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 2019

The Board of the Company is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2019, together with comparative figures for the six months ended 30 June 2018.

GROUP'S FINANCIAL HIGHLIGHTS

- Turnover increased by 13% year-on-year to HK$19,810 million (2018 1H: HK$17,461 million)
- Core operating profit increased by 9% to HK$1,330 million (2018 1H: HK$1,216 million)
- Core net profit dropped slightly by 4% year-on-year to HK$669 million (2018 1H: HK$700 million)
- Profit attributable to the Shareholders, including the gain from disposal of two warehouses in Hong Kong of HK$1,958 million, increased by 194% to HK$2,790 million (2018 1H: HK$948 million)
- IL business recorded a segment profit of HK$1,162 million (2018 1H: HK$1,107 million) and IFF business recorded HK$288 million (2018 1H: HK$235 million), which represent an increase of 5% and 22%, respectively
- Special dividend of 35 HK cents per Share was paid on Tuesday, 23 July 2019. Interim dividend of 9 HK cents per Share, to be payable on Friday, 27 September 2019

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT
For the six months ended 30 June 2019

	Note	Unaudited 2019 HK$'000	Unaudited 2018 HK$'000
Turnover	3	19,810,329	17,461,227
Direct operating expenses	4	(17,284,673)	(15,163,182)
Gross profit		2,525,656	2,298,045
Other income and net gains		2,069,671	166,925
Administrative expenses	4	(1,331,567)	(1,231,109)
Operating profit before fair value change of investment properties		3,263,760	1,233,861
Change in fair value of investment properties		205,020	239,917
Operating profit		3,468,780	1,473,778
Finance costs	5	(161,724)	(106,684)
Share of results of associates and joint ventures		45,934	43,648
Profit before taxation		3,352,990	1,410,742
Taxation	6	(295,049)	(253,026)
Profit for the period		3,057,941	1,157,716
Profit attributable to:			
Company's shareholders	3	2,789,744	947,838
Non-controlling interests		268,197	209,878
		3,057,941	1,157,716
Earnings per share	8		
– Basic		HK$1.63	HK$0.56
– Diluted		HK$1.63	HK$0.56

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited 2019 HK$'000	Unaudited 2018 HK$'000
Profit for the period	3,057,941	1,157,716
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	85,636	(268,001)
Item that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	8,273	14,196
Other comprehensive income/(loss) for the period	93,909	(253,805)
Total comprehensive income for the period	3,151,850	903,911
Total comprehensive income attributable to:		
Company's shareholders	2,880,109	751,535
Non-controlling interests	271,741	152,376
	3,151,850	903,911

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2019 HK$'000	Audited As at 31 December 2018 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		4,629,864	4,250,877
Investment properties		9,637,231	11,039,020
Leasehold land and land use rights		–	590,450
Property, plant and equipment		11,344,171	10,347,048
Right-of-use assets		3,398,037	–
Associates and joint ventures		1,391,248	1,472,268
Financial assets at fair value through other comprehensive income		147,936	170,799
Investment in convertible bonds		193,407	192,710
Deferred taxation		77,673	85,580
		30,819,567	28,148,752
Current assets			
Financial assets at fair value through profit or loss		108,293	261,884
Investment in convertible bond		350,208	351,052
Inventories		664,685	425,217
Accounts receivable, prepayments and deposits	9	9,350,301	9,502,889
Tax recoverable		39,688	15,281
Amounts due from fellow subsidiaries		3,727	1,508
Restricted and pledged bank deposits		20,050	20,148
Cash and bank balances		6,052,540	4,305,949
		16,589,492	14,883,928
Current liabilities			
Lease liabilities		652,699	–
Accounts payable, deposits received and accrued charges	10	6,269,929	6,795,738
Amounts due to fellow subsidiaries		8,523	–
Amounts due to related companies		32,586	24,795
Taxation		287,126	368,407
Short-term bank loans and current portion of long-term bank loans	11	3,366,462	4,936,902
Bank overdrafts		230,087	193,076
		10,847,412	12,318,918

