

# INTERIM REPORT 2018



Kerry Logistics Network Limited

0636.HK

# QUICK FACTS

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53

countries & territories



32,000+

employees worldwide



53M ft<sup>2</sup>

land & facilities



9,700+

self-owned operating vehicles



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# CORPORATE INFORMATION & KEY DATES

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## **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**

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

T 852 2410 3600  
F 852 2480 5958  
E [ir@kerrylogistics.com](mailto:ir@kerrylogistics.com)

## **WEBSITE**

[www.kerrylogistics.com](http://www.kerrylogistics.com)

## **KEY DATES**

Closure of Registers of Members  
19 September 2018

Proposed Payment of Interim and Special Dividends  
5 October 2018

# FINANCIAL HIGHLIGHTS

+27%

17,461

TURNOVER (HK\$M)

+25%

IL  
1,107

SEGMENT PROFIT (HK\$M)

+6%

IFF  
235

SEGMENT PROFIT (HK\$M)

1,216

CORE OPERATING PROFIT (HK\$M)

700

CORE NET PROFIT (HK\$M)

+19%



+22%



+20%

948

PROFIT ATTRIBUTABLE TO  
THE SHAREHOLDERS (HK\$M)



DIVIDEND (HK CENTS PER SHARE)

INTERIM

9

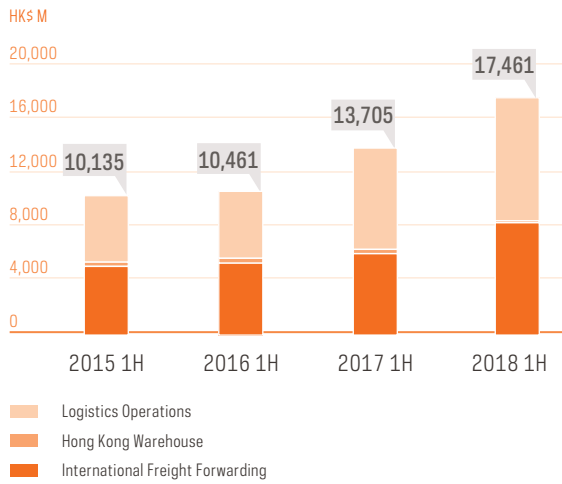
SPECIAL

12

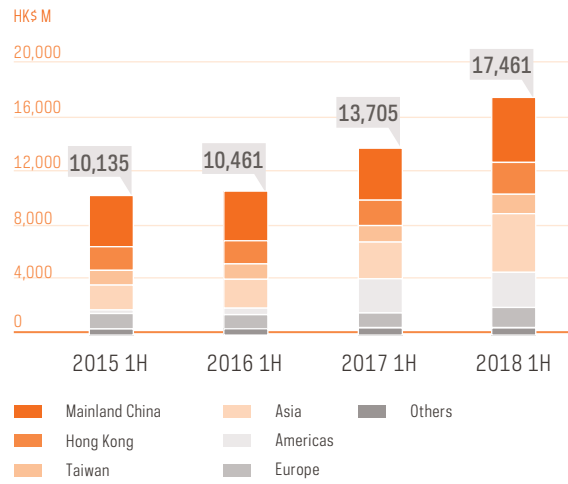
GROSS GEARING

46.7%

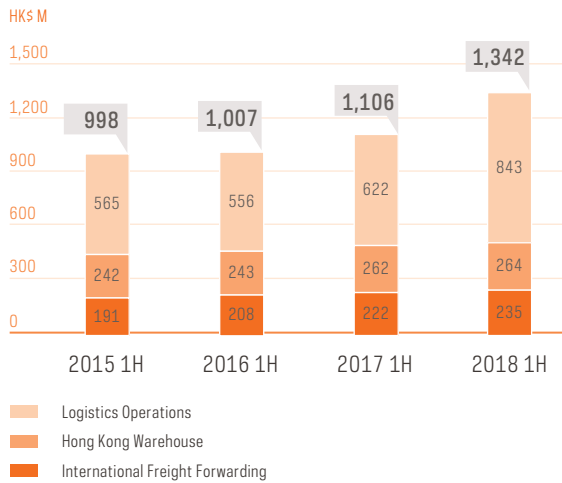
1 TURNOVER BY SEGMENT



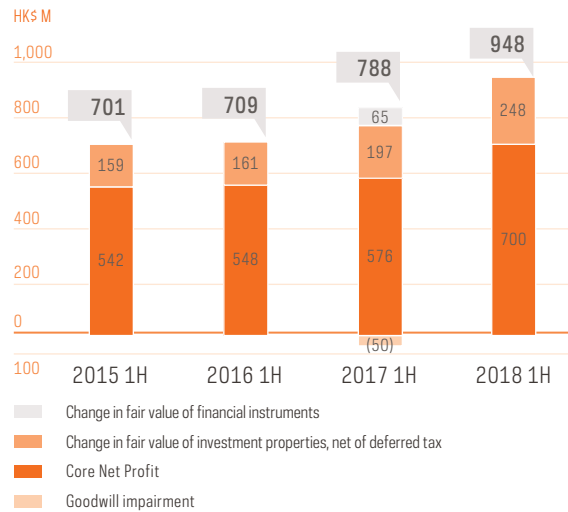
2 TURNOVER BY REGION



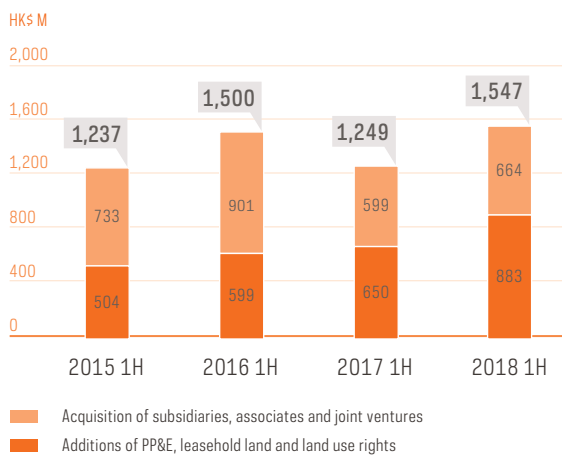
3 SEGMENT PROFIT



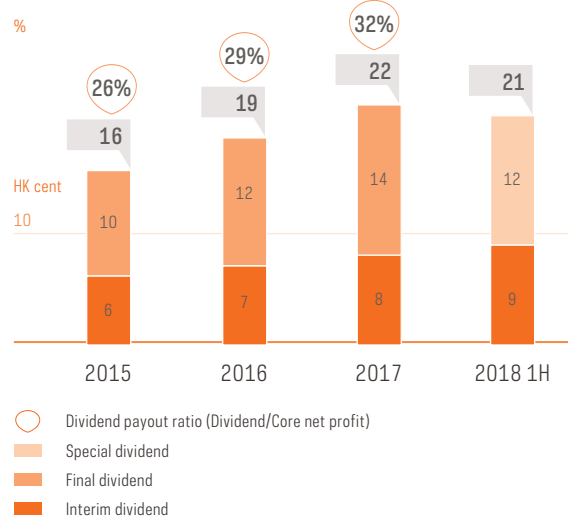
4 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



