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 YEAR ENDED 31 DECEMBER 2018

The Board of the Company is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017.

GROUP'S FINANCIAL HIGHLIGHTS

- Turnover increased by 24% to HK$38,139 million (2017: HK$30,788 million)
- Core operating profit increased by 11% to HK$2,364 million (2017: HK$2,128 million)
- Core net profit increased by 12% to HK$1,326 million (2017: HK$1,183 million)
- Profit attributable to the Shareholders increased by 15% to HK$2,440 million (2017: HK$2,116 million)
- IL business recorded a 14% increase in segment profit to HK$2,111 million (2017: HK$1,846 million)
- IFF business recorded a 7% increase in segment profit to HK$549 million (2017: HK$511 million)
- Dividend Payout Ratio, excluding special dividend, is 32% (2017: 32%)
- Proposed final dividend of 16 HK cents per share, to be payable on Thursday, 20 June 2019
- Potential gain of approximately HK$2 billion estimated from the disposal of two warehouses in Hong Kong by the Group, subject to independent shareholders' approval and certain conditions for completion

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2018 HK$'000	2017 HK$'000
Turnover	2	38,138,528	30,787,654
Direct operating expenses	4	(33,382,961)	(26,606,662)
Gross profit		4,755,567	4,180,992
Other income and net gains	3	176,462	160,011
Administrative expenses	4	(2,538,268)	(2,178,782)
Operating profit before fair value change of investment properties		2,393,761	2,162,221
Change in fair value of investment properties		1,097,933	901,632
Operating profit		3,491,694	3,063,853
Finance costs	5	(224,245)	(159,825)
Share of results of associates and joint ventures		110,734	64,784
Profit before taxation		3,378,183	2,968,812
Taxation	6	(506,561)	(469,350)
Profit for the year		2,871,622	2,499,462
Profit attributable to:			
Company's shareholders		2,439,775	2,115,897
Non-controlling interests		431,847	383,565
		2,871,622	2,499,462
Earnings per share	8		
– Basic		HK$1.44	HK$1.25
– Diluted		HK$1.43	HK$1.25

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2018	2017
	HK$'000	HK$'000
Profit for the year	2,871,622	2,499,462
Other comprehensive (loss)/income		
Items that will not be reclassified subsequently to consolidated income statement		
Defined benefit pension plans		
– Actuarial losses	(13,014)	(9,892)
– Deferred income tax	2,239	1,682
Fair value change on financial assets at fair value through other comprehensive income	22,290	–
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(538,833)	973,697
Fair value change on available-for-sale investments	–	(2,000)
Other comprehensive (loss)/income for the year (net of tax)	(527,318)	963,487
Total comprehensive income for the year	2,344,304	3,462,949
Total comprehensive income attributable to:		
Company's shareholders	2,025,173	2,857,346
Non-controlling interests	319,131	605,603
	2,344,304	3,462,949

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		4,250,877	3,884,482
Investment properties		11,039,020	9,892,482
Leasehold land and land use rights		590,450	625,550
Property, plant and equipment		10,347,048	9,423,181
Associates and joint ventures		1,472,268	1,409,486
Financial assets at fair value through other comprehensive income		170,799	–
Available-for-sale investments		–	100,811
Investment in convertible bonds		192,710	564,397
Deferred taxation		85,580	98,432
		28,148,752	25,998,821
Current assets			
Financial assets at fair value through profit or loss		261,884	109,841
Investment in convertible bonds		351,052	–
Inventories		425,217	333,758
Accounts receivable, prepayments and deposits	9	9,502,889	7,568,472
Tax recoverable		15,281	41,236
Amounts due from fellow subsidiaries		1,508	5,641
Restricted and pledged bank deposits		20,148	22,926
Cash and bank balances		4,305,949	3,569,626
		14,883,928	11,651,500
Current liabilities			
Accounts payable, deposits received and accrued charges	10	6,795,738	5,565,831
Amounts due to fellow subsidiaries		–	451
Amounts due to related companies		24,795	34,375
Taxation		368,407	246,348
Short-term bank loans and current portion of long-term bank loans	11	4,936,902	3,955,722
Bank overdrafts		193,076	51,006
		12,318,918	9,853,733

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
Non-current liabilities			
Loans from non-controlling interests		177,833	166,826
Long-term bank loans	11	4,569,564	4,198,758
Deferred taxation		673,955	662,629
Retirement benefit obligations		112,921	137,054
Other non-current liabilities		1,511,941	1,364,443
		7,046,214	6,529,710
ASSETS LESS LIABILITIES		23,667,548	21,266,878
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		852,632	848,044
Share premium and other reserves		3,140,183	2,793,363
Retained profits		17,221,259	15,400,585
		21,214,074	19,041,992
Put options written on non-controlling interests		(1,170,801)	(1,218,331)
		20,043,273	17,823,661
Non-controlling interests		3,624,275	3,443,217
TOTAL EQUITY		23,667,548	21,266,878

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRS issued by HKICPA. In addition, these financial statements also comply with the applicable disclosure provisions of the Listing Rules.

