Kerry Logistics Network Limited
嘉里物流聯網有限公司

(Incorporated in the British Virgin Islands and continued into Bermuda as an exempted company with limited liability)

Stock Code 636

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

The Board of the Company is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2014, together with comparative figures for the six months ended 30 June 2013.

GROUP'S FINANCIAL HIGHLIGHTS

- Turnover increased by 5% year-on-year to HK$9,984 million (2013 1H: HK$9,522 million)
- Core net profit increased by 8% year-on-year to HK$490 million (2013 1H: HK$455 million)
- IL business achieved a 14% increase in segment profit to HK$687 million (2013 1H: HK$605 million)
- IFF business achieved a 8% increase in segment profit to HK$174 million (2013 1H: HK$161 million)
- Share of results of associates decreased to HK$44 million (2013 1H: HK$72 million)
- Net valuation gains on investment properties was HK$144 million (2013 1H: HK$449 million)
- The Board has declared an interim dividend of 6 HK cents per share, to be payable on Thursday, 18 September 2014

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

	Note	**Unaudited 2014 HK$'000**	Audited 2013 HK$'000
Turnover	2	9,984,310	9,521,789
Direct operating expenses	3	(8,491,594)	(8,095,600)
Gross profit		1,492,716	1,426,189
Other income and net gains		50,799	30,486
Administrative expenses	3	(732,970)	(738,983)
Operating profit before fair value change of investment properties		810,545	717,692
Change in fair value of investment properties		149,730	458,303
Operating profit		960,275	1,175,995
Finance costs	4	(53,322)	(45,096)
Share of results of associates		44,484	71,626
Profit before taxation		951,437	1,202,525
Taxation	5	(165,022)	(146,511)
Profit for the period		786,415	1,056,014
Profit attributable to:			
Company's shareholders	2	634,497	903,555
Non-controlling interests		151,918	152,459
		786,415	1,056,014
Interim dividend	6	101,444	–
Interim dividend per share		6 HK cents	–
Earnings per share			
– Basic	7	HK$0.38	HK$0.70
– Diluted		HK$0.37	HK$0.70

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited 2014 HK$'000	Audited 2013 HK$'000
Profit for the period	786,415	1,056,014
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(111,195)	(97,372)
Other comprehensive loss for the period	(111,195)	(97,372)
Total comprehensive income for the period	675,220	958,642
Total comprehensive income attributable to:		
Company's shareholders	547,418	844,638
Non-controlling interests	127,802	114,004
	675,220	958,642

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		1,933,756	1,968,950
Investment properties		6,517,107	6,379,282
Leasehold land and land use rights		550,837	541,348
Property, plant and equipment		6,750,006	6,531,990
Associates		1,113,237	1,122,576
Available-for-sale investments		52,256	59,052
		16,917,199	16,603,198
Current assets			
Inventories		294,357	164,016
Accounts receivable, prepayments and deposits	8	4,803,556	4,660,562
Tax recoverable		2,580	8,779
Amounts due from fellow subsidiaries		2,125	–
Restricted and pledged bank deposits		7,903	8,710
Cash and bank balances		3,154,852	4,228,367
		8,265,373	9,070,434
Current liabilities			
Accounts payable, deposits received and accrued charges	9	3,670,162	3,973,359
Amounts due to fellow subsidiaries		31,936	1,582
Amounts due to related companies		20,016	6,202
Taxation		179,726	156,983
Short-term bank loans and current portion of long-term bank loans	10	646,396	1,305,243
Bank overdrafts		56,880	20,391
		4,605,116	5,463,760
Net current assets		3,660,257	3,606,674
Total assets less current liabilities		20,577,456	20,209,872