5 CAPEX



6 DIVIDEND PER SHARE & DIVIDEND PAYOUT RATIO



# MANAGEMENT DISCUSSION AND ANALYSIS

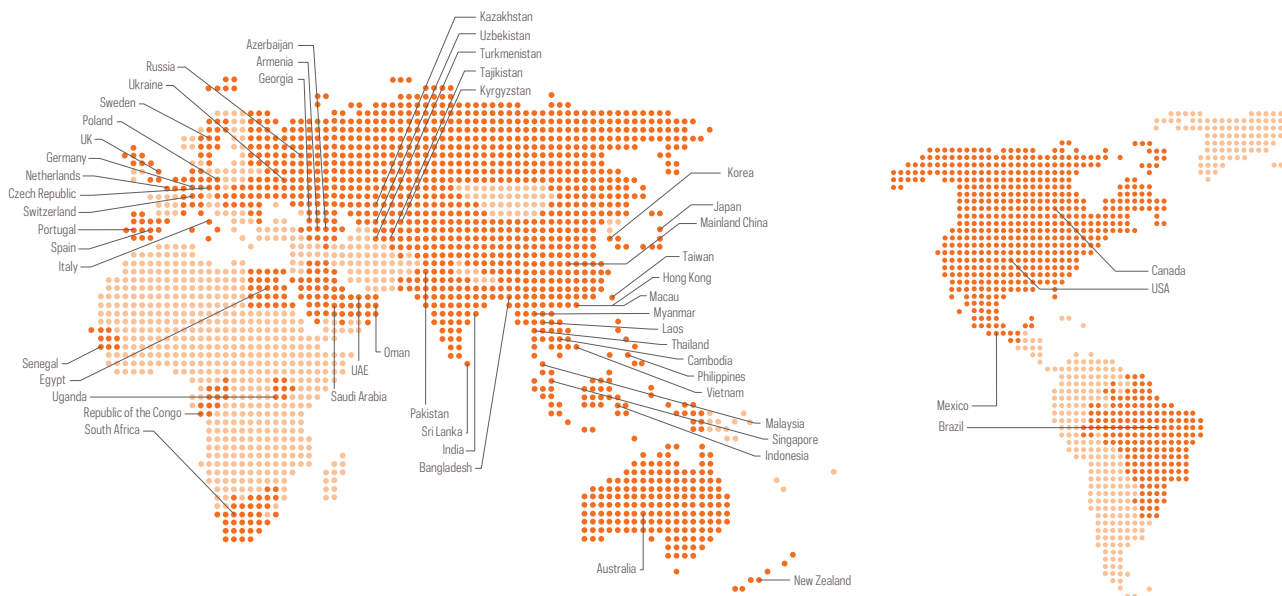
## RESULTS OVERVIEW

The Group recorded an increase in turnover of 27% to HK\$17,461 million in 2018 1H (2017 1H: HK\$13,705 million). Core operating profit went up 19% to HK\$1,216 million (2017 1H: HK\$1,019 million). Core net profit was HK\$700 million (2017 1H: HK\$576 million), which represents a growth of 22% year-on-year. Profit attributable to the Shareholders, after taking into account the change in fair value of investment properties and financial instruments, and goodwill impairment, also increased 20% to HK\$948 million (2017 1H: HK\$788 million).

	2018 1H	2017 1H	
	HK\$ million	HK\$ million	
Segment profit			
IL			
- Logistics operations	843	622	+36%
- Hong Kong warehouse	264	262	+1%
	1,107	884	+25%
IFF	235	222	+6%
	1,342	1,106	
Unallocated administrative expenses	(126)	(87)	
Core operating profit	1,216	1,019	+19%
Core net profit	700	576	+22%
Change in fair value of investment properties, net of deferred tax	248	197	
Change in fair value of financial instruments	-	65	
Goodwill impairment	-	(50)	
Profit attributable to the Shareholders	948	788	+20%

# BUSINESS REVIEW

## OUR GLOBAL NETWORK



### MARKET OVERVIEW

Although the world economy experienced growth in 2018 1H, global demand has been flat. Nevertheless, the China-US trade dispute has caused manufacturing capacities to shift from Mainland China to other Asian countries, bringing about an increase in shipping volume and production activities in Asia. Southeast Asia, in particular, has enjoyed the fastest growth in the region.

Leveraging the strongest network in Asia and its diversified business portfolio, the Group achieved double digit growth in turnover, core operating profit, and core net profit in 2018 1H. Meanwhile, to reinforce its global network, the Group has made investments and formed alliances in existing operating regions as well as in new markets to pave the way for sustainable growth.

### IL DEVELOPMENT ACCELERATED

Having benefitted from the booming intra-Asia trade and e-commerce business, the IL division achieved a 25% rise in segment profit in 2018 1H. The IL business in Hong Kong, Taiwan, and Asia as a whole is expected to remain a major earnings driver for the rest of the year.

### HONG KONG EARNINGS GREW

Driven by stable growth in revenue from existing customers and new customer gains, the segment profit of the logistics business in Hong Kong grew by 71% in 2018 1H. However, the growth of the warehousing business in Hong Kong remained level.





### **TAIWAN PROFIT RECOVERED**

The Group's business in Taiwan saw a profit recovery in 2018 1H. The rising labour costs have been mitigated through internal operation adjustments, such as line-haul optimisation, and improved operation efficiency, bringing about the normalisation of the impact of the labour law passed in 2016. The IL segment profit in Taiwan is expected to pick up in 2018 2H.

### **ASIA GROWTH MOMENTUM CONTINUED**

Sustained by strong intra-Asia trade and increasing shipping volumes in the region resulting from the China-US trade tensions, the IL segment profit of Asia posted a 54% growth in 2018 1H.

In Thailand, the Group's IL segment profit recorded an 84% growth riding on the flourishing e-commerce business. In July 2018, Kerry Express Thailand entered into a strategic partnership with VGI Global Media Public Company Limited ("VGI"), the subsidiary of Bangkok Mass Transit System Public Company Limited. Kerry Express Thailand becomes the only express logistics partner of VGI and Bangkok Mass Transit System ("BTS Skytrain"), enabling the Group to use BTS Skytrain to extend its express delivery services.

Furthermore, the seaport business in Thailand has shown encouraging improvement following the berth extension at the Kerry Siam Seaport since March 2018.

### **MAINLAND CHINA GROWTH DECELERATED**

Rising labour costs, subpar performance of certain customers in the electronics sector, and the China-US trade conflict continued to undermine the Group's business in Mainland China. Despite its decelerating pace of growth, the decline in its profit eased in 2018 1H. The Group is hopeful that there will be an improvement in 2019 mainly in the import sector.

### **IFF MOMENTUM MAINTAINED**

Supported by stable trade activities, the IFF division maintained growth in volume in 2018 1H, particularly in the North American and Indian Peninsula regions, resulting in a 6% increase in segment profit. Nevertheless, both profit and profit margin contributed by the IFF division have contracted as a result of the drop in performance in Mainland China.

In addition to organic growth, the Group has adopted a partnership model to accelerate the expansion of its IFF business via collaborations with leading local enterprises and strategic investment to capitalise on growth prospects.

### **REACH IN AFRICA EXTENDED**

Adhering to its long-term IFF strategy to expand its coverage worldwide, the Group acquired the Johannesburg-based Shipping and Airfreight Services (Pty) Ltd in May 2018 to expand its service offerings in South Africa.

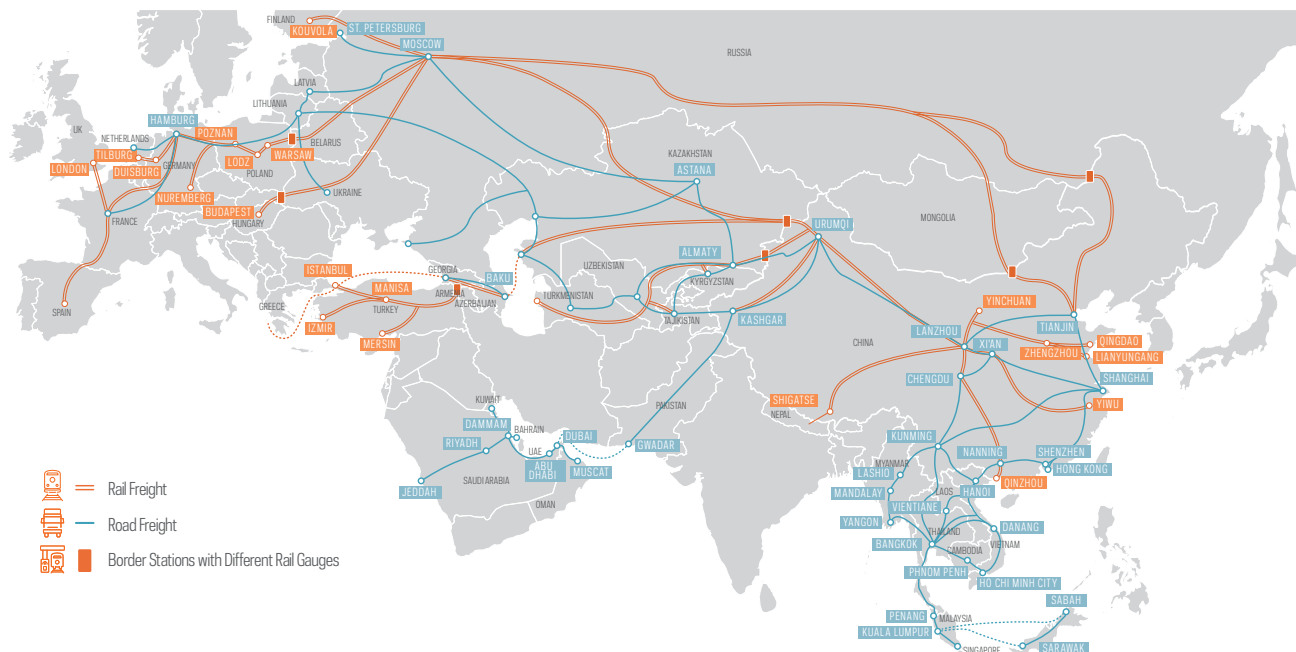
### **PROJECT LOGISTICS CAPABILITIES STRENGTHENED**

In June 2018, the Group strengthened its project logistics capabilities through the acquisition of a majority stake in the Milan-based Saga Italia S.p.A., which is specialised in project logistics, heavy lift services, and material management. The acquisition added three new countries to the Group's network, namely, the Republic of the Congo, Uganda, and Egypt. The strengthened capabilities will support Kerry Logistics to tap into the immense opportunities as more Belt and Road projects get off the ground.





