

INTERIM REPORT 2017



Kerry Logistics Network Limited

0636.HK

QUICK FACTS



25,000+

employees worldwide



9,000+

Self-owned operating vehicles



1,000+

service points



48M ft²

land & facilities



51

countries & territories

CONTENTS

	02
Corporate Information & Key Dates	
	03
Financial Highlights	
	05
Management Discussion and Analysis	
05 Results Overview	
06 Business Review	
10 Financial Review	
11 Staff and Remuneration Policies	
	12
Corporate Governance and Other Information	
	22
Independent Auditor's Review Report	
	24
Interim Financial Statements	
	48
Definitions	

CORPORATE INFORMATION & KEY DATES

KERRY LOGISTICS NETWORK LIMITED

(Incorporated in the British Virgin Islands and continued into Bermuda as an exempted company with limited liability)

BOARD OF DIRECTORS

Executive Directors

Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William (Group Managing Director)
Mr ERNI Edwardo
Mr KUOK Khoon Hua

Non-executive Director

Mr CHIN Siu Wa Alfred

Independent Non-executive Directors

Ms KHOO Shulamite N K
Mr WAN Kam To
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok
Mr ZHANG Yi Kevin

AUDIT AND COMPLIANCE COMMITTEE

Ms WONG Yu Pok Marina (Chairman)
Mr CHIN Siu Wa Alfred
Mr WAN Kam To
Mr ZHANG Yi Kevin

REMUNERATION COMMITTEE

Mr WAN Kam To (Chairman)
Mr YEO George Yong-boon
Mr KUOK Khoon Hua
Ms KHOO Shulamite N K
Mr ZHANG Yi Kevin

NOMINATION COMMITTEE

Mr YEO George Yong-boon (Chairman)
Mr KUOK Khoon Hua
Ms KHOO Shulamite N K
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok

FINANCE COMMITTEE

Mr YEO George Yong-boon (Chairman)
Mr MA Wing Kai William
Mr ERNI Edwardo

RISK MANAGEMENT COMMITTEE

Mr MA Wing Kai William (Chairman)
Mr ERNI Edwardo
(plus two members of the senior management, who are non-members of the Board)

COMPANY SECRETARY

Ms LEE Pui Nee

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Davis Polk & Wardwell

REGISTERED OFFICE

Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

CORPORATE HEADQUARTERS AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Kerry Cargo Centre, 55 Wing Kei Road
Kwai Chung, New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER AGENT

Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM12, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited
Level 22, Hopewell Centre
183 Queen's Road East, Hong Kong

INVESTOR RELATIONS

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E ir@kerrylogistics.com

WEBSITE

www.kerrylogistics.com

KEY DATES

Closure of Registers of Members
19 September 2017

Proposed Payment of Interim Dividend
6 October 2017

FINANCIAL HIGHLIGHTS

+31%

13,705

TURNOVER (HK\$M)

+11%

884

SEGMENT PROFIT (HK\$M)

IL

+7%

IFF

222

SEGMENT PROFIT (HK\$M)

1,019

CORE OPERATING PROFIT (HK\$M)



+10%



+5%

576

CORE NET PROFIT (HK\$M)

+11%

788

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS (HK\$M)

INTERIM DIVIDEND
8
HK CENTS
PER SHARE

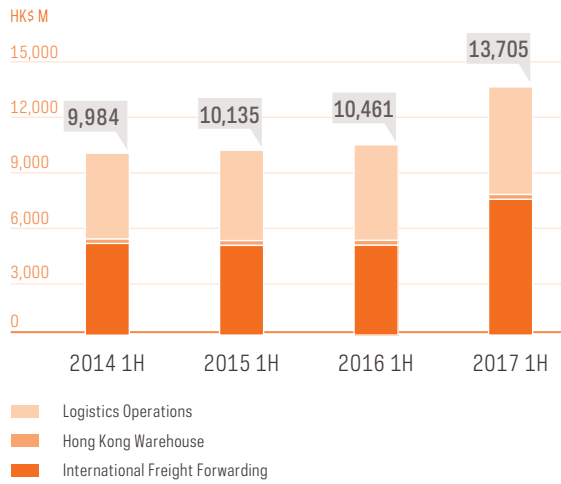
GROSS GEARING

43.1%

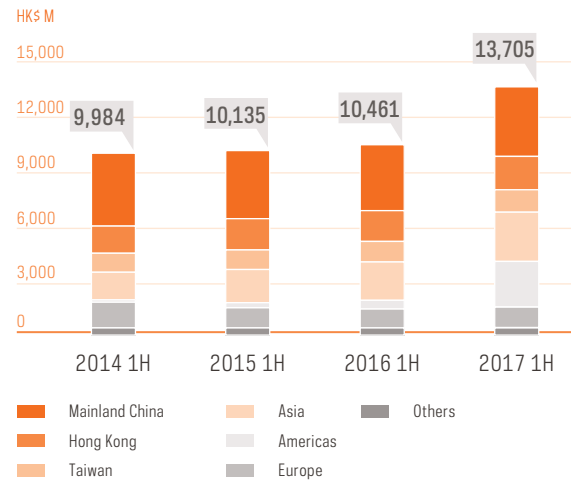


INTERIM REPORT 2017

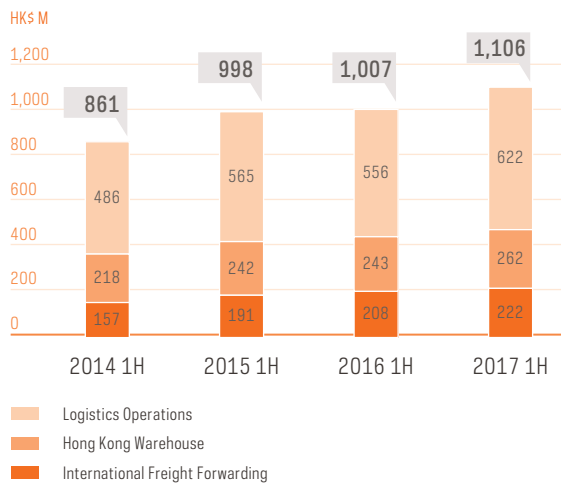
2.1 TURNOVER BY SEGMENT



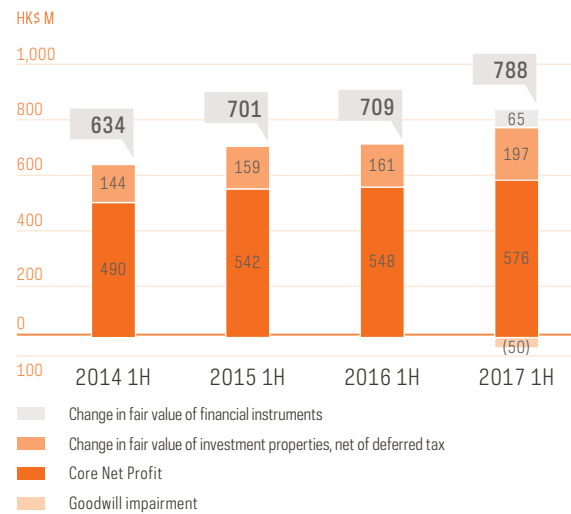
2.2 TURNOVER BY REGION



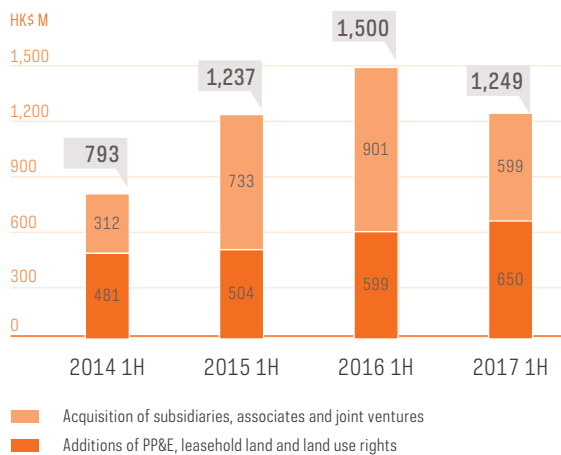
2.3 SEGMENT PROFIT



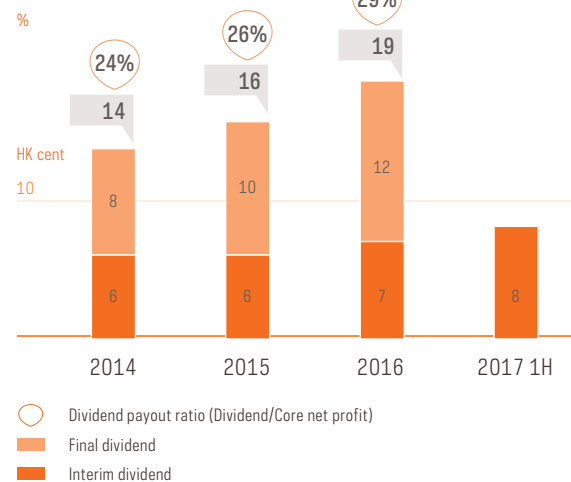
2.4 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



