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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 2020

The Board of the Company is pleased to announce the audited consolidated annual results of the Group for the year ended 31 December 2020, together with comparative figures for the year ended 31 December 2019.

### GROUP'S FINANCIAL HIGHLIGHTS

- Revenue increased by 30% to HK\$53,361 million (2019: HK\$41,139 million)
- Core operating profit increased by 20% to HK\$3,320 million (2019: HK\$2,765 million)
- Core net profit increased by 33% to HK\$1,828 million (2019: HK\$1,374 million)
- Profit attributable to the Shareholders for 2020 was HK\$2,896 million. Excluding the gain from disposal of two warehouses in Hong Kong in 2019, it represents a remarkable year-on-year growth of 58% (2019 normalised: HK\$1,830 million)
- IL business recorded a segment profit of HK\$2,583 million (2019: HK\$2,435 million), which represents an increase of 6%. The growth in IL segment profit was affected by the reduced profit contributed by lesser number of warehouses in Hong Kong compared with 2019. Should this impact be normalised, segment profit of IL business should have increased by 8%
- IFF business recorded a 64% increase in segment profit to HK\$1,017 million (2019: HK\$622 million)
- Proposed final dividend of 23.8 HK cents per share, to be payable on Friday, 11 June 2021
- Dividend Payout Ratio is 34% (2019: 34%)

## CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December	
		2020 HK\$'000	2019 HK\$'000
Revenue	2	53,360,540	41,139,102
Direct operating expenses	4	(47,187,538)	(35,736,601)
Gross profit		6,173,002	5,402,501
Other income and net gains	3	257,573	199,801
Administrative expenses	4	(3,072,541)	(2,841,723)
Operating profit before gain on disposal of warehouses and fair value change of investment properties		3,358,034	2,760,579
Gain on disposal of warehouses		–	1,957,540
Change in fair value of investment properties		1,069,162	482,873
Operating profit		4,427,196	5,200,992
Finance costs	5	(303,095)	(358,171)
Share of results of associates and joint ventures		118,164	85,530
Profit before taxation		4,242,265	4,928,351
Taxation	6	(772,746)	(588,951)
Profit for the year		3,469,519	4,339,400
Profit attributable to:			
Company's shareholders		2,895,757	3,788,323
Non-controlling interests		573,762	551,077
		3,469,519	4,339,400
Earnings per share	8		
– Basic		HK\$1.63	HK\$2.21
– Diluted		HK\$1.63	HK\$2.21

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December	
	2020	2019
	HK\$'000	HK\$'000
Profit for the year	3,469,519	4,339,400
Other comprehensive income		
Items that will not be reclassified subsequently to consolidated income statement		
Defined benefit pension plans		
– Actuarial losses	(3,549)	(11,277)
– Deferred income tax	2,208	1,365
Fair value change on financial assets at fair value through other comprehensive income	(9,340)	15,785
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	665,366	117,031
Other comprehensive income for the year (net of tax)	654,685	122,904
Total comprehensive income for the year	4,124,204	4,462,304
Total comprehensive income attributable to:		
Company's shareholders	3,396,454	3,877,802
Non-controlling interests	727,750	584,502
	4,124,204	4,462,304

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

		As at 31 December	
	Note	2020 HK\$'000	2019 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Intangible assets		4,771,897	4,764,904
Investment properties		11,503,215	10,308,139
Property, plant and equipment		11,693,226	11,343,539
Right-of-use assets		4,766,030	3,985,642
Associates and joint ventures		1,970,719	1,386,733
Financial assets at fair value through other comprehensive income		359,189	150,843
Investment in convertible bonds		5,875	191,789
Deferred taxation		98,476	73,878
		35,168,627	32,205,467
<b>Current assets</b>			
Financial assets at fair value through profit or loss		122,244	119,731
Investment in convertible bonds		347,507	349,194
Inventories		404,879	504,671
Accounts receivable, prepayments and deposits	9	12,358,582	10,148,966
Tax recoverable		10,205	24,849
Amounts due from fellow subsidiaries		3,017	5,223
Restricted and pledged bank deposits		14,143	20,622
Cash and bank balances		8,470,843	5,825,246
		21,731,420	16,998,502
<b>Current liabilities</b>			
Lease liabilities		1,012,901	961,585
Accounts payable, deposits received and accrued charges	10	9,269,189	7,387,785
Amounts due to fellow subsidiaries		4,366	9,788
Amounts due to related companies		23,757	28,729
Taxation		435,719	411,331
Short-term bank loans and current portion of long-term bank loans	11	3,941,835	1,947,820
Bank overdrafts		220,865	233,750
		14,908,632	10,980,788