## EURASIAN RAIL & ROAD FREIGHT NETWORK



### EXPANSION ALONG BELT AND ROAD

The Group deepened its rail and road freight capabilities in June 2018 by launching new cross-border rail and trucking services from Mainland China through Kazakhstan to Caucasus and Turkey, so as to capture the growing trades in new markets and Europe. The new services provide greater flexibility to customers with different volume needs by block train, single wagon or Full-Truck-Load.

In July 2018, the Group’s member company Globalink and Georgia’s Anaklia City JSC signed a memorandum of understanding to cooperate in the development of the Anaklia Deep Sea Port and Special Economic Zone in Georgia, which is strategically located along the shortest trade route between China and Europe in the Belt and Road network. The port, scheduled for opening in 2020, is expected to become one of the largest in the Black Sea region.

### NEW Foothold IN PAKISTAN

In July 2018, the Group established new subsidiary Kerry Freight Pakistan (Private) Limited to extend its foothold in Pakistan and leverage its first mover advantage along the China-Pakistan Economic Corridor. The new company is expected to commence operation in 2018 2H.

### EUROPE BUSINESS RESTRUCTURED

The Group’s business operations in Austria, Belgium, and France have been transferred to Germany and the Netherlands as a result of a business restructuring exercise in Europe to optimise operation efficiency.

### ASSET PORTFOLIO BROADENED

Berth extension at the Kerry Siam Seaport in Thailand was completed in 2018 Q1 with its total length increased to 2.8 km. The remaining of the Phase four expansion is on track to be completed in 2018 Q4.



Phase two of the Kerry Bangna Logistics Centre in Thailand was completed in 2018 Q1, while Phase three construction will begin in 2018 Q4 tentatively.

Phase one of the inland ports in Mandalay, Myanmar was completed in 2018 Q2 and the inland ports in Yangon is projected for completion in 2018 Q3.

Logistics facilities in Changsha and Wuhan, Mainland China, and Guanyin, Taiwan are under construction.

### **ASSET VALUE UNLEASHED**

While strategically strengthening its asset portfolio, the Group also considered different options to unleash the value of its current portfolio. The Group plans to embrace the opportunity to unlock the value of its warehouse property portfolio to provide capital for investments that offer synergetic benefits to its long-term growth.

In Mainland China, the Group disposed of the underperforming Kerry Chengdu Logistics Centre in Shuangliu County, Chengdu in May 2018.

In July 2018, the Group disposed of a 17% interest in Kerry Express Thailand to VGI.

In Hong Kong, the purchaser of the Group's entire 15% interest in Asia Airfreight Terminal Company Limited is seeking for an extension of time to complete the transaction. The parties are now discussing the relevant arrangements.

### **OUTLOOK**

The ongoing trade spat between Mainland China and the US is reshaping trade routes and global supply chains. While the trade volume between the two economies is expected to reduce in the near future, certain markets in Asia are likely to benefit conversely from the increased intra-Asia trade as customers look for alternative supply sources beyond Mainland China and the US. At the same time, trade lanes between the US and other Asian countries are anticipated to grow. Leveraging its expanding global network and solid coverage particularly in South and Southeast Asia, the Group is optimistic to maintain growth in the remainder of the year through exploiting new business opportunities and promising prospects in Asia and new markets along the Belt and Road trade paths.

### **KEEP UP GROWTH IMPETUS IN ASIA**

Asia has been experiencing the fastest trade volume growth for both imports and exports driven by rising domestic consumption and increased investment. The Group expects its Asian business to continue to grow and contribute to a major part of the Group's profit in three to five years' time.

### **BOLSTER PROJECT LOGISTICS ON BELT AND ROAD**

Building on the latest acquisition of Saga Italia S.p.A. and the consolidation of its project logistics capabilities worldwide, the Group is on course to harvest synergies generated by its global network and further seize business opportunities brought by the Belt and Road initiative, in order to propel business and volume growth across Eurasia.

### REINFORCE EXPRESS COMPETENCIES

It is one of the Group's Asia strategies to keep reinforcing its express competencies so as to capitalise on the burgeoning intra-Asia trade and e-commerce activities. The Group is also positive about the Thailand express business delivering stronger than expected performance, and is working to replicate its success in other Asian markets including Vietnam, Malaysia, Cambodia, and the Philippines.

### IFF TO SUSTAIN GROWTH

While the China-US trade war escalates, the Group believes that IFF growth will persist in the medium term. The freight volume is likely to rise further among countries in the intra-Asia region. The Group will maintain close communication with international customers to maximise adaptability to changes in the global trade climate.

## 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 maintained at a relatively low level.

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 2018, total foreign currency borrowings amounted to the equivalent of HK\$4,173 million (including HK\$2,573 million denominated in New Taiwan Dollar and HK\$600 million denominated in Thai Baht), which represented approximately 46% of the Group's total bank loans of HK\$9,039 million.

Out of the Group's total bank loans as at 30 June 2018, HK\$4,590 million (representing approximately 51%) was repayable within one year, HK\$1,977 million (representing approximately 22%) in the second year, HK\$2,413 million (representing approximately 26%) in the third to fifth years and HK\$59 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 88% of total bank loans. In relation to the secured bank loans of HK\$1,110 million as at 30 June 2018, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,519 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 2018, the gearing ratio for the Group was 46.7% (31 December 2017: 43.1%). 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 2018, the Group had total undrawn bank loan and overdraft facilities of HK\$6,880 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 2018, the Group had no material contingent liabilities.

## STAFF AND REMUNERATION POLICIES

As at 30 June 2018, the Group had approximately 32,600 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 2018, 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<sup>(1)</sup>

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 <sup>(2)</sup>	3,000,000	5,000	-	2,000,000	5,005,000	0.29%
MA Wing Kai William <sup>(3)</sup>	4,291,510	-	-	1,300,000	5,591,510	0.33%
ERNI Edwardo <sup>(4)</sup>	2,500,500	8,000	-	-	2,508,500	0.15%
KUOK Khoon Hua <sup>(5)</sup>	1,101,000	-	-	3,018,492	4,119,492	0.24%
CHIN Siu Wa Alfred <sup>(6)</sup>	200,000	-	-	1,300,000	1,500,000	0.09%
WAN Kam To <sup>(7)</sup>	200,000	-	-	-	200,000	0.01%
WONG Yu Pok Marina <sup>(8)</sup>	200,000	-	-	-	200,000	0.01%
YEO Philip Liat Kok <sup>(9)</sup>	200,000	-	-	-	200,000	0.01%



Notes:

- (1) All interests in Ordinary Shares in the Company were as at 30 June 2018.
- (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) 2,000,000 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 discretionary 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) 3,018,492 Ordinary Shares held through discretionary trusts of which Mr Kuok is a discretionary 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 discretionary 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<sup>(1)</sup>

Directors	Ordinary shares in KGL					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			
MA Wing Kai William <sup>(2)</sup>	1,810,620	-	-	-	-	1,810,620	0.12%
ERNI Edwardo <sup>(3)</sup>	650,000	-	-	-	-	650,000	0.04%
KUOK Khoon Hua <sup>(4)</sup>	2,000,000	-	-	221,852,424	-	223,852,424	14.71%
CHIN Siu Wa Alfred <sup>(5)</sup>	1,500,000	-	500,000	-	-	2,000,000	0.13%

Notes:

- (1) All interests in ordinary shares in KGL were as at 30 June 2018.
- (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) 221,852,424 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a discretionary 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<sup>(1)</sup>

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 <sup>(2)</sup>	-	10,000	-	-	10,000	0.00%
MA Wing Kai William <sup>(3)</sup>	841,020	-	-	50,000	891,020	0.06%
ERNI Edwardo <sup>(4)</sup>	40,000	16,000	-	-	56,000	0.00%
KUOK Khoon Hua <sup>(5)</sup>	1,179,413	-	-	2,959,763	4,139,176	0.28%
CHIN Siu Wa Alfred <sup>(6)</sup>	-	-	-	50,000	50,000	0.00%

Notes:

- (1) All interests in ordinary shares in KPL were as at 30 June 2018.
- (2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.
- (3) Mr Ma is interested in (i) 341,020 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 500,000 ordinary shares in KPL; and (iii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Ma is a discretionary beneficiary.
- (4) Mr Erni is interested in (i) options granted under the share option scheme of KPL to subscribe for 40,000 ordinary shares in KPL; and (ii) 16,000 ordinary shares in KPL held by his spouse.
- (5) Mr Kuok is interested in (i) 1,179,413 ordinary shares in KPL as beneficial owner; and (ii) 2,959,763 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a discretionary beneficiary.
- (6) Mr Chin is interested in 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Chin is a discretionary beneficiary.

Hopemore Ventures Limited<sup>(1)</sup>

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	50 <sup>(2)</sup>	-	-	-	50	3.57%

Notes:

- (1) All interests in ordinary shares in Hopemore were as at 30 June 2018.
- (2) Mr Kuok is interested in 50 ordinary shares in Hopemore as beneficial owner.