	Note	Unaudited As at 30 June 2019 HK$'000	Audited As at 31 December 2018 HK$'000
Non-current liabilities			
Loans from non-controlling interests		200,548	177,833
Long-term bank loans	11	5,176,242	4,569,564
Lease liabilities		2,119,606	–
Deferred taxation		689,115	673,955
Retirement benefit obligations		102,100	112,921
Other non-current liabilities		1,496,850	1,511,941
		9,784,461	7,046,214
ASSETS LESS LIABILITIES		26,777,186	23,667,548
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		856,406	852,632
Share premium and other reserves		2,953,235	3,140,183
Retained profits		20,093,819	17,221,259
		23,903,460	21,214,074
Put option written on non-controlling interests		(1,170,801)	(1,170,801)
		22,732,659	20,043,273
Non-controlling interests		4,044,527	3,624,275
TOTAL EQUITY		26,777,186	23,667,548

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. The address of its registered office is Victoria Place, 5th Floor, 31 Victoria Street, Hamilton HM 10, 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's shares are listed on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements are prepared in accordance with HKAS 34 'Interim Financial Reporting' issued by the 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 2018, 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 2018.

The following new standards, improvements, interpretations and amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2019 have been published:

- HKFRS 16, "Leases"
- Annual improvements project, "Annual improvements 2015-2017 cycle"
- Amendments to HKAS 19, "Plan amendment, curtailment or settlement"
- Amendments to HKAS 28, "Long-term interests in associates and joint ventures"
- Amendments to HKFRS 9, "Prepayment features with negative compensation"
- HK(IFRIC) – Int 23, "Uncertainty over income tax treatments"

In the current interim period, the Group has applied, for the first time, the above new standards, improvements, interpretations, amendments to existing standards issued by the HKICPA. The impact of the adoption of HKFRS 16 "Leases" and the new accounting policies are disclosed in note 2 below. The adoption of the other improvements and amendments of existing standards and interpretation had no material impact on the Group's accounting policies and did not require retrospective adjustments.

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

Amendments to HKAS 1, "Presentation of financial statements" and HKAS 8, "Accounting policies, changes in accounting estimates and errors"[1]

Amendments to HKFRS 3, "Definition of a business"[1]

HKFRS 17, "Insurance contract"[2]

Amendments to HKAS 28 (2011) and HKFRS 10, "Sales or contribution of assets between an investor and its associate or joint venture"[3]

[1] Effective for annual periods beginning on or after 1 January 2020
[2] Effective date for annual periods beginning on or after 1 January 2021
[3] Effective date to be determined

The Group will adopt the above new standards and amendments to existing standards and interpretations as and when they become effective. None of the above is expected to have a significant effect on the condensed consolidated interim financial statements of the Group.

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 2018 except for the adoption of new standards as set out below.

2 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 16 "Leases" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2019, where they are different to those applied in prior periods.

The Group has adopted HKFRS 16 retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.95%.

(a) Adjustments recognised on the adoption of HKFRS 16

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of HKAS 17 "Leases". These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

All right-of-use assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 December 2018. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The following is a reconciliation of the opening effect on adoption of HKFRS 16 as at 1 January 2019:

	Right-of-use assets HK$'000	Leasehold land and land use rights HK$'000	Lease liabilities - current portion HK$'000	Lease liabilities - non-current portion HK$'000
At 31 December 2018	–	590,450	–	–
Reclassification to right-of-use assets on adoption of HKFRS 16	590,450	(590,450)	–	–
Adjustment on adoption of HKFRS 16	2,505,941	–	673,190	1,832,751
At 1 January 2019	**3,096,391**	**–**	**673,190**	**1,832,751**

The Group had operating lease commitments of HK$1,663,251,000 as disclosed as at 31 December 2018 and on adoption of HKFRS 16, the Group recognised lease liabilities of HK$2,505,941,000 as at 1 January 2019. The key differences between the disclosed operating lease commitments and the recognised lease liabilities have mainly arisen from the discounting impact on operating lease commitments in using the lessee's incremental borrowing rate as of 1 January 2019, additional lease liabilities recognised under the scope of HKFRS 16 and exclusion of short-term and low-value leases recognised on a straight-line basis as expense.

