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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 SIX MONTHS ENDED 30 JUNE 2020

The Board of the Company is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2020, together with comparative figures for the six months ended 30 June 2019.

GROUP'S FINANCIAL HIGHLIGHTS

- Revenue increased by 10% year-on-year to HK\$21,885 million (2019 1H: HK\$19,810 million)
- Core operating profit increased by 12% to HK\$1,489 million (2019 1H: HK\$1,330 million)
- Core net profit jumped by 26% year-on-year to HK\$845 million (2019 1H: HK\$669 million)
- Profit attributable to the Shareholders for 2020 1H was HK\$1,073 million. Excluding the gain from disposal of two warehouses in Hong Kong in 2019, it represents a remarkable year-on-year growth of 29% (2019 1H normalised: HK\$832 million)
- IL business recorded a segment profit of HK\$1,139 million (2019 1H: HK\$1,162 million) and IFF business recorded HK\$403 million (2019 1H: HK\$288 million), which represent a slight drop of 2% and an increase of 40%, respectively. The drop in IL segment profit is mainly due to the reduced profit contributed by lesser number of warehouses in Hong Kong year-on-year. Should this impact be normalised, segment profit of IL business should have increased by 2%, including a 6% year-on-year growth of Hong Kong warehouse business
- Interim dividend of 11 HK cents per Share, to be payable on Friday, 25 September 2020

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2020

	Note	Unaudited 2020 HK\$'000	Unaudited 2019 HK\$'000
Revenue	2	21,884,967	19,810,329
Direct operating expenses	3	(19,174,211)	(17,284,673)
Gross profit		2,710,756	2,525,656
Other income and net gains		158,569	112,131
Administrative expenses	3	(1,364,576)	(1,331,567)
Operating profit before gain on disposal of warehouses and fair value change of investment properties		1,504,749	1,306,220
Gain on disposal of warehouses		–	1,957,540
Change in fair value of investment properties		227,931	205,020
Operating profit		1,732,680	3,468,780
Finance costs	4	(160,103)	(161,724)
Share of results of associates and joint ventures		41,673	45,934
Profit before taxation		1,614,250	3,352,990
Taxation	5	(278,861)	(295,049)
Profit for the period		1,335,389	3,057,941
Profit attributable to:			
Company's shareholders	2	1,072,849	2,789,744
Non-controlling interests		262,540	268,197
		1,335,389	3,057,941
Earnings per share	7		
– Basic		HK\$0.61	HK\$1.63
– Diluted		HK\$0.61	HK\$1.63

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2020

	Unaudited 2020 HK\$'000	Unaudited 2019 HK\$'000
Profit for the period	1,335,389	3,057,941
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(419,306)	85,636
Items that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	238	8,273
Defined benefit pension plans		
– Actuarial gains	1,078	–
– Deferred income tax	(216)	–
Other comprehensive (loss)/income for the period	(418,206)	93,909
Total comprehensive income for the period	917,183	3,151,850
Total comprehensive income attributable to:		
Company's shareholders	706,060	2,880,109
Non-controlling interests	211,123	271,741
	917,183	3,151,850

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		4,641,639	4,764,904
Investment properties		10,499,279	10,308,139
Property, plant and equipment		11,034,478	11,343,539
Right-of-use assets		3,935,372	3,985,642
Associates and joint ventures		1,886,117	1,386,733
Financial assets at fair value through other comprehensive income		327,269	150,843
Investment in convertible bonds		5,704	191,789
Deferred taxation		82,218	73,878
		32,412,076	32,205,467
Current assets			
Financial assets at fair value through profit or loss		107,667	119,731
Investment in convertible bond		347,424	349,194
Inventories		517,888	504,671
Accounts receivable, prepayments and deposits	8	9,636,953	10,148,966
Tax recoverable		25,506	24,849
Amounts due from fellow subsidiaries		5,427	5,223
Restricted and pledged bank deposits		21,024	20,622
Cash and bank balances		6,012,473	5,825,246
		16,674,362	16,998,502
Current liabilities			
Lease liabilities		973,785	961,585
Accounts payable, deposits received and accrued charges	9	7,122,407	7,387,785
Amounts due to fellow subsidiaries		9,159	9,788
Amounts due to related companies		21,696	28,729
Taxation		404,580	411,331
Short-term bank loans and current portion of long-term bank loans	10	3,477,607	1,947,820
Bank overdrafts		150,036	233,750
		12,159,270	10,980,788

