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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 2021

The Board of the Company is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2021, together with comparative figures for the six months ended 30 June 2020.

GROUP'S FINANCIAL HIGHLIGHTS

- Revenue increased by 68% year-on-year to HK\$36,709 million (2020 1H: HK\$21,885 million)
- Core operating profit increased by 70% to HK\$2,536 million (2020 1H: HK\$1,489 million)
- Core net profit jumped by 81% year-on-year to HK\$1,530 million (2020 1H: HK\$845 million)
- Profit attributable to the Shareholders for 2021 1H was HK\$3,380 million, which represents a year-on-year growth of 215% (2020 1H: HK\$1,073 million)
- IL business recorded a segment profit of HK\$1,292 million (2020 1H: HK\$1,139 million) and IFF business recorded HK\$1,437 million (2020 1H: HK\$379 million), which represent an increase of 13% and 279%, respectively
- Interim dividend of 21.1 HK cents per Share, to be payable on Tuesday, 28 September 2021

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2021

	Note	Unaudited 2021 HK\$'000	Unaudited 2020 HK\$'000
Revenue	2	36,708,739	21,884,967
Direct operating expenses	3	(32,441,115)	(19,174,211)
Gross profit		4,267,624	2,710,756
Other income and net (loss)/gains		(23,991)	158,569
Administrative expenses	3	(1,821,692)	(1,364,576)
Operating profit before fair value change of investment properties		2,421,941	1,504,749
Change in fair value of investment properties		1,980,553	227,931
Operating profit		4,402,494	1,732,680
Finance costs	4	(149,478)	(160,103)
Share of results of associates and joint ventures		81,422	41,673
Profit before taxation		4,334,438	1,614,250
Taxation	5	(480,680)	(278,861)
Profit for the period		3,853,758	1,335,389
Profit attributable to:			
Company's shareholders	2	3,380,348	1,072,849
Non-controlling interests		473,410	262,540
		3,853,758	1,335,389
Earnings per share	7		
– Basic		HK\$1.88	HK\$0.61
– Diluted		HK\$1.87	HK\$0.61

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2021

	Unaudited 2021 HK\$'000	Unaudited 2020 HK\$'000
Profit for the period	3,853,758	1,335,389
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(378,887)	(419,306)
Items that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	(23,950)	238
Defined benefit pension plans		
– Actuarial (losses)/gains	(3,414)	1,078
– Deferred income tax	683	(216)
Other comprehensive loss for the period	(405,568)	(418,206)
Total comprehensive income for the period	3,448,190	917,183
Total comprehensive income attributable to:		
Company's shareholders	3,066,348	706,060
Non-controlling interests	381,842	211,123
	3,448,190	917,183

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		4,901,197	4,771,897
Investment properties		13,319,409	11,503,215
Property, plant and equipment		11,660,261	11,693,226
Right-of-use assets		4,922,322	4,766,030
Associates and joint ventures		2,376,879	1,970,719
Financial assets at fair value through other comprehensive income		345,262	359,189
Investment in convertible bonds		5,716	5,875
Deferred taxation		115,071	98,476
		37,646,117	35,168,627
Current assets			
Financial assets at fair value through profit or loss		1,266,193	122,244
Investment in convertible bond		–	347,507
Inventories		422,438	404,879
Accounts receivable, prepayments and deposits	8	13,935,253	12,358,582
Tax recoverable		35,319	10,205
Amounts due from fellow subsidiaries		4,027	3,017
Restricted and pledged bank deposits		13,754	14,143
Cash and bank balances		7,145,858	8,470,843
		22,822,842	21,731,420
Current liabilities			
Lease liabilities		1,146,429	1,012,901
Accounts payable, deposits received and accrued charges	9	9,534,933	9,269,189
Amounts due to fellow subsidiaries		7,257	4,366
Amounts due to related companies		21,758	23,757
Taxation		605,025	435,719
Short-term bank loans and current portion of long-term bank loans	10	5,321,397	3,941,835
Loans from non-controlling interests		35,755	–
Bank overdrafts		244,658	220,865
		16,917,212	14,908,632

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)

	Note	Unaudited As at 30 June 2021 HK\$'000	Audited As at 31 December 2020 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		186,777	233,654
Long-term bank loans	10	3,717,049	5,069,439
Lease liabilities		3,174,513	3,178,122
Deferred taxation		784,499	744,467
Retirement benefit obligations		144,048	143,419
Other non-current liabilities		231,732	142,379
		8,238,618	9,511,480
ASSETS LESS LIABILITIES			
		35,313,129	32,479,935
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		902,010	898,600
Share premium and other reserves		3,892,745	4,158,329
Retained profits		25,328,119	22,430,563
		30,122,874	27,487,492
Put option written on non-controlling interests		(4,593)	(4,593)
		30,118,281	27,482,899
Non-controlling interests		5,194,848	4,997,036
TOTAL EQUITY			
		35,313,129	32,479,935

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 2020, 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 2020.