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK$2.5 billion on 1 January 2019. In addition, leasehold land and land use rights of HK$590 million reclassified to right-of-use assets on 1 January 2019. There is no material impact on retained earnings on 1 January 2019.

(b) The Group's leasing activities and how these are accounted for

The Group leases various offices, buildings, equipment and motor vehicles. Rental contracts are typically made for fixed periods. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Until the end of the 2018 financial year, leases of property, plant and equipment were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;

- variable lease payments that are based on an index or a rate;

- amounts expected to be payable by the lessee under residual value guarantees;

- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and

- payments of penalties for terminating the lease, if the lease term reflects such option of the lessee.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate (being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions) is used.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;

- any lease payments made at or before the commencement date less any lease incentives received;

- any initial direct costs; and

- restoration costs.

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

Critical judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

3 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 2019, together with comparative figures for the six months ended 30 June 2018 is as follows:

	For the six months ended 30 June									
	Integrated logistics				International					
	Logistics operations		Hong Kong warehouse		freight forwarding		Elimination		Consolidation	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Turnover										
Turnover	9,339,537	8,057,454	179,124	108,082	10,291,668	9,295,691	–	–	19,810,329	17,461,227
Inter-segment turnover	198,916	157,371	217,790	274,480	2,150,447	1,543,531	(2,567,153)	(1,975,382)	–	–
	9,538,453	8,214,825	396,914	382,562	12,442,115	10,839,222	(2,567,153)	(1,975,382)	19,810,329	17,461,227
Turnover by geographical area:										
Hong Kong	2,234,053	1,956,744	396,914	382,562	925,347	791,883	(688,975)	(754,384)	2,867,339	2,376,805
Mainland China	2,329,498	2,330,061	–	–	3,965,044	3,210,134	(1,087,940)	(709,276)	5,206,602	4,830,919
Taiwan	1,419,383	1,327,997	–	–	216,751	211,557	(92,355)	(75,804)	1,543,779	1,463,750
Asia	3,480,671	2,532,452	–	–	2,390,023	2,028,460	(415,324)	(197,990)	5,455,370	4,362,922
Americas	–	–	–	–	2,887,338	2,812,822	(239,097)	(172,761)	2,648,241	2,640,061
Europe	–	–	–	–	1,828,231	1,602,938	(28,549)	(52,176)	1,799,682	1,550,762
Others	74,848	67,571	–	–	229,381	181,428	(14,913)	(12,991)	289,316	236,008
	9,538,453	8,214,825	396,914	382,562	12,442,115	10,839,222	(2,567,153)	(1,975,382)	19,810,329	17,461,227
Segment profit by geographical area:										
Hong Kong	195,177	165,204	269,766	264,011	27,030	20,925	–	–	491,973	450,140
Mainland China	156,087	151,325	–	–	87,334	69,080	–	–	243,421	220,405
Taiwan	217,102	195,327	–	–	12,864	10,837	–	–	229,966	206,164
Asia	324,160	303,650	–	–	67,346	44,651	–	–	391,506	348,301
Americas	–	–	–	–	96,922	74,596	–	–	96,922	74,596
Europe	–	–	–	–	(9,260)	7,351	–	–	(9,260)	7,351
Others	(430)	27,617	–	–	5,450	7,647	–	–	5,020	35,264
	892,096	843,123	269,766	264,011	287,686	235,087	–	–	1,449,548	1,342,221
Less: Unallocated administrative expenses									(119,991)	(125,978)
Core operating profit									1,329,557	1,216,243
Finance income									18,515	17,618
Finance costs									(161,724)	(106,684)
Share of results of associates and joint ventures									45,934	43,648
Profit before taxation*									1,232,282	1,170,825
Taxation*									(295,300)	(260,525)
Profit for the period*									936,982	910,300
Non-controlling interests*									(267,784)	(210,077)
Core net profit									669,198	700,223
Change in fair value of investment properties									205,020	239,917
Deferred tax on change in fair value of investment properties									251	7,499
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									(413)	199
Gain on disposal of warehouses									1,957,540	–
Goodwill impairment									(41,852)	–
Profit attributable to the Company's shareholders									2,789,744	947,838
Depreciation and amortisation	686,131	266,598	26,443	27,368	135,504	85,941	–	–	848,078	379,907

* *Excluding the change in fair value of investment properties and its related deferred tax, gain on disposal of warehouses 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 Company's shareholders before the after-tax effect of change in fair value of investment properties, goodwill impairment and gain on disposal of warehouses.