2.5 CAPEX



2.6 DIVIDEND PER SHARE & DIVIDEND PAYOUT RATIO



MANAGEMENT DISCUSSION AND ANALYSIS

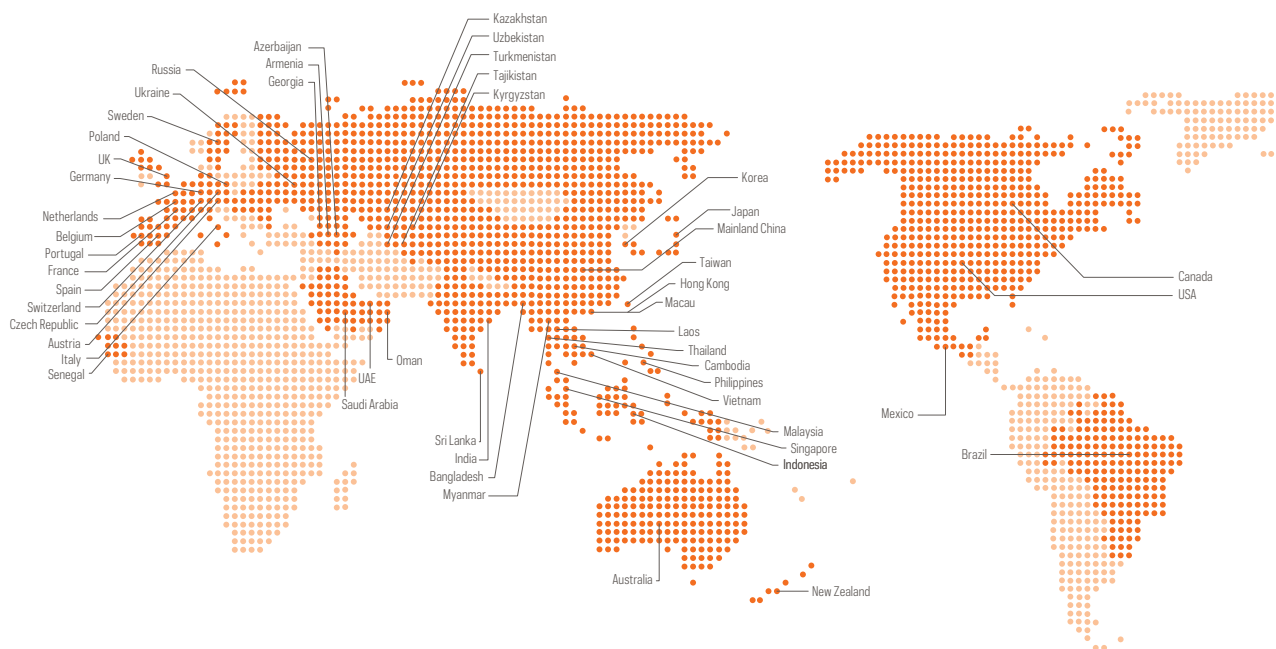
RESULTS OVERVIEW

The Group recorded an increase in turnover of 31% to HK\$13,705 million in 2017 1H (2016 1H: HK\$10,461 million). Core operating profit went up 10% to HK\$1,019 million (2016 1H: HK\$928 million). Core net profit was HK\$576 million (2016 1H: HK\$548 million), which represents a growth of 5% year-on-year. Profit attributable to the Shareholders, after taking into account the change in fair values of investment properties and financial instruments; and goodwill impairment, also increased 11% to HK\$788 million (2016 1H: HK\$709 million).

	2017 1H	2016 1H	
	HK\$ million	HK\$ million	
Segment profit			
IL			
– Logistics operations	622	556	+12%
– Hong Kong warehouse	262	243	+8%
	884	799	+11%
IFF	222	208	+7%
	1,106	1,007	
Unallocated administrative expenses	(87)	(79)	
Core operating profit	1,019	928	+10%
Core net profit	576	548	+5%
Change in fair value of investment properties, net of deferred tax	197	161	
Change in fair value of financial instruments	65	–	
Goodwill impairment	(50)	–	
Profit attributable to the Shareholders	788	709	+11%

BUSINESS REVIEW

OUR GLOBAL NETWORK



MARKET OVERVIEW

2017 1H has been another challenging period. Global demand stalled in Q1 as customers held back production and sales targets. Kerry Logistics' cargo volume was at a low level in January and February. Nevertheless, the temporary slowdown in Q1 reversed as the world economy gradually stabilised with cyclical recovery starting from Q2.

The global e-commerce market continued to grow with strong cross-border activities across Asia. Supported by strong logistics volume growth in Asia as well as sound performance in the Americas, the Group's performance and earnings have shown considerable improvements since Q2.

Against this backdrop, for 2017 1H, Kerry Logistics recorded a 31% growth in turnover and a 10% growth in core operating profit. However, core net profit only reported a 5% growth due to the unsatisfactory performance of the Group's investments in associates, which reported a 52% year-on-year decrease in contribution.

STRONGEST NETWORK IN ASIA

Kerry Logistics continued to adhere to the global development strategy of capturing opportunities brought forth by China's Belt and Road initiative.



The new subsidiary Globalink, with operations spanning across CIS countries, added nine countries to Kerry Logistics' global network. They include Kazakhstan, Uzbekistan, Kyrgyzstan, Tajikistan, Turkmenistan, Georgia, Armenia, Azerbaijan and Ukraine. Meanwhile, another new member, Lanzhou Pacific Logistics Corporation Limited, allows Kerry Logistics to offer multimodal solutions to customers within its global network.

The development of an integral overland transportation network with land-bridge connectivity demonstrates Kerry Logistics' commitment to providing new options and cost-efficient solutions to customers.

IL MAINTAINED STABLE GROWTH

The IL division generated approximately 80% of the Group's total segment profit. It delivered an 11% growth in segment profit in 2017 1H.

FLAT GROWTH IN GREATER CHINA

In accord with the Group's expectation in 2017 Q1, the overall performance in Greater China remained flat in 1H. Weak performance of some of the key accounts in Mainland China adversely affected the Group's business performance. Although the increased operating cost under the new labour law added pressure on 1H earnings, Taiwan's performance is expected to improve in 2017.

In Hong Kong, the logistics business delivered continued growth as it benefitted from contribution through new business and customer wins in various sectors, while the warehousing business, despite rental pressure due to a surplus in market supply, maintained growth following a change in customer mix.

STRONG MOMENTUM IN ASIA

The overall IL business in Asia remained strong in 2017 1H, driven by the enhancement of the Group's service capabilities in ASEAN.

IFF SUSTAINED SIGNIFICANT GROWTH

The IFF division continued to achieve significant growth in 2017 1H and became the growth engine of the Group, fuelled by substantial contributions from APEX in the US.

MARGIN UNDER PRESSURE

As a result of the alliance shuffle, carrier consolidation and reduction in capacity, freight rates increased in 2017 1H, causing the profit margin of the IFF business to narrow, despite an increase in volume.

EXPANSION IN EUROPE

The acquisition of Tuvia Italia S.p.A. and the launch of the new sales office in Poland further strengthened the Group's global IFF sales and operations network.

ASSET PORTFOLIO EXPANSION

All projects in the pipeline progressed as planned. In Thailand, phase four expansion of Kerry Siam Seaport is expected to complete in 2018. Construction of three logistics facilities in Shanghai and Wuxi, Mainland China and Phnom Penh, Cambodia were completed in 2017 1H. Inland ports in Yangon and Mandalay, Myanmar, together with three other facilities in Changsha and Wuhan, Mainland China and Guanyin, Taiwan are under construction.

ASSET OPTIMISATION

In March 2017, the Group entered into a share purchase agreement to divest its entire 15% interest in Asia Airfreight Terminal Company Limited to Holistic Capital Investment Limited, a subsidiary of Hong Kong Airlines Limited. The completion of the transaction is subject to certain conditions precedent which, the Directors believe, will be satisfied in 2017 Q3. Going forward, the Group will continue to consider divesting non-core assets and businesses.



OUTLOOK

The Group's focus in 2017 1H was to drive growth in core operating and core net profits. Riding on the improvements seen in 2017 Q2, the Group expects the momentum of recovery for the rest of 2017 to be positive.

GROWTH PLANS IN ASIA

The Group continues to see China's Belt and Road initiative as a major opportunity to expand our network and to drive growth in long-term profitability across Asia. The new acquisitions made in 2017 1H added important components to our strategic plan to become the pre-eminent logistics service provider for the new overland and maritime Silk Roads.

E-COMMERCE OPPORTUNITIES

Propelled by the e-commerce boom in China and ASEAN, alongside the ever-increasing intra-Asia trade activities, Kerry Logistics is optimistic about the growth potential of the e-commerce market and is poised to capture the immense opportunities covered by its global network.

REGIONAL EXPRESS NETWORK

To further capture the growth opportunities arising from robust e-commerce and cross-border logistics activities in Asia, the Group formed a joint venture with a local express operator in Indonesia in 2017 Q2 to tap into the booming local express market. Singapore will be the next target for expansion.