The following new amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2021 have been published:

- Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16, Interest rate benchmark reform – Phase 2.

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

Amendments to HKAS 1, HKAS 8 and Practice Statement 2, "Disclosure of Accounting Policies and Definition of Accounting Estimates"²

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 2020 except for the adoption of new standards as set out above.

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 2021, together with comparative figures for the six months ended 30 June 2020 is as follows:

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000	2021 HK\$'000	2020 HK\$'000
Revenue										
Revenue	11,403,942	9,279,982	119,888	97,253	25,184,909	12,507,732	-	-	36,708,739	21,884,967
Inter-segment revenue	827,971	230,804	228,766	248,166	7,056,568	2,902,311	(8,113,305)	(3,381,281)	-	-
	12,231,913	9,510,786	348,654	345,419	32,241,477	15,410,043	(8,113,305)	(3,381,281)	36,708,739	21,884,967
Revenue by geographical area:										
Hong Kong	2,867,477	2,389,650	348,654	345,419	1,927,844	1,268,018	(1,140,972)	(792,544)	4,003,003	3,210,543
Mainland China	3,445,296	1,934,785	-	-	11,589,797	5,667,769	(3,768,481)	(1,410,152)	11,266,612	6,192,402
Taiwan	1,752,672	1,521,120	-	-	380,090	281,075	(156,857)	(132,374)	1,975,905	1,669,821
Asia	4,097,029	3,603,331	-	-	5,113,617	2,268,743	(2,695,723)	(731,595)	6,514,923	5,140,479
Americas	-	-	-	-	8,542,091	3,092,540	(138,081)	(152,629)	8,404,010	2,939,911
EMEA	-	-	-	-	4,182,673	2,591,075	(195,279)	(147,181)	3,987,394	2,443,894
Oceania	69,439	61,900	-	-	505,365	240,823	(17,912)	(14,806)	556,892	287,917
	12,231,913	9,510,786	348,654	345,419	32,241,477	15,410,043	(8,113,305)	(3,381,281)	36,708,739	21,884,967
Segment profit by geographical area:										
Hong Kong	239,944	219,987	275,051	233,531	137,233	85,068	-	-	652,228	538,586
Mainland China	178,513	98,120	-	-	474,440	126,184	-	-	652,953	224,304
Taiwan	253,064	240,126	-	-	27,000	17,317	-	-	280,064	257,443
Asia	302,485	344,012	-	-	262,973	50,886	-	-	565,458	394,898
Americas	-	-	-	-	432,214	74,343	-	-	432,214	74,343
EMEA	-	-	-	-	67,242	13,423	-	-	67,242	13,423
Oceania	43,023	2,658	-	-	36,107	12,149	-	-	79,130	14,807
	1,017,029	904,903	275,051	233,531	1,437,209	379,370	-	-	2,729,289	1,517,804
Less: Unallocated administrative expenses									(193,779)	(146,790)
Add: Net gain from settlement of put option written on non-controlling interests									-	118,000
Core operating profit									2,535,510	1,489,014
Finance income									16,431	15,735
Finance costs									(149,478)	(160,103)
Share of results of associates and joint ventures									81,422	41,673
Profit before taxation*									2,483,885	1,386,319
Taxation*									(478,118)	(278,528)
Profit for the period*									2,005,767	1,107,791
Non-controlling interests*									(475,404)	(262,347)
Core net profit									1,530,363	845,444
Change in fair value of investment properties									1,980,553	227,931
Deferred tax on change in fair value of investment properties									(2,562)	(333)
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									1,994	(193)
Goodwill impairment									(130,000)	-
Profit attributable to the Company's shareholders									3,380,348	1,072,849
Depreciation and amortisation	935,279	875,333	22,052	23,608	180,644	169,407			1,137,975	1,068,348

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

Management has determined the operating segments based on the reports reviewed by the executive directors. The executive directors assess the performance of the three principal activities of the Group, namely logistics operations, Hong Kong warehouse and international freight forwarding, in each geographical area.