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's shares are listed on The Stock Exchange of Hong Kong Limited.

Kerry Group Limited, a private company incorporated in the Cook Islands, is the ultimate holding company.

(I) ADOPTION OF NEW STANDARDS, AMENDMENTS, INTERPRETATIONS AND IMPROVEMENTS TO EXISTING STANDARDS

The following new standards, amendments, interpretations and improvements to existing standards have been published that are effective for the Group's accounting period beginning on 1 January 2018:

- HKFRS 9, 'Financial instruments'
- HKFRS 15, 'Revenue from contracts with customers'
- Amendments to HKAS 40, 'Transfer of investment property'
- Amendments to HKFRS 2, 'Classification and measurement of share-based payment transactions'
- Amendments to HKFRS 4, 'Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts'
- Amendments to HKFRS 15, 'Clarifications to HKFRS 15'
- HK(IFRIC)-Int 22, 'Foreign Currency transactions and advance consideration'
- Annual improvements project, 'Annual improvements 2014-2016 cycle'

Except for HKFRS 9 and 15 described in Note 1(II), the adoption of the above amendments to existing standards, interpretations and improvements had no material impact on the Group's results and financial position.

(II) CHANGE IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 'Financial instruments' and HKFRS 15 'Revenue from contracts with customers' on the Group's financial statements.

(i) HKFRS 9 'FINANCIAL INSTRUMENTS'

HKFRS 9 'Financial instruments' replaces the whole of HKAS 39 'Financial instruments: Recognition and measurement'. It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules of hedge accounting and provides a new impairment model for financial assets.

The adoption of HKFRS 9 'Financial instruments' from 1 January 2018 resulted in changes in accounting policies. In accordance with the transitional provisions in HKFRS 9(7.2.15) and (7.2.26), comparative figures have not been restated.

- Classification and measurement

  On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories.

  There were no changes to the carrying amount of the financial assets and liabilities through transition. For the investment in equity securities previously classified as available-for-sale financial asset, the Group elected to present its change in fair value in other comprehensive income ("FVOCI").

  The Group elected to present in other comprehensive income changes in the fair value of all its equity investments previously classified as available-for-sale, because these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of HK$100,811,000 were reclassified from available-for-sale financial assets to financial assets at FVOCI and HK$11,573,000 were reclassified from the available-for-sale financial assets reserve to the FVOCI reserve on 1 January 2018.

  Investments in convertible bonds are classified as fair value through profit or loss under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

- Impairment of financial assets

  The Group has two types of financial assets that are subject to HKFRS 9's new expected credit loss model:

  (1) accounts receivable and deposits; and

  (2) amounts due from fellow subsidiaries, associates and joint ventures.

  While cash and bank balances and restricted and pledged bank deposits are also subject to the impairment requirements of HKFRS 9, the expected credit loss is considered immaterial.

  For accounts receivables, the Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Management performed a detailed assessment of expected credit losses on the date of initial application of HKFRS 9 and has concluded that there was no material impact on the Group's impairment allowance and its equity.

  For amounts due from fellow subsidiaries, associates and joint ventures, the management considered that its credit risk has not increased significantly since initial recognition as each of the fellow subsidiaries, associates and joint ventures have low risk of default and a strong capacity to meet contractual cash flows. The impairment provision is determined based on 12 months expected credit losses which are minimal.

(ii) HKFRS 15 'REVENUE FROM CONTRACTS WITH CUSTOMERS'

HKFRS 15 'Revenue from contracts with customers' replaces the previous revenue standards, including HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and the related interpretations on revenue recognition, and is effective from 1 January 2018.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to be recognised through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service is transferred to a customer.

The adoption of HKFRS 15 'Revenue from contracts with customers' from 1 January 2018 resulted in changes in accounting policies. The Group has also elected to apply the modified retrospective approach whereby the effects of adopting HKFRS 15 as at 1 January 2018 are adjusted at the opening balance of equity as at 1 January 2018 and prior period comparatives are not restated. Management has carried out assessment on the effects of applying the new standard on the Group's consolidated financial statements and has concluded that there is no significant impact on the Group's consolidated financial statement.

