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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 2023

The Board is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2023, together with comparative figures for the six months ended 30 June 2022.

GROUP'S FINANCIAL HIGHLIGHTS

- Revenue dropped by 47% year-on-year to HK\$25,315 million (2022 1H: HK\$48,034 million).
- Core operating profit decreased by 84% to HK\$568 million (2022 1H: HK\$3,461 million).
- Core net profit also dropped by 85% year-on-year to HK\$368 million (2022 1H: HK\$2,372 million).
- Profit attributable to the Shareholders for 2023 1H was HK\$368 million, which represents a year-on-year decrease of 85% (2022 1H: HK\$2,377 million).
- IL business remained stable and recorded a segment profit of HK\$718 million (2022 1H: HK\$717 million).
- E&E business recorded a segment loss of HK\$505 million (2022 1H: HK\$393 million).
- IFF business recorded a segment profit of HK\$621 million (2022 1H: HK\$3,398 million), which represents a drop of 82%.
- Interim dividend of 9 HK cents per Share to be payable on or around Friday, 22 September 2023.

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2023

	Note	Unaudited 2023 HK\$'000	Unaudited 2022 HK\$'000
Revenue	2	25,314,623	48,034,324
Direct operating expenses	3	(23,185,834)	(42,746,293)
Gross profit		2,128,789	5,288,031
Other income and net gains		49,391	162,412
Administrative expenses	3	(1,572,513)	(1,838,500)
Operating profit before fair value change of investment properties		605,667	3,611,943
Change in fair value of investment properties		4	6,706
Operating profit		605,671	3,618,649
Finance costs	4	(275,643)	(150,592)
Share of results of associates and joint ventures		82,596	92,458
Profit before taxation		412,624	3,560,515
Taxation	5	(112,445)	(865,923)
Profit for the period		300,179	2,694,592
Profit attributable to:			
Company's shareholders	2	367,619	2,376,815
Non-controlling interests		(67,440)	317,777
		300,179	2,694,592
Earnings per share	7		
– Basic		HK\$0.20	HK\$1.32
– Diluted		HK\$0.20	HK\$1.31

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME
For the six months ended 30 June 2023

	Unaudited 2023 HK\$'000	Unaudited 2022 HK\$'000
Profit for the period	300,179	2,694,592
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(362,178)	(928,919)
Items that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	(52,606)	(41,043)
Other comprehensive loss for the period	(414,784)	(969,962)
Total comprehensive (loss)/income for the period	(114,605)	1,724,630
Total comprehensive (loss)/income attributable to:		
Company's shareholders	18,595	1,580,160
Non-controlling interests	(133,200)	144,470
	(114,605)	1,724,630

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

		Unaudited	Audited
		As at	As at
		30 June	31 December
Note		2023	2022
		HK\$'000	HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets		5,893,965	5,855,895
Investment properties		1,782,704	1,819,589
Property, plant and equipment		7,761,821	7,869,412
Right-of-use assets		3,327,441	3,221,273
Associates and joint ventures		1,600,812	1,642,761
Financial assets at fair value through other comprehensive income		398,137	554,962
Investment in convertible bonds		5,864	5,538
Deferred taxation		666,287	463,169
Other non-current assets		198,583	–
		21,635,614	21,432,599
Current assets			
Financial assets at fair value through profit or loss		428	38,137
Inventories		509,479	482,035
Accounts receivable, prepayments and deposits	8	11,982,859	13,406,909
Tax recoverable		499,092	721,645
Amounts due from fellow subsidiaries		25,068	–
Amounts due from associates		9,340	–
Restricted and pledged bank deposits		12,850	12,383
Cash and bank balances		7,759,501	9,240,365
		20,798,617	23,901,474
Current liabilities			
Lease liabilities		1,257,691	1,196,141
Accounts payable, deposits received and accrued charges	9	8,761,724	10,695,071
Amounts due to fellow subsidiaries		–	278,252
Amounts due to related companies		137,131	166,063
Taxation		318,151	492,536
Short-term bank loans and current portion of long-term bank loans	10	2,890,010	2,226,402
Loans from non-controlling interests		6,862	6,862
Bank overdrafts		45,996	83,801
		13,417,565	15,145,128