Majestic Tulip Limited<sup>(1)</sup>

Ordinary shares in Majestic

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	10 <sup>(2)</sup>	-	-	-	10	3.33%

Notes:

- (1) All interests in ordinary shares in Majestic were as at 30 June 2018.  
 (2) Mr Kuok is interested in 10 ordinary shares in Majestic as beneficial owner.

Medallion Corporate Limited<sup>(1)</sup>

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 <sup>(2)</sup>	-	-	-	48	4.80%

Notes:

- (1) All interests in ordinary shares in Medallion were as at 30 June 2018.  
 (2) Mr Kuok is interested in 48 ordinary shares in Medallion as beneficial owner.

Rubyhill Global Limited<sup>(1)</sup>

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 <sup>(2)</sup>	-	-	-	1	10.00%

Notes:

- (1) All interests in ordinary shares in Rubyhill were as at 30 June 2018.  
 (2) Mr Kuok is interested in 1 ordinary share in Rubyhill as beneficial owner.

Vencedor Investments Limited<sup>(1)</sup>

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 <sup>(2)</sup>	-	-	-	5	5.00%

Notes:

- (1) All interests in ordinary shares in Vencedor were as at 30 June 2018.  
 (2) Mr Kuok is interested in 5 ordinary shares in Vencedor 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 2018.



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

As at 30 June 2018, 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 <sup>(1)</sup>	66.04%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684 <sup>(1)</sup>	64.25%
Kerry Properties Limited	Beneficial owner	718,340,998 <sup>(1)</sup>	42.31%
Caninco Investments Limited	Beneficial owner	156,124,097 <sup>(1)</sup>	9.20%
Darmex Holdings Limited	Beneficial owner	128,449,630 <sup>(1)</sup>	7.57%
Citigroup Inc.	Interest of controlled corporations and approved lending agents	110,785,561 <sup>(2)</sup>	6.53%
GIC Private Limited	Investment manager	102,189,240	6.02%

Notes:

- (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.
- (2) Citigroup Inc. holds a long position of 109,478,061 shares and a short position of 1,307,500 shares as at 30 June 2018.

Save as disclosed above, as at 30 June 2018, 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 2018, a total of 33,398,500 options granted under the Pre-IPO Share Option Scheme were outstanding.

## INTERIM REPORT 2018

Movement of the options, which were granted under the Pre-IPO Share Option Scheme, during the six months ended 30 June 2018 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note c)	Tranche	Number of options			Outstanding as at 30/06/2018	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2018	Exercised (Notes a and b)	Lapsed			
<b>1. Directors</b>								
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
<b>2. Continuous Contract Employees</b>	02/12/2013	I	12,690,000	(747,000)	(20,000)	11,923,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	13,714,500	(819,000)	(20,000)	12,875,500	10.20	02/12/2014 – 01/12/2023
<b>Total:</b>			<b>35,004,500</b>	<b>(1,566,000)</b>	<b>(40,000)</b>	<b>33,398,500</b>		

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\$11.60.
- 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 2018, 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 2018 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 30/06/2018	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2018	Exercised (Note a)	Lapsed			
<b>1. Directors</b>								
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
<b>2. Continuous Contract</b>	09/01/2015	I	725,000	-	-	725,000	12.26	09/01/2015 – 08/01/2020
<b>Employees</b>	09/01/2015	II	725,000	-	-	725,000	12.26	09/01/2016 – 08/01/2020
<b>Total:</b>			<b>4,150,000</b>	<b>-</b>	<b>-</b>	<b>4,150,000</b>		

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 2018, a total of 33,398,500 options granted under the Pre-IPO Share Option Scheme were outstanding, representing approximately 1.97% and 1.97% of the issued share capital of the Company as at 30 June 2018 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 2018, a total of 4,150,000 options granted under the Post-IPO Share Option Scheme were outstanding  As at 30 June 2018, 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 7.24% and 7.24% of the issued share capital of the Company as at 30 June 2018 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 2018, the Company has complied with the code provisions as set out in the CG Code.

## MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2018 and up to the date of this interim report.

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 2018.

## REVIEW OF INTERIM REPORT AND CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The interim report has been reviewed by the audit and compliance committee of the Company and 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 26.

## 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
YEO George Yong-boon	<ul style="list-style-type: none"><li>is a strategic non-business advisor of Sea Limited (a company listed on the New York Stock Exchange with stock code SE)</li><li>is a senior advisor of Brunswick Group for its geopolitical initiative</li><li>appointed as an independent director of Pinduoduo Inc. from its listing on NASDAQ (stock code PDD) in July 2018</li></ul>
ERNI Edwardo	<ul style="list-style-type: none"><li>appointed as a vice-chairman of Beijing Headquarters Enterprise Association since June 2018</li></ul>
CHIN Siu Wa Alfred	<ul style="list-style-type: none"><li>appointed as an independent non-executive director of Zhongsheng Group Holdings Limited (a company listed on the Stock Exchange with stock code 881) since August 2018</li></ul>
WAN Kam To	<ul style="list-style-type: none"><li>appointed as an independent non-executive director of Haitong International Securities Group Limited (a company listed on the Stock Exchange with stock code 665) since June 2018</li></ul>
YEO Philip Liat Kok	<ul style="list-style-type: none"><li>retired as an independent director of Hitachi Ltd (a company listed on the Tokyo Stock Exchange with stock code 6501) from June 2018</li><li>retired as the chairman of SPRING Singapore, a Singapore Government agency for enterprise development from March 2018</li></ul>
ZHANG Yi Kevin	<ul style="list-style-type: none"><li>re-designated as chief investment officer of Hereditas Capital Management (Asia) Limited since June 2018</li></ul>

## **CLOSURE OF REGISTERS OF MEMBERS**

The Registers of Members will be closed on Wednesday, 19 September 2018 in order to determine the entitlement of the Shareholders to the interim dividend and special 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 Tuesday, 18 September 2018. The interim dividend and special dividend are payable on Friday, 5 October 2018 to the Shareholders whose names appear on the Registers of Members on Wednesday, 19 September 2018.

By Order of the Board  
**YEO George Yong-boon**  
Chairman

Hong Kong, 30 August 2018

# 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 28 to 57, 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 2018 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 fair 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 do not present fairly, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

**PricewaterhouseCoopers**  
Certified Public Accountants

Hong Kong, 30 August 2018

# INTERIM FINANCIAL STATEMENTS

## CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2018

	Note	Unaudited 2018 HK\$'000	Unaudited 2017 HK\$'000
Turnover	4	17,461,227	13,705,335
Direct operating expenses	5	(15,163,182)	(11,786,516)
Gross profit		2,298,045	1,918,819
Other income and net gains	6	166,925	83,823
Administrative expenses	5	(1,231,109)	(958,227)
Operating profit before fair value change of investment properties		1,233,861	1,044,415
Change in fair value of investment properties	11	239,917	189,985
Operating profit		1,473,778	1,234,400
Finance costs	7	(106,684)	(71,166)
Share of results of associates and joint ventures		43,648	26,164
Profit before taxation		1,410,742	1,189,398
Taxation	8	(253,026)	(216,958)
Profit for the period		1,157,716	972,440
Profit attributable to:			
Company's shareholders	4	947,838	787,809
Non-controlling interests		209,878	184,631
		1,157,716	972,440
Earnings per share	10		
– Basic		HK\$0.56	HK\$0.46
– Diluted		HK\$0.56	HK\$0.46



# CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited 2018 HK\$'000	Unaudited 2017 HK\$'000
Profit for the period	1,157,716	972,440
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(268,001)	530,368
Fair value change on available-for-sale investments	-	355
Items that will not be reclassified to consolidated income statement		
Fair value change on financial assets at fair value through other comprehensive income	14,196	-
Other comprehensive (loss)/income for the period	(253,805)	530,723
Total comprehensive income for the period	903,911	1,503,163
Total comprehensive income attributable to:		
Company's shareholders	751,535	1,185,563
Non-controlling interests	152,376	317,600
	903,911	1,503,163

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Intangible assets	11	4,263,853	3,884,482
Investment properties	11	10,137,615	9,892,482
Leasehold land and land use rights	11	598,190	625,550
Property, plant and equipment	11	9,732,669	9,423,181
Associates and joint ventures		1,501,042	1,409,486
Financial assets at fair value through other comprehensive income		159,556	-
Available-for-sale investments		-	100,811
Investment in convertible bonds		212,061	564,397
Deferred taxation		112,707	98,432
		26,717,693	25,998,821
<b>Current assets</b>			
Financial assets at fair value through profit or loss		112,215	109,841
Investment in convertible bond		351,716	-
Inventories		357,793	333,758
Accounts receivable, prepayments and deposits	12	8,276,212	7,568,472
Tax recoverable		28,476	41,236
Amounts due from fellow subsidiaries		1,300	5,641
Restricted and pledged bank deposits		22,250	22,926
Cash and bank balances		3,914,670	3,569,626
		13,064,632	11,651,500