(III) NEW STANDARDS, AMENDMENTS AND IMPROVEMENTS TO EXISTING STANDARDS AND INTERPRETATIONS WHICH ARE NOT YET EFFECTIVE

The following new standards, amendments and improvements to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2019, but the Group has not early adopted them:

	Applicable for accounting periods beginning on/after
Annual improvements project, 'Annual improvements 2015-2017 cycle'	1 January 2019
Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'	1 January 2019
Amendments to HKAS 28, 'Long-term interests in associates and joint ventures'	1 January 2019
Amendments to HKFRS 9, 'Prepayment features with negative compensation'	1 January 2019
HKFRS 16, 'Leases'	1 January 2019
HK (IFRIC) – Int 23, 'Uncertainty over income tax treatments'	1 January 2019
Amendments to HKAS 28 (2011) and HKFRS 10, 'Sales or contribution of assets between an investor and its associate or joint venture'	To be determined
Amendments to HKAS 1, 'Presentation of financial statements' and HKAS 8 'Accounting Policies, Changes in accounting estimates and errors'	1 January 2020
Amendments to HKFRS 3, 'Definition of a business'	1 January 2020
HKFRS 17, 'Insurance contract'	1 January 2021

The Group will adopt the above new standards, amendments and improvements to existing standards and interpretations as and when they become effective. None of the above is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

HKFRS 16, 'LEASES'

HKFRS 16 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for in the statements of financial position for lessees. The accounting for lessors will not significantly change. The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, and provides that almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of twelve months or less and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straightline depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straightline depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term and the Group will also classify cash prepayments in the lease liability into a principal portion and an interest portion and will present them in the consolidated statement of cash flows.

The Group is considering to elect the modified retrospective approach upon the initial adoption.

Under the modified retrospective approach, (i) comparative information for prior periods is not restated; (ii) the date of the initial application of HKFRS 16 is the first day of the annual reporting period in which the Group first applies the requirement of HKFRS 16, i.e. 1 January 2019; and (iii) the Group will recognise the cumulative effect of initially applying the guidance as an adjustment to the opening balance of the consolidated statement of financial position in the year of adoption, i.e. as at 1 January 2019.

Upon adoption of HKFRS 16, the Group will recognise a liability reflecting these future lease payments and right-of-use assets, unless the underlying asset is of low value or they are short-term leases, in its consolidated statement of financial position. As at 31 December 2018, the Group has non-cancellable operating lease commitments of HK$1,663,251,000. The Group measures the right-of-use asset on transactions by measuring the asset at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments recognised immediately before the date of initial application.

The Group's activities as a lessor does not expect any significant impact on consolidated financial statements.

2. PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

An analysis of the Group's financial results by operating segment and geographical area for the year ended 31 December 2018, together with comparative figures for the year ended 31 December 2017, is as follows:

	For the year ended 31 December									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Turnover										
Turnover	16,526,529	13,124,054	340,661	488,159	21,271,338	17,175,441	–	–	38,138,528	30,787,654
Inter-segment turnover	434,620	294,988	431,667	425,170	4,194,555	2,206,120	(5,060,842)	(2,926,278)	–	–
	16,961,149	13,419,042	772,328	913,329	25,465,893	19,381,561	(5,060,842)	(2,926,278)	38,138,528	30,787,654
Turnover by geographical area:										
Hong Kong	4,108,434	3,136,667	772,328	913,329	1,881,532	946,844	(1,623,298)	(916,031)	5,138,996	4,080,809
Mainland China	4,332,923	4,164,049	–	–	7,700,826	5,967,354	(2,043,601)	(1,048,907)	9,990,148	9,082,496
Taiwan	2,700,353	2,493,385	–	–	446,655	221,287	(173,463)	(21,070)	2,973,545	2,693,602
Asia	5,676,211	3,470,621	–	–	4,521,047	3,553,369	(647,011)	(551,597)	9,550,247	6,472,393
Americas	–	–	–	–	6,736,931	5,477,685	(430,109)	(249,122)	6,306,822	5,228,563
Europe	–	–	–	–	3,700,065	2,865,795	(116,192)	(116,748)	3,583,873	2,749,047
Others	143,228	154,320	–	–	478,837	349,227	(27,168)	(22,803)	594,897	480,744
	16,961,149	13,419,042	772,328	913,329	25,465,893	19,381,561	(5,060,842)	(2,926,278)	38,138,528	30,787,654
Segment profit by geographical area:										
Hong Kong	316,253	230,152	559,545	545,420	47,559	26,762	–	–	923,357	802,334
Mainland China	216,366	245,085	–	–	167,886	187,107	–	–	384,252	432,192
Taiwan	404,515	388,140	–	–	21,677	4,779	–	–	426,192	392,919
Asia	584,085	425,352	–	–	104,172	75,498	–	–	688,257	500,850
Americas	–	–	–	–	177,265	174,099	–	–	177,265	174,099
Europe	–	–	–	–	13,488	23,540	–	–	13,488	23,540
Others	29,701	11,806	–	–	17,217	19,454	–	–	46,918	31,260
	1,550,920	1,300,535	559,545	545,420	549,264	511,239	–	–	2,659,729	2,357,194
Less: Unallocated administrative expenses									(295,404)	(229,216)
Core operating profit									2,364,325	2,127,978
Finance income									43,436	19,243
Finance costs									(224,245)	(159,825)
Share of results of associates and joint ventures									110,734	64,784
Profit before taxation*									2,294,250	2,052,180
Taxation*									(527,601)	(485,017)
Profit for the year*									1,766,649	1,567,163
Non-controlling interests*									(440,319)	(384,100)
Core net profit									1,326,330	1,183,063
Change in fair value of investment properties									1,097,933	901,632
Deferred tax on change in fair value of investment properties									21,040	15,667
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									8,472	535
Fair value change of financial instruments									(14,000)	65,000
Goodwill impairment									–	(50,000)
Profit attributable to the Company's shareholders									2,439,775	2,115,897
Depreciation and amortisation	544,763	425,252	54,477	53,365	179,996	161,272			779,236	639,889