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION
(CONTINUED)

	Note	Unaudited As at 30 June 2023 HK\$'000	Audited As at 31 December 2022 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		237,875	209,144
Long-term bank loans	10	5,305,914	6,586,447
Lease liabilities		1,499,093	1,453,234
Deferred taxation		683,378	614,209
Retirement benefit obligations		56,379	52,110
Other non-current liabilities		–	24,096
		7,782,639	8,939,240
ASSETS LESS LIABILITIES			
		21,234,027	21,249,705
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital		903,715	903,712
Share premium		4,074,218	4,074,169
Retained profits and other reserves		13,558,921	13,451,213
		18,536,854	18,429,094
Non-controlling interests		2,697,173	2,820,611
TOTAL EQUITY			
		21,234,027	21,249,705

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 information 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 2022, 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 information are consistent with those used in the annual financial statements for the year ended 31 December 2022.

The following new amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2023 have been published:

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

Amendments to HKAS 8, 'Definition of accounting estimates'

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

Amendments to HKAS 12, 'International Tax Reform – Pillar Two Model Rules (amendments)'

HKFRS 17, 'Insurance contracts'

Amendments to HKFRS 17, 'Insurance contracts'

Amendments to HKAS 17, 'Initial Application of HKFRS 17 and HKFRS 9 – Comparative Information'

In the current interim period, the Group has applied, for the first time, the above new standards and amendments to existing standards issued by the HKICPA. The adoption of the above new standards and amendments of existing standards had no material impact on the Group's accounting policies and did not require retrospective adjustments.

The disclosures in respect of the current tax expense related to the Pillar Two income taxes and the known or reasonably estimable exposure to Pillar Two income taxes are required for annual reporting periods beginning on or after 1 January 2023, but they are not required to be disclosed in interim financial reports for any interim period ending on or before 31 December 2023.

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 1, 'Non-current liabilities with covenants'¹

Amendment to HKFRS 16, 'Lease liability in a sale and leaseback'¹

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

Amendments to HKAS 7 and HKFRS 7, 'Supplier Finance Arrangements (amendments)'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 2024

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 information 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 information 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 information, 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 2022 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 2023, together with comparative figures for the six months ended 30 June 2022 is as follows:

	Integrated logistics		E-commerce and Express		International freight forwarding		Elimination		Consolidation	
	2023 HK'000	2022 HK'000 (restated)	2023 HK'000	2022 HK'000	2023 HK'000	2022 HK'000 (restated)	2023 HK'000	2022 HK'000	2023 HK'000	2022 HK'000
Revenue										
Turnover	6,328,266	6,559,322	3,038,878	3,057,128	15,947,479	38,417,874	-	-	25,314,623	48,034,324
Inter-segment revenue	354,707	433,295	366,924	468,008	2,690,365	7,416,268	(3,411,996)	(8,317,571)	-	-
	6,682,973	6,992,617	3,405,802	3,525,136	18,637,844	45,834,142	(3,411,996)	(8,317,571)	25,314,623	48,034,324
Turnover by Geographic										
Hong Kong	2,130,548	2,261,655	756,763	841,396	816,384	2,209,413	(385,661)	(696,404)	3,318,034	4,616,060
Mainland of China	3,070,131	3,281,497	-	-	6,253,578	11,926,444	(1,234,944)	(2,555,882)	8,088,765	12,652,059
Asia	1,404,146	1,378,861	2,367,429	2,646,481	2,993,994	8,134,265	(1,078,045)	(3,726,479)	5,687,524	8,433,128
Americas	-	-	120,209	-	4,642,457	17,425,295	(376,871)	(967,506)	4,385,795	16,457,789
EMEA	-	-	146,017	37,259	3,493,519	5,344,624	(314,679)	(325,444)	3,324,857	5,056,439
Oceania	78,148	70,604	15,384	-	437,912	794,101	(21,796)	(45,856)	509,648	818,849
	6,682,973	6,992,617	3,405,802	3,525,136	18,637,844	45,834,142	(3,411,996)	(8,317,571)	25,314,623	48,034,324
Segment profit/(loss)										
Hong Kong	285,733	393,179	2,025	11,403	9,182	178,068	-	-	296,940	582,650
Mainland of China	229,125	158,932	-	-	229,307	768,519	-	-	458,432	927,451
Asia	195,122	160,478	(511,316)	(410,728)	134,636	601,664	-	-	(181,558)	351,414
Americas	-	-	(885)	-	125,872	1,613,293	-	-	124,987	1,613,293
EMEA	-	-	6,014	5,886	80,993	179,534	-	-	87,007	185,420
Oceania	8,538	4,433	(1,108)	-	41,011	57,213	-	-	48,441	61,646
	718,518	717,022	(505,270)	(393,439)	621,001	3,398,291	-	-	834,249	3,721,874
Less: Unallocated administration expenses									(266,099)	(260,682)
Core operating profit									568,150	3,461,192
Interest income									37,517	23,489
Finance costs									(275,643)	(150,592)
Share of results of associates and joint ventures									82,596	92,458
Gain on disposal of an associate									-	127,262
Profit before taxation*									412,620	3,553,809
Taxation*									(112,499)	(864,246)
Profit for the year*									300,121	2,689,563
Non-controlling interests*									67,440	(317,751)
CORE NET PROFIT									367,561	2,371,812
Change in fair value of investment properties									4	6,706
Deferred tax of change in fair value of investment properties									54	(1,677)
Less: Non-controlling interests' share of change in fair value of investment properties and its related deferred tax									-	(26)
Profit attributable to Company's shareholder									367,619	2,376,815
Depreciation and amortisation	649,286	600,030	285,947	324,626	214,074	185,984	-	-	1,149,307	1,110,640

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

Prior period corresponding segment turnover figures of both integrated logistics and international freight forwarding have been reclassified to conform with current period classification.

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	2023				2022			
	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
						(restated)		(restated)
Revenue from contracts with customers								
Integrated logistics	815,751	5,449,640	62,875	6,328,266	717,835	5,777,243	64,244	6,559,322
E-commerce & Express	-	3,038,878	-	3,038,878	-	3,057,128	-	3,057,128
International freight forwarding	-	15,947,479	-	15,947,479	-	38,417,874	-	38,417,874
	815,751	24,435,997	62,875	25,314,623	717,835	47,252,245	64,244	48,034,324

By geographical area	2023				2022			
	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	671,568	2,646,466	-	3,318,034	645,373	3,970,687	-	4,616,060
Mainland of China	135,523	7,913,190	40,052	8,088,765	59,930	12,549,054	43,075	12,652,059
Asia	8,660	5,656,041	22,823	5,687,524	12,532	8,399,427	21,169	8,433,128
Americas	-	4,385,795	-	4,385,795	-	16,457,789	-	16,457,789
EMEA	-	3,324,857	-	3,324,857	-	5,056,439	-	5,056,439
Oceania	-	509,648	-	509,648	-	818,849	-	818,849
	815,751	24,435,997	62,875	25,314,623	717,835	47,252,245	64,244	48,034,324

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, in 2023 namely integrated logistics, e-commerce & express and international freight forwarding, in each geographical area.

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, gain on disposal of an associate 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.