FINANCIAL REVIEW

The Group has centralised financing policies and control over all its operations. With tight control on treasury operations, average cost of funds is lowered.

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 2017, total foreign currency borrowings amounted to the equivalent of HK\$3,614 million (including HK\$2,340 million denominated in New Taiwan Dollar and HK\$520 million denominated in Thai Baht), which represented approximately 48% of the Group's total bank loans of HK\$7,527 million.

Out of the Group's total bank loans as at 30 June 2017, HK\$3,063 million (representing approximately 41%) was repayable within one year, HK\$1,665 million (representing approximately 22%) in the second year, HK\$2,727 million (representing approximately 36%) in the third to fifth years and HK\$72 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounted for approximately 89% of total bank loans. In relation to the secured bank loans of HK\$858 million as at 30 June 2017, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,397 million, assignments of insurance proceeds of certain properties, and certain balances of restricted and pledged deposits. A majority of the bank loans were borrowed at floating interest rates and were not held for hedging purposes.

As at 30 June 2017, the gearing ratio for the Group was 43.1% (31 December 2016: 41.9%). 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 2017, the Group had total undrawn bank loan and overdraft facilities of HK\$6,447 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 2017, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2017, the Group had approximately 25,900 employees. The remuneration to employees includes salaries maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes and share option schemes.

CORPORATE GOVERNANCE AND OTHER INFORMATION

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(I) THE COMPANY⁽¹⁾

Directors	Ordinary Shares in the Company				Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests		
YEO George Yong-boon ⁽²⁾	3,000,000	5,000	-	1,000,000	4,005,000	0.24%
MA Wing Kai William ⁽³⁾	4,291,510	-	-	1,300,000	5,591,510	0.33%
ERNI Edwardo ⁽⁴⁾	2,500,500	8,000	-	-	2,508,500	0.15%
KUOK Khoon Hua ⁽⁵⁾	1,101,000	-	-	5,110,155	6,211,155	0.37%
CHIN Siu Wa Alfred ⁽⁶⁾	200,000	-	-	1,300,000	1,500,000	0.09%
WAN Kam To ⁽⁷⁾	200,000	-	-	-	200,000	0.01%
WONG Yu Pok Marina ⁽⁸⁾	200,000	-	-	-	200,000	0.01%
YEO Philip Liat Kok ⁽⁹⁾	200,000	-	-	-	200,000	0.01%

Notes:

- (1) All interests in Ordinary Shares in the Company were as at 30 June 2017.
- (2) Mr Yeo is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (ii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; (iii) 5,000 Ordinary Shares held by his spouse; and (iv) 1,000,000 Ordinary Shares held jointly with his spouse.
- (3) Mr Ma is interested in (i) 291,510 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 3,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; and (iv) 1,300,000 Ordinary Shares held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (4) Mr Erni is interested in (i) 500 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 500,000 Ordinary Shares; and (iv) 8,000 Ordinary Shares held by his spouse.
- (5) Mr Kuok is interested in (i) 101,000 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 800,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (iv) 5,110,155 Ordinary Shares held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Chin is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (ii) 1,300,000 Ordinary Shares held through a discretionary trust of which Mr Chin is a contingent beneficiary.
- (7) Mr Wan is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (8) Ms Wong is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (9) Mr Philip Yeo is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.

(II) ASSOCIATED CORPORATIONS

Kerry Group Limited⁽¹⁾

Directors	Ordinary shares in KGL				Other interests	Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)				
MA Wing Kai William ⁽²⁾	1,810,620	-	-	-	1,810,620	0.12%	
ERNI Edwardo ⁽³⁾	650,000	-	-	-	650,000	0.04%	
KUOK Khoon Hua ⁽⁴⁾	2,000,000	-	-	199,799,337	201,799,337	13.25%	
CHIN Siu Wa Alfred ⁽⁵⁾	1,500,000	-	500,000	-	2,000,000	0.13%	

Notes:

- (1) All interests in ordinary shares in KGL were as at 30 June 2017.
- (2) Mr Ma is interested in (i) 1,310,620 ordinary shares in KGL as beneficial owner; and (ii) options granted under the share option scheme of KGL to subscribe for 500,000 ordinary shares in KGL.
- (3) Mr Erni is interested in (i) 350,000 ordinary shares in KGL as beneficial owner; and (ii) options granted under the share option scheme of KGL to subscribe for 300,000 ordinary shares in KGL.
- (4) Mr Kuok is interested in (i) 5,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,995,000 ordinary shares in KGL; and (iii) 199,799,337 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Chin is interested in (i) 500,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,000,000 ordinary shares in KGL; and (iii) 500,000 ordinary shares in KGL held through his controlled corporation.

Kerry Properties Limited⁽¹⁾

Ordinary shares in KPL

Directors	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
YEO George Yong-boon ⁽²⁾	-	10,000	-	-	10,000	0.00%
MA Wing Kai William ⁽³⁾	1,691,020	-	-	50,000	1,741,020	0.12%
ERNI Edwardo ⁽⁴⁾	630,000	16,000	-	-	646,000	0.04%
KUOK Khoon Hua ⁽⁵⁾	359,000	-	-	7,670,310	8,029,310	0.56%
CHIN Siu Wa Alfred ⁽⁶⁾	3,280,000	-	-	50,000	3,330,000	0.23%

Notes:

- (1) All interests in ordinary shares in KPL were as at 30 June 2017.
- (2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.
- (3) Mr Ma is interested in (i) 391,020 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 1,300,000 ordinary shares in KPL; and (iii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (4) Mr Erni is interested in (i) options granted under the share option scheme of KPL to subscribe for 630,000 ordinary shares in KPL; and (ii) 16,000 ordinary shares in KPL held by his spouse.
- (5) Mr Kuok is interested in (i) 59,000 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 300,000 ordinary shares in KPL; and (iii) 7,670,310 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Chin is interested in (i) options granted under the share option scheme of KPL to subscribe for 3,280,000 ordinary shares in KPL; and (ii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Chin is a contingent beneficiary.

Vencedor Investments Limited⁽¹⁾

Ordinary shares in Vencedor

Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
KUOK Khoon Hua	5 ⁽²⁾	-	-	-	5	5.00%

Notes:

- (1) All interests in ordinary shares in Vencedor were as at 30 June 2017.
- (2) Mr Kuok is interested in 5 ordinary shares in Vencedor as beneficial owner.

Medallion Corporate Limited⁽¹⁾

Ordinary shares in Medallion

Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
KUOK Khoon Hua	48 ⁽²⁾	-	-	-	48	4.80%

Notes:

(1) All interests in ordinary shares in Medallion were as at 30 June 2017.

(2) Mr Kuok is interested in 48 ordinary shares in Medallion as beneficial owner.

Rubyhill Global Limited⁽¹⁾

Ordinary shares in Rubyhill

Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
KUOK Khoon Hua	1 ⁽²⁾	-	-	-	1	10.00%

Notes:

(1) All interests in ordinary shares in Rubyhill were as at 30 June 2017.

(2) Mr Kuok is interested in 1 ordinary share in Rubyhill as beneficial owner.

Hopemore Ventures Limited⁽¹⁾

Ordinary shares in Hopemore

Director	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total interests	Approximate percentage of issued share capital
KUOK Khoon Hua	20 ⁽²⁾	-	-	-	20	2.86%

Notes:

(1) All interests in ordinary shares in Hopemore were as at 30 June 2017.

(2) Mr Kuok is interested in 20 ordinary shares in Hopemore as beneficial owner.

Save as disclosed above, none of the Directors or the chief executive of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as at 30 June 2017.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2017, the following are the persons, other than the Directors or the chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
Kerry Group Limited	Interest of controlled corporations	1,121,178,932 ⁽¹⁾	66.12%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684 ⁽¹⁾	64.32%
Kerry Properties Limited	Beneficial owner	718,340,998 ⁽¹⁾	42.36%
Caninco Investments Limited	Beneficial owner	156,124,097 ⁽¹⁾	9.21%
Darmex Holdings Limited	Beneficial owner	128,449,630 ⁽¹⁾	7.57%
GIC Private Limited	Investment manager	102,189,240	6.03%

Note:

(1) KPL is a subsidiary of KHL. Caninco and Darmex are wholly-owned subsidiaries of KHL. KHL is a wholly-owned subsidiary of KGL. Accordingly, KHL is deemed to be interested in the shareholding interest of each of KPL, Caninco and Darmex in the Company and KGL is deemed to be interested in the shareholding interest of each of KHL, KPL, Caninco and Darmex in the Company pursuant to the disclosure requirements under the SFO.

Save as disclosed above, as at 30 June 2017, the Company is not aware of any other person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of its Shareholder on 25 November 2013 and an ordinary resolution of the shareholders of KPL on 1 November 2013. No further options will be granted under the Pre-IPO Share Option Scheme.

On 2 December 2013, pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 42,770,000 Shares to directors, executives and employees of the Group, representing 2.58% of the issued share capital as at 19 December 2013.

As at 30 June 2017, a total of 35,311,000 options granted under the Pre-IPO Share Option Scheme were outstanding.

