$26,799,000 included an aggregate amount of nil, HK\$15,213,000, HK\$23,960,000 and HK\$19,487,000 which is secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain investment properties, leasehold land and land use rights, construction in progress and buildings and port facilities (notes 14, 15 and 16);
- (ii) assignments of insurance proceeds of certain properties.

## 36 Share options

The fair value of share options granted to the directors and employees of the Group were recharged to the Group by KPL.

There are 2 share option schemes of KPL as follows:

## (a) 2002 Share Option Scheme

The 2002 Share Option Scheme was terminated on 5 May 2011 such that no further share options shall be offered but the share options which had been granted during its life shall continue to be valid and exercisable in accordance with their terms of issue and in all other respects its provisions shall remain in full force and effect.

Details of the movement of the share options granted to the Directors and employees of the Group under the 2002 Share Option Scheme are as follows:

	As at 31 December						As at 30 June 2013	
	2010		2011		2012		Weighted average exercise price in HK\$ per share	Number
	Weighted average exercise price in HK\$ per share	Number	Weighted average exercise price in HK\$ per share	Number	Weighted average exercise price in HK\$ per share	Number		
At 1 January . . . . .	27.51	5,205,000	29.02	4,485,000	29.68	3,590,000	30.44	3,367,500
Exercised during the years/period (note (i)) . . . . .	18.11	(700,000)	18.16	(645,000)	18.11	(222,500)	18.41	(17,500)
Lapsed during the years/period . . . . .	17.58	(20,000)	47.70	(250,000)	–	–	–	–
At 31 December (note (ii)) . . . . .	29.02	4,485,000	29.68	3,590,000	30.44	3,367,500	30.50	3,350,000

For the share options exercised during the years/period ended 31 December 2010, 2011, 2012 and 30 June 2013, the related weighted average share price at the time of exercise was HK\$41.13, HK\$38.57, HK\$36.29 and HK\$40.95, and the total amount of proceeds received was approximately HK\$12,677,000, HK\$11,710,000, HK\$4,030,000 and HK\$322,000 respectively.

## Notes:

## (i) Details of share options exercised:

Exercise price per share (HK\$)	Number of share options			
	As at 31 December			As at 30 June 2013
	2010	2011	2012	
18.74 . . . . .	320,000	320,000	102,500	12,500
17.58 . . . . .	380,000	325,000	120,000	5,000
	700,000	645,000	222,500	17,500

## (ii) Terms of share options at the end of the reporting period were as follows:

Expiry date	Exercise price per share (HK\$)	Number of share options			
		As at 31 December			As at 30 June 2013
		2010	2011	2012	
17/03/2006-16/03/2015 . . . . .	18.74	77,500	72,500	25,000	25,000
17/03/2007-16/03/2015 . . . . .	18.74	1,327,500	1,012,500	957,500	945,000
02/04/2009-01/04/2018 . . . . .	47.70	412,500	350,000	350,000	350,000
02/04/2010-01/04/2018 . . . . .	47.70	412,500	350,000	350,000	350,000
02/04/2011-01/04/2018 . . . . .	47.70	825,000	700,000	700,000	700,000
06/02/2010-05/02/2019 . . . . .	17.58	535,000	525,000	475,000	475,000
06/02/2011-05/02/2019 . . . . .	17.58	895,000	580,000	510,000	505,000
		4,485,000	3,590,000	3,367,500	3,350,000

## (b) 2011 Share Option Scheme

The 2011 Share Option Scheme was adopted by KPL on 5 May 2011. Under the 2011 Share Option Scheme, the Directors of KPL may, at their absolute discretion, grant share options to motivate executives and key employees and other persons who may make a contribution to KPL, and enables KPL to attract and retain individuals with experience and ability and to reward them for their contributions. The exercise price for any particular share options shall be such price as the Board of Directors of the Company may in its absolute discretion determine at the time of grant of the relevant share options subject to the compliance with the Listing Rules.

Details of the movement of the share options granted to the Directors and employees of the Group under the 2011 Share Option Scheme are as follows:

	As at 31 December 2012		As at 30 June 2013	
	Weighted average exercise price in HK\$ per share	Number	Weighted average exercise price in HK\$ per share	Number
At 1 January . . . . .	–	–	35.45	6,170,000
Granted during the year/period (note (ii)) . . . . .	35.45	6,170,000	–	–
At 31 December (note (i)) . . . . .	35.45	6,170,000	35.45	6,170,000

## Notes:

(i) Terms of share options at the end of the reporting period were as follows:

Expiry date	Exercise price per share (HK\$)	Number of share options	
		As at 31 December 2012	As at 30 June 2013
31/10/2012-29/04/2022 . . . . .	35.45	2,985,000	2,985,000
15/02/2013-29/04/2022 . . . . .	35.45	50,000	50,000
01/04/2013-29/04/2022 . . . . .	35.45	50,000	50,000
31/10/2013-29/04/2022 . . . . .	35.45	3,085,000	3,085,000
		6,170,000	6,170,000

(ii) The weighted average fair value of the share options granted on 30 April 2012 to the directors and employees of the Group was HK\$9.96 per share. The valuation was based on a Binomial Model with the following data and assumptions:

Closing share price at grant date: HK\$35.45  
 Exercise price: HK\$35.45  
 Expected volatility<sup>1</sup>: 36% per annum  
 Share options life: 10 years  
 Average risk-free interest rate<sup>2</sup>: 1.21% per annum  
 Expected dividend yield: 2.5% per annum

## Notes:

- I. It was determined based on historical share price movement.
- II. It is taken to be equal to the yield of Hong Kong government bonds over the exercise period.

The valuation has also taken into account the assumed rate of leaving service of 10% per annum and the assumption of early exercise of the share options by the optionholders when the share price is at least 200% of the exercise price.