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

	Note	As at 31 December	
		2020 HK\$'000	2019 HK\$'000
<b>Non-current liabilities</b>			
Loans from non-controlling interests		233,654	223,805
Long-term bank loans	11	5,069,439	6,173,790
Lease liabilities		3,178,122	2,545,880
Deferred taxation		744,467	656,212
Retirement benefit obligations		143,419	124,389
Other non-current liabilities		142,379	1,424,610
		9,511,480	11,148,686
<b>ASSETS LESS LIABILITIES</b>		32,479,935	27,074,495
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's shareholders</b>			
Share capital		898,600	858,102
Share premium and other reserves		4,158,329	2,992,215
Retained profits		22,430,563	20,325,662
		27,487,492	24,175,979
Put options written on non-controlling interests		(4,593)	(1,162,630)
		27,482,899	23,013,349
Non-controlling interests		4,997,036	4,061,146
<b>TOTAL EQUITY</b>		32,479,935	27,074,495

## 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 AMENDMENTS TO EXISTING STANDARDS

The Group has applied the accounting policy on "Government Grants" during the year ended 31 December 2020 as follows:

Grants from governments are recognised at fair value when there is a reasonable assurance that the grant will be received and that the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with costs that are intended to compensate and offset with related expenses.

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

- Amendments to HKAS 1 and HKAS 8, "Presentation of Financial Statements"
- Amendments to HKFRS 3, "Definition of Business"
- Amendments to HKFRS 7, HKFRS 9 and HKAS 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 the 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 year, 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 to existing standards had no material impact on the Group's accounting policies and did not require retrospective adjustments.

**(II) NEW STANDARDS AND AMENDMENTS TO EXISTING STANDARDS WHICH ARE NOT YET EFFECTIVE**

The following new standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2021, but the Group has not early adopted them:

	<b>Applicable for accounting periods beginning on/after</b>
Amendments to HKFRS 4, HKFRS 7, HKFRS 9, HKFRS 16 and HKAS 39, 'Interest Rate Benchmark Reform – Phase 2'	1 January 2021
Amendments to HKAS 1, 'Classification of Liabilities as Current or Non-current'	1 January 2022
Amendments to HKAS 16, 'Property, Plant and Equipment: Proceeds before Intended Use'	1 January 2022
Amendments to HKAS 37, 'Onerous Contracts – Cost of Fulfilling a Contract'	1 January 2022
Amendments to HKFRS 3, 'Reference to the Conceptual Framework'	1 January 2022
Annual Improvements to HKFRS Standards 2018–2020	1 January 2022
HKFRS 17, 'Insurance Contract'	1 January 2023
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

The Group will adopt the above new standards and amendments to existing standards 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 2020, together with comparative figures for the year ended 31 December 2019, as reclassified, is as follows:

	For the year ended 31 December									
	Integrated logistics				International		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse		freight forwarding					
	2020 HK\$'000	2019 HK\$'000 (reclassified)	2020 HK\$'000	2019 HK\$'000 (reclassified)	2020 HK\$'000	2019 HK\$'000 (reclassified)	2020 HK\$'000	2019 HK\$'000 (reclassified)	2020 HK\$'000	2019 HK\$'000 (reclassified)
<b>Revenue</b>										
Revenue	21,074,186	19,243,537	205,873	268,279	32,080,481	21,627,286	-	-	53,360,540	41,139,102
Inter-segment revenue	831,276	462,335	472,142	474,868	8,445,560	5,408,118	(9,748,978)	(6,345,321)	-	-
	21,905,462	19,705,872	678,015	743,147	40,526,041	27,035,404	(9,748,978)	(6,345,321)	53,360,540	41,139,102
<b>Revenue by geographical area:</b>										
Hong Kong	5,170,327	4,680,000	678,015	743,147	3,217,698	2,074,387	(1,920,185)	(1,819,654)	7,145,855	5,677,880
Mainland China	6,026,436	4,498,186	-	-	15,385,592	8,877,845	(4,424,867)	(2,585,910)	16,987,161	10,790,121
Taiwan	3,269,940	3,012,174	-	-	657,729	449,984	(300,031)	(195,953)	3,627,638	3,266,205
Asia	7,316,913	7,373,764	-	-	5,966,747	4,506,107	(2,480,150)	(1,063,081)	10,803,510	10,816,790
Americas	-	-	-	-	8,934,107	5,938,156	(273,129)	(484,631)	8,660,978	5,453,525
EMEA	-	-	-	-	5,693,773	4,794,372	(318,060)	(167,647)	5,375,713	4,626,725
Oceania	121,846	141,748	-	-	670,395	394,553	(32,556)	(28,445)	759,685	507,856
	21,905,462	19,705,872	678,015	743,147	40,526,041	27,035,404	(9,748,978)	(6,345,321)	53,360,540	41,139,102
<b>Segment profit by geographical area:</b>										
Hong Kong	532,027	389,670	487,091	540,971	215,314	50,165	-	-	1,234,432	980,806
Mainland China	265,893	264,644	-	-	270,844	207,209	-	-	536,737	471,853
Taiwan	572,626	480,876	-	-	43,717	20,482	-	-	616,343	501,358
Asia	711,860	713,063	-	-	157,910	133,066	-	-	869,770	846,129
Americas	-	-	-	-	257,019	191,224	-	-	257,019	191,224
EMEA	-	-	-	-	20,336	(1,679)	-	-	20,336	(1,679)
Oceania	12,813	46,053	-	-	52,076	21,623	-	-	64,889	67,676
	2,095,219	1,894,306	487,091	540,971	1,017,216	622,090	-	-	3,599,526	3,057,367
Less: Unallocated administrative expenses <sup>#</sup>									(279,784)	(292,380)
<b>Core operating profit</b>									3,319,742	2,764,987
Finance income									38,292	40,720
Finance costs									(303,095)	(358,171)
Share of results of associates and joint ventures									118,164	85,530
Profit before taxation*									3,173,103	2,533,066
Taxation*									(770,883)	(605,417)
Profit for the year*									2,402,220	1,927,649
Non-controlling interests*									(573,778)	(553,551)
Core net profit									1,828,442	1,374,098
Change in fair value of investment properties									1,069,162	482,873
Deferred tax on change in fair value of investment properties									(1,863)	16,466
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									16	2,474
Gain on disposal of warehouses									-	1,957,540
Goodwill impairment									-	(45,128)
<b>Profit attributable to the Company's shareholders</b>									2,895,757	3,788,323
<b>Normalised profit attributable to the Company's shareholder**</b>									2,895,757	1,830,783
Depreciation and amortisation	1,756,844	1,574,404	44,514	50,476	347,614	296,423			2,148,972	1,921,303

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

In August 2019, the Group acquired a majority interest in Turkey's ASAV Logistics Services Inc. to further expand 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 year. The reclassifications have no impact on the profit for the current and comparative year nor on the assets and liabilities of the Group as at 31 December 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	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	1,429,478	19,517,210	127,498	21,074,186	1,836,605	17,298,245	108,687	19,243,537
– Hong Kong warehouse	–	21,334	184,539	205,873	–	23,028	245,251	268,279
International freight forwarding	–	32,080,481	–	32,080,481	–	21,627,286	–	21,627,286
	1,429,478	51,619,025	312,037	53,360,540	1,836,605	38,948,559	353,938	41,139,102

By geographical area	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 (reclassified)	Rental income HK\$'000	Total HK\$'000 (reclassified)
Revenue from contracts with customers								
Hong Kong	1,394,235	5,566,479	185,141	7,145,855	1,800,381	3,631,333	246,166	5,677,880
Mainland China	2,965	16,880,240	103,956	16,987,161	3,341	10,705,404	81,376	10,790,121
Taiwan	7,611	3,620,027	–	3,627,638	32,883	3,233,322	–	3,266,205
Asia	24,667	10,755,903	22,940	10,803,510	–	10,790,394	26,396	10,816,790
Americas	–	8,660,978	–	8,660,978	–	5,453,525	–	5,453,525
EMEA	–	5,375,713	–	5,375,713	–	4,626,725	–	4,626,725
Oceania	–	759,685	–	759,685	–	507,856	–	507,856
	1,429,478	51,619,025	312,037	53,360,540	1,836,605	38,948,559	353,938	41,139,102