Movement of the options, which were granted under the Pre-IPO Share Option Scheme, during the six months ended 30 June 2017 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note c)	Tranche	Number of options			Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2017	Exercised (Notes a and b)	Lapsed		
1. Directors							
YEO George Yong-boon	02/12/2013	I	1,000,000	-	-	1,000,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	-	-	1,000,000	10.20 02/12/2014 – 01/12/2023
MA Wing Kai William	02/12/2013	I	1,500,000	-	-	1,500,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	1,500,000	-	-	1,500,000	10.20 02/12/2014 – 01/12/2023
ERNI Edwardo	02/12/2013	I	1,000,000	-	-	1,000,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	-	-	1,000,000	10.20 02/12/2014 – 01/12/2023
KUOK Khoon Hua	02/12/2013	I	400,000	-	-	400,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	400,000	-	-	400,000	10.20 02/12/2014 – 01/12/2023
CHIN Siu Wa Alfred	02/12/2013	I	100,000	-	-	100,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20 02/12/2014 – 01/12/2023
WAN Kam To	02/12/2013	I	100,000	-	-	100,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20 02/12/2014 – 01/12/2023
WONG Yu Pok Marina	02/12/2013	I	100,000	-	-	100,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20 02/12/2014 – 01/12/2023
YEO Philip Liat Kok	02/12/2013	I	100,000	-	-	100,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20 02/12/2014 – 01/12/2023
2. Continuous Contract Employees	02/12/2013	I	13,086,000	(149,500)	(80,000)	12,856,500	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	13,994,500	(210,000)	(80,000)	13,704,500	10.20 02/12/2014 – 01/12/2023
3. Others	02/12/2013	I	75,000	-	-	75,000	10.20 19/12/2013 – 01/12/2023
	02/12/2013	II	75,000	-	-	75,000	10.20 02/12/2014 – 01/12/2023
Total:			35,830,500	(359,500)	(160,000)	35,311,000	

INTERIM REPORT 2017

Notes:

- The weighted average closing price of the Ordinary Shares of the Company immediately before the dates on which the options were exercised was HK\$11.22.
- During the period, no option was granted/granted for adjustment, transferred from/to other category or cancelled under the Pre-IPO Share Option Scheme.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.
- There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.

POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by a resolution of its Shareholder on 25 November 2013 and an ordinary resolution of the shareholders of KPL on 1 November 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

On 9 January 2015, a total of 4,350,000 options were granted under the Post-IPO Share Option Scheme. As at 30 June 2017, a total of 4,150,000 options granted under the Post-IPO Share Option Scheme were outstanding.

Movement of the options, which were granted under the Post-IPO Share Option Scheme, during the six months ended 30 June 2017 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note b)	Tranche	Number of options			Outstanding as at 30/06/2017	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2017	Exercised (Note a)	Lapsed			
1. Directors								
YEO George Yong-boon	09/01/2015	I	500,000	-	-	500,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	500,000	-	-	500,000	12.26	09/01/2016 – 08/01/2020
MA Wing Kai William	09/01/2015	I	500,000	-	-	500,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	500,000	-	-	500,000	12.26	09/01/2016 – 08/01/2020
ERNI Edwardo	09/01/2015	I	250,000	-	-	250,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	250,000	-	-	250,000	12.26	09/01/2016 – 08/01/2020
KUOK Khoon Hua	09/01/2015	I	100,000	-	-	100,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	100,000	-	-	100,000	12.26	09/01/2016 – 08/01/2020
2. Continuous Contract	09/01/2015	I	725,000	-	-	725,000	12.26	09/01/2015 – 08/01/2020
Employees	09/01/2015	II	725,000	-	-	725,000	12.26	09/01/2016 – 08/01/2020
Total:			4,150,000	-	-	4,150,000		

Notes:

- During the period, no option was granted/granted for adjustment, transferred from/to other category, exercised, lapsed or cancelled under the Post-IPO Share Option Scheme.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.
- There are no participants with options granted in excess of the individual limit and no grants to suppliers of goods and services.

SUMMARY OF THE SHARE OPTION SCHEMES

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1. Purpose	To motivate eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain on-going relationships with participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group	
2. Participants	Eligible persons include (i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group (an "Employee"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (ii) a director or proposed director (including an independent non-executive director) of any member of the Group; (iii) a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (iv) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; (v) an associate (as defined under the Listing Rules) of any of the foregoing persons	
3. Maximum number of Shares	As at 30 June 2017, a total of 35,311,000 options granted under the Pre-IPO Share Option Scheme were outstanding, representing approximately 2.08% and 2.08% of the issued share capital of the Company as at 30 June 2017 and the date of this interim report, respectively. No further option could be granted under the Pre-IPO Share Option Scheme	As at 30 June 2017, a total of 4,150,000 options granted under the Post-IPO Share Option Scheme were outstanding As at 30 June 2017, the maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 122,966,411 Shares, representing approximately 7.25% and 7.25% of the issued share capital of the Company as at 30 June 2017 and the date of this interim report, respectively The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time
4. Maximum entitlement of each participant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
5. Option period	<p>The option period is determined by the Board provided that it is not longer than 10 years commencing on the date of grant. There is no minimum period for which an option must be held before it can be exercised</p> <p>The Board may in its absolute discretion specify any conditions, restrictions or limitations, including continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the Shares to which the option relates</p>	
6. Acceptance of offer	Options granted must be accepted within the period as stated in the offer of the grant, upon payment of HK\$1.0 per grant	
7. Exercise price	Exercise price is HK\$10.2, the offer price of the Shares for the Global Offering	<p>The exercise price of the 4,350,000 options granted on 9 January 2015 is HK\$12.26</p> <p>Exercise price shall be at least the highest of (i) the nominal value of Share; (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant</p>
8. Remaining life of the scheme	It expired on 19 December 2013	It shall be valid and effective for a period of ten years commencing on 19 December 2013

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code. During the six months ended 30 June 2017, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors (including Ms KHOO Shulamite N K and Mr ZHANG Yi Kevin, the newly appointed Independent Non-executive Directors) have confirmed that they have complied with the Model Code (i) during the six months ended 30 June 2017 and up to the date of this interim report; or (ii) from their respective appointment dates and up to the date of this interim report, as the case may be.

The Company's employees, who are likely to be in possession of inside information of the Company, are also subjected to the Model Code for securities transactions. No incident of non-compliance of the Model Code by the employees was noted by the Company.

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 2017.

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 is set out on page 22.

EVENTS AFTER THE LATEST ANNUAL REPORT

There were no significant events affecting the Company nor any of its subsidiaries after the latest annual report requiring disclosure in this interim report.

CHANGES IN THE INFORMATION OF THE DIRECTORS SINCE LAST ANNUAL REPORT

The changes in the information of the Directors as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Directors	Details of Changes
WAN Kam To	<ul style="list-style-type: none">retired as an independent non-executive director of Dalian Port (PDA) Company Limited (a company listed on the Stock Exchange with stock code 2880 and also listed on the Shanghai Stock Exchange with stock code 601880) since June 2017resigned as an independent non-executive director of S. Culture International Holdings Limited (a company listed on the Stock Exchange with stock code 1255) since July 2017
YEO Philip Liat Kok	<ul style="list-style-type: none">received an honorary fellowship of King's College London, United Kingdom in 2017

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Tuesday, 19 September 2017 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 branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Monday, 18 September 2017. The interim dividend is payable on Friday, 6 October 2017 to the Shareholders whose names appear on the Registers of Members on Tuesday, 19 September 2017.

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 31 August 2017

INDEPENDENT AUDITOR'S REVIEW REPORT



羅兵咸永道

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF KERRY LOGISTICS NETWORK LIMITED

(incorporated in the British Virgin Islands and continued into Bermuda as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements set out on pages 24 to 47, which comprise the condensed consolidated interim statement of financial position of Kerry Logistics Network Limited (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the six-month

period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial statements to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated interim financial statements in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial statements are not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 August 2017

INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2017

	Note	Unaudited 2017 HK\$'000	Unaudited 2016 HK\$'000
Turnover	3	13,705,335	10,460,893
Direct operating expenses	4	(11,786,516)	(8,753,449)
Gross profit		1,918,819	1,707,444
Other income and net gains	5	83,823	90,402
Administrative expenses	4	(958,227)	(856,879)
Operating profit before fair value change of investment properties		1,044,415	940,967
Change in fair value of investment properties		189,985	159,111
Operating profit		1,234,400	1,100,078
Finance costs	6	(71,166)	(74,337)
Share of results of associates and joint ventures		26,164	53,947
Profit before taxation		1,189,398	1,079,688
Taxation	7	(216,958)	(177,801)
Profit for the period		972,440	901,887
Profit attributable to:			
Company's shareholders	3	787,809	709,080
Non-controlling interests		184,631	192,807
		972,440	901,887
Earnings per share	9		
– Basic		HK\$0.46	HK\$0.42
– Diluted		HK\$0.46	HK\$0.42

