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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 2019

The Board of the Company is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2019, together with comparative figures for the year ended 31 December 2018.

GROUP'S FINANCIAL HIGHLIGHTS

- Revenue increased by 8% to HK\$41,139 million (2018: HK\$38,139 million)
- Core operating profit increased by 17% to HK\$2,765 million (2018: HK\$2,364 million)
- Core net profit increased by 4% to HK\$1,374 million (2018: HK\$1,326 million)
- Profit attributable to the Shareholders increased by 55% to HK\$3,788 million (2018: HK\$2,440 million)
- IL business recorded a 15% increase in segment profit to HK\$2,435 million (2018: HK\$2,111 million)
- IFF business recorded a 13% increase in segment profit to HK\$622 million (2018: HK\$549 million)
- Proposed final dividend of 18 HK cents per share, to be payable on Thursday, 18 June 2020
- Dividend Payout Ratio, excluding special dividend, is 34% (2018: 32%)

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2019 HK\$'000	2018 HK\$'000
Revenue	2	41,139,102	38,138,528
Direct operating expenses	4	(35,736,601)	(33,382,961)
Gross profit		5,402,501	4,755,567
Other income and net gains	3	199,801	176,462
Administrative expenses	4	(2,841,723)	(2,538,268)
Operating profit before gain on disposal of warehouses and fair value change of investment properties		2,760,579	2,393,761
Gain on disposal of warehouses		1,957,540	–
Change in fair value of investment properties		482,873	1,097,933
Operating profit		5,200,992	3,491,694
Finance costs	5	(358,171)	(224,245)
Share of results of associates and joint ventures		85,530	110,734
Profit before taxation		4,928,351	3,378,183
Taxation	6	(588,951)	(506,561)
Profit for the year		4,339,400	2,871,622
Profit attributable to:			
Company's shareholders		3,788,323	2,439,775
Non-controlling interests		551,077	431,847
		4,339,400	2,871,622
Earnings per share	8		
– Basic		HK\$2.21	HK\$1.44
– Diluted		HK\$2.21	HK\$1.43

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2019 HK\$'000	2018 HK\$'000
Profit for the year	4,339,400	2,871,622
Other comprehensive income/(loss)		
Items that will not be reclassified subsequently to consolidated income statement		
Defined benefit pension plans		
– Actuarial losses	(11,277)	(13,014)
– Deferred income tax	1,365	2,239
Fair value change on financial assets at fair value through other comprehensive income	15,785	22,290
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	117,031	(538,833)
Other comprehensive income/(loss) for the year (net of tax)	122,904	(527,318)
Total comprehensive income for the year	4,462,304	2,344,304
Total comprehensive income attributable to:		
Company's shareholders	3,877,802	2,025,173
Non-controlling interests	584,502	319,131
	4,462,304	2,344,304

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		4,764,904	4,250,877
Investment properties		10,308,139	11,039,020
Leasehold land and land use rights		–	590,450
Property, plant and equipment		11,343,539	10,347,048
Right-of-use assets		3,985,642	–
Associates and joint ventures		1,386,733	1,472,268
Financial assets at fair value through other comprehensive income		150,843	170,799
Investment in convertible bonds		191,789	192,710
Deferred taxation		73,878	85,580
		32,205,467	28,148,752
Current assets			
Financial assets at fair value through profit or loss		119,731	261,884
Investment in convertible bonds		349,194	351,052
Inventories		504,671	425,217
Accounts receivable, prepayments and deposits	9	10,148,966	9,502,889
Tax recoverable		24,849	15,281
Amounts due from fellow subsidiaries		5,223	1,508
Restricted and pledged bank deposits		20,622	20,148
Cash and bank balances		5,825,246	4,305,949
		16,998,502	14,883,928
Current liabilities			
Lease liabilities		961,585	–
Accounts payable, deposits received and accrued charges	10	7,387,785	6,795,738
Amounts due to fellow subsidiaries		9,788	–
Amounts due to related companies		28,729	24,795
Taxation		411,331	368,407
Short-term bank loans and current portion of long-term bank loans	11	1,947,820	4,936,902
Bank overdrafts		233,750	193,076
		10,980,788	12,318,918