Logistics operations segment derives 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 and goodwill impairment.

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							
	2021				2020			
	Revenue recognised at a point in time	Revenue recognised over time	Rental income	Total	Revenue recognised at a point in time	Revenue recognised over time	Rental income	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers								
Integrated logistics								
– Logistics operations	597,211	10,747,638	59,093	11,403,942	716,078	8,505,839	58,065	9,279,982
– Hong Kong warehouse	–	9,537	110,351	119,888	–	3,029	94,224	97,253
International freight forwarding	–	25,184,909	–	25,184,909	–	12,507,732	–	12,507,732
	597,211	35,942,084	169,444	36,708,739	716,078	21,016,600	152,289	21,884,967

By geographical area	For the six months ended 30 June							
	2021				2020			
	Revenue recognised at a point in time	Revenue recognised over time	Rental income	Total	Revenue recognised at a point in time	Revenue recognised over time	Rental income	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers								
Hong Kong	575,309	3,316,742	110,952	4,003,003	715,060	2,400,958	94,525	3,210,543
Mainland China	1,655	11,221,925	43,032	11,266,612	1,018	6,145,798	45,586	6,192,402
Taiwan	6,073	1,969,832	–	1,975,905	–	1,669,821	–	1,669,821
Asia	14,174	6,485,289	15,460	6,514,923	–	5,128,301	12,178	5,140,479
Americas	–	8,404,010	–	8,404,010	–	2,939,911	–	2,939,911
EMEA	–	3,987,394	–	3,987,394	–	2,443,894	–	2,443,894
Oceania	–	556,892	–	556,892	–	287,917	–	287,917
	597,211	35,942,084	169,444	36,708,739	716,078	21,016,600	152,289	21,884,967

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

	Segment non-current assets[#]	
	As at 30 June 2021 HK\$'000	As at 31 December 2020 HK\$'000
Hong Kong	13,477,883	11,576,408
Mainland China	7,241,149	6,873,735
Taiwan	5,756,546	5,418,544
Asia	8,158,591	8,189,365
Americas	1,082,690	1,016,005
EMEA	1,300,087	1,436,507
Oceania	163,122	194,523
	37,180,068	34,705,087

[#] 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	
	2021 HK\$'000	2020 HK\$'000
Business tax and other taxes	11,354	5,514
Cost of goods sold	517,926	607,924
Freight and transportation costs	28,020,237	15,046,800
Depreciation of property, plant and equipment	476,689	430,329
Depreciation of right-of-use assets	588,391	567,975
Amortisation of intangible assets	72,895	70,044
Provision for impairment of receivables	61,861	49,997
Reversal of provision for impairment of receivables	(420)	(4,432)
Expenses relating to short-term and low-value leases	129,485	101,160
Employee benefit expenses (note)	3,722,709	3,180,979

Note:

Government grants amounting to HK\$1,487,000 (2020: HK\$23,906,000) which have been recognised and deducted in employee benefit expenses for the six months ended 30 June 2021.

4 FINANCE COSTS

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Interest expenses on bank loans and overdrafts	83,795	105,282
Interest expenses on lease liabilities	65,683	54,821
	149,478	160,103

5 TAXATION

	Six months ended 30 June	
	2021 HK\$'000	2020 HK\$'000
Hong Kong profits tax		
– Current	133,324	89,094
– Overprovision in prior years	–	(56)
– Deferred	(23)	(1,554)
	133,301	87,484
PRC taxation		
– Current	82,736	33,986
– Underprovision in prior years	8,285	1,925
– Deferred	43	10,968
	91,064	46,879
Overseas taxation		
– Current	356,154	188,834
– Overprovision in prior years and tax refund (note)	(139,661)	(29,865)
– Deferred	39,822	(14,471)
	256,315	144,498
	480,680	278,861

Note:

In March 2020, US passed the Coronavirus Aid, Relief, and Economic Security Act (“CARES ACT”) which allows a five-year carryback of federal net operating losses generated in the tax years beginning in 2018, 2019 and 2020, and received a refund claim of approximately US\$12,000,000 (approximately HK\$93,000,000).