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

	Segment non-current assets[#]	
	As at 30 June 2023 HK\$'000	As at 31 December 2022 HK\$'000
Hong Kong	1,734,233	1,665,857
Mainland of China	7,172,875	7,068,214
Asia	7,372,789	7,512,809
Americas	2,964,181	2,870,537
EMEA	1,182,458	1,153,674
Oceania	138,790	137,839
	20,565,326	20,408,930

[#] *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	
	2023 HK\$'000	2022 HK\$'000
Business tax and other taxes	3,525	9,017
Cost of goods sold	696,268	604,876
Freight and transportation costs	18,946,476	38,128,166
Depreciation of property, plant and equipment	397,587	385,285
Depreciation of right-of-use assets	664,502	643,204
Amortisation of intangible assets	87,218	82,151
Provision for impairment of receivables	41,516	109,791
Reversal of provision for impairment of receivables	(15,179)	(4,282)
Expenses relating to short-term and low-value leases	281,119	300,028
Employee benefit expenses (note)	3,151,864	3,975,144

Note:

Government grants amounting to HK\$16,260,000 (2022: HK\$18,459,000) have been recognised and deducted in employee benefit expenses for the six months ended 30 June 2023.

4 FINANCE COSTS

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Interest expenses on bank loans and overdrafts	226,118	94,911
Interest expenses on lease liabilities	49,525	55,681
	275,643	150,592

5 TAXATION

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Hong Kong profits tax		
– Current	45,047	150,981
– Overprovision in prior years	(125)	(1,170)
– Deferred	(15,319)	1,130
	29,603	150,941
PRC taxation		
– Current	63,687	117,084
– (Over)/underprovision in prior years	(8,791)	20,855
– Deferred	47,546	4,615
	102,442	142,554
Overseas taxation		
– Current	146,080	642,254
– Under/(over)provision in prior years	921	(706)
– Deferred	(166,601)	(69,120)
	(19,600)	572,428
	112,445	865,923

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2022: 16.5%) for the six months ended 30 June 2023 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% (2022: 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 9 HK cents per share for the six months ended 30 June 2023 (for the six months ended 30 June 2022: an interim dividend of 28 HK cents), which is payable on or around Friday, 22 September 2023 to shareholders whose names appear on the registers of members of the Company on Tuesday, 12 September 2023. 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	
	2023	2022
Adjusted weighted average number of ordinary shares in issue ('000)	1,807,385	1,807,356
Profit attributable to the Company's shareholders (HK\$'000) (note)	364,587	2,376,815
Basic earnings per share (HK\$)	0.20	1.32

DILUTED

	Six months ended 30 June	
	2023	2022
Adjusted weighted average number of ordinary shares in issue ('000)	1,807,385	1,807,356
Adjustment for share options ('000)	102	312
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,807,487	1,807,668
Profit attributable to the Company's shareholders (HK\$'000) (note)	364,587	2,376,815
Diluted earnings per share (HK\$)	0.20	1.31

The computation of diluted earnings per share for the six months ended 30 June 2023 does not assume the issue of potential ordinary shares in relation to the perpetual convertible securities as they have anti-dilutive effect.

Note: Reconciliations of earnings used in calculating earnings per share

	Six months ended 30 June	
	2023 HK\$'000	2022 HK\$'000
Profit attributable to the Company's shareholders	367,619	2,376,815
Less:		
Cumulative dividend of perpetual convertible securities	(3,032)	–
Profit attributable to the ordinary equity holders of the Company used in calculating earnings per share	364,587	2,376,815

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 2023 HK\$'000	As at 31 December 2022 HK\$'000
Below 1 month	5,747,592	5,922,246
Between 1 month and 3 months	2,131,982	3,219,285
Over 3 months	750,323	1,056,663
Total trade receivables, net	8,629,897	10,198,194
Prepayments, deposits and other receivables	3,352,962	3,208,715
	11,982,859	13,406,909

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 2023 HK\$'000	As at 31 December 2022 HK\$'000
Below 1 month	2,836,323	2,763,461
Between 1 month and 3 months	628,027	904,035
Over 3 months	681,274	864,304
Total trade payables	4,145,624	4,531,800
Deposits received, accrued charges and other payables	4,616,100	6,163,271
	8,761,724	10,695,071

10 BANK LOANS

	As at 30 June 2023 HK\$'000	As at 31 December 2022 HK\$'000
Non-current		
– unsecured	5,286,934	6,485,426
– secured	18,980	101,021
	5,305,914	6,586,447
Current		
– unsecured	2,831,318	2,111,300
– secured	58,692	115,102
	2,890,010	2,226,402
Total bank loans	8,195,924	8,812,849

11 COMMITMENTS

As at 30 June 2023, 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 2023 HK\$'000	As at 31 December 2022 HK\$'000
Contracted but not provided for	1,979,213	2,053,791

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. In July 2023, the acquisition of the remaining 21% interest was completed.

