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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 2022

The Board is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2022, together with comparative figures for the six months ended 30 June 2021.

GROUP'S FINANCIAL HIGHLIGHTS

- Revenue increased by 39% year-on-year to HK\$48,034 million (2021 1H: HK\$34,654 million*).
- Core operating profit increased by 74% to HK\$3,461 million (2021 1H: HK\$1,993 million*).
- Core net profit jumped by 96% year-on-year to HK\$2,372 million (2021 1H: HK\$1,212 million*).
- Profit attributable to the Shareholders for 2022 1H was HK\$2,377 million, which represents a year-on-year growth of 118% (2021 1H: HK\$1,092 million*). Year-on-year drop is 30% if profit from discontinued operations in 2021 1H is also included.
- IL business recorded a segment profit of HK\$717 million (2021 1H: HK\$560 million), which represents an increase of 28%.
- E&E business recorded a segment loss of HK\$393 million (2021 1H: profit of HK\$209 million).
- IFF business recorded a segment profit of HK\$3,398 million (2021 1H: HK\$1,416 million), which represents an increase of 140%.
- Interim dividend of 28 HK cents per Share to be payable on or around Friday, 30 September 2022.

* Excluding discontinued operations

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2022

	Note	Unaudited 2022 HK\$'000	Unaudited 2021 HK\$'000 (restated)
Continuing operations			
Revenue	2	48,034,324	34,653,907
Direct operating expenses	3	(42,746,293)	(31,160,697)
Gross profit		5,288,031	3,493,210
Other income and net gains/(loss)		162,412	(29,312)
Administrative expenses	3	(1,838,500)	(1,584,985)
Operating profit before fair value change of investment properties		3,611,943	1,878,913
Change in fair value of investment properties		6,706	10,633
Operating profit		3,618,649	1,889,546
Finance costs	4	(150,592)	(119,776)
Share of results of associates and joint ventures		92,458	80,888
Profit before taxation		3,560,515	1,850,658
Taxation	5	(865,923)	(383,511)
Profit for the period from continuing operations		2,694,592	1,467,147
Discontinued operations:			
Profit for the period from discontinued operations		–	2,386,611
Profit for the period		2,694,592	3,853,758
Profit attributable to:			
Company's shareholders	2		
From continuing operations		2,376,815	1,092,406
From discontinued operations		–	2,287,942
Non-controlling interests		317,777	473,410
		2,694,592	3,853,758
Earnings per share from continuing operations	7		
– Basic		HK\$1.32	HK\$0.61
– Diluted		HK\$1.31	HK\$0.60
Earning per share from discontinued operations			
– Basic		HK\$–	HK\$1.27
– Diluted		HK\$–	HK\$1.27

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2022

	Unaudited 2022 HK\$'000	Unaudited 2021 HK\$'000 (restated)
Profit for the period	2,694,592	3,853,758
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(928,919)	(378,887)
Items that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	(41,043)	(23,950)
Defined benefit pension plans		
– Actuarial losses	–	(3,414)
– Deferred income tax	–	683
Other comprehensive loss for the period	(969,962)	(405,568)
Total comprehensive income for the period	1,724,630	3,448,190
Total comprehensive income attributable to:		
Company's shareholders		
From continuing operations	1,580,160	777,721
From discontinued operations	–	2,288,627
Non-controlling interests	144,470	381,842
	1,724,630	3,448,190

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		6,320,364	4,303,119
Investment properties		1,875,510	1,939,636
Property, plant and equipment		7,747,821	7,526,228
Right-of-use assets		3,927,208	4,348,205
Associates and joint ventures		2,129,323	2,281,222
Financial assets at fair value through other comprehensive income		850,730	587,337
Investment in convertible bonds		5,705	5,911
Deferred taxation		651,734	155,944
		23,508,395	21,147,602
Current assets			
Financial assets at fair value through profit or loss		282,011	800,068
Financial assets at fair value through other comprehensive income		–	17,166
Inventories		470,876	374,775
Accounts receivable, prepayments and deposits	8	17,861,857	16,662,937
Tax recoverable		519,279	63,972
Amounts due from fellow subsidiaries		–	3
Restricted and pledged bank deposits		12,133	11,748
Cash and bank balances		9,039,890	9,084,105
		28,186,046	27,014,774
Current liabilities			
Lease liabilities		1,300,735	1,377,209
Accounts payable, deposits received and accrued charges	9	13,526,746	11,694,873
Amounts due to fellow subsidiaries		351,343	–
Amounts due to related companies		4,317	140,842
Taxation		846,803	752,201
Short-term bank loans and current portion of long-term bank loans	10	3,108,157	3,648,671
Loans from non-controlling interests		27,015	27,703
Bank overdrafts		186,841	199,201
		19,351,957	17,840,700