The value of the share options varies with different values of certain subjective assumptions. Any change in the variables so adopted may materially affect the estimation of the fair value off the share options.

## 37 Related party transactions

Except for the related party transactions disclosed in notes 18, 22, 27 and 29 in the Financial Information, the Group had the following material related party transactions carried out in the normal course of business during the years/periods:

## (a) Sales/(purchases) of services

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Fellow subsidiaries					
Logistics services income . . . . .	141	1,521	7,445	2,506	7,604
Rental expense . . . . .	(4,504)	(5,754)	(6,013)	(3,474)	(2,279)
Immediate holding company					
Management fee expense . . . . .	(19,919)	(25,368)	(26,391)	(12,025)	(14,006)
Associates of the Group/Kerry Properties Limited/Kerry Group Limited					
Storage service expense . . . . .	(31,175)	(36,591)	(37,126)	(17,874)	(12,703)
Rental expense . . . . .	(1,339)	(1,900)	(1,653)	(909)	(7,778)
Interest income . . . . .	–	–	3,495	744	922

These transactions were conducted at terms in accordance with the terms as agreed between the Group and the respective related parties.

## (b) Key management compensation

The key management compensation includes the salaries and other short-term benefits, excluding share option benefits, of the Board of Directors and nine senior executives who report to the Board of Directors.

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Salaries and other short-term benefits . . . . .	48,853	54,598	59,776	15,860	17,858

## 38 Contingent liabilities

## (a) Litigation

Kerry EAS Logistics Limited ("KEAS"), a company in which the Group has a 70% interest, is involved in a legal case in which an airline operator, together with five other plaintiffs, including the insurers of the aircraft concerned, are claiming damages, costs and interest, against six defendants, including KEAS, on a joint and several basis in relation to the alleged damages, amounting to approximately US\$65.6 million (approximately HK\$511.7 million at the exchange rate of US\$1 = HK\$7.8) caused to an aircraft in 2000 in respect of the transportation of certain chemical substance.

The alleged damages of approximately US\$65.6 million sought by the plaintiffs represent the market value of their aircraft at the time when the damage occurred less the resale value of the aircraft after repairs.

In the Court judgment given by Beijing High Level People's Court (the "Court") on 5 December 2007 (the "Judgment"), it was stated that KEAS had fulfilled all its obligations in this case and it had no liability to any of the plaintiffs. All claims brought by the airline operator together with the other five plaintiffs against KEAS, and the other three defendants were all dismissed by the Court. Judgment was entered by the Court in favour of all plaintiffs against the other two defendants for the amount of US\$65.1 million. All the six plaintiffs and one of the defendants ("Principal Defendant") had lodged their appeal. Subsequently, the Principal Defendant withdrew its appeal, leaving only the plaintiffs' appeal to be heard.

The appeal was heard by The Supreme People's Court of the People's Republic of China (the "Appeal Court") on 30 July 2009. By a judgment dated 25 December 2012 handed down on 28 January 2013 (the "Appeal Judgment"), the Appeal Court reaffirmed that the Principal Defendant should be primarily and fully liable for the plaintiffs' claims and revised the judgment sum upward to approximately US\$65.8 million, including certain experts' fees. On the other hand, the Appeal Court partially overturned the Judgment and held that in the event the plaintiffs are not able to fully recover the judgment sum from the Principal Defendant, KEAS and another defendant shall each be liable towards the plaintiffs to the extent of 5% of the part of judgment sum unrecoverable from the Principal Defendant. The Principal Defendant is in bankruptcy process and the prospect of recovery against it is in doubt.

The Appeal Judgment takes effect and is enforceable immediately upon issuance under the laws of the People's Republic of China ("PRC"). However, the parties to the appeal are entitled to apply for retrial of the case within 6 months from the Appeal Judgment if any errors in the Appeal Judgment are identified. If no parties seek for retrial of the case within 6 months, the maximum amount payable by KEAS to the plaintiffs under the Appeal Judgment is approximately US\$3.3 million. If any parties apply for retrial of the case within the prescribed time and if the Appeal Court decides to retry the case, KEAS' liabilities (if any) will be reassessed by the Appeal Court during the retrial.

Save as disclosed above, as at the reporting date of the Group's consolidated Financial Information, the Company was not aware of any further development of this legal action. Pursuant to the sale and purchase agreement for the acquisition of KEAS, the vendor of KEAS, who has retained 30% interest in KEAS, has undertaken to indemnify the Group in full in respect of all losses, costs, expenses and other responsibilities and liabilities arising from the above legal action against KEAS. Accordingly, no provision has been made in the Financial Information.

(b) Guarantees for banking and other facilities

The Group and the Company have executed guarantees to banks for facilities granted to certain subsidiaries. The utilised amount of such facilities covered by the guarantees of the Group and the Company which also represented the financial exposure of the Group and the Company as at 31 December 2010, 2011, 2012 and 30 June 2013 amounted to approximately HK\$115,121,000, HK\$594,296,000, HK\$437,018,000 and HK\$1,335,489,000. The total amount of such facilities covered by the Company's guarantees as at 31 December 2010, 2011, 2012 and 30 June 2013 amounted to approximately HK\$285,106,000, HK\$1,096,768,000, HK\$1,126,169,000 and HK\$2,699,957,000.