* *Excluding the change in fair value of investment properties and its related deferred tax, fair value change of financial instruments and goodwill impairment*

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 joint ventures, and also core net profit, which is the profit attributable to the Company's shareholders before the after-tax effect of change in fair value of investment properties, fair value change of financial instruments and goodwill impairment.

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

	Segment non-current assets#	
	2018	2017
	HK$'000	HK$'000
Hong Kong	11,083,800	9,883,612
Mainland China	4,904,953	4,730,844
Taiwan	3,464,146	3,286,008
Asia	6,380,010	5,610,408
Americas	960,427	986,335
Europe	769,337	609,388
Others	136,990	128,586
	27,699,663	25,235,181

Other than financial assets at fair value through other comprehensive income, available-for-sale investments, investment in convertible bonds and deferred taxation.

3. OTHER INCOME AND NET GAINS

	2018 HK$'000	2017 HK$'000
Interest income from banks	37,761	17,454
Interest income from associates	5,675	1,789
Interest income from convertible bonds	21,096	27,219
Dividend income from available-for-sale investments	–	6,860
Dividend income from financial assets at fair value through other comprehensive income	10,643	–
Gain on disposal of property, plant and equipment	38,729	60,015
Gain on disposal of an investment property	–	35,304
Loss on disposal of an associate	(424)	–
Gain on disposal of subsidiaries	84,086	–
Fair value change of financial assets at fair value through profit or loss	(21,104)	61,370
Goodwill impairment	–	(50,000)
	176,462	160,011

4. EXPENSES BY NATURE

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

	2018 HK$'000	2017 HK$'000
Auditors' remuneration	24,545	21,887
Business tax and other taxes	13,543	15,265
Cost of goods sold	1,515,436	1,398,657
Freight and transportation costs	26,700,541	21,088,950
Depreciation of property, plant and equipment	662,315	541,294
Amortisation of leasehold land and land use rights	10,262	8,722
Amortisation of intangible assets	106,659	89,873
Provision for impairment of receivables	64,678	25,275
Reversal of provision for impairment of receivables	(1,963)	(4,040)
Operating leases charges on land and buildings	788,416	659,589
Employee benefit expenses	5,197,302	4,274,793

5. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest expenses on bank loans and overdrafts	224,245	159,825

6. TAXATION

	2018 HK$'000	2017 HK$'000
Hong Kong profits tax		
– Current	134,321	96,328
– Overprovision in prior years	(614)	(4,356)
– Deferred	(835)	14,844
	132,872	106,816
PRC taxation		
– Current	89,836	114,462
– Overprovision in prior years	(589)	(211)
– Deferred	(13,974)	(3,560)
	75,273	110,691
Overseas taxation		
– Current	300,673	258,719
– (Over)/underprovision in prior years	(18,635)	6,479
– Deferred	16,378	(13,355)
	298,416	251,843
	506,561	469,350

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) for the year ended 31 December 2018 on the estimated assessable profit for the year. Income tax on the overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the overseas countries in which the Group operates.

PRC ENTERPRISE INCOME TAX

PRC enterprise income tax has been provided at the rate of 25% (2017: 25%) on the estimated assessable profit for the year.

WITHHOLDING TAX ON DISTRIBUTED/UNDISTRIBUTED PROFITS

Withholding tax in the Group's subsidiaries, associates and joint ventures is levied on profit distribution upon declaration/remittance and in respect of the undistributed earnings for the year at the rates of taxation prevailing in the PRC and overseas countries.

The Group's share of associates' and joint ventures' taxation for the year ended 31 December 2018 is HK$18,869,000 (2017: HK$15,149,000) and included in the share of results of associates and joint ventures in the consolidated income statement.

7. DIVIDENDS

A final dividend in respect of the year ended 31 December 2018 of 16 HK cents per share, amounting to a total dividend of HK$272,842,000, is to be proposed at the annual general meeting on 31 May 2019. These financial statements do not reflect this dividend payable.