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)

	Note	Unaudited As at 30 June 2022 HK\$'000	Audited As at 31 December 2021 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		205,899	205,594
Long-term bank loans	10	7,355,277	2,261,839
Lease liabilities		2,079,238	2,384,652
Deferred taxation		659,369	406,072
Retirement benefit obligations		53,573	50,028
Other non-current liabilities		537,418	176,775
		10,890,774	5,484,960
ASSETS LESS LIABILITIES			
		21,451,710	24,836,716
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		903,687	903,655
Share premium and other reserves	14	77,778	4,333,941
Retained profits		17,259,177	15,810,884
		18,240,642	21,048,480
Put option written on non-controlling interests		(4,593)	(4,593)
		18,236,049	21,043,887
Non-controlling interests		3,215,661	3,792,829
TOTAL EQUITY			
		21,451,710	24,836,716

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 forwarding and e-commerce & express services. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

Shenzhen Mingde Holding Development Co., Ltd., a private company incorporated in the PRC, is the ultimate holding company.

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 2021, which have been prepared in accordance with HKFRS issued by the HKICPA. 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 2021.

The following new amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2022 have been published:

Amendments to HKFRS 3, HKAS 16 and HKAS 37, "Narrow-scope amendments"

Amendments to HKFRS 16 "Covid-19 Related Rent Concessions"

Annual improvements to HKFRSs 2018 –2020 cycle

Revised Accounting Guideline 5, "Merger accounting for common control combinations"

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.

HKFRS 17, "Insurance contracts"¹

Amendments to HKFRS 17, "Insurance contracts"¹

Amendments to HKAS 1, "Classification of liabilities as current or non-current"¹

Amendments to HKAS 1 and HKFRS Practice Statement 2, "Disclosure of accounting policies"¹

Amendments to HKAS 8, "Definition of accounting estimates"¹

Amendments to HKAS 12, "Deferred tax related to assets and liabilities arising from a single transaction"¹

Hong Kong Interpretation 5 (2020), "Presentation of financial statements – Classification by the borrower of a term loan that contains a repayment on demand clause"¹

Amendments to HKFRS 10 and HKAS 28, "Sale or contribution of assets between an investor and its associate or joint venture"²

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

² 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 2021 except for the adoption of new standards as set out above.

Pursuant to the conditional offer from S.F. Holding to acquire part of the issued shares of the Company, as part of the transaction, the Group entered into sale agreements with Kerry Holding Limited ("KHL"), which has sold the entire interest of the Hong Kong warehouse companies ("Hong Kong Warehouses") and the Taiwan business companies ("Taiwan Operations") (together the "Discontinued Operations"). The disposals of the Hong Kong Warehouses and Taiwan Operations were completed on 4 October 2021 and 27 September 2021 respectively.

In accordance with HKFRS 5 "Non-current Assets Held for Sales and Discontinued Operations", the related financial information of the Hong Kong Warehouses and Taiwan Operations in the comparative figures is required to be restated and presented separately as discontinued operations of the Group in the condensed consolidated interim income statement and the condensed consolidated interim statement of comprehensive income for the period ended 30 June 2022.

Further details of financial information of the discontinued operations are set out in note 13.