12 PLEDGE OF ASSETS

As at 30 June 2023, the Group's total bank loans of HK\$8,195,924,000 (31 December 2022: HK\$8,812,849,000) included an aggregate amount of HK\$77,672,000 (31 December 2022: HK\$216,123,000) which are secured. The Group's total bank overdrafts of HK\$45,996,000 (31 December 2022: HK\$83,801,000) included an aggregate amount of HK\$Nil (31 December 2022: HK\$20,187,000) 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\$844,963,000 (31 December 2022: HK\$786,875,000);
- (ii) assignments of insurance proceeds of certain properties; and
- (iii) certain balances of restricted and pledged deposits.

13 PERPETUAL CONVERTIBLE SECURITIES

On 29 March 2023, the Company, Natixis and SF Holding Limited entered into a subscription and placing agency agreement pursuant to which: (i) the Company agreed to issue perpetual convertible securities in the aggregate principal amount of HK\$780,000,000 with distribution rate of 3.30% per annum payable semi-annually (the “Convertible Securities”) to SF Holding Limited; (ii) Natixis conditionally agreed to use all reasonable efforts to procure SF Holding Limited to subscribe for the Convertible Securities; and (iii) SF Holding Limited conditionally agreed to subscribe and pay for the Convertible Securities at 100% of the principal amount subject to, and in accordance with, the terms of the subscription and placing agency agreement. There is no fixed redemption date on the Convertible Securities and the redemption is at the option of the Company. Completion of the subscription and placing agency agreement has taken place as at 18 May 2023. For the period ended 30 June 2023, after considering the transaction cost, the net proceeds was approximately HK\$774,101,000. They are classified as equity instruments, and recorded in equity in the condensed consolidation interim financial information of the Group.

14 EVENT AFTER THE REPORTING PERIOD

On 25 July 2023, the Company entered into a master agreement to sell and procure its subsidiaries to sell the equity interests and (if applicable) the shareholder’s loans of ten subsidiaries of the Group engaging in express delivery services in the Asia Pacific and Europe (the “Target Companies”), to SF Holding Limited (an indirect wholly-owned subsidiary of S.F. Holding), at a total consideration of approximately HK\$243,196,000 calculated based on the formula set out in the master agreement with reference to the management accounts of the Target Companies as at 30 June 2023. Completion of the disposals have not taken place as at the date of this financial statements.

RESULTS OVERVIEW

The Group recorded a drop in revenue of 47% to HK\$25,315 million in 2023 1H (2022 1H: HK\$48,034 million). Core operating profit decreased by 84% to HK\$568 million (2022 1H: HK\$3,461 million). Core net profit also dropped by 85% year-on-year to HK\$368 million (2022 1H: HK\$2,372 million). Profit attributable to the Shareholders was HK\$368 million (2022 1H: HK\$2,377 million), which represents a year-on-year drop of 85%.

	2023 1H HK\$ million	2022 1H HK\$ million	
Segment profit/(loss)			
IL	718	717	+0.2%
E&E	(505)	(393)	N/A
IFF	621	3,398	-82%
	834	3,722	
Unallocated administrative expenses and others	(266)	(261)	
Core operating profit	568	3,461	-84%
Core net profit	368	2,372	-85%
Changes in fair value of investment properties, net of deferred tax	-	5	
Profit attributable to the Shareholders	368	2,377	-85%

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

MARKET OVERVIEW

While the global economy showed a slow recovery in 2023 1H, persistently high inflation, rising geopolitical instability and heightened market uncertainties continued to dampen consumer spending. Global trade volume and growth remained subdued as a result. Freight rates and volume stayed depressed while supply chain demand remained stagnant.