	2018 **HK$'000**	2017 HK$'000
Interim dividend paid of 9 HK cents (2017: 8 HK cents) per ordinary share	153,032	135,688
Special dividend paid of 12 HK cents (2017: Nil) per ordinary share	204,041	–
Proposed final dividend of 16 HK cents (2017: 14 HK cents) per ordinary share	272,842	237,452
	629,915	373,140

8. 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 year.

	2018	2017
Adjusted weighted average number of ordinary shares in issue	1,698,719,179	1,695,782,834
Profit attributable to the Company's shareholders (HK$'000)	2,439,775	2,115,897
Basic earnings per share (HK$)	1.44	1.25

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.

	2018	2017
Adjusted weighted average number of ordinary shares in issue	1,698,719,179	1,695,782,834
Adjustment for share options	3,812,012	1,970,800
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,702,531,191	1,697,753,634
Profit attributable to the Company's shareholders (HK$'000)	2,439,775	2,115,897
Diluted earnings per share (HK$)	1.43	1.25

9. 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 is as follows:

	2018 HK$'000	2017 HK$'000
Below 1 month	4,372,337	3,454,716
Between 1 month and 3 months	2,662,406	2,041,199
Over 3 months	498,890	410,740
Total trade receivables, net	7,533,633	5,906,655
Prepayments, deposits and other receivables	1,969,256	1,661,817
	9,502,889	7,568,472

10. 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 is as follows:

	2018 HK$'000	2017 HK$'000
Below 1 month	2,322,677	1,560,679
Between 1 month and 3 months	761,110	701,091
Over 3 months	624,152	596,172
Total trade payables	3,707,939	2,857,942
Deposits received, accrued charges and other payables	3,087,799	2,707,889
	6,795,738	5,565,831

11. BANK LOANS

	2018 HK$'000	2017 HK$'000
Non-current		
– unsecured	3,918,104	3,280,408
– secured	651,460	918,350
	4,569,564	4,198,758
Current		
– unsecured	4,437,736	3,880,199
– secured	499,166	75,523
	4,936,902	3,955,722
Total bank loans	9,506,466	8,154,480

As at 31 December 2018, the Group's bank loans were repayable as follows:

	2018 HK$'000	2017 HK$'000
Within 1 year	4,936,902	3,955,722
Between 1 and 2 years	2,185,439	2,020,074
Between 3 and 5 years	2,266,652	2,177,418
Repayable within 5 years	9,388,993	8,153,214
Over 5 years	117,473	1,266
	9,506,466	8,154,480

12. COMMITMENTS

At 31 December 2018, the Group had capital commitments in respect of property, plant and equipment and acquisition of subsidiaries not provided for in these financial statements as follows:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for	1,014,433	1,527,636

13. PLEDGE OF ASSETS

At 31 December 2018, the Group's total bank loans of HK$9,506,466,000 (2017: HK$8,154,480,000) included an aggregate amount of HK$1,150,626,000 (2017: HK$993,873,000) which is secured. The Group's total bank overdrafts of HK$193,076,000 (2017: HK$51,006,000) included an aggregate amount of HK$46,561,000 (2017: HK$48,395,000) 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, freehold land and buildings, warehouse and logistics centres and port facilities with an aggregate net book value of HK$2,872,808,000 (2017: HK$2,591,024,000);

(ii) assignments of insurance proceeds of certain properties; and

(iii) certain balances of restricted and pledged deposits.

RESULTS OVERVIEW

The Group recorded an increase in turnover of 24% to HK$38,139 million in 2018 (2017: HK$30,788 million). Core operating profit went up 11% to HK$2,364 million (2017: HK$2,128 million). Core net profit also rose 12% year-on-year to HK$1,326 million (2017: HK$1,183 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, and goodwill impairment, also increased by 15% to HK$2,440 million (2017: HK$2,116 million).

	2018 HK$ million	2017 HK$ million	
Segment profit			
IL			
– Logistics operations	1,551	1,301	+19%
– Hong Kong warehouse	560	545	+3%
	2,111	1,846	+14%
IFF	549	511	+7%
	2,660	2,357	
Unallocated administrative expenses	(296)	(229)	
Core operating profit	2,364	2,128	+11%
Core net profit	1,326	1,183	+12%
Change in fair value of investment properties, net of deferred tax	1,128	918	
Change in fair value of financial instruments	(14)	65	
Goodwill impairment	–	(50)	
Profit attributable to the Shareholders	2,440	2,116	+15%

BUSINESS REVIEW

MARKET OVERVIEW

Global economic growth moderated in 2018. The US-instigated trade tension, in particular with Mainland China, reverberated far and wide, casting uncertainties over the global trade landscape. In contrast, the economic growth in emerging Asia, specifically in the Southeast Asian countries, continued its strong momentum. These countries have become key links in regional manufacturing supply chains partly due to their relatively low labour costs and partly as a result of production base relocation from Mainland China to mitigate tariff risks.