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 2022, together with comparative figures for the six months ended 30 June 2021 is as follows:

	For the six months ended 30 June													
	Continuing operations										Discontinued operations		Consolidation	
	Integrated logistics		E-commerce & Express		International freight forwarding		Elimination		Sub-total		2021 HK\$'000 (restated)	2021 HK\$'000 (restated)	2022 HK\$'000	2021 HK\$'000 (restated)
	2022 HK\$'000	2021 HK\$'000 (restated)	2022 HK\$'000	2021 HK\$'000 (restated)	2022 HK\$'000	2021 HK\$'000 (restated)	2022 HK\$'000	2021 HK\$'000 (restated)	2022 HK\$'000	2021 HK\$'000 (restated)				
Revenue														
Turnover	6,522,267	6,305,086	3,057,128	3,355,744	38,454,929	24,993,077	-	-	48,034,324	34,653,907	2,054,832	48,034,324	36,708,739	
Inter-segment revenue	470,350	380,952	468,008	449,970	7,379,213	6,973,954	(8,317,571)	(7,804,876)	-	-	-	-	-	
	6,992,617	6,686,038	3,525,136	3,805,714	45,834,142	31,967,031	(8,317,571)	(7,804,876)	48,034,324	34,653,907	2,054,832	48,034,324	36,708,739	
Turnover by Geographic														
Hong Kong	2,261,655	1,884,249	841,396	992,176	2,209,413	1,972,468	(696,404)	(936,560)	4,616,060	3,912,333	110,948	4,616,060	4,023,281	
Mainland of China	3,281,497	3,445,295	-	-	11,926,444	11,654,381	(2,555,882)	(3,821,321)	12,652,059	11,278,355	-	12,652,059	11,278,355	
Taiwan	-	-	-	-	-	-	-	-	-	-	1,943,884	-	1,943,884	
Asia	1,378,861	1,287,055	2,646,481	2,809,974	8,134,265	5,113,617	(3,726,479)	(2,695,723)	8,433,128	6,514,923	-	8,433,128	6,514,923	
Americas	-	-	-	-	17,425,295	8,542,091	(967,506)	(138,081)	16,457,789	8,404,010	-	16,457,789	8,404,010	
EMEA	-	-	37,259	3,564	5,344,624	4,179,109	(325,444)	(195,279)	5,056,439	3,987,394	-	5,056,439	3,987,394	
Oceania	70,604	69,439	-	-	794,101	505,365	(45,856)	(17,912)	818,849	556,892	-	818,849	556,892	
	6,992,617	6,686,038	3,525,136	3,805,714	45,834,142	31,967,031	(8,317,571)	(7,804,876)	48,034,324	34,653,907	2,054,832	48,034,324	36,708,739	
Segment profit/(loss)														
Hong Kong	393,179	209,321	11,403	36,192	178,068	139,933	-	-	582,650	385,446	269,428	582,650	654,874	
Mainland of China	158,932	178,514	-	-	768,519	477,331	-	-	927,451	655,845	-	927,451	655,845	
Taiwan	-	-	-	-	-	-	-	-	-	-	274,526	-	274,526	
Asia	160,478	129,191	(410,728)	173,294	601,664	262,973	-	-	351,414	565,458	-	351,414	565,458	
Americas	-	-	-	-	1,613,293	432,214	-	-	1,613,293	432,214	-	1,613,293	432,214	
EMEA	-	-	5,886	(159)	179,534	67,401	-	-	185,420	67,242	-	185,420	67,242	
Oceania	4,433	43,023	-	-	57,213	36,107	-	-	61,646	79,130	-	61,646	79,130	
	717,022	560,049	(393,439)	209,327	3,398,291	1,415,959	-	-	3,721,874	2,185,335	543,954	3,721,874	2,729,289	
Less: Unallocated administration expenses									(260,682)	(192,743)	(1,036)	(260,682)	(193,779)	
Core operating profit									3,461,192	1,992,592	542,918	3,461,192	2,535,510	
Interest income									23,489	16,321	110	23,489	16,431	
Finance costs									(150,592)	(119,776)	(29,702)	(150,592)	(149,478)	
Share of results of associates									92,458	80,888	534	92,458	81,422	
Gain on disposal of an associate									127,262	-	-	127,262	-	
Profit before taxation*									3,553,809	1,970,025	513,860	3,553,809	2,483,885	
Taxation*									(864,246)	(380,949)	(97,169)	(864,246)	(478,118)	
Profit for the year*									2,689,563	1,589,076	416,691	2,689,563	2,005,767	
Non-controlling interests*									(317,751)	(376,735)	(98,669)	(317,751)	(475,404)	
CORE NET PROFIT									2,371,812	1,212,341	318,022	2,371,812	1,530,363	
Change in fair value of investment properties									6,706	10,633	1,969,920	6,706	1,980,553	
Deferred tax of change in fair value of investment properties									(1,677)	(2,562)	-	(1,677)	(2,562)	
Less: Non-controlling interests' share of change in fair value of investment properties and its related deferred tax									(26)	1,994	-	(26)	1,994	
Goodwill impairment									-	(130,000)	-	-	(130,000)	
Profit attributable to Company's shareholder									2,376,815	1,092,406	2,287,942	2,376,815	3,380,348	
Depreciation and amortisation	600,030	466,176	324,626	313,915	185,984	178,855			1,110,640	958,946	179,028	1,110,640	1,137,974	