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited 2017 HK\$'000	Unaudited 2016 HK\$'000
Profit for the period	972,440	901,887
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	530,368	(403)
Fair value change on available-for-sale investments	355	(1,373)
Other comprehensive income/(loss) for the period	530,723	(1,776)
Total comprehensive income for the period	1,503,163	900,111
Total comprehensive income attributable to:		
Company's shareholders	1,185,563	704,362
Non-controlling interests	317,600	195,749
	1,503,163	900,111

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	10	3,686,734	3,224,599
Investment properties	10	9,177,709	8,836,851
Leasehold land and land use rights	10	608,077	560,983
Property, plant and equipment	10	8,565,358	7,868,952
Associates and joint ventures		1,316,180	1,185,520
Available-for-sale investments		105,435	97,988
Investment in convertible bond		196,231	474,306
Deferred taxation		106,587	118,527
		23,762,311	22,367,726
Current assets			
Financial assets at fair value through profit or loss		106,770	112,708
Investment in convertible bond		349,945	-
Inventories		303,957	282,694
Accounts receivable, prepayments and deposits	11	6,407,517	5,802,531
Tax recoverable		28,095	43,079
Amounts due from fellow subsidiaries		4,733	2,886
Restricted and pledged bank deposits		22,040	18,929
Cash and bank balances		3,168,622	3,334,729
		10,391,679	9,597,556

	Note	Unaudited As at 30 June 2017 HK\$'000	Audited As at 31 December 2016 HK\$'000
Current liabilities			
Accounts payable, deposits received and accrued charges	12	4,513,197	4,366,493
Amounts due to fellow subsidiaries		2,815	641
Amounts due to related companies		31,513	34,768
Taxation		181,820	164,564
Short-term bank loans and current portion of long-term bank loans	13	3,062,961	1,427,399
Bank overdrafts		21,626	21,595
		7,813,932	6,015,460
Non-current liabilities			
Loans from non-controlling interests		163,555	194,715
Long-term bank loans	13	4,464,281	5,483,632
Deferred taxation		645,913	635,192
Retirement benefit obligations		128,935	142,853
Other non-current liabilities		1,442,049	1,403,253
		6,844,733	7,859,645
ASSETS LESS LIABILITIES		19,495,325	18,090,177
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	847,890	847,711
Share premium and other reserves		2,448,579	2,012,832
Retained profits		14,220,834	13,680,087
		17,517,303	16,540,630
Put option written on non-controlling interests		(1,240,727)	(1,240,727)
		16,276,576	15,299,903
Non-controlling interests		3,218,749	2,790,274
TOTAL EQUITY		19,495,325	18,090,177

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited 2017 HK\$'000	Unaudited 2016 HK\$'000
Operating activities		
Net cash generated from operations	899,199	648,233
Interest paid	(71,166)	(74,337)
Income tax paid	(197,776)	(173,923)
Net cash generated from operating activities	630,257	399,973
Investing activities		
Additions of property, plant and equipment	(596,932)	(596,203)
Purchase of financial assets at fair value through profit or loss	-	(104,544)
Purchase of leasehold land and land use rights	(41,160)	(2,549)
Proceeds from sale of property, plant and equipment	54,225	76,693
Proceeds from disposal of subsidiaries	-	43,305
Dividend income from available-for-sale investments	4,085	-
Dividends received from associates	-	14,325
Net decrease in balances with associates and joint ventures	4,301	641
Increase in deposits	-	(44,326)
Interest received	10,549	12,987
Interest income from investment in convertible bond	10,523	10,487
Acquisition of subsidiaries	(383,052)	(722,517)
Cash consideration paid for prior year's acquisition	(15,806)	(28,339)
Increase in investments in associates and joint ventures	(84,057)	(29,484)
Capital reduction in investments in associates and joint ventures	12,023	-
(Increase)/decrease in restricted and pledged bank deposits	(3,111)	2,190
Net cash used in investing activities	(1,028,412)	(1,367,334)

	Unaudited 2017 HK\$'000	Unaudited 2016 HK\$'000
Financing activities		
Repayment of bank loans	(1,533,961)	(2,324,826)
Drawdown of bank loans	1,922,274	3,967,168
Dividends of subsidiaries paid to non-controlling interests	(29,412)	(75,948)
Capital injection from non-controlling interests	48	6,400
Drawdown of loans from non-controlling interests	1,271	15,916
Repayment of loans from non-controlling interests	(35,499)	(31,324)
Changes in ownership of interests in subsidiaries without change of control	(12,809)	246,313
Increase in deposits paid for additional interest in a subsidiary	-	(161,498)
Advance to non-controlling interests	-	(232,770)
Dividend paid	(203,477)	(169,472)
Proceeds from exercise of pre-IPO share option scheme allotment	3,666	3,989
Net cash from financing activities	112,101	1,243,948
(Decrease)/increase in cash and cash equivalents	(286,054)	276,587
Effect of exchange rate changes	119,916	(5,638)
Cash and cash equivalents at beginning of the period	3,313,134	3,686,744
Cash and cash equivalents at end of the period	3,146,996	3,957,693
Analysis of balances of cash and cash equivalents		
Cash and bank balances	3,168,622	4,012,887
Bank overdrafts	(21,626)	(55,194)
	3,146,996	3,957,693

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company								
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Put option written on non-controlling interests HK\$'000	Total HK\$'000	Non-controlling interests HK\$'000	Total equity HK\$'000
(unaudited)									
Balance at 1 January 2017	847,711	3,001,372	(988,540)	13,476,636	203,451	(1,240,727)	15,299,903	2,790,274	18,090,177
Profit for the period	-	-	-	787,809	-	-	787,809	184,631	972,440
Net translation differences on foreign operations	-	-	397,496	-	-	-	397,496	132,872	530,368
Fair value change on available-for-sale investments	-	-	258	-	-	-	258	97	355
Total comprehensive income for the six months ended 30 June 2017	-	-	397,754	787,809	-	-	1,185,563	317,600	1,503,163
Dividends paid	-	-	-	(26)	(203,451)	-	(203,477)	(29,412)	(232,889)
2017 proposed interim dividend	-	-	-	(135,687)	135,687	-	-	-	-
Transfers	-	-	44,168	(44,168)	-	-	-	-	-
Changes in ownership of interest in a subsidiary without change of control (note 15)	-	-	(9,471)	-	-	-	(9,471)	(3,338)	(12,809)
Acquisition of subsidiaries (note 16)	-	-	-	-	-	-	-	102,602	102,602
Capital injection from non-controlling interests	-	-	-	-	-	-	-	41,023	41,023
Exercise of pre-IPO share option scheme allotment	179	3,915	(428)	-	-	-	3,666	-	3,666
Share option lapsed	-	-	(191)	583	-	-	392	-	392
Total transactions with owners	179	3,915	34,078	(179,298)	(67,764)	-	(208,890)	110,875	(98,015)
Balance at 30 June 2017	847,890	3,005,287	(556,708)	14,085,147	135,687	(1,240,727)	16,276,576	3,218,749	19,495,325

Attributable to shareholders of the Company

	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Put options written on non- controlling interests HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
(unaudited)									
Balance at 1 January 2016	847,207	2,990,408	(423,563)	11,949,228	169,441	(103,501)	15,429,220	2,551,292	17,980,512
Profit for the period	-	-	-	709,080	-	-	709,080	192,807	901,887
Net translation differences on foreign operations	-	-	(3,640)	-	-	-	(3,640)	3,237	(403)
Fair value change in available-for-sale investments	-	-	(1,078)	-	-	-	(1,078)	(295)	(1,373)
Total comprehensive income for the six months ended 30 June 2016	-	-	(4,718)	709,080	-	-	704,362	195,749	900,111
Dividends paid	-	-	-	(31)	(169,441)	-	(169,472)	(75,948)	(245,420)
2016 proposed interim dividend	-	-	-	(118,672)	118,672	-	-	-	-
Transfers	-	-	4,878	(4,878)	-	-	-	-	-
Changes in ownership of interests in subsidiaries without change of control	-	-	105,384	-	-	-	105,384	140,929	246,313
Acquisition of subsidiaries	-	-	-	-	-	-	-	136,297	136,297
Capital injection from non-controlling interests	-	-	-	-	-	-	-	6,400	6,400
Put option written on non-controlling interests related to acquisition of subsidiaries	-	-	-	-	-	(926,083)	(926,083)	-	(926,083)
Exercise of pre-IPO share option scheme allotment	196	4,259	(466)	-	-	-	3,989	-	3,989
Share option lapsed	-	-	(178)	178	-	-	-	-	-
Total transactions with owners	196	4,259	109,618	(123,403)	(50,769)	(926,083)	(986,182)	207,678	(778,504)
Balance at 30 June 2016	847,403	2,994,667	(318,663)	12,534,905	118,672	(1,029,584)	15,147,400	2,954,719	18,102,119

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 Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of logistics, freight and warehouse leasing and operations services. The Company's shares are listed on The Stock Exchange of Hong Kong Limited.

These unaudited condensed consolidated interim financial statements are prepared in accordance with HKAS 34 'Interim Financial Reporting' issued by the HKICPA and the disclosure requirements of Appendix 16 to the Listing Rules.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with HKFRS. Except as described below, 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 2016.