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

	Segment non-current assets <sup>#</sup>	
	2020 HK\$'000	2019 HK\$'000 (reclassified)
Hong Kong	11,576,408	10,363,487
Mainland China	6,873,735	6,121,817
Taiwan	5,418,544	4,989,208
Asia	8,189,365	7,688,488
Americas	1,016,005	1,070,729
EMEA	1,436,507	1,376,073
Oceania	194,523	179,155
	34,705,087	31,788,957

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

### 3. OTHER INCOME AND NET GAINS

	2020 HK\$'000	2019 HK\$'000
Interest income from banks	34,690	35,230
Interest income from associates	3,602	5,490
Interest income from convertible bonds	14,779	21,069
Dividend income from financial assets at fair value through other comprehensive income	6,052	13,188
(Loss)/gain on disposal of property, plant and equipment	(7,819)	76,135
Gain on disposal of financial asset at fair value through profit or loss	–	39,673
Loss on disposal of associates	(1,314)	(2,004)
Gain on disposal of subsidiaries	68,391	43,870
Fair value change of financial assets at fair value through profit or loss	21,192	12,278
Impairment of associates	–	(3,276)
Goodwill impairment	–	(41,852)
Net gain from settlement of put options written on non-controlling interest (note)	118,000	–
	257,573	199,801

Note:

On 31 March 2020, the Group has completed the acquisition of the remaining 49% of Apex, with the consideration of US\$176,132,511 (approximately HK\$1,372,432,000), which was settled by cash of approximately HK\$409,555,000 and the Company's shares of 76,445,430 at HK\$12.58 each. The net gain was resulted from the settlement of put options liabilities with equity instruments issued and measured at fair value.

### 4. EXPENSES BY NATURE

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

	2020 HK\$'000	2019 HK\$'000
Auditors' remuneration	33,426	29,035
Business tax and other taxes	11,096	10,764
Cost of goods sold	1,210,716	1,600,362
Freight and transportation costs	38,994,068	27,381,206
Depreciation of property, plant and equipment	893,235	820,292
Depreciation of right-of-use assets	1,116,654	965,603
Amortisation of intangible assets	139,083	135,408
Provision for impairment of receivables	102,781	93,785
Reversal of provision for impairment of receivables	(6,316)	(3,176)
Rental expenses on land and buildings	282,171	341,081
Employee benefit expenses	6,331,372	6,226,329

Government grants amounting to HK\$157,512,000 have been recognised and deducted in employee benefit expenses for the year ended 31 December 2020.

## 5. FINANCE COSTS

	2020 HK\$'000	2019 HK\$'000
Interest expenses on bank loans and overdrafts	192,838	245,888
Interest expenses on lease liabilities	110,257	112,283
	303,095	358,171

## 6. TAXATION

	2020 HK\$'000	2019 HK\$'000
Hong Kong profits tax		
– Current	194,551	153,241
– Under provision in prior years	2,547	1,908
– Deferred	11,584	(3,229)
	208,682	151,920
PRC taxation		
– Current	127,027	81,770
– Under provision in prior years	2,216	939
– Deferred	10,134	9,892
	139,377	92,601
Overseas taxation		
– Current	408,095	373,633
– Over provision in prior years	(33,294)	(4,177)
– Deferred	49,886	(25,026)
	424,687	344,430
	772,746	588,951

### HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) for the year ended 31 December 2020 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% (2019: 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 2020 is HK\$42,562,000 (2019: HK\$17,635,000) 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 2020 of 23.8 HK cents per share, amounting to a total dividend of HK\$427,734,000, is to be proposed at the annual general meeting on Wednesday, 26 May 2021. These financial statements do not reflect this dividend payable.