In the following table, revenue of the Group from contracts with customers is disaggregated by timing of satisfaction of performance obligations. The table also includes a reconciliation to the segment information in respect of revenue of the Group that is disclosed in the operating segment note.

	For the six months ended 30 June							
	2019				2018			
By operating segment	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000	Revenue recognised at a point in time HK$'000	Revenue recognised over time HK$'000	Rental income HK$'000	Total HK$'000
Revenue from contracts with customers								
Integrated logistics								
– Logistics operations	920,916	8,364,395	54,226	9,339,537	766,812	7,227,861	62,781	8,057,454
– Hong Kong warehouse	–	68,645	110,479	179,124	–	7,216	100,866	108,082
International freight forwarding	–	10,291,668	–	10,291,668	–	9,295,691	–	9,295,691
	920,916	18,724,708	164,705	19,810,329	766,812	16,530,768	163,647	17,461,227

By geographical area	For the six months ended 30 June 2019 Revenue recognised at a point in time HK$'000	2019 Revenue recognised over time HK$'000	2019 Rental income HK$'000	2019 Total HK$'000	2018 Revenue recognised at a point in time HK$'000	2018 Revenue recognised over time HK$'000	2018 Rental income HK$'000	2018 Total HK$'000
Revenue from contracts with customers								
Hong Kong	919,881	1,836,979	110,479	2,867,339	765,709	1,510,230	100,866	2,376,805
Mainland China	1,035	5,166,835	38,732	5,206,602	1,103	4,782,818	46,998	4,830,919
Taiwan	–	1,543,779	–	1,543,779	–	1,463,750	–	1,463,750
Asia	–	5,439,876	15,494	5,455,370	–	4,347,139	15,783	4,362,922
Americas	–	2,648,241	–	2,648,241	–	2,640,061	–	2,640,061
Europe	–	1,799,682	–	1,799,682	–	1,550,762	–	1,550,762
Others	–	289,316	–	289,316	–	236,008	–	236,008
	920,916	18,724,708	164,705	19,810,329	766,812	16,530,768	163,647	17,461,227

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

	Segment non-current assets# As at 30 June 2019 HK$'000	Segment non-current assets# As at 31 December 2018 HK$'000
Hong Kong	9,820,341	11,083,800
Mainland China	5,601,866	4,904,953
Taiwan	4,852,559	3,464,146
Asia	8,141,605	6,380,010
Americas	1,009,199	960,427
Europe	746,870	769,337
Others	228,111	136,990
	30,400,551	27,699,663

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

4 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Business tax and other taxes	5,527	7,236
Cost of goods sold	806,239	690,265
Freight and transportation costs	13,280,794	11,881,656
Depreciation of property, plant and equipment	396,471	325,012
Depreciation of right-of-use assets	386,525	–
Amortisation of leasehold land and land use rights	–	5,329
Amortisation of intangible assets	65,082	49,566
Provision for impairment of receivables	12,207	23,246
Reversal of provision for impairment of receivables	(350)	(5,500)
Operating lease charges on land and buildings	269,976	414,788
Employee benefit expenses	2,947,448	2,429,352

5 FINANCE COSTS

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Interest expenses on bank loans and overdrafts	137,258	106,684
Interest expenses on lease liabilities	24,466	–
	161,724	106,684

6 TAXATION

	Six months ended 30 June	
	2019	2018
	HK$'000	HK$'000
Hong Kong profits tax		
– Current	79,157	63,980
– Overprovision in prior years	(24)	(18)
– Deferred	(4,128)	(248)
	75,005	63,714
PRC taxation		
– Current	29,828	61,493
– Underprovision/(overprovision) in prior years	930	(598)
– Deferred	24,447	(6,944)
	55,205	53,951
Overseas taxation		
– Current	162,134	144,415
– Underprovision/(overprovision) in prior years	2,426	(2,750)
– Deferred	279	(6,304)
	164,839	135,361
	295,049	253,026

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) for the six months ended 30 June 2019 on the estimated assessable profit for the period. Income tax on the overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the overseas countries in which the Group operates.