The following amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2017 have been published:

- Amendments to HKAS 7, 'Disclosure initiative'
- Amendments to HKAS 12, 'Recognition of deferred tax assets for unrealised losses'
- Amendments to HKFRS 12, 'Disclosure of interest in other entities'

In the current interim period, the Group has applied, for the first time, the above amendments to existing standards issued by the HKICPA.

The adoption of the above amendments to existing standards had no material impact on the Group's results and financial position.

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

The Group has not yet adopted the following new standards, amendments and improvements to existing standards and interpretation that have been issued by the HKICPA but are not yet effective.

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HK(IFRIC)-Int 22	Foreign currency transactions and advance consideration ¹
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions ¹
Amendments to HKFRS 4	Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts ¹
Amendments to HKFRS 15	Clarifications to HKFRS 15 ¹
Amendments to HKAS 40	Transfer of investment property ¹
Annual improvements project	Annual improvements 2014-2016 cycle ¹
HKFRS 16	Leases ²
Amendments to HKAS 28 (2011), and HKFRS 10	Sale or contribution of assets between an investor and its associate or joint venture ³

1 *Effective for annual periods beginning on or after 1 January 2018*

2 *Effective for annual periods beginning on or after 1 January 2019*

3 *Effective date to be determined*

The Group will adopt the above new standards, amendments and improvements to existing standards and interpretation 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, except the following set out below:

HKFRS 15, "REVENUE FROM CONTRACTS WITH CUSTOMERS"

The application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue. Certain costs incurred in fulfilling a contract which are currently expensed may need to be recognised as an asset under HKFRS 15. At this stage, the Group is in the process of assessing the impact of HKFRS 15 on the Group's financial statements.

HKFRS 16, "LEASES"

HKFRS 16 will affect primarily the accounting for Group's operating leases. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised in the consolidated statement of financial position. The Group is in the process of assessing to what extent the operating lease commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

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 2016.

2 FINANCIAL RISK MANAGEMENT

(a) FINANCIAL RISK FACTORS

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; and should be read in conjunction with the Group's annual financial statements as at 31 December 2016. There have been no changes in the Group's financial risk management structure and policies since the year end.

(b) FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

There were no transfers between levels during the period (2016: nil).

The following table presents the Group's financial instruments that are measured at fair value as at 30 June 2017 and 31 December 2016.

At 30 June 2017	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	Total HK\$'000
Assets				
Investment in convertible bonds	-	-	546,176	546,176
Available-for-sale investments	54,578	-	50,857	105,435
Financial assets at fair value through profit or loss	-	106,770	-	106,770
Total assets	54,578	106,770	597,033	758,381
Liability				
Put option written on non-controlling interests	-	-	1,238,962	1,238,962
At 31 December 2016				
Assets				
Investment in convertible bonds	-	-	474,306	474,306
Available-for-sale investments	50,485	-	47,503	97,988
Financial assets at fair value through profit or loss	-	112,708	-	112,708
Total assets	50,485	112,708	521,809	685,002
Liability				
Put option written on non-controlling interests	-	-	1,236,262	1,236,262

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FAIR VALUE ESTIMATION (CONTINUED)

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

	Available- for-sale investments	Investment in convertible bonds	Put option written on non- controlling interests
As at 30 June 2017	HK\$'000	HK\$'000	HK\$'000
Opening balance	47,503	474,306	1,236,262
Fair value adjustment	-	65,000	-
Exchange adjustment	3,354	6,870	2,700
Closing balance	50,857	546,176	1,238,962

	Available- for-sale investments	Investment in convertible bonds	Put option written on non- controlling interests
As at 30 June 2016	HK\$'000	HK\$'000	HK\$'000
Opening balance	48,150	351,689	98,882
Additions	-	-	926,083
Exchange adjustment	149	(3,882)	3,117
Closing balance	48,299	347,807	1,028,082

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

VALUATION PROCESSES OF THE GROUP

The Group's finance department includes a team that performs the valuation of financial assets required for financial reporting purposes, including level 2 and 3 fair values. Discussions of valuation processes and results are held between the management and the valuation team at each reporting date. Reasons for the fair value movements are explained during the discussions.

The following summarise the major methods and assumptions used in estimating the fair values of the significant assets and liabilities classified as level 2 and 3 and the valuation process for assets and liabilities classified as level 2 and 3.

INVESTMENT IN CONVERTIBLE BONDS

The Group established fair value of investment in convertible bonds by using binomial method. The unobservable inputs of the valuation include fair value of the equity interest, historical volatility and effective discount rate by reference to other investments that are substantially the same.

AVAILABLE-FOR-SALE INVESTMENTS

The Group established fair value of unlisted available-for-sale investments by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FAIR VALUE ESTIMATION (CONTINUED)

PUT OPTION WRITTEN ON NON-CONTROLLING INTERESTS

The Group established fair value of written put option liabilities by using valuation techniques. These include the use of assumptions of estimated exercise price determined by the estimated performance of the newly acquired subsidiaries, estimated time to exercise, discount rate and volatility.

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

The Group established fair value of “financial assets at fair value through profit or loss” by using valuation techniques. These valuation techniques maximise the use of observable market data including quoted prices where available, and rely as little as possible on entity-specific estimates.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The fair value of the following financial assets and liabilities approximate their carrying amount as at 30 June 2017 and 31 December 2016:

- Accounts receivable, deposits, other receivables and amounts due from fellow subsidiaries
- Cash and bank balances
- Accounts payable, accrued charges and amounts due to fellow subsidiaries and related companies
- Bank loans and overdrafts

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

(a) Revenue recognised during the period is as follows:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Integrated logistics		
Logistics operations	5,822,928	5,152,200
Hong Kong warehouse	262,769	255,421
International freight forwarding	7,619,638	5,053,272
	13,705,335	10,460,893

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

(b) An analysis of the Group's financial results by operating segment and geographical area for the six months ended 30 June 2017, together with comparative figures for the six months ended 30 June 2016:

For the six months ended 30 June

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(reclassified)			(reclassified)	(reclassified)	(reclassified)	(reclassified)	(reclassified)	(reclassified)
Turnover										
Turnover	5,822,928	5,152,200	262,769	255,421	7,619,638	5,053,272	-	-	13,705,335	10,460,893
Inter-segment turnover	107,309	85,905	212,242	182,341	825,396	451,333	(1,144,947)	(719,579)	-	-
	5,930,237	5,238,105	475,011	437,762	8,445,034	5,504,605	(1,144,947)	(719,579)	13,705,335	10,460,893
Turnover by geographical area:										
Hong Kong	1,384,194	1,168,954	475,011	437,762	396,261	338,504	(380,229)	(215,224)	1,875,237	1,729,996
Mainland China	1,786,682	1,857,620	-	-	2,445,308	2,140,636	(335,509)	(304,481)	3,896,481	3,693,775
Taiwan	1,173,153	1,093,919	-	-	99,650	65,562	(8,580)	(3,319)	1,264,223	1,156,162
Asia	1,510,978	1,055,743	-	-	1,485,537	1,217,783	(251,640)	(126,118)	2,744,875	2,147,408
Americas	-	-	-	-	2,645,289	500,713	(111,311)	(30,038)	2,533,978	470,675
Europe	-	-	-	-	1,209,314	1,104,352	(49,224)	(28,215)	1,160,090	1,076,137
Others	75,230	61,869	-	-	163,675	137,055	(8,454)	(12,184)	230,451	186,740
	5,930,237	5,238,105	475,011	437,762	8,445,034	5,504,605	(1,144,947)	(719,579)	13,705,335	10,460,893
Segment profit by geographical area:										
Hong Kong	96,560	86,779	261,836	243,391	7,426	11,626	-	-	365,822	341,796
Mainland China	127,754	129,383	-	-	100,417	114,020	-	-	228,171	243,403
Taiwan	194,058	208,629	-	-	49	2,555	-	-	194,107	211,184
Asia	196,749	126,260	-	-	23,136	44,160	-	-	219,885	170,420
Americas	-	-	-	-	69,864	15,168	-	-	69,864	15,168
Europe	-	-	-	-	13,216	15,225	-	-	13,216	15,225
Others	7,315	4,497	-	-	7,982	5,211	-	-	15,297	9,708
	622,436	555,548	261,836	243,391	222,090	207,965	-	-	1,106,362	1,006,904
Less: Unallocated administrative expenses									(87,496)	(78,924)
Core operating profit									1,018,866	927,980
Finance income									10,549	12,987
Finance costs									(71,166)	(74,337)
Share of results of associates and joint ventures									26,164	53,947
Profit before taxation*									984,413	920,577
Taxation*									(223,133)	(179,314)
Profit for the period*									761,280	741,263
Non-controlling interests*									(185,124)	(192,807)
Core net profit									576,156	548,456
Change in fair value of investment properties									189,985	159,111
Deferred tax on change in fair value of investment properties									6,175	1,513
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									493	-
Fair value change of financial instruments									65,000	-
Goodwill impairment									(50,000)	-
Profit attributable to the Company's shareholders									787,809	709,080
Depreciation and amortisation	212,964	188,406	26,334	23,315	67,714	53,518			307,012	265,239

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

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

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

Logistics operations segment derives turnover from provision of logistics services and sales of goods.