	2020 HK\$'000	2019 HK\$'000
Interim dividend paid of 11 HK cents (2019: 9 HK cents) per ordinary share	197,126	154,326
Special dividend paid of 13.8 HK cents (2019: 35 HK cents) per ordinary share	248,014	599,964
Proposed final dividend of 23.8 HK cents (2019: 18 HK cents) per ordinary share	427,734	308,917
	872,874	1,063,207

## 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.

	2020	2019
Adjusted weighted average number of ordinary shares in issue	1,775,280,157	1,711,917,478
Profit attributable to the Company's shareholders (HK\$'000)	2,895,757	3,788,323
Basic earnings per share (HK\$)	1.63	2.21

### DILUTED

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

	2020	2019
Adjusted weighted average number of ordinary shares in issue	1,775,280,157	1,711,917,478
Adjustment for share options	3,777,583	4,500,235
Weighted average number of shares for the purpose of calculating diluted earnings per share	1,779,057,740	1,716,417,713
Profit attributable to the Company's shareholders (HK\$'000)	2,895,757	3,788,323
Diluted earnings per share (HK\$)	1.63	2.21

## 9. ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

	2020 HK\$'000	2019 HK\$'000
Below 1 month	6,357,161	4,706,129
Between 1 month and 3 months	2,875,869	2,631,011
Over 3 months	598,132	639,044
Total accounts receivables, net	9,831,162	7,976,184
Prepayments, deposits and other receivables	2,527,420	2,172,782
	12,358,582	10,148,966

## 10. ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

	2020 HK\$'000	2019 HK\$'000
Below 1 month	3,377,540	2,482,882
Between 1 month and 3 months	1,028,065	1,012,311
Over 3 months	657,200	465,361
Total accounts payables	5,062,805	3,960,554
Deposits received, accrued charges and other payables	4,206,384	3,427,231
	9,269,189	7,387,785

## 11. BANK LOANS

	2020 HK\$'000	2019 HK\$'000
Non-current		
– unsecured	4,329,402	5,364,880
– secured	740,037	808,910
	5,069,439	6,173,790
Current		
– unsecured	3,848,685	1,737,193
– secured	93,150	210,627
	3,941,835	1,947,820
Total bank loans	9,011,274	8,121,610

As at 31 December 2020, the Group's bank loans were repayable as follows:

	2020 HK\$'000	2019 HK\$'000
Within 1 year	3,941,835	1,947,820
Between 1 and 2 years	2,566,987	2,981,607
Between 3 and 5 years	2,502,452	3,075,333
Repayable within 5 years	9,011,274	8,004,760
Over 5 years	–	116,850
	9,011,274	8,121,610

## 12. COMMITMENTS

At 31 December 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:

	2020 HK\$'000	2019 HK\$'000
Contracted but not provided for	823,367	715,865

## 13. PLEDGE OF ASSETS

At 31 December 2020, the Group's total bank loans of HK\$9,011,274,000 (2019: HK\$8,121,610,000) included an aggregate amount of HK\$833,187,000 (2019: HK\$1,019,537,000) which is secured. The Group's total bank overdrafts of HK\$220,865,000 (2019: HK\$233,750,000) included an aggregate amount of HK\$26,969,000 (2019: HK\$50,076,000) 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\$2,656,318,000 (2019: HK\$2,866,665,000);
- (ii) assignments of insurance proceeds of certain properties; and
- (iii) certain balances of restricted and pledged deposits.

## RESULTS OVERVIEW

The Group recorded an increase in revenue of 30% to HK\$53,361 million in 2020 (2019: HK\$41,139 million). Core operating profit went up 20% to HK\$3,320 million (2019: HK\$2,765 million). Core net profit also rose 33% year-on-year to HK\$1,828 million (2019: HK\$1,374 million). Profit attributable to the Shareholders was HK\$2,896 million. Excluding the gain from disposal of two warehouses in Hong Kong in 2019, the year-on-year growth was 58% (2019 normalised: HK\$1,830 million).

	2020 HK\$ million	2019 HK\$ million	
Segment profit			
IL			
– Logistics operations	2,096	1,894	+11%
– Hong Kong warehouse	487	541	-10%*
	2,583	2,435	+6%**
IFF	1,017	622	+64%
	3,600	3,057	
Unallocated administrative expenses	(280)	(292)	
Core operating profit	3,320	2,765	+20%
Core net profit	1,828	1,374	+33%
Change in fair value of investment properties, net of deferred tax	1,068	501	
Goodwill impairment	–	(45)	
Profit attributable to the Shareholders, excluding gain from disposal of two warehouses in Hong Kong in 2019	2,896	1,830***	+58%

\* Normalised year-on-year change is -1%

\*\* Normalised year-on-year change is +8%

\*\*\* Statutory profit attributable to the Shareholders in 2019 was HK\$3,788 million

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



## MANAGEMENT DISCUSSION AND ANALYSIS

### BUSINESS REVIEW

#### MARKET OVERVIEW

The COVID-19 pandemic has brought unprecedented challenges to everything from global public health to people's livelihoods. The stop-and-go momentum of the global economy has caused severe disruption to the global supply chain. Demand and supply chains were left seriously affected, and some sectors collapsed while others thrived.