PRC ENTERPRISE INCOME TAX

PRC enterprise income tax has been provided at the rate of 25% (2018: 25%) on the estimated assessable profit for the period.

WITHHOLDING TAX ON DISTRIBUTED/UNDISTRIBUTED PROFITS

Withholding tax in the Group's associates and joint ventures is levied on the undistributed earnings for the period at the rates of taxation prevailing in the PRC and overseas countries. Withholding tax on undistributed earnings of the Group's certain subsidiaries are not provided as the Directors consider that the timing of reversal of the related temporary differences can be controlled and the temporary differences will not reverse in the foreseeable future.

7 DIVIDENDS

The Directors have declared an interim dividend of 9 HK cents per share for the six months ended 30 June 2019 (for the six months ended 30 June 2018: 9 HK cents and a special dividend of 12 HK cents), which is payable on Friday, 27 September 2019 to shareholders whose names appear on the registers of members of the Company on Friday, 13 September 2019. These financial statements do not reflect this dividend payable. Special dividend of 35 HK cents per share was declared and paid on Tuesday, 23 July 2019 considering the cash value unleashed from the disposal of two warehouses in Hong Kong.

8 EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share is as follows:

BASIC

	Six months ended 30 June	
	2019	2018
Adjusted weighted average number of ordinary shares in issue ('000)	1,708,928	1,697,077
Profit attributable to the Company's shareholders (HK$'000)	2,789,744	947,838
Basic earnings per share (HK$)	1.63	0.56

DILUTED

	Six months ended 30 June	
	2019	2018
Adjusted weighted average number of ordinary shares in issue ('000)	1,708,928	1,697,077
Adjustment for share options ('000)	5,038	3,307
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,713,966	1,700,384
Profit attributable to the Company's shareholders (HK$'000)	2,789,744	947,838
Diluted earnings per share (HK$)	1.63	0.56

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:

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Below 1 month	4,248,879	4,372,337
Between 1 month and 3 months	2,242,391	2,662,406
Over 3 months	694,794	498,890
Total trade receivables, net	7,186,064	7,533,633
Prepayments, deposits and other receivables	2,164,237	1,969,256
	9,350,301	9,502,889

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:

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Below 1 month	2,114,950	2,322,677
Between 1 month and 3 months	629,690	761,110
Over 3 months	668,334	624,152
Total trade payables	3,412,974	3,707,939
Deposits received, accrued charges and other payables	2,856,955	3,087,799
	6,269,929	6,795,738

11 BANK LOANS

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Non-current		
– unsecured	4,653,774	3,918,104
– secured	522,468	651,460
	5,176,242	4,569,564
Current		
– unsecured	2,779,733	4,437,736
– secured	586,729	499,166
	3,366,462	4,936,902
Total bank loans	8,542,704	9,506,466

12 COMMITMENTS

As at 30 June 2019, 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:

	As at 30 June 2019 HK$'000	As at 31 December 2018 HK$'000
Contracted but not provided for	575,146	1,014,433

13 PLEDGE OF ASSETS

As at 30 June 2019, the Group's total bank loans of HK$8,542,704,000 (31 December 2018: HK$9,506,466,000) included an aggregate amount of HK$1,109,197,000 (31 December 2018: HK$1,150,626,000) which are secured. The Group's total bank overdrafts of HK$230,087,000 (31 December 2018: HK$193,076,000) included an aggregate amount of HK$57,184,000 (31 December 2018: HK$46,541,000) which are 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 an aggregate net book value of HK$3,140,910,000 (31 December 2018: HK$2,872,808,000);

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

(iii) certain balances of restricted and pledged deposits of the Group.