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2020: 16.5%) for the six months ended 30 June 2021 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% (2020: 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 21.1 HK cents per share for the six months ended 30 June 2021 (for the six months ended 30 June 2020: an interim dividend of 11 HK cents), which is payable on Tuesday, 28 September 2021 to shareholders whose names appear on the registers of members of the Company on Monday, 13 September 2021. 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	
	2021	2020
Adjusted weighted average number of ordinary shares in issue ('000)	1,799,521	1,756,140
Profit attributable to the Company's shareholders (HK\$'000)	3,380,348	1,072,849
Basic earnings per share (HK\$)	1.88	0.61

DILUTED

	Six months ended 30 June	
	2021	2020
Adjusted weighted average number of ordinary shares in issue ('000)	1,799,521	1,756,140
Adjustment for share options ('000)	4,748	1,368
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,804,269	1,757,508
Profit attributable to the Company's shareholders (HK\$'000)	3,380,348	1,072,849
Diluted earnings per share (HK\$)	1.87	0.61

8 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

Included in accounts receivable, prepayments and deposits are mainly 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 2021 HK\$'000	As at 31 December 2020 HK\$'000
Below 1 month	6,748,599	6,357,161
Between 1 month and 3 months	3,556,743	2,875,869
Over 3 months	782,903	598,132
Total trade receivables, net	11,088,245	9,831,162
Prepayments, deposits and other receivables	2,847,008	2,527,420
	13,935,253	12,358,582

9 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

	As at 30 June 2021 HK\$'000	As at 31 December 2020 HK\$'000
Below 1 month	3,014,301	3,377,540
Between 1 month and 3 months	1,397,973	1,028,065
Over 3 months	950,040	657,200
Total trade payables	5,362,314	5,062,805
Deposits received, accrued charges and other payables	4,172,619	4,206,384
	9,534,933	9,269,189

10 BANK LOANS

	As at 30 June 2021 HK\$'000	As at 31 December 2020 HK\$'000
Non-current		
– unsecured	3,298,139	4,329,402
– secured	418,910	740,037
	3,717,049	5,069,439
Current		
– unsecured	5,148,625	3,848,685
– secured	172,772	93,150
	5,321,397	3,941,835
Total bank loans	9,038,446	9,011,274

11 COMMITMENTS

As at 30 June 2021, 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 2021 HK\$'000	As at 31 December 2020 HK\$'000
Contracted but not provided for	1,367,532	823,367

12 PLEDGE OF ASSETS

As at 30 June 2021, the Group's total bank loans of HK\$9,038,446,000 (31 December 2020: HK\$9,011,274,000) included an aggregate amount of HK\$591,682,000 (31 December 2020: HK\$833,187,000) which are secured. The Group's total bank overdrafts of HK\$244,658,000 (31 December 2020: HK\$220,865,000) included an aggregate amount of HK\$34,553,000 (31 December 2020: HK\$26,969,000) 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, freehold land and buildings, warehouse and logistics centres and port facilities of the Group with an aggregate net book value of HK\$2,473,130,000 (31 December 2020: HK\$2,656,318,000);
- (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 68% to HK\$36,709 million in 2021 1H (2020 1H: HK\$21,885 million). Core operating profit went up 70% to HK\$2,536 million (2020 1H: HK\$1,489 million). Core net profit also rose 81% year-on-year to HK\$1,530 million (2020 1H: HK\$845 million). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and goodwill impairment, increased 215% to HK\$3,380 million (2020 1H: HK\$1,073 million).

	2021 1H HK\$ million	2020 1H HK\$ million	
Segment profit			
IL			
– Logistics operation	1,017	905	+ 12%
– Hong Kong warehouse	275	234	+ 18%
	1,292	1,139	+ 13%
IFF	1,437	379	+ 279%
	2,729	1,518	
Unallocated administrative expenses and others	(193)	(29)	
Core operating profit	2,536	1,489	+ 70%
Core net profit	1,530	845	+ 81%
Changes in fair value of investment properties, net of deferred tax	1,980	228	
Goodwill impairment	(130)	–	
Profit attributable to the Shareholders	3,380	1,073	+ 215%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

MARKET OVERVIEW

The COVID-19 pandemic has entered into a new phase with the worldwide spread of the Delta variant, which has been severely affecting global and domestic supply chains and disrupting business operations at different levels around the world. Due to a never-ending series of stop-and-go lockdowns and social distancing measures, domestic consumption has become polarised in which some sectors thrived while others collapsed.

In the IL market, growth for domestic consumption and the F&B sector has stagnated except for daily necessities and stay-at-home products. The IFF market has been critically disrupted with the global supply chains peppered with capacity chokeholds. Freight rates, particularly ocean freight driven by high consumer demand and limited air capacity, are currently standing at record high levels and continue to rise with no end in sight. Ground services have been heavily interrupted by multiple factors.