* 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 in continuing operations of the Group, in 2022 namely integrated logistics, e-commerce & express and international freight forwarding, in each geographical area. The disposed Hong Kong Warehouses and Taiwan Business were presented under "Discontinued Operations".

Integrated logistics segment derives revenue from provision of logistics services and sales of goods.

E-commerce & Express segment derives revenue primarily from e-commerce businesses and domestic parcel delivery 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.

During the period, the Group has re-determined a new operating segment namely e-commerce & express, which was originally included in the Integrated logistics segment in previous years. After the disposal of the Hong Kong Warehouse segment, with the combination of the continuing business expansion of e-commerce & express segment, for segment presentation purpose, e-commerce & express segment is presented as an operating segment for the current segmental analysis of operations. Prior period corresponding segment information that is presented for comparative purpose has been restated. The reclassification has no impact on the profit for the current and comparative period of the Group for the period ended 30 June 2022 and 30 June 2021 nor on the assets and liabilities of the Group as of 30 June 2022 and 31 December 2021.

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							
	2022				2021			
	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 (restated)	HK\$'000 (restated)	HK\$'000 (restated)	HK\$'000 (restated)
Revenue from contracts with customers								
Integrated logistics	717,835	5,740,188	64,244	6,522,267	591,139	5,655,456	58,491	6,305,086
E&E	-	3,057,128	-	3,057,128	-	3,355,744	-	3,355,744
International freight forwarding	-	38,454,929	-	38,454,929	-	24,993,077	-	24,993,077
Discontinued operations	-	-	-	-	6,073	1,937,806	110,953	2,054,832
	717,835	47,252,245	64,244	48,034,324	597,212	35,942,083	169,444	36,708,739

By geographical area	For the six months ended 30 June							
	2022				2021			
	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 (restated)	HK\$'000 (restated)	HK\$'000 (restated)	HK\$'000 (restated)
Revenue from contracts with customers								
Hong Kong	645,373	3,970,687	-	4,616,060	575,309	3,337,024	-	3,912,333
Mainland of China	59,930	12,549,054	43,075	12,652,059	1,655	11,233,668	43,032	11,278,355
Asia	12,532	8,399,427	21,169	8,433,128	14,175	6,485,289	15,459	6,514,923
Americas	-	16,457,789	-	16,457,789	-	8,404,010	-	8,404,010
EMEA	-	5,056,439	-	5,056,439	-	3,987,394	-	3,987,394
Oceania	-	818,849	-	818,849	-	556,892	-	556,892
Discontinued operations	-	-	-	-	6,073	1,937,806	110,953	2,054,832
	717,835	47,252,245	64,244	48,034,324	597,212	35,942,083	169,444	36,708,739

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

	Segment non-current assets[#]	
	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
Hong Kong	1,820,506	2,062,027
Mainland of China	7,982,152	7,788,141
Asia	7,718,962	8,129,462
Americas	3,195,773	1,055,752
EMEA	1,138,531	1,209,174
Oceania	144,302	153,854
	22,000,226	20,398,410

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

3 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2022 HK\$'000	2021 HK\$'000 (restated)
Continuing operations		
Business tax and other taxes	9,017	11,354
Cost of goods sold	604,876	497,859
Freight and transportation costs	38,128,166	27,576,170
Depreciation of property, plant and equipment	385,285	367,982
Depreciation of right-of-use assets	643,204	521,110
Amortisation of intangible assets	82,151	69,854
Provision for impairment of receivables	109,791	61,270
Reversal of provision for impairment of receivables	(4,282)	(420)
Expenses relating to short-term and low-value leases	300,028	128,681
Employee benefit expenses (note)	3,975,144	3,023,934

Note:

Government grants amounting to HK\$18,459,000 (2021: HK\$1,487,000) have been recognised and deducted in employee benefit expenses for the six months ended 30 June 2022.