## 39 Group structure – principal subsidiaries

At 30 June 2013, the Company held interests in the following principal subsidiaries:

	Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(6)</sup> / Registered capital		Interest held indirectly				
					Number/ Amount	Par value per share	31 December		30 June		
							2010	2011	2012	2013	
(1)(8)	Albini & Pitigliani Sverige AB	Sweden	21-Oct-1987	Freight forwarding and transportation	SEK500,000	–	–	–	–	–	50%
(1)	Arie van Donge & Co. Holding B.V.	Netherlands	25-Mar-1985	Freight forwarding	1,500	EUR46	85%	85%	85%	–	89.55%
(1)(2)(4)	Beijing Kerry Logistics Ltd.	PRC	28-Apr-2001	Logistics business	US\$12,000,000	–	100%	100%	100%	–	100%
(2)(5)	Beijing Tengchang International Transportation Service Co., Ltd.	PRC	28-Jun-2011	Freight forwarding	RMB30,000,000	–	–	–	51%	–	51%
(1)	Braservice – Assessoria em Comercio Exterior Ltda	Brazil	18-Sep-1991	Freight forwarding	288,487	BRL1	–	–	–	–	51%
(1)(2)(4)	Chengdu Kerry Shudu Logistics Co., Ltd.	PRC	24-May-2012	Logistics business	RMB50,000,000	–	–	–	100%	–	100%
(1)(4)	Chongqing Lingxian Industry Development Limited	PRC	22-Dec-2006	Logistics business	RMB112,500,000	–	100%	100%	100%	–	100%
(1)(2)(3)	CV Global Logistics (Beijing) Limited	PRC	15-Jun-1995	Logistics business	RMB50,000,000	–	100%	100%	100%	–	100%
(1)	E.A.E. Freight & Forwarding Sdn. Bhd.	Malaysia	28-Nov-1994	Transportation and distribution services	500,000	MYR1	51%	51%	55%	–	55%
(1)	F.D.I.COMMERCIAL LAND FORWARDING SERVICES COMPANY LIMITED	Vietnam	16-Apr-2003	Freight forwarding	VND3,333,330,000	–	70%	70%	70%	–	70%
(1)(7)(8)	INDEV LOGISTICS PRIVATE LIMITED	India	27-Jan-1997	Logistics business	129,500	INR100	30%	30%	30%	–	30%
(1)(2)(3)	KART (China) Co., Ltd (Formerly known as Shenzhen Dong Meng Logistics Limited)	PRC	10-Aug-2011	Transportation and distribution services	RMB1,000,000	–	–	–	100%	–	100%
(1)(2)	KART (THAILAND) LIMITED	Thailand	12-Apr-2012	Transportation and distribution services	400,000	THB100	–	–	55%	–	55%

	Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(9)</sup> / Registered capital		Interest held indirectly			
					Number/ Amount	Par value per share	31 December		30 June	
							2010	2011	2012	2013
(1)	KART (VIET NAM) COMPANY LIMITED	Vietnam	30-Dec-2011	Transportation and distribution services	VND4,173,000,000	-	-	-	100%	100%
	KERRY CARGO CENTRE LIMITED	HK	13-Dec-1994	Warehouse ownership	2	HK\$1	100%	100%	100%	100%
	KERRY COLD STORE (HONG KONG) LIMITED	HK	21-Nov-1991	Warehouse operator	2	HK\$10	100%	100%	100%	100%
	KERRY D.G. WAREHOUSE (KOWLOON BAY) LIMITED	HK	5-Sep-1980	Warehouse ownership	20,000,000	HK\$1	100%	100%	100%	100%
	KERRY DISTRIBUTION (HONG KONG) LIMITED	HK	19-Aug-1986	Transportation and distribution services	500,000	HK\$1	100%	100%	100%	100%
(1)(2)	Kerry Distribution (Thailand) Limited	Thailand	4-Sep-2002	Transportation and distribution services	250,000 <sup>(10)</sup>	THB100	100%	80%	80%	80%
	Kerry Distribution Services (Hong Kong) Limited	HK	1-Mar-2000	Transportation and distribution services	10,000	HK\$1	100%	100%	100%	100%
(1)(5)	Kerry EAS Logistics Limited	PRC	27-Feb-1985	Freight forwarding and logistics business	RMB270,000,000	-	70%	70%	70%	70%
(1)	Kerry Far East Logistics (Bangladesh) Limited	Bangladesh	16-Jul-2007	Freight forwarding	100,000	BDT100	45.5%	70%	70%	70%
	Kerry Far East Logistics (Hong Kong) Limited	HK	17-Aug-2006	Freight forwarding	100	HK\$1	65%	100%	100%	100%
(1)(2)(4)	Kerry FFTZ Warehouse (Shenzhen) Ltd.	PRC	21-Sep-2004	Logistics business	HK\$70,000,000	-	100%	100%	100%	100%
	KERRY FREIGHT (AUSTRALIA) PTY LTD	Australia	9-May-1995	Freight forwarding	500,000	AUD1	100%	100%	100%	100%
	KERRY FREIGHT (HONG KONG) LIMITED	HK	12-May-1972	Freight forwarding	100 27,500 <sup>(11)</sup>	HK\$100 HK\$100	100%	100%	100%	100%
(2)	Kerry Freight (Korea) Inc.	South Korea	10-Nov-1995	Freight forwarding	100,000 <sup>(10)</sup>	KRW5,000	50.99%	50.99%	50.99%	50.99%
(1)	KERRY FREIGHT (SINGAPORE) PTE. LTD. (Formerly known as Kerry Logistics (Singapore) Pte. Ltd.)	Singapore	3-Feb-2004	Freight forwarding	500,000	SGD1	100%	100%	100%	100%

	Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(9)</sup> / Registered capital		Interest held indirectly			
					Number/ Amount	Par value per share	31 December			30 June
							2010	2011	2012	2013
<sup>(1)(2)</sup>	Kerry Freight (Thailand) Limited	Thailand	1-Sep-2000	Freight forwarding	115,000 <sup>(10)</sup>	THB100	100%	100%	100%	100%
<sup>(1)</sup>	Kerry Freight (USA) Incorporated	United States	30-Dec-2008	Freight forwarding	1,000,000	US\$1	51%	51%	100%	100%
<sup>(1)</sup>	KERRY FREIGHT MYANMAR LIMITED	Myanmar	10-Aug-2012	Freight forwarding	25,000	US\$1	-	-	60%	60%
<sup>(1)</sup>	KERRY INTEGRATED LOGISTICS (VIET NAM) CO., LTD	Vietnam	20-Jun-2006	Logistics business	US\$7,900,000	-	100%	100%	100%	100%
	KERRY LOGISTICS (AUSTRALIA) PTY LTD	Australia	3-Mar-1961	Operation of logistics business, rail terminal and container depot	1,000,000	AUD2	100%	100%	100%	100%
<sup>(1)(2)</sup>	Kerry Logistics (Bangna) Limited	Thailand	18-Feb-2013	Logistics business	5,000,000	THB100	-	-	-	100%
	KERRY LOGISTICS (BELGIUM) BVBA	Belgium	26-Jun-2006	Freight forwarding	EUR5,450,000	-	100%	100%	100%	100%
<sup>(1)</sup>	KERRY LOGISTICS (CAMBODIA) PTE. LTD.	Cambodia	14-Aug-2006	Freight forwarding	1,000	KHR20,000	100%	100%	100%	100%
<sup>(1)(2)(4)</sup>	Kerry Logistics (Chengdu) Ltd	PRC	23-Apr-2008	Logistics business	RMB27,000,000	-	100%	100%	100%	100%
<sup>(1)(2)(4)</sup>	Kerry Logistics (China) Investment Limited	PRC	10-Aug-2010	Investment holding	US\$135,000,000	-	100%	100%	100%	100%
<sup>(1)(4)</sup>	Kerry Logistics (Fuzhou) Co., Ltd.	PRC	30-May-2002	Logistics business	US\$2,820,000	-	100%	100%	100%	100%
	KERRY LOGISTICS (HONG KONG) LIMITED	HK	8-May-1987	Logistics business	10,000,000	HK\$1	100%	100%	100%	100%
<sup>(1)(7)</sup>	KERRY LOGISTICS (INDIA) PRIVATE LIMITED (Formerly known as KERRY RELIABLE LOGISTICS PRIVATE LIMITED)	India	31-May-1996	Freight forwarding	16,000	INR10	90%	100%	100%	100%
<sup>(1)(2)</sup>	Kerry Logistics (Japan) Limited	Japan	26-Sep-2008	Freight forwarding	2,000	JPY50,000	100%	100%	100%	100%
<sup>(1)(2)(4)</sup>	Kerry Logistics (Kunshan) Ltd.	PRC	20-Mar-2009	Logistics business	HK\$178,000,000	-	100%	100%	100%	100%

	Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(9)</sup> / Registered capital		Interest held indirectly			
					Number/ Amount	Par value per share	31 December		30 June	
							2010	2011		2012
(1)	KERRY LOGISTICS (MACAU) LIMITED	Macau	26-Apr-2006	Logistics business	MOP100,000	-	100%	51%	51%	51%
(1)(2)(4)	Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.	PRC	18-Jun-2001	Logistics business	HK\$44,000,000	-	100%	100%	100%	100%
(1)	KERRY LOGISTICS (SPAIN), S.A.U. (Formerly known as KERRY SALVAT LOGISTICS, S.A.)	Spain	21-Feb-1995	Freight forwarding	20,000	EUR6.01	50%	50%	100%	100%
(1)(2)	Kerry Logistics (Thailand) Limited	Thailand	23-Jan-2001	Logistics business	1,600,000	THB100	73.58%	75.90%	75.90%	75.90%
(1)(4)	Kerry Logistics (Tianjin) Co., Ltd.	PRC	15-Mar-2002	Logistics business	HK\$20,000,000	-	100%	100%	100%	100%
(1)(4)	KERRY LOGISTICS (UK) LIMITED	United Kingdom	1-Jul-1981	Freight forwarding	20,000	GBP1	91%	91%	91%	91%
(1)(4)	Kerry Logistics (Wuxi) Co., Ltd	PRC	26-Nov-2010	Logistics business	HK\$70,000,000	-	100%	100%	100%	100%
(1)(4)	KERRY LOGISTICS (XIAMEN) CO., LTD.	PRC	29-Jul-2004	Logistics business	RMB78,000,000	-	100%	100%	100%	100%
(1)(4)	Kerry Logistics (Zhengzhou) Limited	PRC	6-Jul-2011	Logistics business	RMB50,000,000	-	-	100%	100%	100%
(1)(2)(4)	Kerry Logistics Anhui Co., Ltd.	PRC	9-Nov-2005	Logistics business	RMB36,000,000	-	-	-	100%	100%
(1)	KERRY LOGISTICS CENTRE (TAMPINES) PTE. LTD. (Formerly known as KERRY LOGISTICS HUB (SINGAPORE) PTE. LTD.)	Singapore	31-May-2011	Provision of warehouse and logistics services	1	SGD1	-	100%	100%	100%
(1)	KERRY LOGISTICS MANAGEMENT (ASIA) PTE. LTD.	Singapore	28-Feb-2011	Investment holding	1	SGD1	-	100%	100%	100%
(1)	KERRY MALSHIP LOGISTICS LANKA (PRIVATE) LIMITED	Sri Lanka	6-Jun-2012	Freight forwarding	250,000	US\$1	-	-	51%	51%
(2)	Kerry PC3 Limited	HK	16-May-2007	Logistics business	1	HK\$1	100%	100%	100%	100%
	Kerry Siam Seaport Limited	Thailand	13-Feb-1990	Operating deep-sea wharf and depots	65,000,000	THB10	67.88%	79.52%	79.52%	79.52%

Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(9)</sup> / Registered capital		Interest held indirectly			
				Number/ Amount	Par value per share	31 December		30 June	
						2010	2011	2012	2013
Kerry TC Warehouse 1 (Block A) Limited	BVI	8-Oct-1991	Warehouse ownership	1	US\$1	100%	100%	100%	100%
Kerry TC Warehouse 1 (Block B) Limited	BVI	8-Oct-1991	Warehouse ownership	1	US\$1	100%	100%	100%	100%
Kerry TC Warehouse 2 Limited	HK	9-Oct-1987	Warehouse ownership	10,000	HK\$1	100%	100%	100%	100%
<sup>(1)(2)(6)(8)</sup> Kerry TJ Logistics Company Limited	Taiwan	21-May-1959	Transportation and logistics business	483,582,498	NTD10	23.41%	25.65%	30.42%	33.15%
<sup>(1)</sup> KERRY TTC EXPRESS JOINT STOCK COMPANY	Vietnam	10-Feb-2006	Express services	8,600,000	VND10,000	-	-	70%	70%
KERRY WAREHOUSE (CHAI WAN) LIMITED	HK	13-Feb-1981	Warehouse ownership	10,000,000	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (FANLING 1) LIMITED	HK	13-Apr-1993	Warehouse ownership	2	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (HONG KONG) LIMITED	HK	26-Jul-1977	Warehouse operator	25,000,000	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (KWAI CHUNG) LIMITED	HK	13-Oct-1981	Warehouse ownership	30,000	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (SHATIN) LIMITED	HK	13-Mar-1981	Warehouse ownership	10,000,000	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (SHEUNG SHUI) LIMITED	HK	3-Jul-1987	Warehouse ownership	5,000,000	HK\$1	100%	100%	100%	100%
KERRY WAREHOUSE (TSUEN WAN) LIMITED	HK	8-Jun-1995	Warehouse ownership	2	HK\$1	100%	100%	100%	100%
KerryFlex Supply Chain Solutions Limited	HK	5-Mar-1997	Provision of supply chain solutions service	5,000,000	HK\$1	100%	100%	100%	100%
<sup>(1)</sup> KERRY-ATS LOGISTICS, INC.	Philippines	30-Mar-2009	Freight forwarding	16,000,000	PHP1	51%	51%	51%	51%
<sup>(1)</sup> KERRY-ITS TERMINAL PTE. LTD.	Singapore	18-Nov-1987	ISO tank cleaning and repairing	1,800,000	SGD1	60%	60%	60%	60%
<sup>(1)</sup> KLN INVESTMENT (VIET NAM) CO., LTD.	Vietnam	8-Jun-2009	Logistics business	VND35,000,000,000	-	-	-	100%	100%
<sup>(1)</sup> PT. KERRY LOGISTICS INDONESIA	Indonesia	17-Mar-2004	Freight forwarding and logistics business	50,000	US\$1	90%	90%	90%	90%

	Name	Place of incorporation/ establishment	Date of Incorporation (dd-mm-yyyy)	Principal activities	Issued share capital <sup>(9)</sup> / Registered capital		Interest held indirectly			
					Number/ Amount	Par value per share	31 December		30 June	
							2010	2011	2012	2013
(1)(2)(3)	Shandong D-Express Logistics Co., Ltd.	PRC	1-Jul-2011	Express service	RMB20,000,000	-	70%	70%	70%	70%
(1)(2)(3)	Shanghai Hui Cheng Logistics Co., Ltd.	PRC	30-Nov-1999	Logistics business	RMB10,500,000	-	70%	70%	70%	70%
(2)(5)	Shanghai TCI Freight Forwarding Co., Ltd.	PRC	30-Jun-2011	Freight forwarding	RMB70,000,000	-	-	51%	51%	51%
(2)(3)	Shanghai Wisdom Global Logistics Co., Ltd. (Formerly known as Shanghai Wisdom International Freight Agency Co., Ltd.)	PRC	3-Aug-2010	Freight forwarding	RMB23,000,000	-	70%	70%	70%	70%
(1)(2)(5)	Shenzhen Kerry Yantian Port Logistics Company Limited	PRC	20-Aug-2001	Logistics business	RMB88,000,000	-	55%	55%	55%	55%
(1)	Taiwan Kerry Logistics Company Limited	Taiwan	15-Jun-2012	Investment holding	10,000,000	TWD10	-	100%	100%	100%
(1)	TOP GUN EXPRESS CENTRE LIMITED	HK	10-Dec-2003	Courier services	1,000	HK\$1	-	60%	60%	60%
(1)	Transmode Overseas Transportgesellschaft mbH	Germany	30-Jun-2005	Freight forwarding	EUR25,564.59	-	100%	100%	100%	100%
	WAH CHEONG COMPANY, LIMITED	HK	25-Aug-1949	General merchants	150,000	HK\$100	100%	100%	100%	100%

## Notes:

- (1) companies not audited by PricewaterhouseCoopers
- (2) English translation of name only
- (3) domestic corporation
- (4) wholly foreign-owned enterprise
- (5) sino-foreign equity joint venture enterprise
- (6) listed company in Taiwan Stock Exchange Corporation. The market value of the Group's investment in Kerry TJ amounted to HK\$1,231,359,000, HK\$1,330,839,000, HK\$2,482,711,000 and HK\$1,898,432,000 as at 31 December 2010, 2011 and 2012 and 30 June 2013.