RESULTS OVERVIEW

The Group recorded an increase in turnover of 13% to HK$19,810 million in 2019 1H (2018 1H: HK$17,461 million). Core operating profit went up 9% to HK$1,330 million (2018 1H: HK$1,216 million). Core net profit was HK$669 million (2018 1H: HK$700 million), which represents a slight drop of 4% year-on-year. Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties, goodwill impairment, and gain from disposal of warehouses in Hong Kong, increased 194% to HK$2,790 million (2018 1H: HK$948 million).

	2019 1H HK$ million	2018 1H HK$ million	
Segment profit			
IL			
– Logistics operations	892	843	+6%
– Hong Kong warehouse	270	264	+2%
	1,162	1,107	+5%
IFF	288	235	+22%
	1,450	1,342	
Unallocated administrative expenses	(120)	(126)	
Core operating profit	1,330	1,216	+9%
Core net profit	669	700	-4%
Change in fair value of investment properties, net of deferred tax	205	248	
Goodwill impairment	(42)	–	
Gain from disposal of warehouses in Hong Kong	1,958	–	
Profit attributable to the Shareholders	2,790	948	+194%

BUSINESS REVIEW

MARKET OVERVIEW

Global economic growth has markedly slowed down in 2019 1H, with weakened trade and manufacturing. The ongoing international trade disputes and unresolved negotiations have created further adverse conditions and accelerated changes in the global supply chains. Rising political and social turmoil in Hong Kong added pressure to the already softening economy. The markets grapple with a fear of global recession and are bracing for further downturn in 2019 2H. Amidst a weak market environment, the logistics industry has played an important role in facilitating the relocation of manufacturing bases, particularly from Mainland China to its neighbouring countries in Asia.

Despite the challenges ahead, Kerry Logistics is in a resilient position to weather the headwinds, supported by its diversified geographical mix of businesses. Riding on the growing demands in increased China-Asia and intra-Asia trade, the Group recorded a 13% increase in turnover, 9% increase in core operating profit, and a mild decrease in core net profit in 2019 1H. The reduced profit was a result of the rise in finance cost of approximately HK$30 million caused by an increase in bank loans for expansion and increased interest rates, and a higher proportion of profit contributed by non wholly-owned subsidiaries.

The growth of the IFF division is faster than that of the IL division riding on the increased cross-border cargo flows, in particular from Mainland China to other Southeast Asian countries and intra-ASEAN. In view of the slower world economy, the Group continued its efforts in strengthening its service capabilities, expanding its network coverage and building its business scale in order to give itself a competitive advantage in adapting to the changing global logistics landscape.

IL PROFIT ROSE

Buoyed by positive performance of its Hong Kong business and continued expansion in Taiwan, coupled with the steady growth of its operation in Asia, the Group's IL division recorded a moderate increase in segment profit, which accounted for 80% of the Group's total segment profit in 2019 1H.

HONG KONG EARNINGS INCREASED

Supported by new customer wins across various industries and business growth of some of the key accounts in the fashion and F&B industries, the segment profit of the logistics operations in Hong Kong remained in an upward trend by rising 18% in 2019 1H.

In May 2019, the Group launched Kerry Coffee, the sole distributor of illycaffè's complete product range in Hong Kong and Macau, to extend its business into the trading of coffee and related products, as well as to further deepen its partnership with the Italian coffee group, illycaffè.

MAINLAND CHINA ADJUSTED

Benefitting from shifting the focus to multiple higher-growth verticals including pharmaceutical, imported F&B and automotive parts to minimise impact from global trade volatility, the segment profit of the Group's IL business in Mainland China turned around in 2019 1H. Taking into account the rising demand for high-value niche products in Mainland China, in January 2019, Kerry Cold Chain Solution commenced operation to tap into the fast-growing niche food product market.

TAIWAN GROWTH CONTINUED

Driven by Kerry Pharma and the newly acquired Science Park Logistics, the IL profit in Taiwan grew by 11% in 2019 1H. Kerry Pharma, as the sole certified pharmaceutical logistics provider in Taiwan, has continued to expand in the niche market. The acquisition of Science Park Logistics in January 2019 strengthened the Group's capability in serving high-tech customers.