	Note	Unaudited As at 30 June 2014 HK$'000	Audited As at 31 December 2013 HK$'000
Non-current liabilities			
Loans from non-controlling interests		246,015	235,632
Long-term bank loans	10	2,736,882	2,864,332
Deferred taxation		515,188	508,138
Retirement benefit obligations		305,684	315,238
Other non-current liabilities		40,596	70,718
		3,844,365	3,994,058
ASSETS LESS LIABILITIES		16,733,091	16,215,814
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		845,272	828,682
Share premium		2,947,959	2,632,661
Retained profits			
– Proposed dividends		101,444	182,310
– Others		9,537,117	9,018,829
Other reserves		507,656	763,904
		13,939,448	13,426,386
Non-controlling interests		2,793,643	2,789,428
TOTAL EQUITY		16,733,091	16,215,814

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

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. Its registered office is at 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 has its primary listing on the Stock Exchange on 19 December 2013.

These unaudited condensed consolidated interim financial statements are prepared in accordance with HKAS 34 'Interim Financial Reporting' issued by HKICPA and the disclosure requirements of Appendix 16 to the Listing Rules.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRS. Except as described below, the accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2013.

The following amendments to standards and interpretation that are effective for the accounting period of the Group beginning on 1 January 2014 have been published:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-financial Assets
Amendments to HKAS 27 (2011), HKFRS 10 and HKFRS 12	Investment Entities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedging Accounting
HK (IFRIC) Interpretation 21	Levies

In the current interim period, the Group has applied, for the first time, the above amendments to standards and interpretation issued by the HKICPA.

The adoption of the above amendments to standards and interpretation had no material impact on the Group's results and financial position.

The Group has not yet adopted the following new and revised standards, amendments or interpretations that have been issued by the HKICPA but are not yet effective.

Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[2]
Amendments to HKAS 19	Employee Benefits: Defined Benefit Plans – Employees Contributions[1]
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
Amendments to HKFRS 11	Accounting for Acquisitions of Interests In Joint Operations[2]
HKFRS 9	Financial Instruments[4]
HKFRS 9	Financial Instruments (Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39)[4]
HKFRS 14	Regulatory Deferral Accounts[2]
HKFRS 15	Revenue from Contracts with Customers[3]
Annual Improvements Project	Annual Improvements 2010 – 2012 Cycle[1]
Annual Improvements Project	Annual Improvements 2011 – 2013 Cycle[1]

1 Effective for annual periods beginning on or after 1 July 2014

2 Effective for annual periods beginning on or after 1 January 2016

3 Effective for annual periods beginning on or after 1 January 2017

4 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

The Group is in the process of assessing the impact of these new or revised standards, amendments and interpretations, certain of which may be relevant to the Group's operations and may give rise to changes in disclosure and remeasurement of certain items in the condensed consolidated interim financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2013.

2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

An analysis of the Group's financial results by operating segment and geographical area for the six months ended 30 June:

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2014 HK$'000	2013 HK$'000 (Reclassified)	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000 (Reclassified)	**2014 HK$'000**	2013 HK$'000 (Reclassified)	**2014 HK$'000**	2013 HK$'000
Turnover										
Turnover	4,355,819	3,915,391	241,186	234,067	5,387,305	5,372,331	–	–	9,984,310	9,521,789
Inter-segment turnover	114,694	119,015	143,871	127,395	529,105	435,564	(787,670)	(681,974)	–	–
	4,470,513	4,034,406	385,057	361,462	5,916,410	5,807,895	(787,670)	(681,974)	9,984,310	9,521,789
Turnover by geographical area:										
Hong Kong	1,102,241	885,993	385,057	361,462	320,077	271,334	(279,304)	(214,430)	1,528,071	1,304,359
Mainland China	1,619,292	1,515,985	–	–	2,761,797	3,003,512	(295,552)	(270,306)	4,085,537	4,249,191
Taiwan	1,041,872	974,178	–	–	25,826	25,471	(8,735)	(9,674)	1,058,963	989,975
South & South East Asia	632,899	581,617	–	–	966,802	928,532	(107,450)	(106,108)	1,492,251	1,404,041
Europe	–	–	–	–	1,505,794	1,360,412	(46,847)	(51,942)	1,458,947	1,308,470
Others	74,209	76,633	–	–	336,114	218,634	(49,782)	(29,514)	360,541	265,753
	4,470,513	4,034,406	385,057	361,462	5,916,410	5,807,895	(787,670)	(681,974)	9,984,310	9,521,789
Segment profit by geographical area:										
Hong Kong	61,065	55,407	218,152	207,487	8,357	4,696	–	–	287,574	267,590
Mainland China	138,298	108,228	–	–	97,312	107,049	–	–	235,610	215,277
Taiwan	140,121	123,624	–	–	989	581	–	–	141,110	124,205
South & South East Asia	126,833	105,783	–	–	36,894	36,325	–	–	163,727	142,108
Europe	–	–	–	–	32,269	18,439	–	–	32,269	18,439
Others	2,302	4,527	–	–	(1,527)	(6,204)	–	–	775	(1,677)
	468,619	397,569	218,152	207,487	174,294	160,886	–	–	861,065	765,942
Less: Unallocated administrative expenses									(65,563)	(67,955)
Core operating profit									795,502	697,987
Finance income									15,043	19,705
Finance costs									(53,322)	(45,096)
Share of results of associates									44,484	71,626
Profit before taxation*									801,707	744,222
Taxation*									(162,540)	(136,736)
Profit for the period*									639,167	607,486
Non-controlling interests*									(149,202)	(152,402)
Core net profit									489,965	455,084
Change in fair value of investment properties									149,730	458,303
Deferred tax on change in fair value of investment properties									(2,482)	(9,775)
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									(2,716)	(57)
Profit attributable to the Company's shareholders									634,497	903,555
Depreciation and amortisation	154,719	145,055	15,997	14,998	60,050	55,744			230,766	215,797

* *Excluding the change in fair value of investment properties and its related deferred tax*

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, in each geographical area.

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

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

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

Segment turnover and profit derived from geographical areas are based on the geographical location of the operation.

The executive directors assess the performance of the operating segments by geographical area based on segment profit.

The executive directors also assess the performance of the Group based on core operating profit, which is the profit before taxation excluding interest income, finance costs, share of results of associates, and also core net profit, which is the profit attributable to Company's shareholders before the after-tax effect of change in fair value of investment properties.

Prior period corresponding segment information that is presented for comparative purposes has been reclassified to conform to reclassification of operations in cross-border logistics business in Malaysia from logistics operations segment to international freight forwarding segment adopted in the current period.

An analysis of the Group's segment non-current assets by geographical area is as follows:

	Segment non-current assets#	
	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Hong Kong	6,529,682	6,393,359
Mainland China	3,954,766	3,914,629
Taiwan	2,728,836	2,700,038
South & South East Asia	2,881,968	2,777,976
Europe	541,494	538,660
Others	228,197	219,484
	16,864,943	16,544,146

\# *Other than available-for-sale investments.*

3 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Business tax	16,538	17,996
Cost of goods sold	585,649	392,847
Freight and transportation costs	6,354,395	6,319,737
Depreciation of property, plant and equipment	202,802	191,662
Amortisation of leasehold land and land use rights	5,501	4,632
Amortisation of intangible assets	22,463	19,503
Provision for impairment of receivables	13,130	9,402
Reversal of provision for impairment of receivables	(12,639)	(874)
Operating lease charges on land and buildings	265,189	199,136
Employee benefit expenses	1,531,489	1,400,975

4 FINANCE COSTS

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Interest expenses on loans from fellow subsidiaries	–	3,117
Interest expenses on bank loans and overdrafts	53,322	41,979
	53,322	45,096

5 TAXATION

	Six months ended 30 June	
	2014	2013
	HK$'000	HK$'000
Hong Kong profits tax		
– Current	40,803	34,100
– Overprovision in prior years	–	(1,241)
– Deferred	4,892	7,238
	45,695	40,097
Mainland China taxation		
– Current	50,042	49,644
– Under/(over)provision in prior years	715	(57)
– Deferred	1,731	(450)
	52,488	49,137
Overseas taxation		
– Current	67,722	57,045
– Under/(over)provision in prior years	2,771	(2,972)
– Deferred	(3,654)	3,204
	66,839	57,277
	165,022	146,511

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) for the period ended 30 June 2014 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.