	Note	Unaudited As at 30 June 2018 HK\$'000	Audited As at 31 December 2017 HK\$'000
<b>Current liabilities</b>			
Accounts payable, deposits received and accrued charges	13	6,035,592	5,565,831
Amounts due to fellow subsidiaries		3,088	451
Amounts due to related companies		23,866	34,375
Taxation		301,321	246,348
Short-term bank loans and current portion of long-term bank loans	14	4,590,171	3,955,722
Bank overdrafts		66,635	51,006
		11,020,673	9,853,733
<b>Non-current liabilities</b>			
Loans from non-controlling interests		171,034	166,826
Long-term bank loans	14	4,448,983	4,198,758
Deferred taxation		701,767	662,629
Retirement benefit obligations		107,570	137,054
Other non-current liabilities		1,504,031	1,364,443
		6,933,385	6,529,710
<b>ASSETS LESS LIABILITIES</b>		21,828,267	21,266,878
<b>EQUITY</b>			
<b>Capital and reserves attributable to the Company's shareholders</b>			
Share capital	15	848,827	848,044
Share premium and other reserves		2,555,317	2,793,363
Retained profits		16,107,167	15,400,585
		19,511,311	19,041,992
Put option written on non-controlling interests		(1,194,914)	(1,218,331)
		18,316,397	17,823,661
Non-controlling interests		3,511,870	3,443,217
<b>TOTAL EQUITY</b>		21,828,267	21,266,878

# CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited 2018 HK\$'000	Unaudited 2017 HK\$'000
<b>Operating activities</b>		
Net cash generated from operations	1,225,522	899,199
Interest paid	(106,684)	(71,166)
Income tax paid	(187,311)	(197,776)
Net cash generated from operating activities	931,527	630,257
<b>Investing activities</b>		
Additions of property, plant and equipment	(882,364)	(596,932)
Purchase of financial assets at fair value through other comprehensive income	(46,749)	-
Purchase of leasehold land and land use rights	(121)	(41,160)
Proceeds from sale of property, plant and equipment	99,025	54,225
Proceeds from sale of a subsidiary, net of cash and cash equivalents disposed of	111,434	-
Dividend income from available-for-sale investments	-	4,085
Dividend income from financial assets at fair value through other comprehensive income	7,984	-
Dividends received from associates	10,050	-
Net (increase)/decrease in balances with associates and joint ventures	(53,515)	4,301
Interest received	17,618	10,549
Interest income from investment in convertible bonds	10,542	10,523
Acquisition of subsidiaries	(301,099)	(383,052)
Acquisition of a joint venture	(4,075)	-
Cash consideration paid for prior year's acquisition	(22,081)	(15,806)
Increase in investments in associates and joint ventures	(27,104)	(84,057)
Capital reduction in investments in associates and joint ventures	-	12,023
Decrease/(increase) in restricted and pledged bank deposits	676	(3,111)
Net cash used in investing activities	(1,079,779)	(1,028,412)

	Unaudited 2018 HK\$'000	Unaudited 2017 HK\$'000
<b>Financing activities</b>		
Repayment of bank loans	(2,227,091)	(1,533,961)
Drawdown of bank loans	3,142,053	1,922,274
Dividends of subsidiaries paid to non-controlling interests	(157,393)	(29,412)
Capital injection from non-controlling interests	4,323	48
Drawdown of loans from non-controlling interests	31,270	1,271
Repayment of loans from non-controlling interests	(16,945)	(35,499)
Changes in ownership of interests in subsidiaries without change of control	(35,061)	(12,809)
Dividend paid	(237,671)	(203,477)
Proceeds from exercise of pre-IPO share option scheme allotment	15,927	3,666
Net cash from financing activities	519,412	112,101
<b>Increase/(decrease) in cash and cash equivalents</b>	371,160	(286,054)
Effect of exchange rate changes	(41,745)	119,916
Cash and cash equivalents at beginning of the period	3,518,620	3,313,134
<b>Cash and cash equivalents at end of the period</b>	3,848,035	3,146,996
<b>Analysis of balances of cash and cash equivalents</b>		
Cash and bank balances	3,914,670	3,168,622
Bank overdrafts	(66,635)	(21,626)
	3,848,035	3,146,996

# 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 2018	848,044	3,008,626	(215,263)	15,163,133	237,452	(1,218,331)	17,823,661	3,443,217	21,266,878
Profit for the period	-	-	-	947,838	-	-	947,838	209,878	1,157,716
Net translation differences on foreign operations	-	-	(203,641)	-	-	-	(203,641)	(64,360)	(268,001)
Fair value change on financial assets at fair value through other comprehensive income	-	-	7,338	-	-	-	7,338	6,858	14,196
Total comprehensive income for the six months ended 30 June 2018	-	-	(196,303)	947,838	-	-	751,535	152,376	903,911
Dividends paid	-	-	-	(219)	(237,452)	-	(237,671)	(157,393)	(395,064)
2018 proposed interim dividend	-	-	-	(356,507)	356,507	-	-	-	-
Transfers	-	-	3,633	(3,633)	-	-	-	-	-
Changes in ownership of interest in a subsidiary without change of control (note 16)	-	-	(60,520)	-	-	23,417	(37,103)	(11,258)	(48,361)
Acquisition of subsidiaries (note 17)	-	-	-	-	-	-	-	80,605	80,605
Capital injection from non-controlling interests	-	-	-	-	-	-	-	4,323	4,323
Exercise of pre-IPO share option scheme allotment	783	17,057	(1,865)	-	-	-	15,975	-	15,975
Share option lapsed	-	-	(48)	48	-	-	-	-	-
Total transactions with owners	783	17,057	(58,800)	(360,311)	119,055	23,417	(258,799)	(83,723)	(342,522)
Balance at 30 June 2018	848,827	3,025,683	(470,366)	15,750,660	356,507	(1,194,914)	18,316,397	3,511,870	21,828,267



**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	-	-	(9,471)	-	-	-	(9,471)	(3,338)	(12,809)
Acquisition of subsidiaries	-	-	-	-	-	-	-	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

# 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 2017, 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 2017.

The following new standards and amendments to existing standards that are effective for the accounting period of the Group beginning on 1 January 2018 have been published:

- HKFRS 9, "Financial instruments"
- HKFRS 15, "Revenue from contracts with customers"
- HK(IFRIC)-Int 22, "Foreign currency transactions and advance consideration"
- Amendments to HKFRS 2, "Classification and measurement of share-based payment transactions"
- Amendments to HKFRS 4, "Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts"
- Amendments to HKFRS 15, "Clarifications to HKFRS 15"
- Amendments to HKAS 40, "Transfer of investment property"
- Annual improvements project, "Annual improvements 2014-2016 cycle"

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

In the current interim period, the Group has applied, for the first time, the above new standards, amendments to existing standards and interpretations issued by the HKICPA. The impact of the adoption of HKFRS 9 “Financial instruments” and HKFRS 15 “Revenue from contracts with customers” and the new accounting policies are disclosed in note 2 below. The adoption of the other standards had no material impact on the Group’s accounting policies and did not require retrospective adjustments.

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

HKFRS 9 Amendment	Prepayment features with negative compensation and modification of financial liabilities <sup>1</sup>
Annual Improvements Project	Annual improvements 2015-2017 Cycle <sup>1</sup>
HKFRS 16	Leases <sup>1</sup>
HK(IFRIC)-Int 23	Uncertainty over income tax treatments <sup>1</sup>
HKAS 19 Amendments	Plan Amendment, curtailment or settlement <sup>1</sup>
HKAS 28 Amendments	Long-term Interests in Associates and Joint Ventures <sup>1</sup>
HKFRS 10 and HKAS 28 Amendments	Sale or contribution of assets between an investor and its associate or joint venture <sup>2</sup>
HKFRS 17	Insurance contract <sup>3</sup>

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

2 Effective date to be determined

3 Effective for annual periods beginning on or after 1 January 2021

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 16, “LEASES”

HKFRS 16 addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for in the statements of financial position for lessees. The Group is a lessee of certain premises and properties which are currently classified as operating leases. HKFRS 16 provides a new provision for the accounting treatment of leases when the Group is the lessee, and provides that almost all leases should be recognised in the form of an asset (for the right of use) and a financial liability (for the payment obligation). Short-term leases of twelve months or less, and leases of low-value assets are exempted from the reporting obligation. The new standard will therefore result in an increase in assets and financial liabilities in the consolidated statements of financial position. As for the financial performance impact in the consolidated statements of comprehensive income, straightline depreciation expense on the right-of-use asset and the interest expenses on the lease liability are recognised and no rental expenses will be recognised. The combination of a straightline depreciation of the right-of-use asset and the effective interest rate method applied to the lease liability will result in a higher total charge to consolidated income statements in the initial years of the lease, and decreasing expenses during the latter part of the lease term.