During the three years ended 31 December 2022, KLN Group's flexible and innovative supply chain solutions enabled it to benefit from the supply and demand mismatch during the pandemic and achieved exceptionally good results. However, the extraordinary circumstances in 2021 and 2022 proved an anomaly that distorted year-on-year comparisons for logistics companies including KLN Group.

After the particularly difficult 2023 Q1, the Group's overall performance has bottomed out. Although the Group's core net profit reported a decrease of 85% in year-on-year terms, the performance in 2023 Q2 recorded more than 30% quarter-on-quarter growth. The Group's resilience, agility and unique position in Asia are expected to carry it through the storm in 2023.

INTEGRATED LOGISTICS

The overall IL businesses remained stable in 2023 1H. The economic activities in Asia have gradually picked up, with the Group's IL business in the Mainland of China and the Kerry Siam Seaport in Thailand recording satisfactory results. Yet, the Group's IL business in Hong Kong did not grow proportionally due to a sharp decline in the demand for pandemic-related services. Nevertheless, the Hong Kong business is expected to improve riding on the economic reopening, further rebound in retail sales and new customer wins.

E-COMMERCE AND EXPRESS

While the E&E division continued to register a segment loss, Kerry Express Thailand, the major contributor of the E&E business, is expected to stabilise in 2024 Q4. On 25 July 2023, KLN Group announced the transfer of certain companies engaging in express delivery services in the Asia Pacific and Europe to SF Holding Limited, an indirect wholly-owned subsidiary of S.F. Holding as a move to reorient gradually its focus towards expanding the Group's core IL and IFF businesses, as well as creating greater synergies with S.F. Holding.

INTERNATIONAL FREIGHT FORWARDING

The IFF division reported an 82% decline in segment profit in 2023 1H mainly caused by weak global demand, slower-than-expected recovery in Asia exports and plunged freight rates. As the global logistics market continues to normalise and returns to pre-pandemic levels, both air and ocean freight rates have been going down since 2022 Q3 from the historical highs in 2021, causing further contraction in profit margin compared to that of the corresponding period in 2022.

The Trans-Pacific trade lane remains the major contributor of the Group's IFF division, which accounted for more than 80% of the business. Although the volume of this trade lane has declined by 22%, the drop in the Group's IFF business was comparatively smaller, riding on the Group's scale in this trade lane and its determination to maintain volume and retain customers within the bounds of its profit margin. Therefore, it is expected that when the market turns around, the IFF division is likely to outperform the market.

In 2023 1H, KLN Group actively pursued new market opportunities and developed more emerging trade lanes leveraging the synergies with S.F. Holding, such as using Abu Dhabi as a cargo transshipment hub in the Middle East for cargoes to Europe, Africa and other countries as well as opening new freight routes between the Mainland of China and the US. The Group has also launched a global less-than-container load (LCL) programme to offer weekly direct LCL services from key Asian gateways to multiple country destinations across the globe, catering to the increasing demand for smaller-volume cargoes post-pandemic. Overall, the Group's IFF performance in 2023 Q2 grew by 28% compared with the previous quarter.

SUSTAINABILITY

Following the release of the first International Sustainability Standards Board (ISSB) standards in June 2023, KLN Group has been undergoing a feasibility study to strengthen its governance practices and more closely align its sustainability-related disclosures with the ISSB standards. To achieve this, the Group is refining its infrastructure for managing environmental data to better monitor its environmental footprint. While following the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD) in its Sustainability Reporting, the Group is currently conducting climate-related financial impact assessments. The results of these assessments will be disclosed in 2024. The Group will also continue to collaborate with its partners to launch various programmes and events designed to create positive social impact. Going forward, the Group will maintain its focus on enhancing its environmental and social sustainability performance.