MAINLAND CHINA ENTERPRISE INCOME TAX

Mainland China enterprise income tax has been provided at the rate of 25% (2013: 25%) on the estimated assessable profit for the period.

WITHHOLDING TAX ON DISTRIBUTED/UNDISTRIBUTED PROFITS

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

6 DIVIDENDS

A dividend in respect of the six months ended 30 June 2014 of 6 HK cents per share, amounting to a total dividend of HK$101,444,000 is declared. The amount of interim dividend declared was calculated based on the number of ordinary shares in issue at the date of approval of the condensed consolidated interim financial statements. These financial statements do not reflect this dividend payable.

	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Proposed dividend of 6 HK cents(for the year ended 31 December 2013: paid final dividend of 11 HK cents) per ordinary share	101,444	185,930

7 EARNINGS PER SHARE

BASIC

Basic earnings per share is calculated by dividing the profit attributable to the Company's shareholders by the adjusted weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014	2013
Adjusted weighted average number of ordinary shares in issue ('000)	1,687,853	1,295,048
Profit attributable to the Company's shareholders (HK$'000)	634,497	903,555
Basic earnings per share (HK$)	0.38	0.70

DILUTED

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

	Six months ended 30 June	
	2014	2013
Adjusted weighted average number of ordinary shares in issue ('000)	1,687,853	1,295,048
Adjustment for share options ('000)	6,228	–
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,694,081	1,295,048
Profit attributable to the Company's shareholders (HK$'000)	634,497	903,555
Diluted earnings per share (HK$)	0.37	0.70

8 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

Included in accounts receivable, prepayments and deposits are trade receivables. The Group maintains a defined credit policy. The ageing analysis of trade receivables based on the date of the invoice and net of provision for impairment were as follows:

	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Below 1 month	2,067,721	2,218,348
Between 1 month and 3 months	1,272,665	1,282,114
Over 3 months	257,695	179,569
Total trade receivables, net	3,598,081	3,680,031
Prepayments, deposits and other receivables	1,205,475	980,531
	4,803,556	4,660,562

9 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables based on the date of the invoice were as follows:

	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Below 1 month	695,519	889,652
Between 1 month and 3 months	565,477	535,522
Over 3 months	403,835	285,371
Total trade payables	1,664,831	1,710,545
Deposits received, accrued charges and other payables	2,005,331	2,262,814
	3,670,162	3,973,359

10 BANK LOANS

	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Current		
– unsecured	468,296	1,106,351
– secured	178,100	198,892
	646,396	1,305,243
Non-current		
– unsecured	2,391,212	2,408,697
– secured	345,670	455,635
	2,736,882	2,864,332
Total bank loans	3,383,278	4,169,575

11 COMMITMENTS

As at 30 June 2014, the Group had capital commitments in respect of interest in leasehold land and property, plant and equipment not provided for in these financial statements as follows:

	As at 30 June 2014 HK$'000	As at 31 December 2013 HK$'000
Contracted but not provided for	236,757	142,982
Authorised but not contracted for	146,069	175,736
	382,826	318,718

12 CONTINGENT LIABILITIES

The Company has executed guarantees for banking and other facilities granted to certain subsidiaries. The utilised amount of such facilities covered by the guarantees of the Company which also represented the financial exposure of the Company as at 30 June 2014 amounted to approximately HK$1,342,543,000 (31 December 2013: HK$1,171,462,000). The total amount of such facilities covered by the Company's guarantees as at 30 June 2014 amounted to approximately HK$2,416,091,000 (31 December 2013: HK$1,715,449,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2013.