Economic growth gradually picked up globally in mid-2020 as lockdown measures eased. Mainland China, in particular, exceeded the world's expectation, and bounced back to pre-pandemic levels partly driven by the rapid growth of its e-commerce market.

With human mobility severely curtailed, the role of logistics has become ever more paramount. Raw materials, work in progress (WIP) and finished goods still need to be transported and delivered. In 2020, KLN Group achieved record growth in both revenue and core net profit, clearly demonstrating the Group's resilience and capability to evolve through the pandemic.

#### IL GROWTH SUSTAINED

The Group's IL division recorded a normalised segment profit growth of 8% in 2020, mainly driven by the strong performance in Hong Kong and Taiwan. Businesses in the rest of Asia were seriously affected due to widespread lockdowns and stay-at-home orders. General consumption and the F&B industry were among the hardest hit. However, the rise in e-commerce business and diversification to essential supplies made up for the drop.

#### HONG KONG CLIENTELE EXPANDED

The Hong Kong IL division grew by 10% in 2020, benefitting from the rise in demand for home-delivered daily necessities, electronic goods and pharmaceutical logistics. The Hong Kong warehouse business contracted in 2020 compared with 2019 mainly due to the disposal of two warehouses in 2019 1H.

#### MAINLAND CHINA PROFIT IMPROVED

The segment profit for the IL division in Mainland China bounced back in 2020 2H, offsetting the 37% drop in 2020 1H. This was due to the resumption of manufacturing activities, recovery of local consumption and the rapid growth of the e-commerce market in Mainland China. The Group has further strengthened its foothold in the Hainan Free Trade Port to tap into the growing duty-free and inbound e-commerce market and enhanced its service capability in chemical logistics to capture market potential.

#### TAIWAN PERFORMANCE ROBUST

The IL business in Taiwan expanded by 19% year-on-year in segment profit, capitalising on the growth of semi-conductors and electronics manufacturing, the increasing demand in pharmaceutical logistics as well as the rise in e-commerce business. The robust performance of Science Park Logistics' bonded operations was another driver for its growth.

## ASIA BUSINESS MAINTAINED

The IL business in Asia sustained despite severe lockdowns across the region, driven by the switch from consumer goods business to the essential supply sectors. The Group expanded its express business to the Philippines through the establishment of a joint venture company in 2021 Q1 in which the Group has a 51% interest.

## KERRY EXPRESS THAILAND SPIN-OFF COMPLETED

The spin-off and separate listing of Kerry Express Thailand on the Stock Exchange of Thailand was completed in December 2020, with the Group holding a 52.1% stake.

## IFF THRIVED

The IFF division was the powerhouse of KLN Group's business in 2020, accounting for 28% of the total segment profit, with its segment profit for the full year increasing by 64% year-on-year compared to a 40% growth in 2020 1H. The growth was mainly driven by a high global demand for pandemic-related goods as well as production and exports from Mainland China. It created the favourable conditions for the Group to capture opportunities from the unprecedented volatile global freight market, in terms of rates, capacity and equipment availability.

In times of adversity, KLN Group's competitiveness sets it apart. The IFF performance in 2020 stands as testament to the Group's capability in devising creative and efficient logistics solutions, which were in high demand when the global supply and logistics infrastructure suffered damage.

Kerry Apex recorded an increase in volume of 17%, strengthening its Trans-Pacific market position. It was the number one NVOCC from Thailand, Vietnam, Indonesia and Malaysia to the US, the number two NVOCC from Asia to the US for 2020.

## FACILITY PORTFOLIO UPDATES

In Mainland China, the 340,000-sq-ft chemical logistics centre in Cangzhou commenced operation in 2021 Q1. Construction of the 827,000-sq-ft logistics centre in Qingdao is expected to complete in 2021 Q2. The 1,043,000-sq-ft logistics centre in Guangzhou, the 305,000-sq-ft chemical logistics facility in Zhangjiagang, the 644,000-sq-ft hub and logistics centre in Zhuhai and the 545,000-sq-ft bonded logistics centre in Hainan are expected to complete construction in 2022.