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 31 December	
		2019 HK\$'000	2018 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		223,805	177,833
Long-term bank loans	11	6,173,790	4,569,564
Lease liabilities		2,545,880	–
Deferred taxation		656,212	673,955
Retirement benefit obligations		124,389	112,921
Other non-current liabilities		1,424,610	1,511,941
		11,148,686	7,046,214
ASSETS LESS LIABILITIES		27,074,495	23,667,548
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		858,102	852,632
Share premium and other reserves		2,992,215	3,140,183
Retained profits		20,325,662	17,221,259
		24,175,979	21,214,074
Put options written on non-controlling interests		(1,162,630)	(1,170,801)
		23,013,349	20,043,273
Non-controlling interests		4,061,146	3,624,275
TOTAL EQUITY		27,074,495	23,667,548

NOTES TO THE FINANCIAL STATEMENTS

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 2019:

- HKFRS 16, 'Leases'
- Amendments to HKAS 19, 'Plan amendment, curtailment or settlement'
- Amendments to HKAS 28, 'Long-term interests in an associate or joint venture'
- Amendments to HKFRS 9, 'Prepayment features with negative compensation'
- HK(IFRIC)-Int 23, 'Uncertainty over income tax treatments'
- Annual improvements to HKFRSs 2015-2017 cycle

Except for HKFRS 16 described in note 1(II), the adoption of the above amendments, interpretations and improvements to existing standards 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 16, 'Leases' on the Group's financial statements.

As indicated in note 1(l) above, the Group has adopted HKFRS 16, 'Leases' retrospectively from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. The reclassifications and the adjustments, if any, arising from the new leasing rules are therefore recognised in the opening consolidated statement of financial position on 1 January 2019.

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. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 2.95%.

• **Practical expedients applied**

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 January 2019;
- accounting for operating leases with a remaining lease term of 12 months or less as at 1 January 2019 as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application; and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying HKAS 17 and Interpretation 4, 'Determining whether an Arrangement contains a Lease'.

- **Measurement of lease liabilities**

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 commitment and the recognised lease liabilities have mainly arisen from the discontinuing 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 recognised right-of-use assets relate to the following types of assets:

	31 December 2019 HK\$'000	1 January 2019 HK\$'000
Leasehold land and land use right	502,629	590,450
Equipment	40,664	29,629
Buildings	2,725,108	1,829,715
Motor vehicles	717,241	646,597
Total right-of-use assets	3,985,642	3,096,391

The change in accounting policy affected the right-of-use assets and lease liabilities, and both increased by HK\$2,506 million on 1 January 2019. In addition, leasehold land and land use right 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.

- **Adjustments recognised on the adoption of HKFRS 16**

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 consolidated statement of financial position 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 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

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

The following new standards and amendments to existing standards and interpretations have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2020, but the Group has not early adopted them:

**Applicable for
accounting periods
beginning on/after**

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 HKFRS 9, HKAS 39 and HKFRS 7, 'Hedge accounting'	1 January 2020
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 contracts'	1 January 2021

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 consolidated financial statements of the Group.

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 2019, together with comparative figures for the year ended 31 December 2018, is as follows:

	For the year ended 31 December									
	Integrated logistics				International		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse		freight forwarding					
	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	
Revenue										
Revenue	19,243,537	16,526,529	268,279	340,661	21,627,286	21,271,338	-	-	41,139,102	38,138,528
Inter-segment revenue	462,335	434,620	474,868	431,667	5,408,118	4,194,555	(6,345,321)	(5,060,842)	-	-
	19,705,872	16,961,149	743,147	772,328	27,035,404	25,465,893	(6,345,321)	(5,060,842)	41,139,102	38,138,528
Revenue by geographical area:										
Hong Kong	4,680,000	4,108,434	743,147	772,328	2,074,387	1,881,532	(1,819,654)	(1,623,298)	5,677,880	5,138,996
Mainland China	4,498,186	4,332,923	-	-	8,877,845	7,700,826	(2,585,910)	(2,043,601)	10,790,121	9,990,148
Taiwan	3,012,174	2,700,353	-	-	449,984	446,655	(195,953)	(173,463)	3,266,205	2,973,545
Asia	7,373,764	5,676,211	-	-	5,122,264	4,521,047	(1,076,596)	(647,011)	11,419,432	9,550,247
Americas	-	-	-	-	5,938,156	6,736,931	(484,631)	(430,109)	5,453,525	6,306,822
Europe	-	-	-	-	4,073,021	3,700,065	(154,083)	(116,192)	3,918,938	3,583,873
Others	141,748	143,228	-	-	499,747	478,837	(28,494)	(27,168)	613,001	594,897
	19,705,872	16,961,149	743,147	772,328	27,035,404	25,465,893	(6,345,321)	(5,060,842)	41,139,102	38,138,528
Segment profit by geographical area:										
Hong Kong	389,670	316,253	540,971	559,545	50,165	47,559	-	-	980,806	923,357
Mainland China	264,644	216,366	-	-	207,209	167,886	-	-	471,853	384,252
Taiwan	480,876	404,515	-	-	20,482	21,677	-	-	501,358	426,192
Asia	713,063	584,085	-	-	113,696	104,172	-	-	826,759	688,257
Americas	-	-	-	-	191,224	177,265	-	-	191,224	177,265
Europe	-	-	-	-	18,152	13,488	-	-	18,152	13,488
Others	46,053	29,701	-	-	21,162	17,217	-	-	67,215	46,918
	1,894,306	1,550,920	540,971	559,545	622,090	549,264	-	-	3,057,367	2,659,729
Less: Unallocated administrative expenses									(292,380)	(295,404)
Core operating profit									2,764,987	2,364,325
Finance income									40,720	43,436
Finance costs									(358,171)	(224,245)
Share of results of associates and joint ventures									85,530	110,734
Profit before taxation*									2,533,066	2,294,250
Taxation*									(605,417)	(527,601)
Profit for the year*									1,927,649	1,766,649
Non-controlling interests*									(553,551)	(440,319)
Core net profit									1,374,098	1,326,330
Change in fair value of investment properties									482,873	1,097,933
Deferred tax on change in fair value of investment properties									16,466	21,040
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									2,474	8,472
Gain on disposal of warehouses									1,957,540	-
Fair value change of financial instruments									-	(14,000)
Impairment									(45,128)	-
Profit attributable to the Company's shareholders									3,788,323	2,439,775
Depreciation and amortisation	1,574,404	544,763	50,476	54,477	296,423	179,996			1,921,303	779,236

* Excluding the change in fair value of investment properties and its related deferred tax, gain on disposal of warehouses, fair value change of financial instruments and 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 revenue from provision of logistics services and sales of goods.

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

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

Segment revenue 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, gain on disposal of warehouses, fair value change of financial instruments and impairment.

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

	Segment non-current assets[#]	
	2019 HK\$'000	2018 HK\$'000
Hong Kong	10,363,487	11,083,800
Mainland China	6,121,817	4,904,953
Taiwan	4,989,208	3,464,146
Asia	8,137,129	6,380,010
Americas	1,070,729	960,427
Europe	907,363	769,337
Others	199,224	136,990
	31,788,957	27,699,663

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

3. OTHER INCOME AND NET GAINS

	2019 HK\$'000	2018 HK\$'000
Interest income from banks	35,230	37,761
Interest income from associates	5,490	5,675
Interest income from convertible bonds	21,069	21,096
Dividend income from financial assets at fair value through other comprehensive income	13,188	10,643
Gain on disposal of property, plant and equipment	76,135	38,729
Gain on disposal of financial asset at fair value through profit or loss	39,673	–
Loss on disposal of associates	(2,004)	(424)
Gain on disposal of subsidiaries	43,870	84,086
Fair value change of financial assets at fair value through profit or loss	12,278	(21,104)
Impairment of associates	(3,276)	–
Goodwill impairment	(41,852)	–
	199,801	176,462

4. EXPENSES BY NATURE

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

	2019 HK\$'000	2018 HK\$'000
Auditors' remuneration	29,035	24,545
Business tax and other taxes	10,764	13,543
Cost of goods sold	1,600,362	1,515,436
Freight and transportation costs	27,381,206	26,700,541
Depreciation of property, plant and equipment	820,292	662,315
Depreciation of right-of-use assets	965,603	–
Amortisation of leasehold land and land use rights	–	10,262
Amortisation of intangible assets	135,408	106,659
Provision for impairment of receivables	93,785	64,678
Reversal of provision for impairment of receivables	(3,176)	(1,963)
Rental expenses on land and buildings	341,081	788,416
Employee benefit expenses	6,226,329	5,197,302

5. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest expenses on bank loans and overdrafts	245,888	224,245
Interest expenses on lease liabilities	112,283	–
	358,171	224,245

6. TAXATION

	2019 HK\$'000	2018 HK\$'000
Hong Kong profits tax		
– Current	153,241	134,321
– Under/(overprovision) in prior years	1,908	(614)
– Deferred	(3,229)	(835)
	151,920	132,872
PRC taxation		
– Current	81,770	89,836
– Under/(overprovision) in prior years	939	(589)
– Deferred	9,892	(13,974)
	92,601	75,273
Overseas taxation		
– Current	373,633	300,673
– Overprovision in prior years	(4,177)	(18,635)
– Deferred	(25,026)	16,378
	344,430	298,416
	588,951	506,561

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) for the year ended 31 December 2019 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% (2018: 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 2019 is HK\$17,635,000 (2018: HK\$18,869,000) 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 2019 of 18 HK cents per share, amounting to a total dividend of HK\$308,917,000, is to be proposed at the annual general meeting on 29 May 2020. These financial statements do not reflect this dividend payable.

	2019 HK\$'000	2018 HK\$'000
Interim dividend paid of 9 HK cents (2018: 9 HK cents) per ordinary share	154,326	153,032
Special dividend paid of 35 HK cents (2018: 12 HK cents) per ordinary share	599,964	204,041
Proposed final dividend of 18 HK cents (2018: 16 HK cents) per ordinary share	308,917	272,842
	<u>1,063,207</u>	<u>629,915</u>

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.

	2019	2018
Adjusted weighted average number of ordinary shares in issue	1,711,917,478	1,698,719,179
Profit attributable to the Company's shareholders (HK\$'000)	3,788,323	2,439,775
Basic earnings per share (HK\$)	<u>2.21</u>	<u>1.44</u>

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.

	2019	2018
Adjusted weighted average number of ordinary shares in issue	1,711,917,478	1,698,719,179
Adjustment for share options	4,500,235	3,812,012
Weighted average number of shares for the purpose of calculating diluted earnings per share	<u>1,716,417,713</u>	<u>1,702,531,191</u>
Profit attributable to the Company's shareholders (HK\$'000)	3,788,323	2,439,775
Diluted earnings per share (HK\$)	<u>2.21</u>	<u>1.43</u>

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:

	2019 HK\$'000	2018 HK\$'000
Below 1 month	4,706,129	4,372,337
Between 1 month and 3 months	2,631,011	2,662,406
Over 3 months	639,044	498,890
Total trade receivables, net	7,976,184	7,533,633
Prepayments, deposits and other receivables	2,172,782	1,969,256
	10,148,966	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:

	2019 HK\$'000	2018 HK\$'000
Below 1 month	2,482,882	2,322,677
Between 1 month and 3 months	1,012,311	761,110
Over 3 months	465,361	624,152
Total trade payables	3,960,554	3,707,939
Deposits received, accrued charges and other payables	3,427,231	3,087,799
	7,387,785	6,795,738

11. BANK LOANS

	2019 HK\$'000	2018 HK\$'000
Non-current		
– unsecured	5,364,880	3,918,104
– secured	808,910	651,460
	6,173,790	4,569,564
Current		
– unsecured	1,737,193	4,437,736
– secured	210,627	499,166
	1,947,820	4,936,902
Total bank loans	8,121,610	9,506,466

As at 31 December 2019, the Group's bank loans were repayable as follows:

	2019 HK\$'000	2018 HK\$'000
Within 1 year	1,947,820	4,936,902
Between 1 and 2 years	2,981,607	2,185,439
Between 3 and 5 years	3,075,333	2,266,652
Repayable within 5 years	8,004,760	9,388,993
Over 5 years	116,850	117,473
	8,121,610	9,506,466

12. COMMITMENTS

At 31 December 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:

	2019 HK\$'000	2018 HK\$'000
Contracted but not provided for	715,865	1,014,433

13. PLEDGE OF ASSETS

At 31 December 2019, the Group's total bank loans of HK\$8,121,610,000 (2018: HK\$9,506,466,000) included an aggregate amount of HK\$1,019,537,000 (2018: HK\$1,150,626,000) which is secured. The Group's total bank overdrafts of HK\$233,750,000 (2018: HK\$193,076,000) included an aggregate amount of HK\$50,076,000 (2018: HK\$46,561,000) 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\$2,866,665,000 (2018: HK\$2,872,808,000);
- (ii) assignments of insurance proceeds of certain properties; and
- (iii) certain balances of restricted and pledged deposits.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