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)

	Note	Unaudited As at 30 June 2020 HK\$'000	Audited As at 31 December 2019 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		223,362	223,805
Long-term bank loans	10	5,364,965	6,173,790
Lease liabilities		2,414,282	2,545,880
Deferred taxation		659,692	656,212
Retirement benefit obligations		136,472	124,389
Other non-current liabilities		139,689	1,424,610
		8,938,462	11,148,686
ASSETS LESS LIABILITIES		27,988,706	27,074,495
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		896,994	858,102
Share premium and other reserves		2,352,294	2,992,215
Retained profits		21,043,880	20,325,662
		24,293,168	24,175,979
Put option written on non-controlling interests		(4,593)	(1,162,630)
		24,288,575	23,013,349
Non-controlling interests		3,700,131	4,061,146
TOTAL EQUITY		27,988,706	27,074,495

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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 2019, which have been prepared in accordance with HKFRS. 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 2019.

The following new amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2020 have been published:

- Amendments to HKAS 1, "Presentation of financial statements"
- HKAS 8, "Accounting policies, changes in accounting estimates and errors"
- Amendments to HKFRS 3, "Definition of a business"
- Amendments to HKFRS 7, HKFRS 9 and HKFRS 39, "Interest Rate Benchmark Reform"

The Group has early adopted amendments to HKFRS 16 "Covid-19-Related Rent Concessions" which is mandatory and effective for annual accounting period on or after 1 June 2020, and applied practical expedient to recognise all its Covid-19 related rent concessions in the profit and loss, rather than to spread the impact over the remaining lease terms.

In the current interim period, the Group has applied, for the first time, the above new amendments to existing standards issued by the HKICPA. The adoption of the above amendments of existing standards 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, "Classification of Liabilities as Current or Non-current" ¹

Amendments to HKAS 16, "Property, Plant and Equipment: Proceeds before intended use" ¹

Amendments to HKAS 37, "Onerous Contracts – Cost of Fulfilling a Contract" ¹

Amendments to HKFRS 3, "Reference to the Conceptual Framework" ¹

Annual Improvements to HKFRS Standards 2018-2020¹

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 date for annual periods beginning on or after 1 January 2022

² Effective date for annual periods beginning on or after 1 January 2023

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 2019 except for the adoption of new standards as set out above. The Directors have considered the existing and potential impact arising from the global COVID-19 pandemic in the preparation of the condensed consolidated interim financial statements. The Group has based its assumptions and estimates on circumstances and conditions available when the condensed consolidated interim financial statements were prepared. Given the unprecedented macro conditions, actual results could differ significantly from those assumptions and estimates. The Directors will remain alert and cautious on the ongoing development of COVID-19 that may cause further volatility and uncertainty in the global financial market and economy, and will take necessary measures to address the impact arising therefrom.

2 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

An analysis of the Group's financial results by operating segment and geographical area for the six months ended 30 June 2020, together with comparative figures for the six months ended 30 June 2019, as restated, is as follows:

	For the six months ended 30 June									
	Integrated logistics				International				Consolidation	
	Logistics operations		Hong Kong warehouse		freight forwarding		Elimination			
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(reclassified)		(reclassified)		(reclassified)		(reclassified)		(reclassified)
Revenue										
Revenue	9,279,982	9,339,537	97,253	179,124	12,507,732	10,291,668	-	-	21,884,967	19,810,329
Inter-segment revenue	230,804	198,916	248,166	217,790	2,902,311	2,150,447	(3,381,281)	(2,567,153)	-	-
	9,510,786	9,538,453	345,419	396,914	15,410,043	12,442,115	(3,381,281)	(2,567,153)	21,884,967	19,810,329
Revenue by geographical area:										
Hong Kong	2,389,650	2,234,053	345,419	396,914	1,268,018	925,347	(792,544)	(688,975)	3,210,543	2,867,339
Mainland China	1,934,785	2,329,498	-	-	5,667,769	3,965,044	(1,410,152)	(1,087,940)	6,192,402	5,206,602
Taiwan	1,521,120	1,419,383	-	-	281,075	216,751	(132,374)	(92,355)	1,669,821	1,543,779
Asia	3,603,331	3,480,671	-	-	2,268,743	2,102,474	(731,595)	(409,663)	5,140,479	5,173,482
Americas	-	-	-	-	3,092,540	2,887,338	(152,629)	(239,097)	2,939,911	2,648,241
EMEA	-	-	-	-	2,591,075	2,165,350	(147,181)	(34,259)	2,443,894	2,131,091
Oceania	61,900	74,848	-	-	240,823	179,811	(14,806)	(14,864)	287,917	239,795
	9,510,786	9,538,453	345,419	396,914	15,410,043	12,442,115	(3,381,281)	(2,567,153)	21,884,967	19,810,329
Segment profit by geographical area:										
Hong Kong	219,987	195,177	233,531	269,766	85,068	27,030	-	-	538,586	491,973
Mainland China	98,120	156,087	-	-	126,184	87,334	-	-	224,304	243,421
Taiwan	240,126	217,102	-	-	17,317	12,864	-	-	257,443	229,966
Asia	344,012	324,160	-	-	50,886	68,465	-	-	394,898	392,625
Americas	-	-	-	-	98,343	96,922	-	-	98,343	96,922
EMEA	-	-	-	-	13,423	(11,336)	-	-	13,423	(11,336)
Oceania	2,658	(430)	-	-	12,149	6,407	-	-	14,807	5,977
	904,903	892,096	233,531	269,766	403,370	287,686	-	-	1,541,804	1,449,548
Less: Unallocated administrative expenses*									(52,790)	(119,991)
Core operating profit									1,489,014	1,329,557
Finance income									15,735	18,515
Finance costs									(160,103)	(161,724)
Share of results of associates and joint ventures									41,673	45,934
Profit before taxation*									1,386,319	1,232,282
Taxation*									(278,528)	(295,300)
Profit for the period*									1,107,791	936,982
Non-controlling interests*									(262,347)	(267,784)
Core net profit									845,444	669,198
Change in fair value of investment properties									227,931	205,020
Deferred tax on change in fair value of investment properties									(333)	251
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									(193)	(413)
Gain on disposal of warehouses									-	1,957,540
Goodwill impairment									-	(41,852)
Profit attributable to the Company's shareholders									1,072,849	2,789,744
Normalised profit attributable to the Company's shareholders**									1,072,849	832,204
Depreciation and amortisation	875,333	686,131	23,608	26,443	169,407	135,504			1,068,348	848,078

* Excluding the change in fair value of investment properties and its related deferred tax, gain on disposal of warehouses and goodwill impairment

** Excluding the gain on disposal of warehouses in Hong Kong in 2019

Certain of the net gain from settlement of put options written on non-controlling interests was included in unallocated administrative expenses.

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 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 August 2019, the Group acquired a majority interest in Turkey's ASAV Logistics Services Inc. to further the expansion of its global network and further consolidate the Group's network and capabilities in the Europe, Middle East and Africa ("EMEA") Region. For segment presentation purpose, EMEA is presented as an operating division for the current segmental analysis of operations.

Prior period corresponding segment information that is presented for comparative purpose has been reclassified from geographical areas previously presented as Asia, Europe and others to conform the reclassification of operations in Asia, EMEA and Oceania segments adopted in current period. The reclassifications have no impact on the profit for the current and comparative periods nor on the assets and liabilities of the Group as at 30 June 2020 and 31 December 2019.

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.

By operating segment	For the six months ended 30 June							
	2020				2019			
	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	716,078	8,505,839	58,065	9,279,982	920,916	8,364,395	54,226	9,339,537
– Hong Kong warehouse	–	3,029	94,224	97,253	–	68,645	110,479	179,124
International freight forwarding	–	12,507,732	–	12,507,732	–	10,291,668	–	10,291,668
	716,078	21,016,600	152,289	21,884,967	920,916	18,724,708	164,705	19,810,329

For the six months ended 30 June

By geographical area	2020				2019			
	Revenue	Revenue	Rental	Total	Revenue	Revenue	Rental	Total
	recognised	recognised	income		recognised	recognised	income	
	at a point	over time		at a point	over time			
in time	over time	income	in time	over time	income			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
					(reclassified)		(reclassified)	
Revenue from contracts with customers								
Hong Kong	715,060	2,400,958	94,525	3,210,543	919,881	1,836,979	110,479	2,867,339
Mainland China	1,018	6,145,798	45,586	6,192,402	1,035	5,166,835	38,732	5,206,602
Taiwan	-	1,669,821	-	1,669,821	-	1,543,779	-	1,543,779
Asia	-	5,128,301	12,178	5,140,479	-	5,157,988	15,494	5,173,482
Americas	-	2,939,911	-	2,939,911	-	2,648,241	-	2,648,241
EMEA	-	2,443,894	-	2,443,894	-	2,131,091	-	2,131,091
Oceania	-	287,917	-	287,917	-	239,795	-	239,795
	716,078	21,016,600	152,289	21,884,967	920,916	18,724,708	164,705	19,810,329