With an unparalleled network in Asia, Kerry Logistics is well-positioned to capitalise on the robust growth in the region. Increasing demand in intra-Asia trade and e-commerce business accelerated the Group's IL businesses. Consequently, the Group recorded a double-digit increase in turnover, core operating profit, and core net profit in 2018, achieving positive growth for the ninth consecutive year. The Group's broad geographical coverage and diversified businesses enabled it to absorb some of the impact of the global supply chain shifts resulting from the intensifying trade tension between the US and Mainland China. The Group strengthened its presence and service capabilities in the countries along the Belt and Road trade routes to embrace long-term growth facilitated by the infrastructure developments therein.

IL GROWTH BOOSTED

Fuelled by the increased earnings from the Hong Kong logistics operations and the outstanding performances of Kerry Express Thailand as well as Kerry Siam Seaport in Thailand, the IL division registered a 14% rise in segment profit in 2018, generating 79% of the Group's total segment profit. The IL business is set to remain the main earnings driver in 2019.

HONG KONG EARNINGS CLIMBED

Underpinned by the Group's leading market position in addition to its strategy to strengthen its expertise in target verticals and deepen its penetration therein, the segment profit of the logistics operations in Hong Kong climbed by 37% in 2018. Together with the moderate growth of the warehousing business, the Group's Hong Kong business accounted for 41% of segment profit for the IL division.

In February 2019, in order to further expand its F&B logistics and trading business upstream the supply chain, the Group officially launched MeatLab. It is Hong Kong's first world-class semi-automated meat processing plant, committed to providing Hong Kong consumers with safe, reliable, and high-quality meat choices.

MAINLAND CHINA TESTED

The segment profit of the IL business in Mainland China recorded a 12% drop in 2018. The China-US trade dispute had significant impact on Chinese export trade in 2018 2H. Customers slowed down their investment and expansion plans which were set out in 2018 1H, resulting in lower-than-expected growth. In addition, many of the Group's key accounts are foreign electronics brands facing tough competition from local players, directly affecting business volumes. Taking into consideration the current market conditions, the Group is shifting to an import-focused business model to capitalise on the growth in domestic consumption.

TAIWAN MARKET STABILISED

As the impact of the labour law passed in 2016 has been cushioned by internal operation adjustments and improved operation efficiency, the Group's IL business in Taiwan stabilised with segment profit growth of 4% in 2018, contributing 19% of segment profit of the IL division.

In January 2019, the Group completed the acquisition of a majority stake in Science Park Logistics Co., Ltd, to reinforce the Group's capability in serving high-tech customers.

ASIA BUSINESS THRIVED

Supported by the strong performance of the Group's business in Thailand through Kerry Express Thailand and Kerry Siam Seaport, the IL segment profit in Asia experienced a 37% increase in 2018.

The strategic partnership Kerry Express Thailand established in July 2018 with VGI Global Media Public Company Limited, the subsidiary of BTS PLC, enabled it to use BTS Skytrain exclusively to extend its express delivery services and boost same-day delivery service in Bangkok. The berth extension of Kerry Siam Seaport, completed in 2018, allowed for increased volume and resulted in improved performance for the seaport business in Thailand.

IFF STEADILY ADVANCED

The Group's IFF division attained steady volume growth in 2018 2H as customers have frontloaded their shipment in advance of the trade tariffs being enforced. The IFF division recorded a 7% profit growth and contributed 21% to the Group's total segment profit in 2018.

NEW PROJECT LOGISTICS BRAND LAUNCHED

After the acquisition of Saga Italia S.p.A. in June 2018, the Group consolidated its industrial project logistics services under the Kerry Project Logistics brand in October 2018. The new brand was launched to capitalise on the growth potential in the global industrial project logistics market unleashed by China's Belt and Road Initiative.

SOUTH ASIA NETWORK REINFORCED

In October 2018, the Group debuted its rail and road multimodal freight service from Lanzhou, China to Islamabad, Pakistan to expand its freight capability from China to South Asia. It offers a significantly time-saving option to customers, and further heightens the Group's focus on the China-Pakistan Economic Corridor. The new subsidiary of the Group, Kerry Freight Pakistan (Private) Limited, formed in July 2018 gave the Group a direct presence in one of the markets with the highest growth potential in the region.

ASSET PORTFOLIO STRENGTHENED

The Group currently manages 60 million square feet of land and logistics facilities worldwide.

In Myanmar, Phase one of the inland port in Mandalay and the inland port in Yangon were completed in 2018.