- (7) companies having a financial accounting period which is not coterminous with the Group
- (8) control is obtained by the Group through obtaining power to govern the financial and operating policies of these subsidiaries
- (9) all being ordinary shares and fully paid up except otherwise stated
- (10) common shares
- (11) non-voting deferred shares
- BVI British Virgin Islands
- HK Hong Kong
- PRC The People's Republic of China

The statutory auditors of principal subsidiaries that are not audited by PricewaterhouseCoopers were as following:

Name	Name of statutory auditors			
	2010	2011	2012	June 2013
Albini & Pitigliani Sverige AB	N/A	N/A	N/A	N/A
Arie van Donge & Co. Holding B.V.	Deloitte Touche Tohmatsu 匡正會計師事務所	Deloitte Touche Tohmatsu 匡正會計師事務所	Deloitte Touche Tohmatsu 匡正會計師事務所	Deloitte Touche Tohmatsu 匡正會計師事務所
Beijing Kerry Logistics Ltd.	N/A	N/A	N/A	N/A
Braservice-Assessoria em Comercio Exterior Ltda	N/A	N/A	N/A	N/A
Chengdu Kerry Shudu Logistics Co., Ltd.	N/A	N/A	成都正宜會計師事務所 重慶中隆信會計師事務所	成都正宜會計師事務所 重慶中隆信會計師事務所
Chongqing Lingxian Industry Development Limited	華寅會計師事務所	華寅會計師事務所	成都正宜會計師事務所 重慶中隆信會計師事務所	成都正宜會計師事務所 重慶中隆信會計師事務所
CV Global Logistics (Beijing) Limited	匡正會計師事務所	匡正會計師事務所	匡正會計師事務所	匡正會計師事務所
E.A.E. Freight & Forwarding Sdn. Bhd.	Moore's Rowland	Moore's Rowland	Moore's Rowland	Moore's Rowland
F.D.I COMMERCIAL AND FORWARDING SERVICES COMPANY LIMITED	DFK VIET NAM AUDITING CO., LTD			
INDEV LOGISTICS PRIVATE LIMITED	ASA & Associates Chartered Accountants			
KART (China) Co., Ltd (Formerly known as Shenzhen Dong Meng Logistics Limited)	N/A	N/A	N/A	N/A
KART (THAILAND) LIMITED	N/A	N/A	East BN Audit Co., Ltd.	East BN Audit Co., Ltd.
KART (VIET NAM) COMPANY LIMITED	N/A	N/A	DFK VIET NAM AUDITING CO., LTD	DFK VIET NAM AUDITING CO., LTD
Kerry Distribution (Thailand) Limited	VINET CO., LTD.	A.A.C. Audit Corporation Co., Ltd	DIA International Audit Co., Ltd.	DIA International Audit Co., Ltd.
Kerry EAS Logistics Limited	京都天華會計師事務所有限公司	京都天華會計師事務所有限公司	致同會計師事務所	致同會計師事務所
Kerry Far East Logistics (Bangladesh) Limited	SHAFIQ BASAK & CO.			
Kerry FFTZ Warehouse (Shenzhen) Ltd.	深圳德永會計師事務所	深圳德永會計師事務所	深圳德永會計師事務所	深圳德永會計師事務所
KERRY FREIGHT (SINGAPORE) PTE. LTD. (Formerly known as Kerry Logistics (Singapore) Pte. Ltd.)	RSM Chio Lim LLP			
Kerry Freight (Thailand) Limited	VINET CO., LTD	VINET CO., LTD	East BN Audit Co., Ltd.	East BN Audit Co., Ltd.
Kerry Freight (USA) Incorporated	Kakimoto Nagashima LLP Certified Public Accountants Consultants			
KERRY FREIGHT MYANMAR LIMITED	N/A	N/A	JF Group Audit Firm	JF Group Audit Firm
KERRY INTEGRATED LOGISTICS (VIET NAM) CO., LTD	DFK VIET NAM AUDITING CO., LTD	DFK VIET NAM AUDITING CO., LTD	DFK VIET NAM AUDITING CO., LTD	DFK VIET NAM AUDITING CO., LTD
Kerry Logistics (Bangna) Limited	N/A	N/A	N/A	N/A
KERRY LOGISTICS (CAMBODIA) PTE. LTD.	Morison Kok & Associates CPA	Morison Kok & Associates CPA	APV (Cambodia) Co., Ltd	APV (Cambodia) Co., Ltd
Kerry Logistics (Chengdu) Ltd	成都正宜會計師事務所	成都正宜會計師事務所	成都正宜會計師事務所	成都正宜會計師事務所
Kerry Logistics (China) Investment Limited	京都天華會計師事務所	京都天華會計師事務所	致同會計師事務所	致同會計師事務所
Kerry Logistics (Fuzhou) Co., Ltd.	福建閩瑞會計師事務所	福建閩瑞會計師事務所	福建閩瑞會計師事務所	福建閩瑞會計師事務所
KERRY LOGISTICS (INDIA) PRIVATE LIMITED (Formerly known as KERRY RELIABLE LOGISTICS PRIVATE LIMITED)	ASA & Associates Chartered Accountants			