Hong Kong warehouse segment derives turnover from provision of warehouse leasing, general storage and other ancillary services.

International freight forwarding segment derives turnover primarily from provision of freight forwarding services.

Segment turnover 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.

Prior period corresponding segment information that is presented for comparative purposes has been reclassified to conform to reclassification of operations in Asia and Americas adopted in the current period.

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, fair value change of financial instruments and goodwill impairment.

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

	Segment non-current assets[#]	
	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000 (reclassified)
Hong Kong	9,020,361	8,729,968
Mainland China	4,460,927	4,201,069
Taiwan	3,015,697	2,786,552
Asia	5,160,446	4,383,301
Americas	999,290	1,001,581
Europe	579,836	464,393
Others	117,501	110,041
	23,354,058	21,676,905

[#] Other than available-for-sale investments, investment in convertible bond and deferred taxation.

4 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Business tax and other taxes	6,013	7,779
Cost of goods sold	589,528	671,831
Freight and transportation costs	9,245,788	6,355,303
Depreciation of property, plant and equipment	268,150	239,828
Amortisation of leasehold land and land use rights	3,950	4,274
Amortisation of intangible assets	34,912	21,137
Provision for impairment of receivables	6,476	16,821
Reversal of provision for impairment of receivables	(1,466)	(1,946)
Operating lease charges on land and buildings	318,066	279,431
Employee benefit expenses	1,967,268	1,724,358

5 OTHER INCOME AND NET GAINS

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interest income from investment in convertible bond	10,523	10,487
Interest income from banks	9,911	12,146
Gain on disposal of property, plant and equipment	49,985	24,025
Interest income from associates	638	841
Dividend income from available-for-sale investments	4,085	3,222
Gain on disposal of subsidiaries	-	39,681
Fair value change of financial assets through profit or loss	58,681	-
Goodwill impairment	(50,000)	-
	83,823	90,402

6 FINANCE COSTS

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Interest expenses on bank loans and overdrafts	71,166	74,337

7 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) for the six months ended 30 June 2017 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 with rates ranging from 17% to 40% (2016: 17% to 40%) 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% (2016: 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.

The amount of taxation charged to the consolidated income statement represents:

	Six months ended 30 June	
	2017 HK\$'000	2016 HK\$'000
Hong Kong profits tax		
– Current	45,849	43,323
– Overprovision in prior years	–	(42)
– Deferred	5,842	6,632
	51,691	49,913
PRC taxation		
– Current	61,659	56,026
– Overprovision in prior years	(211)	(1,217)
– Deferred	(4,321)	4,515
	57,127	59,324
Overseas taxation		
– Current	114,722	66,546
– Underprovision in prior years	3,562	3,030
– Deferred	(10,144)	(1,012)
	108,140	68,564
	216,958	177,801

8 DIVIDENDS

The Directors have declared an interim dividend of 8 HK cents per share for the six months ended 30 June 2017 (for the six months ended 30 June 2016: 7 HK cents), which is payable on Friday, 6 October 2017 to shareholders whose names appear on the registers of members of the Company on Tuesday, 19 September 2017. These financial statements do not reflect this dividend payable.

9 EARNINGS PER SHARE

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

BASIC

	Six months ended 30 June	
	2017	2016
Adjusted weighted average number of ordinary shares in issue ('000)	1,695,526	1,694,607
Profit attributable to the Company's shareholders (HK\$'000)	787,809	709,080
Basic earnings per share (HK\$)	0.46	0.42

DILUTED

	Six months ended 30 June	
	2017	2016
Adjusted weighted average number of ordinary shares in issue ('000)	1,695,526	1,694,607
Adjustment for share options ('000)	1,636	2,046
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,697,162	1,696,653
Profit attributable to the Company's shareholders (HK\$'000)	787,809	709,080
Diluted earnings per share (HK\$)	0.46	0.42

10 NON-CURRENT ASSETS

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000	Intangible assets HK\$'000
Opening net book value at 1 January 2016	7,028,223	8,118,602	538,443	2,144,064
Additions	1,497,998	-	42,687	-
Acquisition of subsidiaries	17,080	-	-	1,193,470
Change in fair value	-	770,615	-	-
Disposals	(74,593)	-	-	-
Disposal of subsidiaries	(33,081)	-	(292)	-
Depreciation and amortisation	(490,276)	-	(8,188)	(57,420)
Transfer/reclassification	(15,906)	-	15,906	-
Exchange adjustment	(60,493)	(52,366)	(27,573)	(55,515)
Closing net book value at 31 December 2016	7,868,952	8,836,851	560,983	3,224,599
Opening net book value at 1 January 2017	7,868,952	8,836,851	560,983	3,224,599
Additions	596,932	-	53,019	-
Acquisition of subsidiaries (note 16)	110,568	-	-	432,481
Change in fair value	-	189,985	-	-
Disposals	(51,910)	-	-	-
Depreciation and amortisation	(268,150)	-	(3,950)	(34,912)
Transfer/reclassification	(81,365)	105,069	(23,704)	-
Exchange adjustment	390,331	45,804	21,729	64,566
Closing net book value at 30 June 2017	8,565,358	9,177,709	608,077	3,686,734

VALUATION OF INVESTMENT PROPERTIES
FAIR VALUE MEASUREMENT USING SIGNIFICANT UNOBSERVABLE INPUTS

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Opening balance as at 1 January 2016	6,750,800	815,293	552,509	8,118,602
Change in fair value	787,900	8,658	(25,943)	770,615
Exchange adjustment	-	(47,012)	(5,354)	(52,366)
Closing balance as at 31 December 2016	7,538,700	776,939	521,212	8,836,851
Opening balance as at 1 January 2017	7,538,700	776,939	521,212	8,836,851
Change in fair value	217,000	(7,165)	(19,850)	189,985
Transfer from property, plant and equipment and leasehold land and land use rights	-	105,069	-	105,069
Exchange adjustment	-	27,662	18,142	45,804
Closing balance as at 30 June 2017	7,755,700	902,505	519,504	9,177,709

10 NON-CURRENT ASSETS (CONTINUED)

VALUATION OF INVESTMENT PROPERTIES (CONTINUED) FAIR VALUE MEASUREMENT USING SIGNIFICANT UNOBSERVABLE INPUTS (CONTINUED)

All investment properties are included in level 3 category, which requires recurring fair value measurement at each period end. There were no transfers between levels during the period (2016: nil).

VALUATION PROCESSES OF THE GROUP

The Group measures its investment properties at fair value. For all investment properties, their current use equates to the highest and best use.

Discussions of valuation processes and results are held between the management and valuer at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial period end the finance department:

- assesses property valuations movements when compared to the prior year valuation report; and
- holds discussions with the independent valuer.

VALUATION TECHNIQUES

Fair value of investment properties in Hong Kong, the PRC and overseas are generally derived using the income capitalisation method and wherever appropriate, by direct comparison method. Income capitalisation method is based on the capitalisation of the net income and reversionary income potential by adopting appropriate capitalisation rates, which are derived from analysis of sale transactions and valuer's interpretation of prevailing investor requirements or expectations. The prevailing market rents adopted in the valuation have reference to recent lettings, within the subject properties and other comparable properties. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted.

SIGNIFICANT UNOBSERVABLE INPUTS USED TO DETERMINE FAIR VALUE

Capitalisation rates are estimated by valuer based on the risk profile of the investment properties being valued. The higher the rates, the lower the fair value.

Prevailing market rents are estimated based on recent lettings for Hong Kong, the PRC and overseas investment properties, within the subject properties and other comparable properties. The lower the rents, the lower the fair value.

11 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	2,915,915	2,516,351
Between 1 month and 3 months	1,522,041	1,598,844
Over 3 months	499,553	426,904
Total trade receivables, net	4,937,509	4,542,099
Prepayments, deposits and other receivables (note)	1,470,008	1,260,432
	6,407,517	5,802,531

Note:

The balances mainly comprise prepaid rent, freight and transportation costs, rental deposits, deposits to suppliers, temporary payment made on behalf of the customers and advance to non-controlling interests.

12 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

Included in accounts payable, deposits received and accrued charges are trade payables.