13 PLEDGE OF ASSETS

As at 30 June 2014, the Group's total bank loans and overdrafts of HK$3,440,158,000 (31 December 2013: HK$4,189,966,000) included an aggregate amount of HK$2,896,946,000 (31 December 2013: HK$3,516,458,000) which is unsecured and an aggregate amount of HK$543,212,000 (31 December 2013: HK$673,508,000) 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 of the Group with aggregate net book value of HK$2,628,569,000 (31 December 2013: HK$2,471,311,000); and

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

MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL REVIEW

Despite flat global demand in products, Kerry Logistics recorded a turnover of HK$9,984 million in 2014 1H (2013 1H: HK$9,522 million), an increase of 5% year-on-year. The Group has been successful in improving its profit margin and its core net profit rose 8% to HK$490 million (2013 1H: HK$455 million). Valuation gains on investment properties, net of deferred tax, amounted to HK$144 million (2013 1H: HK$449 million).

During the period, the Group's IL business recorded a solid growth in both its segment turnover and segment profit, mainly driven by its expansion in Greater China and ASEAN countries. IL segment turnover was HK$4,856 million (2013 1H: HK$4,395 million), up 10% year-on-year. Of this, HK$4,471 million (2013 1H: HK$4,034 million) came from logistics operations while HK$385 million (2013 1H: HK$361 million) came from Hong Kong warehouse operations. With double-digit growth in the major geographical segments, IL segment profit grew strongly by 14% to HK$687 million (2013 1H: HK$605 million), of which HK$469 million (2013 1H: HK$398 million) came from logistics operations and HK$218 million (2013 1H: HK$207 million) came from Hong Kong warehouse operations.

The IFF segment reported turnover of HK$5,916 million (2013 1H: HK$5,808 million) and profit of HK$174 million (2013 1H: HK$161 million). With the continuous expansion of its IFF network and the strengthening of business in Europe and Americas, the Group successfully achieved an increase in IFF segment profit by 8% year-on-year.

BUSINESS REVIEW

A GOOD START FOR 2014 – DELIVERING ON THE GROUP'S PROMISES

2014 was a year of growth and consolidation for Kerry Logistics. The Group is actively enhancing its service capabilities in IL businesses in Greater China and ASEAN countries, while restructuring its IFF businesses in Europe and the Americas. The Group continues to seek development and acquisition opportunities across the globe.

During the period, the Group has maintained strong growth with improved segment profit and margin. The IL business achieved double-digit growth, attesting to the Group's buoyant prospects.

PROVEN BUSINESS MODEL

The Group's business focuses on two major segments: IL and IFF, and offers its customers total supply chain solutions comprising both elements. The IL segment consists of logistics operations and Hong Kong warehouse. The Group also holds strategic investments in several associates.

IL – EXPANDING NETWORK AND SCOPE

Kerry Logistics' IL segment provides a wide range of highly customised solutions to enhance customers' supply chain efficiency. It operates with an asset ownership model which differentiates its offerings with unparalleled flexibility and reliability to customers. As at 30 June 2014, the Group managed a logistics facility portfolio of 42 million square feet, of which 22 million square feet are self-owned.

In 2014 1H, the IL segment maintained solid growth on the back of expanding network and coverage in Greater China and ASEAN countries, and with more higher-margin value-added services and new customer wins.

HK$M	2014 1H	2013 1H	
Turnover*			
– Logistics operations	4,471	4,034	11%
– Hong Kong warehouse	385	361	7%
Total	4,856	4,395	10%
Segment profit			
– Logistics operations	469	398	18%
– Hong Kong warehouse	218	207	5%
Total	687	605	14%

Includes inter-segment turnover

IL IN GREATER CHINA – EXTENDING GEOGRAPHICAL COVERAGE

As at 30 June 2014, Kerry Logistics managed 14 million square feet of logistics facilities in Mainland China, which are supported by a network of more than 200 subsidiaries, branches and representative offices, serving more than 2,600 delivery zones.

As a leading international 3PL service provider in Greater China, the Group is currently serving a wide range of industries with tailored supply chain solutions. Leveraging its extensive network and proven track record in the region, Kerry Logistics is able to extend the existing services to its customers from one location to multiple cities. During the period, it improved its margin significantly by fulfilling the stringent requirements of highly complex supply chains of various industries.