Name	Name of statutory auditors			
	2010	2011	2012	June 2013
Kerry Logistics (Japan) Limited	N/A	N/A	N/A	N/A
Kerry Logistics (Kunshan) Ltd.	蘇州華明聯合會計師事務所 梁鳳鳴澳門註冊核數師	江蘇金陵會計師事務所 梁鳳鳴澳門註冊核數師	江蘇金陵會計師事務所 梁鳳鳴澳門註冊核數師	江蘇金陵會計師事務所 梁鳳鳴澳門註冊核數師
KERRY LOGISTICS (MACAU) LIMITED	上海中勤萬信會計師事務所	上海中勤萬信會計師事務所	上海中勤萬信會計師事務所	上海中勤萬信會計師事務所
Kerry Logistics (Shanghai Waigaoqiao) Co., Ltd.	N/A	N/A	N/A	N/A
KERRY LOGISTICS (SPAIN) S.A.U. (Formerly known as KERRY SALVAT LOGISTICS, S.A.)	N/A	N/A	Grant Thornton	Grant Thornton
Kerry Logistics (Thailand) Limited	VINET CO., LTD	VINET CO., LTD	East BN Audit Co, Ltd.	East BN Audit Co, Ltd.
Kerry Logistics (Tianjin) Co., Ltd.	天津誠泰有限責任會計師事務所	天津誠泰有限責任會計師事務所	天津誠泰有限責任會計師事務所	天津誠泰有限責任會計師事務所
Kerry Logistics (Wuxi) Co., Ltd	無錫金達信會計師事務所	無錫金達信會計師事務所	無錫金達信會計師事務所	無錫金達信會計師事務所
KERRY LOGISTICS (XIAMEN) CO., LTD.	廈門晟遠會計師事務所	廈門晟遠會計師事務所	廈門市天茂會計師事務所	廈門市天茂會計師事務所
Kerry Logistics (Zhengzhou) Limited	N/A	河南天琳會計師事務所	河南天琳會計師事務所	河南天琳會計師事務所
Kerry Logistics Anhui Co., Ltd.	N/A	N/A	安徽寶申會計師事務所	安徽寶申會計師事務所
KERRY LOGISTICS CENTRE (TAMPINES) PTE. LTD. (Formerly known as KERRY LOGISTICS HUB (SINGAPORE) PTE. LTD.)	N/A	RSM Chio Lim LLP	RSM Chio Lim LLP	RSM Chio Lim LLP
KERRY LOGISTICS MANAGEMENT (ASIA) PTE. LTD.	N/A	RSM Chio Lim LLP	RSM Chio Lim LLP	RSM Chio Lim LLP
KERRY MALSHIP LOGISTICS LANKA (PRIVATE) LIMITED	N/A	N/A	N/A	N/A
Kerry TJ Logistics Company Limited	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu
KERRY TTC EXPRESS JOINT STOCK COMPANY	N/A	N/A	Grant Thornton	Grant Thornton
KERRY-ATS LOGISTICS, INC.	SYCIP Gorres Velayo & Co.	SYCIP Gorres Velayo & Co.	SYCIP Gorres Velayo & Co.	SYCIP Gorres Velayo & Co.
KERRY-ITS TERMINAL PTE. LTD.	Ken Tan & Co.	Ken Tan & Co.	Ken Tan & Co.	Ken Tan & Co.
KLN INVESTMENT (VIETNAM) CO., LTD.	N/A	N/A	DFK VIET NAM AUDITING CO., LTD	DFK VIET NAM AUDITING CO., LTD
PT. KERRY LOGISTICS INDONESIA	HENDRAWINATA EDDY & SIDDHARTA	HENDRAWINATA EDDY & SIDDHARTA	HENDRAWINATA EDDY & SIDDHARTA	HENDRAWINATA EDDY & SIDDHARTA
Shandong D-Express Logistics Co., Ltd.	N/A	匡正會計師事務所	匡正會計師事務所	匡正會計師事務所
Shanghai Hui Cheng Logistics Co., Ltd.	N/A	京都天華會計師事務所	致同會計師事務所	致同會計師事務所
Shenzhen Kerry Yantian Port Logistics Company Limited	深圳德永會計師事務所	深圳衛亞會計師事務所	深圳衛亞會計師事務所	深圳衛亞會計師事務所
Taiwan Kerry Logistics Company Limited	N/A	N/A	Deloitte Touche Tohmatsu	Deloitte Touche Tohmatsu
TOP GUN EXPRESS CENTRE LIMITED	N/A	N/A	Peter Ma & Co	Peter Ma & Co
Transmode Overseas Transportgesellschaft mbH	N/A	KPMG	KPMG	KPMG

## 40 Significant subsequent events

On 20 June 2013, the Group entered into a sale and purchase agreement with the controlling shareholders of Cargo Master's Internacional S.A. de C.V. and Servicios Corporativos Cargo Master's S.A. de C.V. ("Cargo Master") in connection with the purchase of 70% equity interest in each of the abovementioned companies. Cargo Master is mainly engaged in international freight forwarding, customs brokerage and other related logistics services in Mexico.

The acquisition was completed in July 2013 for a cash consideration of USD5,055,000 and a contingent consideration of an undiscounted amount up to a maximum of USD3,355,000 based on a multiple of the earnings before interest and tax of the businesses for two years.

Since the acquisition was not completed as at 30 June 2013, the results and the assets and liabilities of the companies are not consolidated in the financial information of the Group.

The combined statements of financial position of Cargo Master as at 31 December 2010, 2011 and 2012, and 30 June 2013, and the combined income statements, combined statements of comprehensive income, combined statements of changes in equity and combined statements of cash flows for the years ended 31 December 2010, 2011 and 2012 and six months ended 30 June 2012 and 30 June 2013 are presented as follows:

## (a) Combined statements of financial position of Cargo Master

	As at 31 December			As at
	2010	2011	2012	30 June
	HK\$'000	HK\$'000	HK\$'000	2013
				HK\$'000
<b>ASSETS AND LIABILITIES</b>				
<b>Non-current asset</b>				
Property, plant and equipment . . . . .	1,020	1,425	1,411	1,292
	<u>1,020</u>	<u>1,425</u>	<u>1,411</u>	<u>1,292</u>
	-----	-----	-----	-----
<b>Current assets</b>				
Accounts receivable, prepayments and deposits . . . . .	28,223	42,308	40,673	46,560
Tax recoverable . . . . .	3,369	5,716	5,392	3,603
Cash and bank balances . . . . .	12,019	6,507	14,286	11,730
	<u>43,611</u>	<u>54,531</u>	<u>60,351</u>	<u>61,893</u>
	-----	-----	-----	-----
<b>Current liabilities</b>				
Accounts payable, deposits received and accrued charges . . . . .	23,882	27,098	25,630	37,979
Amount due to a related party . . . . .	1,804	4,133	7,744	4,620
Taxation . . . . .	7,531	6,317	4,576	4,426
	<u>33,217</u>	<u>37,548</u>	<u>37,950</u>	<u>47,025</u>
	-----	-----	-----	-----
<b>Net current assets</b> . . . . .	<u>10,394</u>	<u>16,983</u>	<u>22,401</u>	<u>14,868</u>
	-----	-----	-----	-----
<b>ASSETS LESS LIABILITIES</b> . . . . .	<u>11,414</u>	<u>18,408</u>	<u>23,812</u>	<u>16,160</u>
	=====	=====	=====	=====
<b>EQUITY</b>				
<b>Capital and reserves attributable to the Company's shareholder</b>				
Share capital . . . . .	189	189	189	189
Retained profits . . . . .	11,121	20,445	24,498	16,593
Exchange fluctuation reserve . . . . .	104	(2,226)	(875)	(622)
<b>TOTAL EQUITY</b> . . . . .	<u>11,414</u>	<u>18,408</u>	<u>23,812</u>	<u>16,160</u>
	=====	=====	=====	=====