In Taiwan, due to a fire accident in February 2019, construction of the 430,000-square-feet logistics centre in Guanyin is expected to complete in 2019 Q4.

In Mainland China, the logistics centre in Changsha was completed in 2018, while the one in Wuhan is expected to complete in 2019 Q2.

In Thailand, a new fully automated parcel sorting system was installed in Phase two of the Kerry Bangna Logistics Centre in 2018, boosting Kerry Express Thailand's daily delivery capacity to over 1 million parcels. Phase three of the centre began construction in 2018 Q4.

OUTLOOK

Due to the prevailing market and trade conditions, global economic slowdown seems to be inevitable in 2019. Sales of myriad consumer products are expected to remain sluggish. Nonetheless, leveraging its solid position and diversified businesses in Asia, in particular Hong Kong, Taiwan, and Thailand, the Group is confident to continue delivering sustainable results in 2019.

DEEPENING CAPABILITIES IN LOCAL MARKETS

The sound performance of the Hong Kong, Taiwan, and Thailand businesses reinforces the Group's strategy in deepening its capabilities in local markets across various verticals, in particular fashion, F&B, as well as pharmaceuticals and express.

CAPTURING EMERGING OPPORTUNITIES IN MAINLAND CHINA

The fast-changing logistics landscape in Mainland China called for innovation and flexibility in order to capture and serve new and emerging business models and brands. The Group is making significant efforts in boosting performance through speeding up response time to customers' evolving needs and tapping into the expanding import sector.

MAINTAINING MOMENTUM IN ASIA

Stronger growth is anticipated to persist in Asia, particularly in Southeast Asia and India, owing to increasing domestic consumption and rising investment. Leveraging its established network in Asia to take advantage of the booming intra-Asia trade, the Group's business growth in Asia is expected to maintain in 2019.

MAXIMISING SHAREHOLDER VALUE

As a part of its long-term strategy of unlocking the value of its warehouse property portfolio to power its enduring expansion and maximise shareholder value, the Group will dispose of, subject to the approval of the independent shareholders of the Company and certain conditions for completion, its warehouses in Chai Wan and Shatin to KPL through an indirect wholly-owned subsidiary of KPL. Upon completion, the total estimated gain of the disposal will be approximately HK$2 billion in aggregate.

FINANCIAL REVIEW

The Group has centralised financing policies and control over all its operations. With tight control on treasury operations, average cost of funds is lowered.

Most of the Group's assets and liabilities are denominated in different functional currencies of the overseas subsidiaries' respective countries. The Group generally does not enter into foreign exchange hedges in respect of its long-term equity investments in overseas subsidiaries and associates. For the foreign currency exposure arising from business activities, certain subsidiaries used forward contracts to hedge their foreign exchange exposure from trading transactions during the year, the amount of which was insignificant to the Group. The Group will continue to closely monitor its foreign exchange position and if necessary, hedge its foreign exchange exposure by entering into appropriate hedging instruments. As at 31 December 2018, total foreign currency borrowings amounted to the equivalent of HK$4,380 million (including HK$2,697 million denominated in New Taiwan Dollar and HK$561 million denominated in Thai Baht), which represented approximately 46% of the Group's total bank loans of HK$9,506 million.

Out of the Group's total bank loans as at 31 December 2018, HK$4,937 million (representing approximately 52%) was repayable within one year, HK$2,185 million (representing approximately 23%) in the second year, HK$2,267 million (representing approximately 24%) in the third to fifth years and HK$117 million (representing 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 88% of total bank loans. In relation to the secured bank loans of HK$1,151 million as at 31 December 2018, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK$2,873 million, assignments of insurance proceeds of certain properties, and certain balances of restricted and pledged deposits. A majority of the bank loans were borrowed at floating interest rates and were not held for hedging purposes.

As at 31 December 2018, the gearing ratio for the Group was 45.7% (31 December 2017: 43.1%). The ratio was calculated as total bank loans and overdrafts, divided by equity attributable to the Shareholders excluding put options written on non-controlling interests.

As at 31 December 2018, the Group had total undrawn bank loan and overdraft facilities of HK$8,728 million which may be used to fund material capital expenditure. The Group will also continue to secure financing as and when the need arises.

As at 31 December 2018, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 40,300 employees. The remuneration to employees includes salaries 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. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes and share option schemes.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code and its corporate governance practices are based on such principles and code provisions as set out in the CG Code. The Directors consider that for the year ended 31 December 2018, 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 (including Mr NG Kin Hang, the newly appointed Executive Director) and the Directors have confirmed that they have complied with the Model Code (i) during the year ended 31 December 2018; or (ii) from their respective appointment dates, as the case may be.

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 year ended 31 December 2018.