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Trade payables	2,363,992	2,239,028
Deposits received, accrued charges and other payables (note a)	3,591,254	3,530,718
	5,955,246	5,769,746
Less: Non-current contingent consideration payable for acquisition of subsidiaries	(203,087)	(166,991)
Written put option liability (note b)	(1,238,962)	(1,236,262)
	4,513,197	4,366,493

The ageing analysis of trade payables based on the date of the invoice of the Group is as follows:

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Below 1 month	1,213,739	1,034,815
Between 1 month and 3 months	595,243	653,173
Over 3 months	555,010	551,040
Total trade payables	2,363,992	2,239,028

Notes:

(a) *The balances mainly comprise customer deposits, consideration payable for acquisition of subsidiaries, accrued charges which mainly comprise accrued employee benefit expenses, freight and transportation costs, freight charges received in advance and value added tax payables.*

12 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES (CONTINUED)

Notes: (Continued)

(b) Pursuant to agreements entered into between the Group with Transpeed and APEX respectively in 2016, the Group has granted put options which entitle the non-controlling interests of Transpeed and APEX to sell the remaining interests to the Group. The Group has been granted call options to acquire the remaining interest in the acquired entities at the same exercise prices (the "Transpeed options" and "Apex options" respectively). The exercise prices are determined by the estimated post-acquisition financial performance of the acquired entities. The Transpeed options will be exercisable between 2018 and 2020 and the APEX options will be exercisable between 2019 and 2021. The options are initially recognised at fair value within other non-current liabilities with a corresponding charge directly to equity, as a put option written on non-controlling interest. The options liability shall be re-measured at its fair value resulting from the change in the expected performance of Transpeed and APEX at the end of each reporting date, with any resulting gain or loss recognised in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognised with a corresponding adjustment to equity.

13 BANK LOANS

	As at 30 June 2017 HK\$'000	As at 31 December 2016 HK\$'000
Non-current		
– unsecured	3,677,673	4,717,700
– secured	786,608	765,932
	4,464,281	5,483,632
Current		
– unsecured	2,991,688	1,263,411
– secured	71,273	163,988
	3,062,961	1,427,399
Total bank loans	7,527,242	6,911,031

14 SHARE CAPITAL

	As at 30 June 2017		As at 31 December 2016	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, authorised, issued and fully paid:				
At beginning of the period/year	1,695,421,112	847,711	1,694,414,612	847,207
Exercise of pre-IPO share option scheme allotment	359,500	179	1,006,500	504
At end of the period/year	1,695,780,612	847,890	1,695,421,112	847,711

15 TRANSACTION WITH NON-CONTROLLING INTERESTS

During the period, the Group acquired additional effective interest of a subsidiary.

The effect of the transaction is summarised as follows:

	HK\$'000
Net consideration paid to non-controlling interests	(12,809)
Decrease in non-controlling interests	3,338
Changes in equity attributable to the Company's shareholders arising from changes in ownership of interest in a subsidiary without change of control	(9,471)

16 BUSINESS COMBINATION

During the period, the Group acquired controlling equity interests in several international freight forwarding and integrated logistics businesses/ companies, which are principally operated in Germany, Thailand, Italy and Kazakhstan.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid	451,214
Cash consideration to be paid	50,783
Total	501,997

16 BUSINESS COMBINATION (CONTINUED)

The recognised amounts of identifiable assets acquired and liabilities assumed as at the respective dates of such acquisitions are as follows:*

	HK\$'000
Property, plant and equipment (note 10)	110,568
Accounts receivable, prepayments and deposits	220,939
Cash and bank balances	68,162
Accounts payable, deposits received and accrued charges	(199,285)
Inventories	2,139
Tax recoverable	2,506
Bank loans	(19,196)
Deferred taxation	(13,715)
Total identifiable net assets	172,118
Intangible assets (note 10)	432,481
Non-controlling interests	(102,602)
Total	501,997

* As at 30 June 2017, verification of individual assets/liabilities of the acquired businesses/subsidiaries is in progress and the Group has not finalised the fair value assessments. The relevant fair value of individual assets/liabilities stated as above are provisional.

The intangible assets of HK\$432,481,000 arising from these acquisitions are primarily attributable to the future profitability of the acquired businesses.

The acquired businesses contributed turnover of HK\$140,735,000 and net profit of HK\$4,768,000 to the Company's shareholders for the period from their respective acquisition dates up to 30 June 2017. If the acquisitions had occurred on 1 January 2017, the contributed turnover and profit attributable to the Company's shareholders for the period ended 30 June 2017 would have been HK\$461,166,000 and HK\$9,139,000 respectively.

17 COMMITMENTS

As at 30 June 2017, 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 2017	As at 31 December 2016
	HK\$'000	HK\$'000
Contracted but not provided for	821,586	833,527

18 PLEDGE OF ASSETS

As at 30 June 2017, the Group's total bank loans of HK\$7,527,242,000 (31 December 2016: HK\$6,911,031,000) included an aggregate amount of HK\$857,881,000 (31 December 2016: HK\$929,920,000) which are secured. The Group's total bank overdrafts of HK\$21,626,000 (31 December 2016: HK\$21,595,000) included an aggregate amount of HK\$18,103,000 (31 December 2016: HK\$14,024,000) which are secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain investment properties, leasehold land and land use rights, construction in progress and buildings and port facilities of the Group with an aggregate net book value of HK\$2,397,492,000 (31 December 2016: HK\$2,602,354,000);
- (ii) assignments of insurance proceeds of certain properties of the Group; and
- (iii) certain balances of restricted and pledged deposits of the Group.


DEFINITIONS

“1H”	first half
“APEX”	a group of 51%-owned US subsidiaries of KLN Investment (US) LLC, an indirect wholly-owned subsidiary of the Company
“ASEAN”	the Association of Southeast Asian Nations
“Asia”	Asia continent, for the purpose of this interim report only, excludes Greater China
“Belt and Road”	a development strategy and framework primarily between Mainland China and the rest of Eurasia
“Board”	the board of Directors
“Caninco”	Caninco Investments Limited, a wholly-owned subsidiary of KHL
“CAPEX”	capital expenditure
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“CIS”	the Commonwealth of Independent States
“Company”	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Controlling Shareholder(s)”	shall have the meaning ascribed to it under the Listing Rules

“Darmex”	Darmex Holdings Limited, a wholly-owned subsidiary of KHL
“Directors”	directors of the Company
“Globalink”	Globalink Logistics DWC LLC, a limited liability company incorporated in Dubai World Central, United Arab Emirates, an indirect 51%-owned subsidiary of the Company
“Global Offering”	the initial public offering of the Shares whereby the Shares were listed on the Main Board of the Stock Exchange on 19 December 2013
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“Group” or “Kerry Logistics”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“HK (IFRIC) - Int”	Hong Kong (International Financial Reporting Interpretations Committee) - Interpretation
“Hong Kong”	Hong Kong Special Administrative Region of Mainland China
“Hong Kong Warehouse”	Hong Kong warehousing business
“Hopemore”	Hopemore Ventures Limited, a subsidiary of KHL
“IFF”	international freight forwarding

“IL”	integrated logistics
“KGL”	Kerry Group Limited, one of the Controlling Shareholders
“KHL”	Kerry Holdings Limited, a wholly-owned subsidiary of KGL
“KPL”	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	Macao Special Administrative Region of Mainland China
“Mainland China” or “PRC”	The People’s Republic of China and, for the purpose of this interim report only, excludes Hong Kong, Macau and Taiwan
“Medallion”	Medallion Corporate Limited, a subsidiary of KHL
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“Ordinary Share(s)” or “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
“Post-IPO Share Option Scheme”	post-IPO share option scheme of the Company
“PP&E”	property, plant and equipment

“Pre-IPO Share Option Scheme”	pre-IPO share option scheme of the Company
“Q1,” “Q2” or “Q3”	first quarter, second quarter or third quarter
“Registers of Members”	registers of members of the Company
“Rubyhill”	Rubyhill Global Limited, a subsidiary of KHL
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“Transpeed”	Transpeed Cargo (S) Pte. Ltd., a private company limited by shares incorporated in Singapore, an indirect 75%-owned subsidiary of the Company
“US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“Vencedor”	Vencedor Investments Limited, a subsidiary of KHL



世界級多用途深海貨櫃碼頭 為客戶提供廣泛海、陸運服務

Kerry Siam Seaport座落於泰國林查班的中央位置，主力服務泰國東部沿海地區及大湄公河區域之工業區，其獨特優勢是可一站式提供船台停靠、貨櫃營運及倉儲服務，並為全球進出口貿易提供具成本效益的完善陸海及海河供應鏈功能。

第四期擴建工程正在進行，預期於2018年完成。屆時泊位數目將由10個增至20個，泊位總長度亦將由1.5公里伸延至2.8公里。嘉里物流憑藉此設施，連同位於緬甸仰光和曼德勒的內陸港，已準備就緒把握大湄公河區域和東盟區內不斷增長的跨境貿易。



KERRY SIAM SEAPORT

World class, multi-purpose deep seaport featuring a broad range of marine and land services

Situated at the centre of Laem Chabang of Thailand, Kerry Siam Seaport is designed to serve industrial estates on the country's eastern seaboard and in the Greater Mekong Region. It uniquely provides wide berth docking, container operations and warehousing services in one location, serving as a cost-effective import-export global gateway with full land-sea and ocean-river supply chain functions.

Phase four expansion is in progress and is expected to complete in 2018. The new project will see berths double at the facility with the number of operational berths to increase from 10 to 20, and total length to extend from 1.5 km to 2.8 km. Together with the inland ports in Yangon and Mandalay, Myanmar, Kerry Logistics is well positioned to capture the increasing cross-border trade in the Greater Mekong Region and across ASEAN.