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

	Segment non-current assets [#]	
	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000 (reclassified)
Hong Kong	10,534,170	10,363,487
Mainland China	6,111,612	6,121,817
Taiwan	5,087,952	4,989,208
Asia	7,724,848	7,688,488
Americas	1,043,854	1,070,729
EMEA	1,330,348	1,376,073
Oceania	164,101	179,155
	31,996,885	31,788,957

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

3 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Business tax and other taxes	5,514	5,527
Cost of goods sold	607,924	806,239
Freight and transportation costs	15,046,800	13,280,794
Depreciation of property, plant and equipment	430,329	396,471
Depreciation of right-of-use assets	567,975	386,525
Amortisation of intangible assets	70,044	65,082
Provision for impairment of receivables	49,997	12,207
Reversal of provision for impairment of receivables	(4,432)	(350)
Expenses relating to short-term and low-value leases	101,160	269,976
Employee benefit expenses (note)	3,180,979	2,947,448

Note:

Government grants amounting to HK\$23,906,000 which have been recognised and deducted in employee benefit expenses for the six months ended 30 June 2020.

4 FINANCE COSTS

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Interest expenses on bank loans and overdrafts	105,282	137,258
Interest expenses on lease liabilities	54,821	24,466
	160,103	161,724

5 TAXATION

	Six months ended 30 June	
	2020 HK\$'000	2019 HK\$'000
Hong Kong profits tax		
– Current	89,094	79,157
– Overprovision in prior years	(56)	(24)
– Deferred	(1,554)	(4,128)
	87,484	75,005
PRC taxation		
– Current	33,986	29,828
– Underprovision in prior years	1,925	930
– Deferred	10,968	24,447
	46,879	55,205
Overseas taxation		
– Current	188,834	162,134
– (Overprovision)/underprovision in prior years	(29,865)	2,426
– Deferred	(14,471)	279
	144,498	164,839
	278,861	295,049

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) for the six months ended 30 June 2020 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% (2019: 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.

6 DIVIDENDS

The Directors have declared an interim dividend of 11 HK cents per share for the six months ended 30 June 2020 (for the six months ended 30 June 2019: an interim dividend of 9 HK cents and a special dividend of 35 HK cents), which is payable on Friday, 25 September 2020 to shareholders whose names appear on the registers of members of the Company on Friday, 11 September 2020. These financial statements do not reflect this dividend payable.

7 EARNINGS PER SHARE

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

BASIC

	Six months ended 30 June	
	2020	2019
Adjusted weighted average number of ordinary shares in issue ('000)	1,756,140	1,708,928
Profit attributable to the Company's shareholders (HK\$'000)	1,072,849	2,789,744
Basic earnings per share (HK\$)	0.61	1.63

DILUTED

	Six months ended 30 June	
	2020	2019
Adjusted weighted average number of ordinary shares in issue ('000)	1,756,140	1,708,928
Adjustment for share options ('000)	1,368	5,038
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,757,508	1,713,966
Profit attributable to the Company's shareholders (HK\$'000)	1,072,849	2,789,744
Diluted earnings per share (HK\$)	0.61	1.63

8 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Below 1 month	4,652,124	4,706,129
Between 1 month and 3 months	2,027,126	2,631,011
Over 3 months	698,213	639,044
Total trade receivables, net	7,377,463	7,976,184
Prepayments, deposits and other receivables	2,259,490	2,172,782
	9,636,953	10,148,966

9 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Below 1 month	2,240,298	2,482,882
Between 1 month and 3 months	843,847	1,012,311
Over 3 months	563,047	465,361
Total trade payables	3,647,192	3,960,554
Deposits received, accrued charges and other payables	3,475,215	3,427,231
	7,122,407	7,387,785