## 1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

### HKFRS 16, "LEASES" (CONTINUED)

The Group conducted a preliminary assessment and estimated that the adoption of HKFRS 16 would result in recognition of lease assets and lease liabilities primarily arising from leases of premises and properties in relation to the Group's various businesses. The Group will continue to assess the impact in more detail.

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 2017, except for the adoption of new standards as set out below.

## 2 CHANGES IN ACCOUNTING POLICIES

This note explains the impact of the adoption of HKFRS 9 "Financial Instruments" and HKFRS 15 "Revenue from Contracts with Customers" on the Group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

### (a) HKFRS 9 FINANCIAL INSTRUMENTS – IMPACT OF ADOPTION

HKFRS 9, "Financial instruments" replaces the whole of HKAS 39 "Financial Instruments: Recognition and Measurement". It addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and provides a new impairment model for financial assets.

HKFRS 9 has three financial asset classification categories for investments in debt instruments: amortised cost, fair value through other comprehensive income ("OCI") and fair value through profit or loss. Classification is driven by the entity's business model for managing the debt instruments and their contractual cash flow characteristics. Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in OCI, provided the instrument is not held for trading.

The impact of the adoption of HKFRS 9 is shown as follows:

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (a) HKFRS 9 FINANCIAL INSTRUMENTS – IMPACT OF ADOPTION (CONTINUED)

#### (i) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND LIABILITIES

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management assessed which business models applied to the financial assets held by the Group and had classified its financial instruments into the appropriate HKFRS 9 categories.

There were no changes to the carrying amount of the financial assets and liabilities through transition. The classification and measurement policy under HKFRS 9 has been disclosed in note 2(b). The main effects resulting from this reclassification are as follows:

For the investment in equity securities previously classified as available-for-sale financial asset, the Group elected to present its change in fair value in other comprehensive income ("FVOCI"). As a result, the investment was reclassified from available-for-sale financial asset to financial asset at FVOCI, and accumulated fair value loss was reclassified from available-for-sale investment reserve to FVOCI reserve on 1 January 2018. There is no longer any reclassification of accumulated amounts from reserves to profit or loss on the disposal of these investments.

Investment in convertible bonds, are required to be held as fair value through profit or loss ("FVPL") under HKFRS 9. There was no impact on the amounts recognised in relation to these assets from the adoption of HKFRS 9.

#### (ii) IMPAIRMENT OF FINANCIAL ASSETS

Financial assets were subject to the new expected credit loss model prescribed by HKFRS 9. The Group was required to revise its impairment methodology under HKFRS 9 for each class of assets carried at amortised cost.

While cash and bank balances are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

For accounts receivables, the Group applies the simplified approach to providing for expected credit losses prescribed by HKFRS 9, which requires the use of the lifetime expected losses provision for all debtors. The management performed a detailed assessment of expected credit losses on the date of initial application of HKFRS 9. There was no impact on the Group's impairment allowance and its equity.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) HKFRS 9 FINANCIAL INSTRUMENTS – ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2018

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

#### (i) DEBT INSTRUMENTS

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses), together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the statement of profit or loss.
- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other gains/(losses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses) and impairment expenses are presented as separate line item in the statement of profit or loss.
- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other gains/(losses) in the period in which it arises.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (b) HKFRS 9 FINANCIAL INSTRUMENTS – ACCOUNTING POLICIES APPLIED FROM 1 JANUARY 2018 (CONTINUED)

#### (ii) EQUITY INSTRUMENTS

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other gains/(losses) in the condensed consolidated interim income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

#### (iii) IMPAIRMENT

For accounts receivable, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

For other financial assets originally categorised as loans and receivables under HKAS 39 which all have been classified as financial assets at amortised cost under HKFRS 9 from 1 January 2018, the Group has determined that reliably assessing the probability of default of the counterparties at the initial recognition of each financial asset would result in undue cost and effort. As permitted by a transition provision in HKFRS 9, provision for impairment of receivables account for these financial assets will be determined based on whether their credit risk are low at each reporting date, and if so by recognising a 12 months expected losses amount until the financial asset is derecognised. If the financial asset is not of a low credit risk, the corresponding provision for doubtful debts account will be recognised as equal to lifetime expected losses.



## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (c) HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS – IMPACT OF ADOPTION

HKFRS 15 “Revenue from contracts with customers” replaces the previous revenue standards, including HKAS 18 “Revenue” and HKAS 11 “Construction Contracts” and the related interpretations on revenue recognition, and is effective for periods beginning on or after 1 January 2018.

The Group has also elected to apply the modified transitional provisions whereby the effects of adopting HKFRS 15 as at 1 January 2018 are adjusted at the opening balance of equity as at 1 January 2018 and prior period comparatives are not restated. There was no significant effect on the condensed interim financial statements of the Group.

HKFRS 15 establishes a comprehensive framework for determining when to recognise revenue and how much revenue to recognise through a 5-step approach: (i) identify the contract(s) with customer; (ii) identify separate performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations; and (v) recognise revenue when a performance obligation is satisfied. The core principle is that a company should recognise revenue when control of a good or service transfers to a customer.

Revenue is recognised when or as the control of the good or service is transferred to the customer. Depending on the terms of the contract and the laws that apply to the contract, control of the good or service may be transferred over time or at a point in time. Control of the good or service is transferred over time if the Group’s performance obligation:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates and enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If a performance obligation is not satisfied over time, an entity satisfies the performance obligation at point in time.

### (d) HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS – ACCOUNTING POLICIES

From 1 January 2018 onwards, the Group has adopted the following accounting policies on revenues.

#### (i) *LOGISTICS AND FREIGHT FORWARDING SERVICES*

The Group provides logistics services, including freight forwarding services. Revenue from providing services is recognised in the accounting period in which the services are rendered. Revenue is recognised over time when the Group transfers control of the services over time, based on the actual service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously.

## 2 CHANGES IN ACCOUNTING POLICIES (CONTINUED)

### (d) HKFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS – ACCOUNTING POLICIES (CONTINUED)

#### (ii) GENERAL STORAGE AND OTHER ANCILLARY SERVICES

The Group provides general storage and other ancillary services to customers. Revenue from leased storage is recognised when general storage and other ancillary services are rendered according to the terms of the respective leases.

#### (iii) SALES OF GOODS

Sales are recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract or the Group has objective evidence that all criteria for acceptance have been satisfied.

Revenue from these sales is recognised based on the price specified in the contract. No element of financing is deemed present as the sales are made with the credit policies, which is consistent with market practice.

A receivable is recognised when the goods are delivered as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

## 3 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 2017. 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 (2017: nil).

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) FAIR VALUE ESTIMATION (CONTINUED)

The following table presents the Group's financial instruments that are measured at fair value as at 30 June 2018 and 31 December 2017.

	Level 1	Level 2	Level 3	Total
At 30 June 2018	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>				
Investment in convertible bonds	-	-	563,777	563,777
Financial assets at fair value through other comprehensive income	53,702	-	105,854	159,556
Financial assets at fair value through profit or loss	-	112,215	-	112,215
<b>Total assets</b>	<b>53,702</b>	<b>112,215</b>	<b>669,631</b>	<b>835,548</b>
<b>Liability</b>				
Put option written on non-controlling interests	-	-	1,192,537	1,192,537
<b>At 31 December 2017</b>				
	Level 1	Level 2	Level 3	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Assets</b>				
Investment in convertible bonds	-	-	564,397	564,397
Available-for-sale investments	53,638	-	47,173	100,811
Financial assets at fair value through profit or loss	-	109,841	-	109,841
<b>Total assets</b>	<b>53,638</b>	<b>109,841</b>	<b>611,570</b>	<b>775,049</b>
<b>Liability</b>				
Put option written on non-controlling interests	-	-	1,218,242	1,218,242

#### LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

	Financial assets at fair value through other comprehensive income	Investment in convertible bonds	Put option written on non-controlling interests
As at 30 June 2018	HK\$'000	HK\$'000	HK\$'000
Opening balance	47,173	564,397	1,218,242
Fair value adjustment	12,951	-	-
Addition	46,749	-	-
Settlement	-	-	(23,417)
Exchange adjustment	(1,019)	(620)	(2,288)
<b>Closing balance</b>	<b>105,854</b>	<b>563,777</b>	<b>1,192,537</b>
	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
<b>Closing balance</b>	<b>50,857</b>	<b>546,176</b>	<b>1,238,962</b>

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.

### 3 FINANCIAL RISK MANAGEMENT (CONTINUED)

#### (b) FAIR VALUE ESTIMATION (CONTINUED)

##### **VALUATION PROCESSES OF THE GROUP (CONTINUED)**

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.

##### **FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

The Group established fair value of the financial assets at fair value through other comprehensive income 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.