Concurrent with the rise in economic activity signalled by the pick-up in Mainland China's PMI, the Group completed two new logistics centres in 2014 1H in Zhengzhou and Kunshan. It has also kicked off construction for another logistics centre in Chengdu and will start to build a new logistics facility in Xian in 2014 Q4.

A new consumer protection law in Mainland China, passed in March 2014, features a "buyer's remorse" provision for returns within seven days of goods receipt with no questions asked. This will generate opportunities for reverse logistics through the increase in merchandise returns cargo for the Group's B2B customers, driving demand for related value-added services such as testing, repairs, repacks and re-positioning.

ZHENGZHOU

The new Kerry Zhengzhou Logistics Centre has a total area of 366,000 square feet and targets to commence operations in 2014 2H. Located in Mainland China's central region, Zhengzhou serves as the country's road, rail and air transport hubs. It has gradually been developed as a manufacturing base with its neighbouring cities. The Group's new facility in Zhengzhou is built to meet the growing demand of logistics services for the consumer electronics, automotive parts and fashion industries.

KUNSHAN

Kerry Kunshan Logistics Centre (Phase 2) is designed to capture the fast-growing demand in Mainland China's automotive industry. It includes a purpose-built 363,000 square feet automotive parts logistics facility for Daimler and Mercedes Benz. The facility provides the customer with a hub for regional automotive parts distribution throughout the country.

CHENGDU

Kerry Logistics is also expanding its business in western part of Mainland China by building another new logistics centre in Chengdu. In March 2013, the Group purchased a parcel of land in Longquanyi District, in the southeastern region of Chengdu. Construction of the new 592,000 square feet facility began in March 2014, with completion scheduled in 2015 Q1. The new facility will provide IL, regional distribution and value-added services to meet the growing demands of the automotive industry in the region.

XIAN

In March 2014, the Group purchased a parcel of land in Xixian New District of Xian. Construction of the new 273,000 square feet facility is scheduled to begin in 2014 Q4. This new facility will strengthen the Group's comprehensive logistics network in the western region of Mainland China.

HONG KONG

Turnover generated by the logistics operations in Hong Kong increased by 24% in 2014 1H, compared with the year-ago period. In January 2014, the Group launched Kerry Pharma in Hong Kong to tap into the ever-growing pharmaceutical and healthcare market, covering representation and distribution, regulatory intelligence, registration and delivery of healthcare products. Apart from obtaining the wholesales poison licence from the Department of Health, the Group also set up a brand-new GMP-compliant secondary packaging facility for special pharmaceutical products.

In 2014 1H, Kerry Logistics also expanded into the automotive sector by being appointed to provide automotive parts logistics services to several renowned automotive brands in Hong Kong, covering warehousing and delivery to their service centres. Other new customers included international brands from the fashion and lifestyle, food and beverage, as well as the FMCG sectors.

TAIWAN

The Group made further inroads in reforming its organisational structure and business model, to strengthen its operations and improve profit margins. It also enhanced its logistics capabilities in the pharmaceutical and healthcare sector by attaining the GDP from the Taiwan Food and Drug Administration through its subsidiary, as well as by upgrading its facilities to offer customers cost-effective and reliable delivery of medical supplies.

IL IN ASEAN – STRENGTHENING PRESENCE TO FUEL GROWTH

Over the years, Kerry Logistics has developed into a leading 3PL service provider in the ASEAN region, with a particularly strong presence in Thailand and Vietnam which have been driving its growth in the region.

THAILAND

The political instability in Thailand had a short-term effect on the Group's operations and its business resumed to normal towards the end of 2014 1H. During the period, Kerry Express (Thailand) was one of the fastest-growing businesses with a network of over 80 distribution centres and depots. Phase 1 of the Kerry Bangna Logistics Centre is under construction and will serve as a new sorting centre for Kerry Express and a fulfillment centre for the e-commerce customers upon its completion.