10 BANK LOANS

	As at 30 June 2020 HK\$'000	As at 31 December 2019 HK\$'000
Non-current		
– unsecured	4,650,558	5,364,880
– secured	714,407	808,910
	<hr/> 5,364,965	<hr/> 6,173,790
Current		
– unsecured	3,279,841	1,737,193
– secured	197,766	210,627
	<hr/> 3,477,607	<hr/> 1,947,820
Total bank loans	<hr/> 8,842,572	<hr/> 8,121,610

11 COMMITMENTS

As at 30 June 2020, 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 2020 HK\$'000	As at 31 December 2019 HK\$'000
Contracted but not provided for	937,950	715,865

12 PLEDGE OF ASSETS

As at 30 June 2020, the Group's total bank loans of HK\$8,842,572,000 (31 December 2019: HK\$8,121,610,000) included an aggregate amount of HK\$912,173,000 (31 December 2019: HK\$1,019,537,000) which are secured. The Group's total bank overdrafts of HK\$150,036,000 (31 December 2019: HK\$233,750,000) included an aggregate amount of HK\$12,779,000 (31 December 2019: HK\$50,076,000) 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\$2,628,001,000 (31 December 2019: HK\$2,866,665,000);
- (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 revenue of 10% to HK\$21,885 million in 2020 1H (2019 1H: HK\$19,810 million). Core operating profit went up 12% to HK\$1,489 million (2019 1H: HK\$1,330 million). Core net profit increased by 26% to HK\$845 million (2019 1H: HK\$669 million). Profit attributable to the Shareholders was HK\$1,073 million. After taking out the HK\$1,958 million gain from disposal of two warehouses in Hong Kong recorded in 2019 1H, the year-on-year growth is 29%.

	2020 1H HK\$ million	2019 1H HK\$ million	
Segment profit			
IL			
– Logistics operations	905	892	+1%
– Hong Kong warehouse	234	270	–13%*
	1,139	1,162	–2%**
IFF	403	288	+40%
	1,542	1,450	
Unallocated administrative expenses	(53)	(120)	
Core operating profit	1,489	1,330	+12%
Core net profit	845	669	+26%
Change in fair value of investment properties, net of deferred tax	228	205	
Goodwill impairment	–	(42)	
Profit attributable to the Shareholders, excluding gain from disposal of two warehouses in Hong Kong in 2019 1H	1,073	832 ***	+29%

* Normalised year-on-year change is +6%

** Normalised year-on-year change is +2%

*** Statutory profit attributable to the Shareholders in 2019 1H was HK\$2,790 million

(Normalisation involved excluding the operating profit generated from the two warehouses in Hong Kong which were sold in 2019 1H)

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

MARKET OVERVIEW

The COVID-19 outbreak has brought a monumental change to the fundamentals of life, from how we live and work to how we produce and consume. The daily number of confirmed and fatal cases currently stands at 200,000 and 5,000, respectively, with no end to the pandemic in sight, nor hint of what the “new normal” will look like.

The pandemic has brought about waves of unemployment, driven by lockdowns and social distancing measures and travel restrictions across the globe. To counter this, individual governments have introduced various large-scale relief efforts, upending the demand for various types of products.

In such highly volatile and uncertain environments, logistics has maintained its unrivalled importance: it leveraged its strength to contain the pandemic through delivering much needed medical supplies and products helping to enforce social distancing. It also supported societies to quickly adapt to a new way of work and living by fulfilling the surging demand for stay-at-home products.

Kerry Logistics’ 2020 1H results clearly demonstrated its business diversity, adaptability and agility. The Group has not only adapted through the pandemic but achieved promising growth amidst heightened volatility and widespread downturn across industries.

IL REMAINED SOLID

Taking away the impact of having fewer warehouses in Hong Kong during the period, Kerry Logistics’ IL division recorded a 2% segment profit growth in 2020 1H. The pandemic and its resultant widespread lockdowns have caused a drastic drop in the demand in a large number of non-essential products and thus affected the global manufacturing market. As a result, warehouse operations in Asia has been severely impacted, but a strong growth in the last-mile fulfilment and e-commerce logistics resulted in a positive growth for the IL division.

HONG KONG OPERATION ROBUST

The Hong Kong IL division recorded a 13% growth in its logistics operations. The division switched its business strategy from serving general consumption and regional distribution centres to fulfilling pandemic-related institutional demands and quickly expanding the essential supply sectors. Contribution of the Hong Kong warehouse business decreased as a result of the disposal of two warehouses in 2019 1H.