OUTLOOK

2023 is shaping up to be a tough year for the global logistics industry. Yet, the extreme circumstances under the pandemic are gradually fading in global logistics activities and there are signs of improvement in both freight rates and volumes in KLN Group's key markets.

Using the pre-pandemic FY 2019 as the base, KLN Group is confident to deliver healthy and sustainable Compound Annual Growth Rate (CAGR) growth in segment profits in its IL and IFF divisions. The Group is also optimistic that the stable performance of the IL business is likely to keep up the momentum in 2023 2H. Within the E&E segment, Kerry Express Thailand is expected to stabilise in 2024 Q4.

Throughout the pandemic, KLN Group has supported its customers continually and consistently with flexible alternatives and ad-hoc solutions. The Group's unwavering commitment to serving customers well under unprecedented market conditions has deepened customers' trust in the Group which will enable it to capture opportunities when the market recovers.

Looking ahead, KLN Group will continue its ongoing efforts in strategic alignment and cost improvement across its global network while further growing its key markets where greater potential for long-term growth is offered. Together with the synergies created with S.F. Holding, KLN Group is fully prepared to seize every business opportunity promptly and generate sustainable value for its shareholders for 2023.

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 30 June 2023, total foreign currency borrowings amounted to the equivalent of HK\$2,651 million (including HK\$1,307 million denominated in Renminbi and HK\$799 million denominated in USD), which represented approximately 32% of the Group's total bank loans of HK\$8,196 million.

Out of the Group's total bank loans as at 30 June 2023, HK\$2,890 million (representing approximately 35%) was repayable within one year, HK\$1,935 million (representing approximately 24%) in the second year, HK\$3,288 million (representing approximately 40%) in the third to fifth years and HK\$83 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 99% of total bank loans. In relation to the secured bank loans of HK\$78 million as at 30 June 2023, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$845 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 2023, the gearing ratio for the Group was 44.5% (31 December 2022: 48.3%). The ratio was calculated as total bank loans and overdrafts, divided by equity attributable to the Shareholders.

As at 30 June 2023, the Group had total undrawn bank loan and overdraft facilities of HK\$6,496 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 2023, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2023, the Group had approximately 36,100 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 2023, 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 (including Mr CHENG Chi Wai, an Executive Director, whose appointment became effective on 22 May 2023) and the Directors have confirmed that they have complied with the Model Code (i) during the six months ended 30 June 2023; or (ii) during the period from their respective appointment dates up to 30 June 2023, as the case may be.

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

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2023.

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 2023, a total of 618,200 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

On 25 July 2023, the Company entered into a master agreement to sell and procure its subsidiaries to sell the equity interests and (if applicable) the shareholder's loans of ten subsidiaries of the Group engaging in express delivery services in the Asia Pacific and Europe (the "Target Companies"), to SF Holding Limited (an indirect wholly-owned subsidiary of S.F. Holding), at a total consideration of approximately HK\$243,196,000 calculated based on the formula set out in the master agreement with reference to the management accounts of the Target Companies as at 30 June 2023. Completion of the disposals have not taken place as at the date of this financial statements. Upon completion, the Target Companies will cease to be subsidiaries of the Company. Please refer to the Company's announcement dated 25 July 2023 for details.

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Tuesday, 12 September 2023 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 Monday, 11 September 2023. The interim dividend is payable on or around Friday, 22 September 2023 to the Shareholders whose names appear on the Registers of Members on Tuesday, 12 September 2023.

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
"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
“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 (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 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
“Q1”, “Q2”, “Q3” or “Q4”	first quarter, second quarter, third quarter or fourth quarter
“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
“subsidiary”	shall have the meaning ascribed to it under the Listing Rules
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“USD”	United States dollars, the lawful currency of the United States
“%”	per cent

By Order of the Board
WANG Wei
Chairman

Hong Kong, 28 August 2023

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 CHEUNG Ping Chuen Vicky and Mr CHENG Chi Wai

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