The Group recorded an increase in revenue of 8% to HK\$41,139 million in 2019 (2018: HK\$38,139 million). Core operating profit went up 17% to HK\$2,765 million (2018: HK\$2,364 million). Core net profit also rose 4% year-on-year to HK\$1,374 million (2018: HK\$1,326 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, impairment, and gain from disposal of warehouses in Hong Kong, increased by 55% to HK\$3,788 million (2018: HK\$2,440 million).

	2019 HK\$ million	2018 HK\$ million	
Segment profit			
IL			
– Logistics operations	1,894	1,551	+22%
– Hong Kong warehouse	541	560	-3%
	2,435	2,111	+15%
IFF	622	549	+13%
	3,057	2,660	
Unallocated administrative expenses	(292)	(296)	
Core operating profit	2,765	2,364	+17%
Core net profit	1,374	1,326	+4%
Change in fair value of investment properties, net of deferred tax	501	1,128	
Change in fair value of financial instruments	–	(14)	
Impairment	(45)	–	
Gain from disposal of warehouses in Hong Kong	1,958	–	
Profit attributable to the Shareholders	3,788	2,440	+55%

BUSINESS REVIEW

MARKET OVERVIEW

2019 was a challenging and turbulent year. Global economic growth weakened considerably as international trade disputes dragged on and Mainland China's GDP growth slowed down. Social unrest in Hong Kong further impacted the local economy and affected consumer confidence. The COVID-19 outbreak is causing severe disruptions to production, mobility and the financial markets globally.

The shift in global supply chain in response to trade wars has accelerated the pace of enterprises relocating sourcing and production activities from Mainland China to other Asian countries. Riding on its solid presence and proven track record in Asia, Kerry Logistics assisted its customers to reconfigure their supply chains and provided alternative solutions to help them cope with new scenarios.

Despite the weak product demand and lower productivity worldwide, the Group registered growth in revenue, core operating profit and core net profit again in 2019. Supported by its diversified business portfolio, extensive geographical coverage and broad customer mix, the Group was able to achieve positive growth across all regions with double-digit percentage increase in its segment profit.

IL PROFIT GREW

Building on a wide-ranging customer mix across various industries, in addition to improved cost efficiency in Mainland China, the Group's IL division recorded a 15% segment profit growth in 2019.

HONG KONG BUSINESS RESILIENT

Although Hong Kong was gripped by social events in 2019 2H that negatively affected in particular the retail section, the Group's business in the city reported a 6% growth. The segment profit of the Hong Kong logistics operations rose by 23% on the back of a resilient business model, rise in e-commerce business as well as new customer wins in the F&B, pharmaceutical and general services verticals. The Hong Kong warehousing business dropped 3% as a result of the sale of two warehouses in June 2019.

MAINLAND CHINA RESTRUCTURED

The repositioning and restructuring of the Group's Mainland China operations earlier has borne fruit as segment profit of its IL business recorded a rise of 22%. The recovery was driven by increased business in the cold chain logistics operation, addition of new customers in the electronics, fast-moving consumer goods, industrial and fashion industries as well as cost savings through enhanced cost efficiency of the ground transportation network throughout the country.

TAIWAN SURGE MAINTAINED

The Group's IL business in Taiwan registered a 19% growth in segment profit in 2019, benefitted from the repatriation of semiconductor manufacturers from Mainland China and new business contributed by Science Park Logistics which is one of the leading service providers in high-tech, bonded logistics in Taiwan. The increased cold chain and pharmaceutical logistics businesses also provided momentum to the profit growth.

ASIA GROWTH MODERATED

Segment profit in Asia increased by 22% in 2019, supported by the strong performance of the Thailand operation. The extent of increase should have been larger if not for the Group's ongoing financing of the Kerry Express operations in Malaysia, Vietnam and Indonesia amounting to HK\$70 million.