MAINLAND CHINA RECOVERY IN PROGRESS

The IL division in Mainland China reported a 37% decrease in the segment profit in 2020 1H. This was due to lockdowns and the Group’s active participation in a wide range of relief work. Business activities have started to pick up since April 2020 as work gradually resumed in late March. Kerry Logistics remains optimistic that its full year results will improve, buoyed by a swift recovery of the domestic consumer segment in Mainland China and the Group’s capabilities to continue seizing new business opportunities as the pandemic unfolds.

TAIWAN STAYED VIGOROUS

The IL business in Taiwan registered an 11% year-on-year rise in segment profit, driven by its strong last-mile capabilities and the strong performance of Science Park Logistics' bonded operations as well as leveraging its leading position in pharmaceutical logistics in Taiwan.

ASIA EX GREATER CHINA SEIZED OPPORTUNITIES

The Group was able to record a 6% growth in the IL segment profit in Asia, riding on the substantial growth of its e-commerce and last-mile operations. The performance of Kerry Express Thailand was particularly vigorous, with 36% growth in its bottom line during 2020 1H. This was achieved despite a long period of lockdown across countries, severely affecting domestic consumption, B2B businesses and contract logistics activities.

To further extend the Group's last-mile and e-commerce capabilities, the Group has invested in a 42% effective interest in one of the biggest private express companies in Vietnam, which is handling approximately 800,000 parcels a day. The investment was completed in May 2020.

IFF SHOWED ITS STRENGTH

The Group's IFF division achieved an outstanding performance in 2020 1H. Segment profit of the IFF division registered a 40% increase. Contribution of the IFF business to the Group's total segment profit has grown from 20% previously to 26% in 2020 1H.

The global freight forwarding market was among the hardest hit sectors, made more severe due to travel bans. The pandemic has caused a global air and ocean capacity crunch, drastic drop in volume, high rate volatility and an increase in customs and trade constraints.

However, Kerry Logistics leveraged its unique market position as one of the very few Asia-based global freight forwarders, with broad exposure in key gateways across continents and ability to capture new business opportunities as the pandemic spread.

AIR FREIGHT SURGED

Backed by its excellent track record in the industry, the support of carriers, its customs clearance capacity and extensive coverage of major air transit hubs across different regions, the Group's air freight business, from Asia to the world, surged from March to May 2020. It also conducted more than 370 charter flights, from Asia to worldwide (including Latin America) and within EMEA.

OCEAN FREIGHT PICKED UP

The Group's ocean freight business caught up in mid-May and June 2020 as customers replenished their dwindling inventories. As the pandemic continues to spread, global demand for medical, essential and stay-at-home products will extend into 2020 Q3.

NEW LAND FREIGHT VOLUME GAINED

In response to reduced capacity in air and ocean freight, the Group utilised its unique Eurasian road and rail freight network to devise alternative solutions for customers to cope with the new situation. It saw a sizeable volume surge for land-bridge services between China and Europe, China and Indochina Peninsula.

APEX ACQUISITION COMPLETED

The Group completed the acquisition of the remaining 49% in Apex in March 2020. Apex's business recorded a 6% growth in volume against the market trend of 7% contraction between January and July 2020, becoming the number one NVOCC from Asia to the US.

ASSET OPTIMISATION CONTINUED

In July 2020, the Group completed the disposal of its warehousing operation in Adelaide, Australia. Currently, the Group has entered into a definitive agreement to divest its entire interest in the Singapore-headquartered Kerry-ITS Group, which is expected to complete by the end of this year. The Group will continue to review and optimise the composition of its asset portfolio.

OUTLOOK

The COVID-19 pandemic has resulted in a wave of unemployment, global travel restrictions and a decrease in demand for non-essential products: signs of a looming global recession. Coupled with rising nationalism, protectionism and geopolitical tensions, the coming 18 months will bring unprecedented chaos to the global supply chain. As industries adjust and plan for the "new normal", emphasis will be placed on speed and capabilities rather than on pricing. Activities from upstream sectors have already started to drive changes downstream.

Logistics demands from various governments, institutions, private enterprises and individuals have swelled as the pandemic rages on. The Group's medium-term strategy will have to adapt and prepare for the "new normal", this includes enhancing Kerry Logistics' exposure in e-commerce and humanitarian logistics.