##### **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 2018 and 31 December 2017:

- 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

### 4 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Integrated logistics		
Logistics operations	8,057,454	5,822,928
Hong Kong warehouse	108,082	262,769
International freight forwarding	9,295,691	7,619,638
	17,461,227	13,705,335

4 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 2018, together with comparative figures for the six months ended 30 June 2017 is as follows:

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
<b>Turnover</b>										
Turnover	8,057,454	5,822,928	108,082	262,769	9,295,691	7,619,638	-	-	17,461,227	13,705,335
Inter-segment turnover	157,371	107,309	274,480	212,242	1,543,531	825,396	(1,975,382)	(1,144,947)	-	-
	8,214,825	5,930,237	382,562	475,011	10,839,222	8,445,034	(1,975,382)	(1,144,947)	17,461,227	13,705,335
<b>Turnover by geographical area:</b>										
Hong Kong	1,956,744	1,384,194	382,562	475,011	791,883	396,261	(754,384)	(380,229)	2,376,805	1,875,237
Mainland China	2,330,061	1,786,682	-	-	3,210,134	2,445,308	(709,276)	(335,509)	4,830,919	3,896,481
Taiwan	1,327,997	1,173,153	-	-	211,557	99,650	(75,804)	(8,580)	1,463,750	1,264,223
Asia	2,532,452	1,510,978	-	-	2,028,460	1,485,537	(197,990)	(251,640)	4,362,922	2,744,875
Americas	-	-	-	-	2,812,822	2,645,289	(172,761)	(111,311)	2,640,061	2,533,978
Europe	-	-	-	-	1,602,938	1,209,314	(52,176)	(49,224)	1,550,762	1,160,090
Others	67,571	75,230	-	-	181,428	163,675	(12,991)	(8,454)	236,008	230,451
	8,214,825	5,930,237	382,562	475,011	10,839,222	8,445,034	(1,975,382)	(1,144,947)	17,461,227	13,705,335
<b>Segment profit by geographical area:</b>										
Hong Kong	165,204	96,560	264,011	261,836	20,925	7,426	-	-	450,140	365,822
Mainland China	151,325	127,754	-	-	69,080	100,417	-	-	220,405	228,171
Taiwan	195,327	194,058	-	-	10,837	49	-	-	206,164	194,107
Asia	303,650	196,749	-	-	44,651	23,136	-	-	348,301	219,885
Americas	-	-	-	-	74,596	69,864	-	-	74,596	69,864
Europe	-	-	-	-	7,351	13,216	-	-	7,351	13,216
Others	27,617	7,315	-	-	7,647	7,982	-	-	35,264	15,297
	843,123	622,436	264,011	261,836	235,087	222,090	-	-	1,342,221	1,106,362
Less: Unallocated administrative expenses									(125,978)	(87,496)
<b>Core operating profit</b>									1,216,243	1,018,866
Finance income									17,618	10,549
Finance costs									(106,684)	(71,166)
Share of results of associates and joint ventures									43,648	26,164
Profit before taxation*									1,170,825	984,413
Taxation*									(260,525)	(223,133)
Profit for the period*									910,300	761,280
Non-controlling interests*									(210,077)	(185,124)
<b>Core net profit</b>									700,223	576,156
Change in fair value of investment properties									239,917	189,985
Deferred tax on change in fair value of investment properties									7,499	6,175
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									199	493
Fair value change of financial instruments									-	65,000
Goodwill impairment									-	(50,000)
<b>Profit attributable to the Company's shareholders</b>									947,838	787,809
Depreciation and amortisation	266,598	212,964	27,368	26,334	85,941	67,714			379,907	307,012

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

#### 4 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

##### (c) DISAGGREGATION OF REVENUE

In the following table, revenue of the Group from contracts with customers is disaggregated by timing of satisfaction of performance obligations. The table also includes a reconciliation to the segment information in respect of revenue of the Group that is disclosed in the operating segment note.

By operating segment	For the six months ended 30 June					
	2018			2017		
	Revenue recognised at a point in time	Revenue recognised over time	Total	Revenue recognised at a point in time	Revenue recognised over time	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers						
Integrated logistics						
– Logistics operations	766,812	7,290,642	8,057,454	677,804	5,145,124	5,822,928
– Hong Kong warehouse	–	108,082	108,082	–	262,769	262,769
International freight forwarding	–	9,295,691	9,295,691	–	7,619,638	7,619,638
	766,812	16,694,415	17,461,227	677,804	13,027,531	13,705,335

By geographical area	For the six months ended 30 June					
	2018			2017		
	Revenue recognised at a point in time	Revenue recognised over time	Total	Revenue recognised at a point in time	Revenue recognised over time	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Revenue from contracts with customers						
Hong Kong	765,709	1,611,096	2,376,805	664,300	1,210,937	1,875,237
Mainland China	1,103	4,829,816	4,830,919	13,504	3,882,977	3,896,481
Taiwan	–	1,463,750	1,463,750	–	1,264,223	1,264,223
Asia	–	4,362,922	4,362,922	–	2,744,875	2,744,875
Americas	–	2,640,061	2,640,061	–	2,533,978	2,533,978
Europe	–	1,550,762	1,550,762	–	1,160,090	1,160,090
Others	–	236,008	236,008	–	230,451	230,451
	766,812	16,694,415	17,461,227	677,804	13,027,531	13,705,335

**4 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)**

(d) 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.

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.

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

	<b>Segment non-current assets<sup>#</sup></b>	
	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
	HK\$'000	HK\$'000
Hong Kong	10,126,015	9,883,612
Mainland China	4,767,779	4,730,844
Taiwan	3,396,182	3,286,008
Asia	5,952,798	5,610,408
Americas	974,970	986,335
Europe	904,424	609,388
Others	111,201	128,586
	26,233,369	25,235,181

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



## 5 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Business tax and other taxes	7,236	6,013
Cost of goods sold	690,265	589,528
Freight and transportation costs	11,881,656	9,245,788
Depreciation of property, plant and equipment (note 11)	325,012	268,150
Amortisation of leasehold land and land use rights (note 11)	5,329	3,950
Amortisation of intangible assets (note 11)	49,566	34,912
Provision for impairment of receivables	23,246	6,476
Reversal of provision for impairment of receivables	(5,500)	(1,466)
Operating lease charges on land and buildings	414,788	318,066
Employee benefit expenses	2,429,352	1,967,268

## 6 OTHER INCOME AND NET GAINS

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest income from investment in convertible bonds	10,542	10,523
Interest income from banks	15,206	9,911
Gain on disposal of property, plant and equipment	41,949	49,985
Interest income from associates	2,412	638
Dividend income from available-for-sale investments	-	4,085
Dividend income from financial assets at fair value through other comprehensive income	7,984	-
Gain on disposal of subsidiaries	84,086	-
Fair value change of financial assets at fair value through profit or loss	4,746	58,681
Goodwill impairment	-	(50,000)
	166,925	83,823

## 7 FINANCE COSTS

	Six months ended 30 June	
	2018 HK\$'000	2017 HK\$'000
Interest expenses on bank loans and overdrafts	106,684	71,166

## 8 TAXATION

### HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) for the six months ended 30 June 2018 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 34% (2017: 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% (2017: 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:

	<b>Six months ended 30 June</b>	
	<b>2018</b> HK\$'000	<b>2017</b> HK\$'000
Hong Kong profits tax		
– Current	63,980	45,849
– Overprovision in prior years	(18)	–
– Deferred	(248)	5,842
	63,714	51,691
PRC taxation		
– Current	61,493	61,659
– Overprovision in prior years	(598)	(211)
– Deferred	(6,944)	(4,321)
	53,951	57,127
Overseas taxation		
– Current	144,415	114,722
– (Overprovision)/ underprovision in prior years	(2,750)	3,562
– Deferred	(6,304)	(10,144)
	135,361	108,140
	253,026	216,958

## 9 DIVIDENDS

The Directors have declared an interim dividend of 9 HK cents per share and a special dividend of 12 HK cents per share for the six months ended 30 June 2018 (for the six months ended 30 June 2017: 8 HK cents), which are payable on Friday, 5 October 2018 to shareholders whose names appear on the registers of members of the Company on Wednesday, 19 September 2018. These financial statements do not reflect these dividends payable. The special dividend is declared considering the cash value unleashed from the partial disposal of Kerry Express Thailand and represents a pay-out ratio of approximately 29% on the net surplus of HK\$699 million (i.e. calculated based on the difference between the enterprise value and the book value of the disposed shares of approximately HK\$988 million, and deducting the estimated relevant capital gain taxes, dividend withholding taxes and professional fees associated with the deal of approximately HK\$289 million).