The second phase of the new logistics centre in Rayong was completed in 2014 Q1, bringing the total GFA to 381,000 square feet.

To develop Kerry Siam Seaport into a key cargo gateway for the growing trade in ASEAN, a new warehouse and a new Inland Container Depot were added.

VIETNAM

In June 2014, Kerry Logistics proceeded to increase its controlled interest in its express arm in Vietnam to 96%. The Group will continue to strengthen its service capabilities by expanding into new market sectors and into third-tier townships and villages with more service locations, as well as by optimising its local delivery network to tap into the growing e-commerce business.

SINGAPORE

Serving as the regional headquarters for Kerry Logistics' Southeast Asian operations, the Group's regional logistics hub in Singapore commenced operations in 2013. It now provides IL and a wide range of value-added services to several luxury fashion brands and an electronics customer.

OTHER COUNTRIES

In other parts of ASEAN, the Group has been actively pursuing development opportunities in Cambodia, Indonesia, Malaysia, Myanmar and The Philippines.

HONG KONG WAREHOUSING BUSINESS – SUSTAINING LEADERSHIP

Kerry Logistics' Hong Kong warehouse portfolio comprised nine warehouses with a combined GFA of 5.1 million square feet. It maintained nearly full occupancy and achieved double-digit growth in rentals for successful contract renewals. Its contribution is expected to grow steadily.

IFF – CONSOLIDATING AMID RECOVERY

Kerry Logistics' IFF business transports cargo globally through air, ocean and cross-border road and rail freight. During the period, the Group restructured its business in Europe which has helped to deliver satisfactory results in tandem with the gradual economic recovery in the region.

While the Group's IFF business recorded volume growth in 2014 1H, its segment profit margin rose to about 3%, bringing it closer to the international standard.

HK$M	**2014 1H**	2013 1H	
Turnover*	5,916	5,808	2%
Segment profit	174	161	8%

** Includes inter-segment turnover*

Kerry Logistics took full control of the KART business in Malaysia and Thailand by increasing its controlled interests to 100% in May 2014, six years after the business was acquired. Turning the Thai and Malay legs under KART as wholly-owned subsidiaries enabled the Group to further integrate the operations in the two countries into its global network. KART is a cross-border road transportation network connecting ASEAN countries and Mainland China, providing customers with effective long-haul trucking as well as sea-land and air-land services.

On the other hand, Kerry Logistics expanded its IFF operation in Australia and New Zealand by confirming to form new JVs as well as in West Africa by setting up a new office in Senegal.

While the Group intensely strengthened its business and operations and identified expansion opportunities in Europe and the Americas, the United Kingdom, Spain and Sweden were among the top three countries outside Asia which achieved outstanding performance.

PERFORMANCE OF ASSOCIATES NOT IN SYNC WITH THE GROUP'S

The Group recorded a profit drop of HK$28 million to HK$44 million from its investments in associates (2013 1H: HK$72 million), which largely dragged down the Group's overall results. The investments include mainly the Group's 25% interest in Chiwan Container Terminal in Mainland China, and 15% interest in the Asia Airfreight Terminal in Hong Kong.

LOGISTICS INDUSTRY OUTLOOK TO REMAIN POSITIVE

In 2014 1H, the global demand remained flat and this trend is likely to extend to 2015.

Nevertheless, Kerry Logistics' extensive network and exposure in a wide spectrum of industries will enable it to explore new business opportunities for further service enhancement and market penetration. The Group expects to maintain its growth, buoyed by the continued rise of Asia's middle-class consumption. Looking ahead, Kerry Logistics will further strengthen its IL and IFF businesses through continuous improvement, developing its network and securing acquisition opportunities.

Kerry Logistics' positioning as "Asia Specialist, China Focus, Global Network" gives it a strong foothold in the region, as well as a robust platform for IL and IFF growth across the world. This will help Kerry Logistics consolidate its position as a leading Asia-based logistics service provider, to deliver solid growth and returns to the Shareholders.