COVID-19 has also elicited a vigorous response from various pharmaceutical companies and the global scientific community to develop a vaccine to end the ferocious pandemic. By combining and leveraging its extensive experience in solutions-based approach to deliver medical supplies as well as in handling of pharmaceutical products, the Group will be in a strong position to play an important role in the global distribution of the much anticipated vaccine.

The Group is also set to strengthen and expand the capabilities of its Kerry Project Logistics division worldwide to seize new opportunities, especially among various governments looking to increase infrastructure spending as a means to drive economic recovery.

While the world braces for the beginning of one of the biggest global recessions in history, the role of logistics is becoming ever more invaluable and essential. As long as Kerry Logistics maintains its business diversity, adaptability and agility, it will continue to grow and bring value to stakeholders.

SPIN-OFF OF KERRY EXPRESS THAILAND IN PROGRESS

On 25 August 2020, Kerry Express Thailand received the notice of acceptance of the listing application in respect of the Proposed Spin-off from the SEC. The spin-off remains in progress.

E-COMMERCE GROWTH SET TO GO

The widespread lockdowns and social distancing measures being implemented globally have further driven consumers to online shopping and created spikes in all types of e-commerce activities. Leveraging its strengths in domestic and cross-border e-commerce logistics, Kerry Logistics will continue to expand its infrastructure and enhance its service capabilities to capture the booming demands from micro-fulfilment to destination clearance and last-mile management. The Group anticipates strong business to continue going forward.

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, 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 2020, total foreign currency borrowings amounted to the equivalent of HK\$5,783 million (including HK\$2,916 million denominated in New Taiwan Dollar and HK\$1,084 million denominated in United States Dollar), which represented approximately 65% of the Group's total bank loans of HK\$8,843 million.

Out of the Group's total bank loans as at 30 June 2020, HK\$3,478 million (representing approximately 39%) was repayable within one year, HK\$2,788 million (representing approximately 32%) in the second year and HK\$2,577 million (representing approximately 29%) in the third to fifth years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 90% of total bank loans. In relation to the secured bank loans of HK\$912 million as at 30 June 2020, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,628 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 2020, the gearing ratio for the Group was 37.0% (31 December 2019: 34.6%). 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 2020, the Group had total undrawn bank loan and overdraft facilities of HK\$10,650 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 2020, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2020, the Group had approximately 43,600 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 during the six months ended 30 June 2020, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors (including Mr CHEUNG Ping Chuen Vicky, the Executive Director, appointment effective from 1 April 2020) and the Directors have confirmed that they have complied with the Model Code (i) during the six months ended 30 June 2020; or (ii) during the period from their respective appointment dates and up to 30 June 2020, as the case may be.

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

During the six months ended 30 June 2020, the Company repurchased a total of 900,000 Shares at prices ranging from HK\$10.12 to HK\$10.40 on the Stock Exchange at an aggregate consideration of HK\$9,276,460. All 900,000 Shares repurchased were subsequently cancelled. Save as disclosed above, 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 2020.

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 2020, a total of 17,124,500 options granted under the Pre-IPO Share Option Scheme were outstanding and no option granted under the Post-IPO Share Option Scheme was outstanding.

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, 11 September 2020 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, 10 September 2020. The interim dividend is payable on Friday, 25 September 2020 to the Shareholders whose names appear on the Registers of Members on Friday, 11 September 2020.

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”	first half
“Apex”	14 US subsidiaries of KLN Investment (US) LLC, an indirect wholly-owned subsidiary of the Company
“Asia”	Asia continent, for the purpose of this announcement only, excludes Greater China and Middle East
“B2B”	business-to-business
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Company”	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Director(s)”	director(s) of the Company
“EMEA”	Europe, Middle East and Africa
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“Group” or “Kerry Logistics”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of Mainland China
“IFF”	international freight forwarding
“IL”	integrated logistics
“Kerry Express Thailand”	Kerry Express (Thailand) Public Company Limited, incorporated in Thailand
“Kerry-ITS Group”	Kerry-ITS Holdings Pte. Ltd. and its subsidiaries

“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
“Oceania”	Australia and New Zealand, for the purpose of this announcement only
“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 Spin-off”	the proposed spin-off and separate listing of Kerry Express Thailand shares on The Stock Exchange of Thailand
“Q3”	third 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
“SEC”	The Securities and Exchange Commission of Thailand
“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, 27 August 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, Mr CHEUNG Ping Chuen Vicky 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