ASIA GROWTH MODERATED

The growth momentum of the Group's Asia business moderated in 2019 1H. While Kerry Express Thailand continued to expand its service coverage and business scale across Thailand, the profit growth was slower. The performance of the Thailand operation remained robust. Kerry Express Thailand's daily delivery quantity has grown to more than 1 million parcels, and the number of service points has doubled (compared to 2018 Q4) to 10,000 locations. Segment profit in Asia increased by 7% during the period. The increment was only moderate as the Group is still financing the Kerry Express operations in Malaysia, Vietnam and Indonesia, which incurred an aggregated loss of approximately HK$40 million during the period.

The Group announced in March 2019 its proposed spin-off and separate listing of the shares of Kerry Express Thailand on the Stock Exchange of Thailand. The spin-off proposal was subsequently approved by the Hong Kong Stock Exchange in June 2019. The Group is currently in discussion with professional parties to decide on the submission date of the application to the Stock Exchange of Thailand.

In April 2019, the Group signed a memorandum of understanding through its subsidiary, KLN (Singapore) Pte. Ltd., with Sitthi Logistic Lao Co., Ltd for the establishment of a joint venture to develop a dry port in the Vientiane Logistics Park in Laos to seek accelerated growth in ASEAN.

IFF VOLUME SWELLED

Riding on the increased trade from Mainland China to other Southeast Asian countries and within Asia, the IFF division achieved a 22% growth in segment profit, which contributed 20% to the Group's total segment profit in 2019 1H.

In the global rankings published by Transport Topics and Armstrong & Associates, Inc. for 2019, Kerry Logistics jumped from 19th in 2018 to 16th among the Top 50 Airfreight Forwarders and rose from 8th to 7th among the Top 50 Ocean Freight Forwarders.

FACILITY PORTFOLIO ENHANCED

In Mainland China, the logistics centre in Wuhan was completed in 2019 Q2.

In Taiwan, the 154,000-square-feet transit hub in Xinshi District commenced operation in 2019 Q2, and the 430,000-square-feet logistics centre in Guanyin is expected to complete in 2019 Q4.

In Thailand, construction of Phase three of the Kerry Bangna Logistics Centre began in 2018 Q4, and is expected to complete in 2020 Q1.

ASSET MONETISED

In June 2019, the disposal of the Group's warehouses in Chai Wan and Shatin to a subsidiary of KPL was completed. The total gain of the disposal was approximately HK$2 billion.

The Group will continue to actively consider opportunities to unlock the value of its assets on the balance sheet, which will provide capital for strategic investments and ongoing expansion, and crystallise value for its shareholders.

OUTLOOK

Global economic growth lost momentum in 2019, witnessing a notable drop of 1% from 3.6% in 2018 to 2.6% in 2019, according to The World Bank in its Global Economic Prospects report published in June 2019. It is expected to remain weak in 2020, as policy uncertainties and geopolitical tensions continue to cloud the trade environment. The current political and social disquiet in Hong Kong, which is the Group's key market, is expected to adversely impact the Group's performance in 2019 2H. Nevertheless, the Group is in a resilient position to withstand difficult market conditions, sustained by its expanding global network and diverse range of businesses. Taking into consideration the challenging market outlook, the Group will remain watchful and keep reinforcing its foundation through enhancing its service capabilities, expanding its network presence and enlarging its business scale.

SOFTENING ASIA GROWTH

Recent events in Hong Kong are creating unfavourable conditions for the Group's business in 2019 2H. However, the Group believes that the stronger results elsewhere in Asia should be able to offset the weak performance in Hong Kong. In particular, Taiwan will remain one of the growth drivers in Asia in 2019 2H. Despite the Group's ongoing financing of the Kerry Express business in certain ASEAN countries, these markets are expected to deliver a gradual turnaround. The express business will continue to deepen its foothold in ASEAN by extending its network coverage and broadening its business scale.

ENRICHING BUSINESS MIX

Following the extension of its business into new verticals such as coffee trading and distribution, and the expansion of its service in pharmaceutical and food-related cold chain to tap into emerging business segments, the Group will keep on diversifying its business capabilities in local markets to position itself for growth opportunities in various sectors.