IFF GROWTH SUSTAINED

Riding on the booming intra-Asia trade, the Group's IFF division recorded strong growth in the first ten months in 2019. However, growth weakened in the last two months of the year and dragged the overall performance down, resulting in only a 13% increase in segment profit, contributing 20% to the total segment profit.

Kerry Logistics was 5th on the Top 10 Freight Forwarders in Hong Kong ranking released by IATA for January 2020. In the global ranking published by Armstrong & Associates, Inc. for 2019, Kerry Logistics was 11th among the Top 25 Global Freight Forwarders.

GROWTH ACROSS KEY REGIONS

Majority of the regions recorded growth except Taiwan. The major contribution came from Mainland China which registered a 23% growth. Despite the ongoing trade wars, the IFF business in the Americas reported increase in profit as a result of frontloading by customers to get goods from Mainland China to the US.

PROJECT LOGISTICS SET TO GO

The successful consolidation of its industrial project logistics services and overland rails worldwide allowed the Group to tap into new markets beyond its traditional customers in the consumer products industry, which is slowing down. The Group is now equipped and ready to capitalise on the project logistics sector's promising prospects and rising demand.

CAPABILITY IN TURKEY STRENGTHENED

In August 2019, the Group acquired a majority interest in Turkey's ASAV Logistics Services Inc. to further the expansion of its global network. The acquisition helped the Group to gain a major foothold in Turkey and further consolidate its network and air freight capabilities in the EMEA region.

LOGISTICS FACILITIES EXPANDED

In the United Arab Emirates, the 70,000-square-foot bonded logistics facility commenced operation in Dubai in 2019 Q4.

In Mainland China, construction of the 827,000-square-foot logistics centre in Qingdao is expected to complete in 2021 Q2, and the 646,000-square-foot logistics centre in Guangzhou is projected for completion in 2021 Q4.

In Taiwan, the 430,000-square-foot logistics centre in Guanyin is expected to resume operation in 2021 Q3 after restoration from the fire in February 2019 is completed.

ASSET OPTIMISATION AS PLANNED

The Group completed the disposal of two Hong Kong warehouses in 2019 at a total gain of approximately HK\$2 billion. Going forward, the Group will continue to review and adjust its plan according to changing economic conditions.

OUTLOOK

The global COVID-19 outbreak is creating a business and financial tsunami. As of today, most developed countries have implemented stay-at-home orders and some are considering substantial border restrictions, including shutting down ports and limiting exports. An already broken global supply chain further fragments while the demand for the majority of consumer products rapidly collapses, creating a devastating impact on global trade flows and transportation.

As the world switches to a more domestic-based supply chain for daily essentials, the Group is in a relatively secure position to accommodate the changing conditions, riding on its strong exposure in the domestic markets of Mainland China, Hong Kong, Taiwan, Thailand and other Asian countries. The Group is less impacted by the global lockdown.

It is expected that when the pandemic comes under control, the global supply chain will be in massive chaos. Nonetheless, the Group is confident that it will be able to leverage its extensive geographical coverage, solid presence in various markets and diversified business segments to continue serving its customers well and generating positive returns for the Shareholders.

SPIN-OFF AND SEPARATE LISTING OF KERRY EXPRESS THAILAND

The spin-off and separate listing of Kerry Express Thailand on the Stock Exchange of Thailand is currently in progress. On 28 February 2020, Kerry Express Thailand submitted the listing application to The Securities and Exchange Commission of Thailand. Given that in Thailand a state of emergency has taken effect and will remain in force until 30 April 2020, delay in the listing process is expected.

APEX ACQUISITION COMPLETED

On 31 March 2020, the Group completed the acquisition of the remaining 49% in Apex, the third largest NVOCC in terms of volume from Asia to the US in 2019, at a consideration of approximately US\$176 million, satisfied by 30% in cash and 70% in the newly issued Shares. The acquisition represents a continuation of the Group's strategy to grow its business organically in the US.

CAPTURE EMERGING MARKET GROWTH POTENTIAL

Building on its established presence in emerging economies, Kerry Logistics will continue capturing the considerable growth potential of these countries and other new markets through expanding its strategic footprint and strengthening its service offerings.

FINANCIAL REVIEW

The Group has centralised financing policies which apply to all business units within the network. The policies are reviewed on a periodical basis along with the change in market situation and financial position of the Group.