## 10 EARNINGS PER SHARE

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

### BASIC

	Six months ended 30 June	
	2018	2017
Adjusted weighted average number of ordinary shares in issue ('000)	1,697,077	1,695,526
Profit attributable to the Company's shareholders (HK\$'000)	947,838	787,809
Basic earnings per share (HK\$)	0.56	0.46

### DILUTED

	Six months ended 30 June	
	2018	2017
Adjusted weighted average number of ordinary shares in issue ('000)	1,697,077	1,695,526
Adjustment for share options ('000)	3,307	1,636
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,700,384	1,697,162
Profit attributable to the Company's shareholders (HK\$'000)	947,838	787,809
Diluted earnings per share (HK\$)	0.56	0.46

11 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 2017	7,868,952	8,836,851	560,983	3,224,599
Additions	1,535,233	-	54,535	-
Acquisition of subsidiaries	107,241	-	-	620,829
Change in fair value	-	901,632	-	-
Disposals	(83,824)	(43,193)	-	-
Depreciation and amortisation	(541,294)	-	(8,722)	(139,873)
Transfer/reclassification	(84,789)	109,449	(24,660)	-
Exchange adjustment	621,662	87,743	43,414	178,927
Closing net book value at 31 December 2017	9,423,181	9,892,482	625,550	3,884,482
Opening net book value at 1 January 2018	9,423,181	9,892,482	625,550	3,884,482
Additions	882,364	-	121	-
Acquisition of subsidiaries (note 17)	2,424	-	-	469,891
Change in fair value	-	239,917	-	-
Disposals	(99,399)	-	(10,561)	-
Depreciation and amortisation	(325,012)	-	(5,329)	(49,566)
Transfer/reclassification	(20,848)	20,848	-	-
Exchange adjustment	(130,041)	(15,632)	(11,591)	(40,954)
Closing net book value at 30 June 2018	9,732,669	10,137,615	598,190	4,263,853

**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 2017	7,538,700	776,939	521,212	8,836,851
Change in fair value	972,220	(20,915)	(49,673)	901,632
Disposals	-	(43,193)	-	(43,193)
Transfer from property, plant and equipment and leasehold land and land use rights	-	109,449	-	109,449
Exchange adjustment	-	60,893	26,850	87,743
Closing balance as at 31 December 2017	8,510,920	883,173	498,389	9,892,482
Opening balance as at 1 January 2018	8,510,920	883,173	498,389	9,892,482
Change in fair value	267,150	(27,530)	297	239,917
Transfer from property, plant and equipment	-	20,848	-	20,848
Exchange adjustment	-	(12,587)	(3,045)	(15,632)
Closing balance as at 30 June 2018	8,778,070	863,904	495,641	10,137,615

## 11 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 (2017: 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 approach and wherever appropriate, by market approach. Income approach 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. Market approach 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.

## 12 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 2018 HK\$'000	As at 31 December 2017 HK\$'000
Below 1 month	3,584,948	3,454,716
Between 1 month and 3 months	1,906,203	2,041,199
Over 3 months	647,789	410,740
Total trade receivables, net	6,138,940	5,906,655
Prepayments, deposits and other receivables (note)	2,137,272	1,661,817
	8,276,212	7,568,472

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.*

## 13 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Trade payables	3,098,390	2,857,942
Deposits received, accrued charges and other payables (note a)	4,441,233	4,072,332
	7,539,623	6,930,274
Less: Non-current contingent consideration payable for acquisition of subsidiaries	(332,895)	(188,033)
Non-current written put option liability (note b)	(1,171,136)	(1,176,410)
	6,035,592	5,565,831

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

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Below 1 month	1,820,742	1,560,679
Between 1 month and 3 months	725,275	701,091
Over 3 months	552,373	596,172
Total trade payables	3,098,390	2,857,942

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.*

### 13 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.

### 14 BANK LOANS

	As at 30 June 2018 HK\$'000	As at 31 December 2017 HK\$'000
Non-current		
– unsecured	3,469,221	3,280,408
– secured	979,762	918,350
	4,448,983	4,198,758
Current		
– unsecured	4,459,618	3,880,199
– secured	130,553	75,523
	4,590,171	3,955,722
Total bank loans	9,039,154	8,154,480

### 15 SHARE CAPITAL

	As at 30 June 2018		As at 31 December 2017	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, authorised, issued and fully paid:				
At beginning of the period/year	1,696,087,112	848,044	1,695,421,112	847,711
Exercise of pre-IPO share option scheme allotment	1,566,000	783	666,000	333
At end of the period/year	1,697,653,112	848,827	1,696,087,112	848,044



## 16 TRANSACTION WITH NON-CONTROLLING INTERESTS

During the period, the Group acquired additional effective interests of certain subsidiaries.

The effect of these transactions are summarised as follows:

	HK\$'000
Net consideration paid to non-controlling interests	(35,061)
Cash consideration to be paid to non-controlling interests	(36,717)
Decrease in non-controlling interests	11,258
Changes in equity attributable to the Company's shareholders arising from changes in ownership of interests in subsidiaries without change of control	(60,520)

## 17 BUSINESS COMBINATION

During the period, the Group acquired controlling equity interests in several international freight forwarding companies, which are principally operated in Italy and PRC.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid	394,792
Cash consideration to be paid	165,064
Total	559,856

## 17 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 11)	2,424
Accounts receivable, prepayments and deposits	164,090
Cash and bank balances	93,693
Tax recoverable	1,021
Accounts payable, deposits received and accrued charges	(4,867)
Bank loans	(44,916)
Deferred taxation	(40,875)
Total identifiable net assets	170,570
Intangible assets (note 11)	469,891
Non-controlling interests	(80,605)
Total	559,856

\* As at 30 June 2018, 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\$469,891,000 arising from these acquisitions are primarily attributable to the future profitability of the acquired businesses.

The acquired businesses contributed turnover of HK\$157,762,000 and net profit of HK\$5,737,000 to the Company's shareholders for the period from their respective acquisition dates up to 30 June 2018. If the acquisitions had occurred on 1 January 2018, the contributed turnover and profit attributable to the Company's shareholders for the period ended 30 June 2018 would have been HK\$290,814,000 and HK\$7,631,000 respectively.

## 18 COMMITMENTS

As at 30 June 2018, 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:

	<b>As at 30 June 2018</b>	<b>As at 31 December 2017</b>
	HK\$'000	HK\$'000
Contracted but not provided for	990,090	1,527,636

## 19 PLEDGE OF ASSETS

As at 30 June 2018, the Group's total bank loans of HK\$9,039,154,000 (31 December 2017: HK\$8,154,480,000) included an aggregate amount of HK\$1,110,315,000 (31 December 2017: HK\$993,873,000) which are secured. The Group's total bank overdrafts of HK\$66,635,000 (31 December 2017: HK\$51,006,000) included an aggregate amount of HK\$66,326,000 (31 December 2017: HK\$48,395,000) 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\$2,519,089,000 (31 December 2017: HK\$2,591,024,000);
- (ii) assignments of insurance proceeds of certain properties of the Group; and
- (iii) certain balances of restricted and pledged deposits of the Group.

# DEFINITIONS

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“1H” or “2H”	first half or second half
“APEX”	a group of 51%-owned US subsidiaries of KLN Investment (US) LLC, an indirect wholly-owned subsidiary of the Company
“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
“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
“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
“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
“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

“Kerry Express Thailand”	Kerry Express (Thailand) Limited, a company incorporated in Thailand with limited liability, an indirect 63%-owned subsidiary of the Company
“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
“Majestic”	Majestic Tulip Limited, a subsidiary of KHL
“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,” “Q3” or “Q4”	first quarter, second quarter, third quarter or fourth 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

# KERRY EXPRESS

## Asia's leading express delivery service provider

Established in 2006, Kerry Express offers innovative, reliable, and cost-effective parcel delivery services in Asia, covering Thailand, Vietnam, Malaysia, Cambodia, Indonesia, Taiwan, and Hong Kong. It also provides B2C/C2C e-commerce solutions to a wide range of customers, including individuals, e-retailers, and independent sellers on social media in the region.

In Thailand alone, it operates 600 distribution centres and 2,500 service locations with multi-service channels. It is the only company providing next-day deliveries across the country with cash-on-delivery service. Kerry Express was voted the No. 1 Brand in Thailand 2017-2018 by Marketeer, a leading marketing publication, in May 2018.





เคอรี่ เอ็กสเพรส

# KERRY EXPRESS

## 亞洲領先的快遞服務供應商

Kerry Express成立於二零零六年，在亞洲提供創新、可靠和具成本效益的包裹快遞服務，業務覆蓋泰國、越南、馬來西亞、柬埔寨、印尼、台灣和香港。Kerry Express在區內提供B2C/C2C電子商貿解決方案，其客戶類型廣泛，涵蓋個人、網絡零售商及社交媒體的個人賣方等。

單在泰國，Kerry Express營運600個配送中心及2,500個服務點，擁有多元服務渠道，是當地唯一一家提供覆蓋全國翌日送遞和貨到付款服務的快遞公司。於二零一八年五月，Kerry Express獲領先的營銷刊物Marketeer選為二零一七至一八年度泰國第一品牌。