## OUTLOOK

The current vaccination campaigns notwithstanding, there is still a very long way to go in achieving global herd immunity and a return to the "pre-pandemic normal", particularly given the resurgent waves and the emergence of new variants of the virus. However, as vaccination programmes gather pace, economies will begin to reopen, and with it, a boost for domestic consumption which will in turn bring a recovery to the IL business. For the IFF business, the demand will remain strong. The overall market situation in 2021 1H is expected to remain similar to 2020 2H but with lower volatility. The global supply chain is not likely to see normality until after 2021.

Scale and technological advances are crucial for any company in this industry to retain its competitiveness over its peers and drive changes in the global logistics arena. To this end, the proposed strategic cooperation with S.F. Holding will scale up KLN Group, extending its reach and enhancing its R&D capabilities. Coupled with a diversified geographical presence and a broad range of service capabilities, it will allow KLN Group to strengthen its resilience, enhance its flexibility and provide more diversified product offerings to its customers during these unprecedented times.

KLN Group will continue to work with its stakeholders to leverage its strengths and equip itself for any challenges it might face in this ever-changing world. The Group is prepared to seize any opportunity that may arise, as well as to enhance its value for stakeholders.

## PROPOSED STRATEGIC INVESTMENT FROM S.F. HOLDING

On 10 February 2021, a Joint Announcement was made amongst S.F. Holding (acting through its wholly-owned subsidiary), the Company and Kerry Properties Limited, a Controlling Shareholder and substantial shareholder of the Company. Pursuant to the Joint Announcement, S.F. Holding will make a voluntary conditional cash offer to shareholders to acquire a controlling stake in the equity interest of the Company. The proposed transaction is subject to satisfaction of certain pre-conditions. These pre-conditions include certain inter-conditional special deals, including the disposals of certain Hong Kong warehouses and the Company's Taiwan businesses, being entered by the Company with Kerry Holdings Limited, the substantial shareholder of the Company. If the proposed transaction does not proceed, these special deals also will not proceed.

Details of the preceding proposed transactions could be found in the Joint Announcement.

## 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 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 2020, total foreign currency borrowings amounted to the equivalent of HK\$5,861 million (including HK\$2,914 million denominated in New Taiwan Dollar and HK\$1,261 million denominated in United States Dollar), which represented approximately 65% of the Group's total bank loans of HK\$9,011 million.

Out of the Group's total bank loans as at 31 December 2020, HK\$3,942 million (representing approximately 44%) was repayable within one year, HK\$2,567 million (representing approximately 28%) in the second year and HK\$2,502 million (representing approximately 28%) in the third to fifth years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 91% of total bank loans. In relation to the secured bank loans of HK\$833 million as at 31 December 2020, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,656 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 2020, the gearing ratio for the Group was 33.6% (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 31 December 2020, the Group had total undrawn bank loan and overdraft facilities of HK\$11,259 million which may be used to fund material capital expenditure. The Group will also continue to secure financing as and when the need arises.

As at 31 December 2020, the Group had no material contingent liabilities.

## STAFF AND REMUNERATION POLICIES

As at 31 December 2020, the Group had approximately 42,300 employees. The remuneration to employees includes salaries maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes, share option schemes and share award scheme.

## 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 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, an Executive Director, whose appointment became effective on 1 April 2020) and the Directors have confirmed that they have complied with the Model Code (i) during the year ended 31 December 2020; or (ii) during the period from their respective appointment dates and up to 31 December 2020, as the case may be.

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

During the year ended 31 December 2020, the Company repurchased a total of 2,939,000 Shares at prices ranging from HK\$10.12 to HK\$11.50 on the Stock Exchange at an aggregate consideration of HK\$32,388,460. Such share repurchase was made for the enhancement of Shareholders' value. Details of the share repurchase are as follows:

Month	Number of Shares repurchased	Price paid per Share		Aggregate consideration HK\$
		Highest HK\$	Lowest HK\$	
June 2020	900,000	10.40	10.12	9,276,460
July 2020	2,039,000	11.50	10.98	23,112,000
Total	2,939,000			32,388,460

All 2,939,000 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 year ended 31 December 2020.

## SHARE OPTIONS

The Company 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 2020, a total of 10,973,000 options granted under the Pre-IPO Share Option Scheme were outstanding and no option granted under the Post-IPO Share Option Scheme was outstanding.