SHARE OPTIONS

The Company has adopted the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme on 25 November 2013. The aforesaid schemes are designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 31 December 2018, a total of 25,588,500 and 4,140,000 options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme were outstanding respectively.

AUDIT AND COMPLIANCE COMMITTEE

The Company has established ACC with written terms of reference in compliance with Rule 3.21 of the Listing Rules and paragraph C.3 as well as paragraph D.3 of the CG Code. ACC consists of three Independent Non-executive Directors, being Ms WONG Yu Pok Marina, Mr WAN Kam To and Mr ZHANG Yi Kevin and one Non-executive Director, being Mr CHIN Siu Wa Alfred. The chairman of ACC is Ms WONG Yu Pok Marina, who holds the appropriate professional qualifications as required under Rules 3.10(2) and 3.21 of the Listing Rules.

ACC has considered and reviewed the annual results and the accounting principles and practices adopted by the Group and discussed matters in relation to internal control and financial reporting with the management and the independent auditor. ACC considers that the annual financial results for the year ended 31 December 2018 are in compliance with the relevant accounting standards, rules and regulations and appropriate disclosures have been duly made.

EVENTS AFTER THE YEAR ENDED 31 DECEMBER 2018

On 28 March 2019, the Company and its indirect wholly-owned subsidiary, among others, entered into two sale and purchase agreements to dispose of its warehouses in Chai Wan and Shatin to KPL through an indirect wholly-owned subsidiary of KPL. For details, please refer to an announcement made by the Company in relation to this disposal of even date.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2018 is scheduled to be held at Kowloon Room, Mezzanine Floor, Kowloon Shangri-La, 64 Mody Road, Tsimshatsui East, Kowloon, Hong Kong on Friday, 31 May 2019 at 2:30 p.m. A notice convening the annual general meeting will be issued and disseminated to the Shareholders in due course.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019 in order to determine the identity of the Shareholders who are entitled to attend and vote at the forthcoming annual general meeting to be held on Friday, 31 May 2019. 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 Monday, 27 May 2019.

The Registers of Members will also be closed on Thursday, 6 June 2019 in order to determine the entitlement of the Shareholders to the final dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with Tricor Investor Services Limited at the above address before 4:30 p.m. on Wednesday, 5 June 2019. The final dividend is payable on or around Thursday, 20 June 2019 to the Shareholders whose names appear on the Registers of Members on Thursday, 6 June 2019, subject to the consideration and approval of the Shareholders at the forthcoming annual general meeting of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

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

The annual report for the year 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.

APPRECIATION

The Board would like to express its sincere gratitude to the Shareholders, management team, employees, business partners and customers of the Group for their support and contribution to the Group.

DEFINITIONS

"1H" or "2H"	first half or second half
"ACC"	the audit and compliance committee of the Company
"Asia"	Asia continent, for the purpose of this announcement only, excludes Greater China
"Belt and Road" or "Belt and Road Initiative"	a development strategy and framework primarily between Mainland China and the rest of Eurasia
"Board"	the board of Directors
"BTS PLC"	Bangkok Mass Transit System Public Company Limited, a company incorporated in Thailand with limited liability
"BTS Skytrain"	The Bangkok Mass Transit System
"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
"Controlling Shareholder(s)"	shall have the meaning ascribed to it under the Listing Rules
"Directors"	directors of the Company
"Dividend Payout Ratio"	the percentage of the Group's core net profit paid to Shareholders as dividends
"F&B"	food and beverage
"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
"HK (IFRIC) – Int"	Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation
"Hong Kong"	Hong Kong Special Administrative Region of Mainland China
"IFF"	international freight forwarding
"IL"	integrated logistics
"Kerry Express Thailand"	Kerry Express (Thailand) Limited, a company incorporated in Thailand with limited liability, an indirect 63%-owned subsidiary of the Company
"KPL"	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders of the Company
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
"Macau"	Macao Special Administrative Region of Mainland China
"Mainland China" or "PRC"	the People's Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
"MeatLab"	The Meat Lab Limited, a company incorporated in Hong Kong, an indirect 51%-owned subsidiary of the Company
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
"Post-IPO Share Option Scheme"	post-IPO share option scheme of the Company
"Pre-IPO Share Option Scheme"	pre-IPO share option scheme of the Company
"Q2" or "Q4"	second quarter or fourth quarter
"Registers of Members"	registers of members of the Company
"Share(s)"	share(s) of nominal value of HK$0.50 each of the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company

"Shareholders"	the holders of the Shares
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"US"	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 28 March 2019

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 KUOK Khoon Hua and Mr NG Kin Hang

Non-executive Director:
Mr CHIN Siu Wa Alfred

Independent Non-executive Directors:
Ms KHOO Shulamite N K, Mr WAN Kam To, Ms WONG Yu Pok Marina, Mr YEO Philip Liat Kok and Mr ZHANG Yi Kevin