Global e-commerce sales hit record-high in 2021 1H as online spending surge continued as a result of widespread lockdowns and work-from-home measures around the world.

Prior to the COVID-19 pandemic, the global logistics practice has been commoditised by strong logistics infrastructures as well as advances in digital and communication technology. However, disruptions and capacity chokeholds, together with different government approaches and restrictions in tackling the pandemic, have compelled the logistics industry to move towards a growing focus on service customisation. The new environment has certainly created both challenges and opportunities to 3PLs in what seems to be a perfect storm.

The surge of the Delta variant coupled with low vaccination rates and lockdown restrictions have made South East Asia one of the world's worst-hit regions at the moment. The situation is unlikely to improve substantially before 2022 Q2. With countless disruptions to the productivity across the region, the world's reliance on the supply from Mainland China has never been so critical. It remains to be seen when the situation will normalise, although the current market consensus predicts this backlog may have a chance to improve starting 2022 Q2.

IL GREW

The IL business reported a 13% segment profit growth, mainly riding on a booming manufacturing sector in Mainland China.

HONG KONG SUSTAINED

In Hong Kong, the warehousing business grew 18% backed by a higher occupancy. The logistics operations business increased by 9% as the pandemic remained largely under control since 2021 Q2.

MAINLAND CHINA EXPANDED

The IL business in Mainland China continued its rebound in 2021 1H, expanding by 82% year-on-year in segment profit. This was supported by the accelerated resumption of production, revived domestic consumption and thriving online shopping.

TAIWAN MAINTAINED

The segment profit for the IL division in Taiwan maintained stable with a 5% growth.

ASIA PROFIT DROPPED

In Asia, the IL division suffered a drop of 12% in segment profit as the pandemic continued to rumble across the region with prolonged lockdowns, restrictions and quarantine measures.

IFF THRIVED

The IFF business recorded a 279% segment profit growth (2021 1H: HK\$1,437 million vs 2020 1H: HK\$379 million) in 2021 1H, mainly riding on the change in consumer behaviour and strong exports from Mainland China to the world.

The IFF business is experiencing a rapidly changing market and the Group is adjusting its strategy on a monthly basis depending on the development of COVID-19 pandemic, such as the recent outbreak in South China in June 2021 which subsequently caused a massive congestion at the Port of Yantian in Mainland China, as well as unpredictable events such as the Suez Canal incident in March 2021.

The air freight sector continued to operate with scarce international belly cargo capacity provided by passenger aircraft, prompting the market to rely on freighters of limited space, which resulted in serious fluctuation in air freight capacity and rates.

In the ocean freight sector, congestion in destination ports has caused severe delays to vessel turnaround time and exacerbated the container equipment shortage in Asia. Currently, there are still huge backlogs in Mainland China where plenty of cargo vessels destined for the Americas and Europe were cancelled or delayed.

OUTLOOK

The global prices of raw materials, components, equipment as well as transportation – across air, ocean, land and rail freight – have increased substantially in 2021, exerting a heavy burden on both importers and exporters. Congestion and delays are not expected to ease in 2021 2H.

With no end to the pandemic in sight, the logistics industry will continue to play a pivotal role in supporting production and consumption activities across the globe. As online shopping becomes an essential part of people's daily lives amid the pandemic, the Group's e-commerce business is expected to continue its growth.

Riding on its broad customer mix, diversified business portfolio and broad exposure in key gateways across continents, the Group will further strengthen its product offerings and provide highly customised solutions to facilitate its customers to navigate a highly inefficient and volatile global supply situation.

The Group will also keep on delivering diversified support to various types of humanitarian programmes to facilitate the rapid response and aid in disaster and emergency relief operations.

PROPOSED STRATEGIC INVESTMENT FROM S.F. HOLDING

Upon the completion of S.F. Holding's investment in the Group, the Group's profit will have a significant adjustment in light of the disposal of the Hong Kong warehouse and the Taiwan businesses to Kerry Holdings Limited.

Looking ahead, the cooperation will bring together the core competencies of S.F. Holding and the Group across multiple verticals to create a leading Asia-based global logistics platform to meet ever-changing demands.