## 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 2020 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 2020

As set out in the Joint Announcement, J.P. Morgan Securities (Asia Pacific) Limited (acting on behalf of the Offeror) will make a pre-conditional voluntary partial cash offer (the "Partial Offer") to acquire 931,209,117 Shares (representing approximately 51.8% of the Shares in issue as at the date thereof and approximately 51.5% of the Shares in issue as at the date thereof on a fully-diluted basis (i.e. assuming all the outstanding share options have been exercised in full)) at the offer price of HK\$18.80 in cash per offer share, subject to the satisfaction or waiver (as applicable) of certain pre-conditions and conditions of the Partial Offer set out in the Joint Announcement. The Offeror will extend an appropriate partial offer to holders of share options to cancel such number of share options representing 51.8% of the outstanding share options as at the Final Closing Date (as defined in the Joint Announcement) at the cancellation price of HK\$8.60 in cash per share option, pursuant to Rule 13 of the Hong Kong Code on Takeovers and Mergers.

In addition to the offer price and subject to certain conditions (being the completion of the Warehouses Sale (as defined in the Joint Announcement) and the requisite Shareholders' approval having been obtained), the Company will declare a special dividend of HK\$7.28 per Share. Therefore, the offer price plus special dividend received by a Shareholder for every Share in respect of which that Shareholder validly accepts the Partial Offer and which is taken by the Offeror under the Partial Offer would amount to HK\$26.08.

It is intended that following closing of the Partial Offer and the option offer, the Company will maintain its listing on the Stock Exchange.

Please refer to the section headed "Management Discussion and Analysis – Proposed Strategic Investment from S.F. Holding" of this announcement and the Joint Announcement for details.

## ANNUAL GENERAL MEETING

The annual general meeting of the Company for the year ended 31 December 2020 is scheduled to be held on Wednesday, 26 May 2021 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 Friday, 21 May 2021 to Wednesday, 26 May 2021 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 Wednesday, 26 May 2021. 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, 20 May 2021.

The Registers of Members will also be closed on Tuesday, 1 June 2021 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 Monday, 31 May 2021. The final dividend is payable on or around Friday, 11 June 2021 to the Shareholders whose names appear on the Registers of Members on Tuesday, 1 June 2021, 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](http://www.hkexnews.hk)) and the Company ([www.kln.com](http://www.kln.com)).

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

## APPRECIATION

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

## DEFINITIONS

“1H” or “2H”	first half or second half
“ACC”	the audit and compliance committee of the Company
“Apex” or “Kerry Apex”	14 wholly-owned 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
“Board”	the board of Directors
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Company” or “KLN”	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Controlling Shareholder(s)”	shall have the meaning ascribed to it under the Listing Rules
“Director(s)”	director(s) of the Company
“Dividend Payout Ratio”	the percentage of the Group’s core net profit paid to Shareholders as dividends, excluding special dividend
“EMEA”	Europe, Middle East and Africa
“F&B”	food & beverage
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“Group” or “KLN Group”	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
“Joint Announcement”	the announcement jointly published by the Company, KPL and the Offeror on 10 February 2021
“Kerry Express Thailand”	Kerry Express (Thailand) Public Company Limited, a public company with limited liability registered in Thailand and listed on The Stock Exchange of Thailand on 24 December 2020 (stock code: KEX), is a subsidiary of the Company
“KPL”	Kerry Properties Limited, an exempted company incorporated in Bermuda with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	Macao Special Administrative Region of Mainland China
“Mainland China” or “PRC”	The People’s Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“NVOCC”	non-vessel operating common carrier
“Oceania”	Australia and New Zealand, for the purpose of this announcement only
“Offeror”	Flourish Harmony Holdings Company Limited, a company incorporated in the Cayman Islands, an indirect wholly-owned subsidiary of S.F. Holding
“Post-IPO Share Option Scheme”	post-IPO share option scheme of the Company
“Pre-IPO Share Option Scheme”	pre-IPO share option scheme of the Company



“Q1” or “Q2”	first quarter or second quarter
“R&D”	research and development
“Registers of Members”	registers of members of the Company
“S.F. Holding”	S.F. Holding Co., Ltd., a joint stock company incorporated in the PRC with limited liability and the shares of which are listed on the Shenzhen Stock Exchange
“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, 25 March 2021

*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*