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 2019, total foreign currency borrowings amounted to the equivalent of HK\$5,337 million (including HK\$3,005 million denominated in New Taiwan Dollar and HK\$666 million denominated in Thai Baht), which represented approximately 66% of the Group's total bank loans of HK\$8,122 million.

Out of the Group's total bank loans as at 31 December 2019, HK\$1,948 million (representing approximately 24%) was repayable within one year, HK\$2,982 million (representing approximately 37%) in the second year, HK\$3,075 million (representing approximately 38%) in the third to fifth years and HK\$117 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\$1,020 million as at 31 December 2019, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,867 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 2019, the gearing ratio for the Group was 34.6% (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 31 December 2019, the Group had total undrawn bank loan and overdraft facilities of HK\$11,801 million which may be used to fund material capital expenditure. The Group will also continue to secure financing as and when the need arises.

STAFF AND REMUNERATION POLICIES

As at 31 December 2019, the Group had approximately 47,200 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 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 Non-executive Director, appointment effective from 1 June 2019) and the Directors have confirmed that they have complied with the Model Code (i) during the year ended 31 December 2019; or (ii) during the period from their respective appointment dates and up to 31 December 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 year ended 31 December 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 31 December 2019, a total of 17,358,500 and 1,200,000 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 two Independent Non-executive Directors, being Ms WONG Yu Pok Marina and Mr ZHANG Yi Kevin and one Non-executive Director, being Ms TONG Shao Ming. 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 2019 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 2019

On 22 January 2020, the Board has announced that the Company and the sellers entered into the binding term sheet in relation to the Proposed Acquisition. On 24 February 2020, the Board has announced that the stock sale and purchase agreement has been entered into in relation to the Proposed Acquisition at a consideration of US\$176,132,511 to be satisfied as to 30% in cash of approximately US\$52,840,000 and the remaining 70% by issuing 76,445,430 new Shares to the sellers at the issue price of HK\$12.58 per Share. Upon completion of the Proposed Acquisition, each of the entities forming the Target Group will become an indirect wholly-owned subsidiary of the Company. On 31 March 2020, the Board has announced that the Proposed Acquisition has been completed. For further details, please refer to the announcements of the Company dated 22 January 2020, 24 February 2020, 28 February 2020 and 31 March 2020 and circular of the Company dated 16 March 2020.

Kerry Express Thailand is an indirect non wholly-owned subsidiary of the Company and is principally engaged in the express delivery business in Thailand. On 28 February 2020, Kerry Express Thailand submitted the application for the issuance and offering of ordinary shares to The Securities and Exchange Commission of Thailand. For further details, please refer to the announcements of the Company dated 18 March 2019 and 28 February 2020 and circular of the Company dated 16 May 2019.

ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2019 is scheduled to be held on Friday, 29 May 2020 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, 26 May 2020 to Friday, 29 May 2020 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, 29 May 2020. 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 54, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, 25 May 2020.

The Registers of Members will also be closed on Thursday, 4 June 2020 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, 3 June 2020. The final dividend is payable on or around Thursday, 18 June 2020 to the Shareholders whose names appear on the Registers of Members on Thursday, 4 June 2020, 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

“2H”	second half
“ACC”	the audit and compliance committee of the Company
“Apex” or “Target Group”	14 US subsidiaries of KLN Investment
“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
“Director(s)”	director(s) of the Company
“Dividend Payout Ratio”	the percentage of the Group’s core net profit paid to Shareholders as dividends
“EMEA”	Europe, Middle East and Africa
“F&B”	food and beverage
“GDP”	gross domestic product
“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
“IATA”	International Air Transportation Association
“IFF”	international freight forwarding
“IL”	integrated logistics
“Kerry Express Thailand”	Kerry Express (Thailand) Public Company Limited, formerly known as Kerry Express (Thailand) Limited, incorporated in Thailand
“KLN Investment”	KLN Investment (US) LLC, a limited liability company incorporated in Delaware, an indirect wholly-owned subsidiary 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
“NVOCC”	non-vessel operating common carrier
“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
“Proposed Acquisition”	the proposed acquisition by KLN Investment of the remaining shares of the Target Group, representing 49% equity interests of each of the entities forming the Target Group

“Q2”, “Q3” or “Q4”	second quarter, third 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
“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
KUOK Khoon Hua
Chairman

Hong Kong, 31 March 2020

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