SEIZING E-COMMERCE GROWTH

E-commerce has increasingly gained prevalence as a mode of consumption. In view of the strong growth impetus in cross-border e-commerce, in particular the exports from Mainland China and the intra-Asia e-commerce trade, the Group will pursue further strategic setups that will optimally deploy its resources to seize the e-commerce growth potential in the region. It has already begun implementing such plan by forming a joint venture with Spain's national postal service, Sociedad Estatal Correos y Telégrafos SA S.M.E., in June 2019 to capitalise on the China's growing e-commerce exports.

PURSUING ASSET-LIGHTER MODEL

Taking into account the positive profit growth and expansion potential in the IFF division, the Group will continue to focus on expanding its less asset-heavy IFF business both organically and through mergers and acquisitions.

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 maintained at a relatively low level.

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, associates and joint ventures. 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 period, 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 30 June 2019, total foreign currency borrowings amounted to the equivalent of HK$4,937 million (including HK$2,933 million denominated in New Taiwan Dollar and HK$738 million denominated in Thai Baht), which represented approximately 58% of the Group's total bank loans of HK$8,543 million.

Out of the Group's total bank loans as at 30 June 2019, HK$3,366 million (representing approximately 40%) was repayable within one year, HK$3,425 million (representing approximately 40%) in the second year, HK$1,634 million (representing approximately 19%) in the third to fifth years and HK$118 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 87% of total bank loans. In relation to the secured bank loans of HK$1,109 million as at 30 June 2019, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK$3,141 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 30 June 2019, the gearing ratio for the Group was 36.7% (31 December 2018: 45.7%). 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 30 June 2019, the Group had total undrawn bank loan and overdraft facilities of HK$9,693 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 30 June 2019, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2019, the Group had approximately 46,700 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.

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 during the six months ended 30 June 2019, 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 Ms TONG Shao Ming, the newly appointed Non-executive Director) and the Directors have confirmed that they have complied with the Model Code (i) during the six months ended 30 June 2019; or (ii) from their respective appointment dates and up to the six months ended 30 June 2019, 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 six months ended 30 June 2019.

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 30 June 2019, a total of 19,827,000 and 2,152,500 options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme were outstanding respectively.

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 Friday, 13 September 2019 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 Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited at Level 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Thursday, 12 September 2019. The interim dividend is payable on Friday, 27 September 2019 to the Shareholders whose names appear on the Registers of Members on Friday, 13 September 2019.

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
"ASEAN"	the Association of Southeast Asian Nations
"Asia"	Asia continent, for the purpose of this announcement only, excludes Greater China
"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
"Controlling Shareholder(s)"	shall have the meaning ascribed to it under the Listing Rules
"Directors"	directors of the Company
"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

"HK(IFRIC) - Int"	Hong Kong (International Financial Reporting Interpretations Committee) – Interpretation
"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
"Kerry Coffee"	Kerry Coffee (Hong Kong) Limited, a limited company incorporated in Hong Kong, an indirect wholly-owned subsidiary of the Company
"Kerry Cold Chain Solution"	Kerry Cold Chain Solution Ltd., a limited company incorporated in PRC, an indirect 51%-owned subsidiary of the Company
"Kerry Express Thailand"	Kerry Express (Thailand) Limited, a company incorporated in Thailand with limited liability, an indirect 63%-owned subsidiary of the Company
"Kerry Pharma"	Kerry Pharma Logistics Co., Ltd., incorporated under the laws of Taiwan with limited liability by shares, a deemed subsidiary of the Company
"KPL"	Kerry Properties Limited, an exempted company incorporated in Bermuda 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
"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

"Q1", "Q2" or "Q4"	first quarter, second quarter or fourth quarter
"Registers of Members"	registers of members of the Company
"Science Park Logistics"	Science Park Logistics Co., Ltd., incorporated under the laws of Taiwan with limited liability by shares, a deemed subsidiary 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

By Order of the Board
KUOK Khoon Hua
Chairman

Hong Kong, 29 August 2019

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

Executive Directors:
Mr KUOK Khoon Hua, Mr MA Wing Kai William and Mr NG Kin Hang

Non-executive Director:
Ms TONG Shao Ming

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