## (b) Combined income statements of Cargo Master

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Revenue . . . . .	168,512	209,046	274,094	119,698	107,745
Direct operating expenses . . . . .	(145,411)	(177,771)	(231,966)	(100,165)	(89,324)
Gross profit . . . . .	23,101	31,275	42,128	19,533	18,421
Other income and net gains . . . . .	143	221	468	231	462
Administrative expenses . . . . .	(19,378)	(19,561)	(27,477)	(10,545)	(15,046)
Operating profit . . . . .	3,866	11,935	15,119	9,219	3,837
Finance costs . . . . .	(7)	(3)	(1)	(1)	(1,100)
Profit before taxation . . . . .	3,859	11,932	15,118	9,218	2,737
Taxation . . . . .	(612)	(2,608)	(5,411)	(5,240)	(2,241)
Profit for the years/periods . . . . .	3,247	9,324	9,707	3,978	496
Dividend . . . . .	-	-	5,654	5,654	8,401

## (c) Combined statements of comprehensive income of Cargo Master

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
Profit for the years/periods . . . . .	3,247	9,324	9,707	3,978	496
Other comprehensive income/(loss) Items that may be reclassified to combined income statement Net translation differences on foreign operations . . . . .	73	(2,330)	1,351	790	253
Total comprehensive income for the years/periods . . . . .	3,320	6,994	11,058	4,768	749

## (d) Combined statements of changes in equity of Cargo Master

	Share capital	Exchange fluctuation reserve	Retained Profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2010 . . . . .	189	31	7,874	8,094
Profit for the year . . . . .	-	-	3,247	3,247
Net translation differences on foreign operations . . . . .	-	73	-	73
Balance at 31 December 2010 . . . . .	189	104	11,121	11,414
Profit for the year . . . . .	-	-	9,324	9,324
Net translation differences on foreign operations . . . . .	-	(2,330)	-	(2,330)
Balance at 31 December 2011 . . . . .	189	(2,226)	20,445	18,408
Profit for the year . . . . .	-	-	9,707	9,707
Net translation differences on foreign operations . . . . .	-	1,351	-	1,351
Dividend paid . . . . .	-	-	(5,654)	(5,654)
Balance at 31 December 2012 . . . . .	189	(875)	24,498	23,812
Profit for the period . . . . .	-	-	496	496
Net translation differences on foreign operations . . . . .	-	253	-	253
Dividend paid . . . . .	-	-	(8,401)	(8,401)
Balance at 30 June 2013 . . . . .	189	(622)	16,593	16,160
<i>(unaudited)</i>				
Balance at 31 December 2011 . . . . .	189	(2,226)	20,445	18,408
Profit for the year . . . . .	-	-	3,978	3,978
Net translation differences on foreign operations . . . . .	-	790	-	790
Dividend paid . . . . .	-	-	(5,654)	(5,654)
Balance at 30 June 2012 . . . . .	189	(1,436)	18,769	17,522

## (e) Combined statements of cash flows of Cargo Master

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (unaudited)	HK\$'000
<b>Operating activities</b>					
Profit before taxation . . . . .	3,859	11,932	15,118	9,218	2,737
Interest income . . . . .	(2)	(8)	(6)	(2)	(7)
Depreciation of property, plant and equipment . . . . .	163	287	410	192	209
Operating profit before working capital changes . . . . .	4,020	12,211	15,522	9,408	2,939
(Increase)/decrease in accounts receivable, prepayments and deposits . . . . .	(9,308)	(14,085)	1,635	(8,190)	(5,887)
Increase in current liabilities, excluding taxation . . . . .	13,039	5,545	2,143	10,285	9,225
Net cash generated from operations . . . . .	7,751	3,671	19,300	11,503	6,277
Income tax paid . . . . .	(625)	(6,169)	(6,828)	(5,183)	(602)
Net cash generated from/(used in) operating activities . . . . .	7,126	(2,498)	12,472	6,320	5,675
<b>Investing activities</b>					
Purchases of property, plant and equipment . . . . .	(386)	(874)	(298)	(296)	(85)
Interest received . . . . .	2	8	6	2	7
Net cash used in investing activities . . . . .	(384)	(866)	(292)	(294)	(78)
<b>Financing activity</b>					
Dividends paid . . . . .	–	–	(5,654)	(5,654)	(8,401)
Net cash used in financing activity . . . . .	–	–	(5,654)	(5,654)	(8,401)
Increase/(decrease) in cash and cash equivalents . . . . .	6,742	(3,364)	6,526	372	(2,804)
Effect of exchange rate changes . . . . .	81	(2,148)	1,253	260	248
Cash and cash equivalents at beginning of the years/periods . . . . .	5,196	12,019	6,507	6,507	14,286
Cash and cash equivalents at end of the years/periods . . . . .	12,019	6,507	14,286	7,139	11,730

## III SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2013 up to the date of this report. No dividend or distribution has been declared or made by the Company or any of the companies comprising the Group in respect of any period subsequent to 30 June 2013.

Yours faithfully,  
**PricewaterhouseCoopers**  
*Certified Public Accountants*  
Hong Kong