FINANCIAL REVIEW

On 19 December 2013, the Company was listed on the Stock Exchange. The net proceeds from the Global Offering, including the over-allotment option exercised subsequently, was approximately HK$2,378 million, after deducting underwriting fee and relevant listing expenses. The proceeds were and will be used in accordance with the purposes as disclosed in the Prospectus.

The Group has centralised financing policies and control over all its operations which enables the Group having a tight control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 30 June 2014, total foreign currency borrowings amounted to the equivalence of HK$1,788 million, which represented 53% of the Group's total bank loans of HK$3,383 million as at 30 June 2014.

Out of the Group's total bank loans as at 30 June 2014, HK$646 million (representing approximately 19%) was repayable within one year, HK$186 million (representing approximately 5%) was repayable in the second year, HK$2,499 million (representing approximately 74%) was repayable in the third to fifth years and HK$52 million (representing approximately 2%) was repayable over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounted for approximately 85% of total bank loans. Majority of the bank loans were at floating interest rates and were not held for hedging purposes.

As at 30 June 2014, the gearing ratio of the Group was 24.7% (31 December 2013: 31.2%). The ratio was calculated as total bank loans and bank overdrafts, divided by equity attributable to the Shareholders.

As at 30 June 2014, the Group had total undrawn bank loan and overdraft facilities of HK$4,358 million. The Group will continue to secure financing as and when the need arises.

STAFF AND REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 19,500 employees. The remuneration to employees includes salaries, which is maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed regularly. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes, share option schemes and RSU scheme.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. During the six months ended 30 June 2014, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements have been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and by the audit and compliance committee of the Company. The review report of the independent auditor will be included in the interim report to be sent to the Shareholders.

EVENTS AFTER THE LATEST ANNUAL REPORT

There were no significant events affecting the Company nor any of its subsidiaries after the latest annual report requiring disclosure in this announcement.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 4 September 2014 in order to determine the entitlement of the Shareholders to the interim dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Wednesday, 3 September 2014. The interim dividend is payable on Thursday, 18 September 2014 to the Shareholders whose names appear on the Registers of Members on 4 September 2014.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kerrylogistics.com).

The interim report for the six months period containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

"1H" or "2H"	first half or second half
"3PL"	third-party logistics
"ASEAN"	the Association of Southeast Asia Nations
"B2B"	business to business
"Board"	the board of Directors
"CG Code"	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
"Company"	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange
"Directors"	directors of the Company
"FMCG"	fast-moving consumer goods
"GDP"	good distribution practice
"GFA"	gross floor area
"Global Offering"	the initial public offering of the shares of the Company whereby the shares were listed on the Main Board of the Stock Exchange on 19 December 2013
"GMP"	good manufacturing practice
"Greater China"	Mainland China, Hong Kong, Macau and Taiwan
"Group" or "Kerry Logistics"	the Company and its subsidiaries
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong
"HKAS"	Hong Kong Accounting Standards
"HKFRS"	Hong Kong Financial Reporting Standards
"HKICPA"	Hong Kong Institute of Certified Public Accountants

"Hong Kong"	Hong Kong Special Administrative Region of Mainland China
"IFF"	international freight forwarding
"IL"	integrated logistics
"JV"	joint venture
"KART"	Kerry Asia Road Transport
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Mainland China"	The People's Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"PMI"	purchasing managers' index
"Prospectus"	prospectus of the Company dated 6 December 2013
"Q1" or "Q4"	first quarter or fourth quarter
"Registers of Members"	registers of members of the Company
"RSU"	restricted share unit
"Shareholders"	the holders of the shares of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 18 August 2014

As at the date of this announcement, the Directors of the Company are:

Executive Directors:
Mr YEO George Yong-boon, Mr MA Wing Kai William, Mr ERNI Edwardo and Mr KUOK Khoon Hua

Non-executive Director:
Mr QIAN Shaohua

Independent Non-executive Directors:
Ms WONG Yu Pok Marina, Mr WAN Kam To and Mr YEO Philip Liat Kok