4 FINANCE COSTS

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000 (restated)
Continuing operations		
Interest expenses on bank loans and overdrafts	94,911	61,553
Interest expenses on lease liabilities	55,681	58,223
	150,592	119,776

5 TAXATION

	Six months ended 30 June	
	2022	2021
	HK\$'000	HK\$'000 (restated)
Continuing operations		
Hong Kong profits tax		
– Current	150,981	100,638
– Overprovision in prior years	(1,170)	–
– Deferred	1,130	(2,675)
	150,941	97,963
PRC taxation		
– Current	117,084	83,669
– Underprovision in prior years	20,855	7,813
– Deferred	4,615	(97)
	142,554	91,385
Overseas taxation		
– Current	642,254	296,443
– Overprovision in prior years and tax refund (note)	(706)	(136,049)
– Deferred	(69,120)	33,769
	572,428	194,163
	865,923	383,511

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) in 2021.

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2021: 16.5%) for the six months ended 30 June 2022 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% (2021: 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 28 HK cents per share for the six months ended 30 June 2022 (for the six months ended 30 June 2021: an interim dividend of 21.1 HK cents), which is payable on or around Friday, 30 September 2022 to shareholders whose names appear on the registers of members of the Company on Thursday, 15 September 2022. 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	
	2022	2021
Adjusted weighted average number of ordinary shares in issue ('000)	1,807,356	1,799,521
Profit attributable to the Company's shareholders (HK\$'000)		
From continuing operations	2,376,815	1,092,406
From discontinued operations	–	2,287,942
Basic earnings per share (HK\$)		
From continuing operations	1.32	0.61
From discontinued operations	–	1.27

DILUTED

	Six months ended 30 June	
	2022	2021
Adjusted weighted average number of ordinary shares in issue ('000)	1,807,356	1,799,521
Adjustment for share options ('000)	312	4,748
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,807,668	1,804,269
Profit attributable to the Company's shareholders (HK\$'000)		
From continuing operations	2,376,815	1,092,406
From discontinued operations	–	2,287,942
Diluted earnings per share (HK\$)		
From continuing operation	1.31	0.60
From discontinued operation	–	1.27

8 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

Included in accounts receivable, prepayments and deposits are mainly trade receivables. The Group has various credit policies for different business operations depending on the requirements of the markets and businesses. 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 2022 HK\$'000	As at 31 December 2021 HK\$'000
Below 1 month	8,690,315	7,654,779
Between 1 month and 3 months	4,051,973	4,332,734
Over 3 months	897,904	859,476
Total trade receivables, net	13,640,192	12,846,989
Prepayments, deposits and other receivables	4,221,665	3,815,948
	17,861,857	16,662,937

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 2022 HK\$'000	As at 31 December 2021 HK\$'000
Below 1 month	3,782,825	3,605,375
Between 1 month and 3 months	1,179,945	1,558,885
Over 3 months	983,060	1,110,650
Total trade payables	5,945,830	6,274,910
Deposits received, accrued charges and other payables	7,580,916	5,419,963
	13,526,746	11,694,873

10 BANK LOANS

	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
Non-current		
– unsecured	7,328,982	2,231,081
– secured	26,295	30,758
	7,355,277	2,261,839
Current		
– unsecured	2,965,109	3,436,366
– secured	143,048	212,305
	3,108,157	3,648,671
Total bank loans	10,463,434	5,910,510

11 COMMITMENTS

As at 30 June 2022, 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 2022 HK\$'000	As at 31 December 2021 HK\$'000
Contracted but not provided for	3,669,275	1,428,165

Note:

On 9 June 2022, Kerry Freight Services (China) Limited (as the "Buyer"), an indirect wholly owned subsidiary of the Company, entered into a sale and purchase agreement (the "KA Agreement") with Summer Way International Limited (as the "Seller"). Subject to the terms and conditions of KA Agreement, the Seller has conditionally agreed to sell and the Buyer has conditionally agreed to acquire the remaining 39% interest in K-Apex Logistics (HK) Co., Limited ("K-Apex HK"), an indirect 61%-owned subsidiary of the Company. The acquisition of 18% additional interest in K-Apex HK was completed on 10 June 2022. Closing of the remaining 21% interest ("Remaining Shares") is subject to a condition under the KA Agreement (the "Condition") that has not been satisfied by 10 June 2022 having been fulfilled and/or waived before the consideration in respect of the Remaining Shares is payable. Before the Condition is fulfilled and/or waived, both the Buyer and the Seller have the right (but not the obligation) to opt not to proceed with closing of the Remaining Shares by giving written notice to other Party.

12 PLEDGE OF ASSETS

As at 30 June 2022, the Group's total bank loans of HK\$10,463,434,000 (31 December 2021: HK\$5,910,510,000) included an aggregate amount of HK\$169,343,000 (31 December 2021: HK\$243,063,000) which are secured. The Group's total bank overdrafts of HK\$186,841,000 (31 December 2021: HK\$199,201,000) included an aggregate amount of HK\$3,341,000 (31 December 2021: HK\$45,791,000) 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 with an aggregate net book value of HK\$788,967,000 (31 December 2021: HK\$1,303,673,000);
- (ii) assignments of insurance proceeds of certain properties; and
- (iii) certain balances of restricted and pledged deposits.

13 DISCONTINUED OPERATIONS

Pursuant to the conditional offer from S.F. Holding to acquire part of the issued shares of the Company, as part of the transaction, the Group entered into sale agreements with KHL, which has sold the entire interest of the Hong Kong Warehouses and Taiwan Operation. The results of the Hong Kong Warehouses and Taiwan Operation were accounted for as discontinued operations under HKFRS 5 “Non-current assets held for sale and discontinued operations” in the comparative figures.

Results from discontinued operations for the six months ended 30 June 2021 is set out below:

	2021 HK\$'000
Revenue	2,054,832
Direct operating expenses	(1,280,418)
Other gains	5,321
Administrative expenses	(236,707)
Change in fair value of investment properties	1,969,920
Finance expenses	(29,702)
Share of results of associated companies	534
Profit before taxation	2,483,780
Taxation	(97,169)
Profit for the period from discontinued operations	2,386,611

14 SHARE PREMIUM AND OTHER RESERVES

	As at 30 June 2022 HK\$'000	As at 31 December 2021 HK\$'000
Share premium	4,073,625	4,072,917
Other reserves (note)	(3,995,847)	261,024
	77,778	4,333,941

Note:

Other reserves mainly comprise acquisition reserve deficits amounted to HK\$3,335 million (1 January 2022: HK\$150 million surplus). The acquisition reserve arose from the acquisition of additional interest or disposal of interest in subsidiaries that do not result in a change of control by the Group, and represents any differences between the amount by which the non-controlling interests are adjusted (to reflect the changes in the interests in the subsidiaries) and the fair value of the consideration paid or received. During the period, the Group recorded a net cash consideration paid/payable to non-controlling interests amounted to HK\$3,610 million. These transactions resulted a net decrease in non-controlling interests amounted to HK\$125 million and hence a decrease of HK\$3,485 million in acquisition reserve.

RESULTS OVERVIEW

The Group recorded an increase in revenue of 39% to HK\$48,034 million in 2022 1H (2021 1H: HK\$34,654 million, excluding revenue from discontinued operations). Core operating profit went up 74% to HK\$3,461 million (2021 1H: HK\$1,993 million, excluding profit from discontinued operations). Core net profit also rose 96% year-on-year to HK\$2,372 million (2021 1H: HK\$1,212 million, excluding profit from discontinued operations). Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and goodwill impairment, increased 118% to HK\$2,377 million (2021 1H: HK\$1,092 million, excluding profit from discontinued operations). Year-on-year drop on profit attributable to the Shareholders is 30% if profit from discontinued operations in 2021 1H is also included.