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 2021, total foreign currency borrowings amounted to the equivalent of HK\$5,328 million (including HK\$2,945 million denominated in New Taiwan Dollar and HK\$924 million denominated in United States Dollar), which represented approximately 59% of the Group's total bank loans of HK\$9,038 million.

Out of the Group's total bank loans as at 30 June 2021, HK\$5,321 million (representing approximately 59%) was repayable within one year, HK\$2,098 million (representing approximately 23%) in the second year and HK\$1,619 million (representing approximately 18%) in the third to fifth years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 93% of total bank loans. In relation to the secured bank loans of HK\$591 million as at 30 June 2021, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,473 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 2021, the gearing ratio for the Group was 30.8% (31 December 2020: 33.6%). 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 2021, the Group had total undrawn bank loan and overdraft facilities of HK\$12,603 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 2021, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2021, the Group had approximately 50,400 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 during the six months ended 30 June 2021, 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 and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2021 and up to the date of this announcement.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2021.

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 30 June 2021, a total of 4,153,000 options granted under the Pre-IPO Share Option Scheme were outstanding and no option granted under the Post-IPO Share Option Scheme was outstanding.

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 REPORTING PERIOD

Reference is made to the Joint Announcement and the Composite Document. Unless the context requires otherwise, capitalised terms used in this section have the same meanings as those defined in the Composite Document.

As stated in the Joint Announcement, the making of the Partial Offer and the Option Offer is subject to the satisfaction or waiver (as applicable) of the Pre-Conditions by the Long Stop Date. Since the Joint Announcement, steps have been taken in relation to the fulfilment or waiver of the Pre-Conditions.

On 19 July 2021, consent from the Executive has been obtained in respect of each of the Special Deal Agreements and the Framework Services Agreement. As disclosed in the announcement published by the Company on 26 May 2021, approval from the Independent Shareholders in respect of the Special Deal Agreements and the Framework Services Agreement had also been obtained at the special general meeting of the Company held on 26 May 2021. Accordingly, Pre-Condition (xi) has been satisfied. Please refer to the announcement jointly published by the Offeror and the Company on 20 July 2021 for details.

As set out in the announcement jointly published by the Offeror and the Company on 2 August 2021, Pre-Condition (iii) has been satisfied with the approval by the National Development and Reform Commission of the PRC and the Enterprise Overseas Investment Certificate (Overseas Investment Certificate No. N4403202100547) issued by the Administrative Committee of China (Guangdong) Pilot Free Trade Zone Qianhai & Shekou Area of Shenzhen.

Further, as set out in the announcement jointly published by the Offeror and the Company on 9 August 2021, Pre-Condition (v) was waived by the Offeror and Pre-Condition (xiv) was satisfied with the entering into of the Placing Agreements by the Controlling Shareholders. As all the remaining Pre-Conditions (viii), (xv) and (xvi) have also been satisfied on 9 August 2021, all Pre-Conditions have been fulfilled or waived on the same day. The Composite Document was subsequently despatched to the Shareholders, and the Partial Offer and the Option Offer were open for acceptance on 12 August 2021.

Save as disclosed, there were no significant events affecting the Company or any of its subsidiaries after the reporting period requiring disclosure in this announcement.

RECORD DATE FOR PAYMENT OF INTERIM DIVIDEND

The record date (being the last date of registration of any transfer of shares given there will be no closure of Registers of Members) for determining the entitlement of the Shareholders to the interim dividend will be Monday, 13 September 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 Monday, 13 September 2021. The interim dividend is payable on Tuesday, 28 September 2021 to Shareholders whose names appear on the Registers of Members on Monday, 13 September 2021.

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.kln.com).

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

DEFINITIONS

“1H” or “2H”	first half or second half
“3PL”	third party logistics
“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”	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
“Composite Document”	the composite document jointly published by the Offeror and the Company dated 12 August 2021
“Director(s)”	director(s) of the Company
“EMEA”	Europe, Middle East and Africa
“Executive”	the executive director (or any of his delegates) of the Corporate Finance Division of the Securities and Futures Commission of Hong Kong
“F&B”	food and beverage
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“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 the PRC
“IFF”	international freight forwarding
“IL”	integrated logistics
“Joint Announcement”	the announcement jointly published by the Offeror, the Company and Kerry Properties Limited on 10 February 2021

“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 the PRC
“Mainland China”	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
“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
“PRC”	The People’s Republic of China
“Pre-IPO Share Option Scheme”	pre-IPO share option scheme of the Company
“Q2”	second quarter
“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
“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
“United States” or “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 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