	2022 1H HK\$ million	2021 1H HK\$ million	
Segment profit/(loss)			
IL	717	560	+28%
E&E	(393)	209	–
IFF	3,398	1,416	+140%
	3,722	2,185	
Unallocated administrative expenses and others	(261)	(192)	
Core operating profit	3,461	1,993	+74%
Core net profit	2,372	1,212	+96%
Changes in fair value of investment properties, net of deferred tax	5	10	
Goodwill impairment	–	(130)	
Profit attributable to the Shareholders, excluding profit from discontinued operations	2,377	1,092	+118%
Profit from discontinued operations	–	2,288	–
Profit attributable to the Shareholders	2,377	3,380	-30%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

MARKET OVERVIEW

The world continued to face unprecedented volatility and uncertainty in the global economy in 2022 1H. The supply-demand mismatches and chokeholds persisted with limited improvements. Disruptions to the global supply chains remained, driven by labour shortages, port congestion, geopolitical tensions and divergence in governments' COVID and fiscal policies.

The Omicron outbreak in Greater China that raged through 2022 1H has crippled cross-border transportation and affected the logistics connectivity between Hong Kong and the Mainland of China. The prolonged and scattered anti-COVID measures in different cities have disrupted manufacturing activities in the Mainland of China and global supply chains, leading to unforeseeable challenges, yet at the same time creating unprecedented opportunities for logistics.

Capitalising on the new opportunities, KLN Group responded and reacted swiftly to market changes and global supply chain reshuffling by providing innovative and customised solutions to meet customer needs under the unsettled market conditions.

In 2022 1H, KLN Group continued to deliver strong results with core net profits generated from its continuing operations jumping by 96% year-on-year. The performance of 1H demonstrated the Group's resilience and capabilities in handling crises while capturing opportunities in a highly complex and volatile global supply chain despite limitless challenges.

As the international business arm of S.F. Holding, the Group has added new customer base in the Mainland of China, started to serve as the exclusive cargo General Sales Agent (GSA) for S.F. Airlines since May 2022 and continued to integrate S.F. Holding's ex-China operations into its global network. The further integration and synergies between the two companies are expected to benefit KLN Group's business in terms of scale, coverage and capabilities.

SEGMENTAL REPORTING

During the period, the Group adopted a new segmental reporting by carving out the E&E related business from the IL division as a standalone business segment, reflecting the internal management and different strategies of the two segments. The new reportable segments are Integrated Logistics (IL), E-commerce & Express (E&E) and International Freight Forwarding (IFF). The new reporting will provide a clearer picture for stakeholders to review the performance of different operations within the Group.

INTEGRATED LOGISTICS

The segment profit of the IL division in Asia reported strong growth on the back of reopening of borders across countries, easing of COVID-19 restrictions and a pickup in manufacturing and domestic consumption in 2022 1H. Nevertheless, the pandemic prevention and lockdown measures in the Mainland of China have curtailed manufacturing activities, causing an 11% drop in IL business segment profit in the Mainland of China during the period.

E-COMMERCE AND EXPRESS

Performance of the E&E segment contracted as KETH in Thailand was caught in a price war during 2021 2H and 2022 1H. Nevertheless, losses have started to narrow since May 2022 and KETH is expected to come close to breakeven by the end of 2022.

INTERNATIONAL FREIGHT FORWARDING

The IFF segment remained as the growth driver of KLN Group and delivered a segment profit growth of 140% in 2022 1H. Greater China, including Hong Kong, contributed 28% and ex-Greater China contributed 72% of the total segment profit. The core base of the IFF business maintained its focus on Asia's export market.

The segment also added Topocean as a new member of the Group in April 2022, further strengthening the Group's capabilities to capture new growth in the Trans-Pacific trade lane.

SUSTAINABILITY

KLN Group commits to taking strides toward achieving net zero by 2050. The Group has extended its focus on Scope 3 emissions (according to Greenhouse Gas Protocol's Corporate Value Chain Standard) to enrich its sustainability disclosure and plan for carbon reduction. KLN Group continues to evaluate climate risks, explore science-based targets and increase the use of renewable energy to meet its sustainability goals.

OUTLOOK

Interest rates and inflation keep rising. Macro volatility and economic uncertainty are expected to further heighten in 2022 2H. The overall market braces for a downturn with softening global demand and lingering impact of the pandemic. The global transportation landscape, including cargo capacities, freight rates, trade restrictions and other issues, for different verticals was forced to change rapidly. Leveraging its strong position in Asia, KLN Group will continue to support global supply chain reshuffling through effective and efficient multimodal solutions.

Based on its strong performance in 2022 1H and forecast for the rest of the year, KLN Group is optimistic that for its continuing operations, the FY2022 results are expected to demonstrate a new growth as well as its capabilities in handling unpredictable events and enabling its customers to adopt new and different supply chain strategies and solutions to meet new business and operational needs.

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 2022, total foreign currency borrowings amounted to the equivalent of HK\$3,641 million (including HK\$1,486 million denominated in Renminbi and HK\$1,397 million denominated in USD), which represented approximately 35% of the Group's total bank loans of HK\$10,463 million.

Out of the Group's total bank loans as at 30 June 2022, HK\$3,108 million (representing approximately 30%) was repayable within one year, HK\$2,556 million (representing approximately 24%) in the second year, HK\$4,745 million (representing approximately 45%) in the third to fifth years, and HK\$54 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounting for approximately 98% of total bank loans. In relation to the secured bank loans of HK\$169 million as at 30 June 2022, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$789 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 interest rates are going up and are expected to rise continuously, the Group is reviewing the loan portfolio and replacing the existing facilities by fixed rate loans where appropriate, and will continue to monitor the market development and minimize the Group's interest risk exposure.

As at 30 June 2022, the gearing ratio for the Group was 58.4% (31 December 2021: 29.0%). 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 2022, the Group had total undrawn bank loan and overdraft facilities of HK\$8,934 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 2022, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2022, the Group had approximately 49,700 employees. The remuneration to employees includes salaries maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes, 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 Part 2 of the CG Code and its corporate governance practices are based on such principles and code provisions. The Directors consider that during the six months ended 30 June 2022, the Company has complied with the code provisions as set out in Part 2 of 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 2022.

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 2022.

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 2022, a total of 688,200 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

There are no important events affecting the Group which have occurred since 30 June 2022.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 15 September 2022 in order to determine the entitlement of the Shareholders to the interim dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's Hong Kong branch share registrar and transfer office, Tricor Investor Services Limited, at 17/F, Far East Finance Centre, 16 Harcourt Road, Hong Kong before 4:30 p.m. on Wednesday, 14 September 2022. The interim dividend is payable on or around Friday, 30 September 2022 to the Shareholders whose names appear on the Registers of Members on Thursday, 15 September 2022.

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
“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
“E&E”	e-commerce & express
“EMEA”	Europe, Middle East and Africa
“FY2022”	the financial year ending 31 December 2022
“Greater China”	for the purpose of this announcement only, the Mainland of 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 the PRC
“IFF”	international freight forwarding
“IL”	integrated logistics
“KETH”	Kerry Express (Thailand) Public Company Limited, a public company with limited liability registered in Thailand and listed on The Stock Exchange of Thailand (Stock code: KEX), is a subsidiary of the Company

“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	Macao Special Administrative Region of the PRC
“Mainland” or “Mainland of China”	the PRC 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
“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
“Registers of Members”	registers of members of the Company
“Renminbi”	the lawful currency of the PRC
“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 (stock code: 002352.SZ), is a subsidiary of Shenzhen Mingde
“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
“Shenzhen Mingde”	Shenzhen Mingde Holding Development Co., Ltd., one of the Controlling Shareholders of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Topocean”	Topocean Consolidation Service (Los Angeles) Inc., a California incorporated corporation, an indirect non-wholly owned subsidiary of the Company

“United States” or “US” the United States of America, its territories and possessions, any State of the United States, and the District of Columbia

“US\$” or “USD” United States dollars, the lawful currency of the United States

By Order of the Board
WANG Wei
Chairman

Hong Kong, 30 August 2022

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

Chairman, Non-executive Director:

Mr WANG Wei

Vice Chairman, Non-executive Director:

Mr KUOK Khoon Hua

Executive Directors:

Mr MA Wing Kai William and Mr CHEUNG Ping Chuen Vicky

Non-executive Directors:

Mr CHAN Fei, Mr HO Chit and Ms CHEN Keren

Independent Non-executive Directors:

Dr CHEUNG Wai Man, Mr LAI Sau Cheong Simon, Mr TAN Chuen Yan Paul and Ms WONG Yu Pok Marina