

INTERIM REPORT

2016

Kerry Logistics Network Limited
Stock Code 636

KERRY
LOGISTICS

ASIA SPECIALIST

CHINA FOCUS

GLOBAL NETWORK



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1 CORPORATE INFORMATION & KEY DATES

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 WONG Yu Pok Marina
Mr WAN Kam To
Mr YEO Philip Liat Kok

AUDIT AND COMPLIANCE COMMITTEE

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

REMUNERATION COMMITTEE

Mr WAN Kam To (Chairman)
Mr YEO George Yong-boon
Mr MA Wing Kai William
Ms WONG Yu Pok Marina
Mr YEO Philip Liat Kok

NOMINATION COMMITTEE

Mr YEO George Yong-boon (Chairman)
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
(Formerly known as Appleby Management (Bermuda) Ltd.)
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

WEBSITE

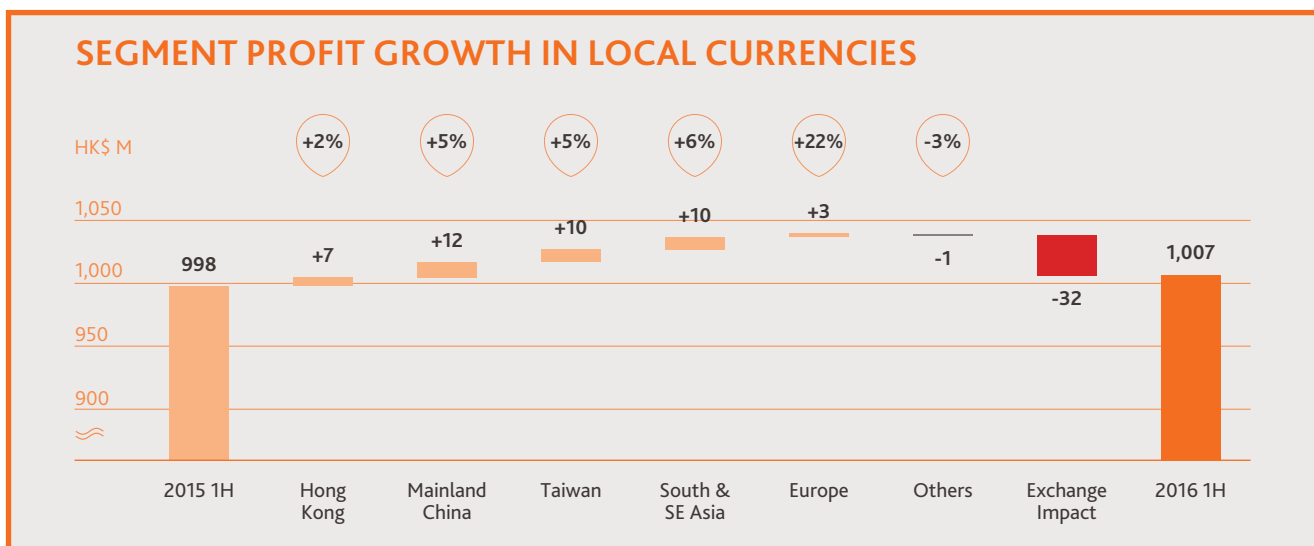
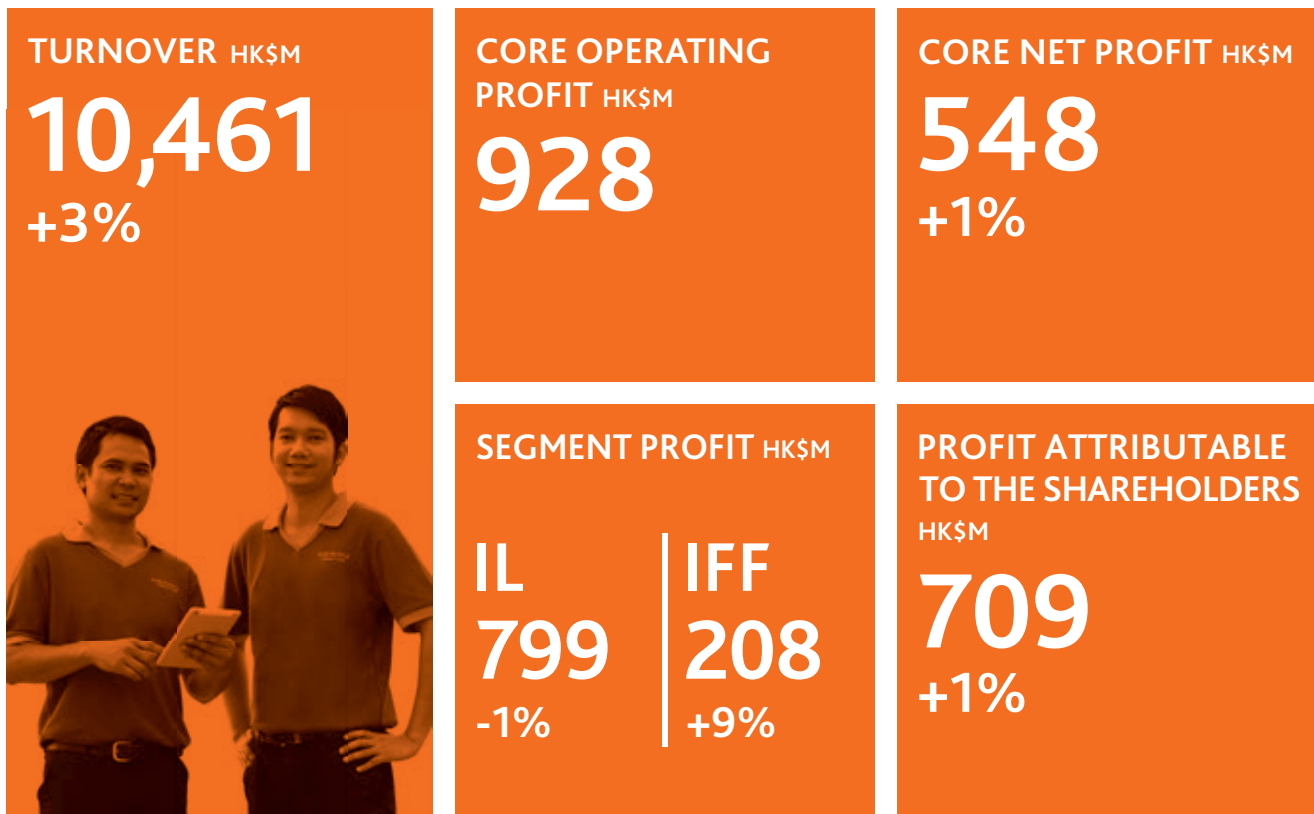
www.kerrylogistics.com

KEY DATES

Closure of Registers of Members
7 September 2016

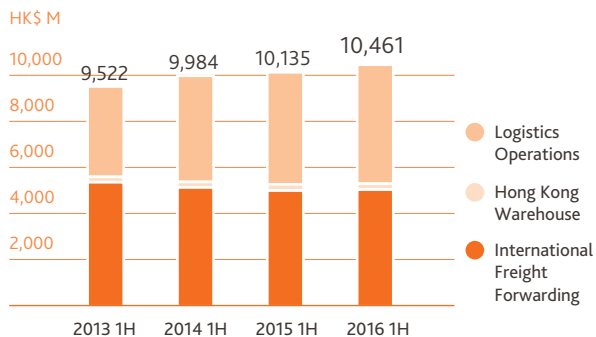
Proposed Payment of Interim Dividend
21 September 2016

2 FINANCIAL HIGHLIGHTS 2016 1H

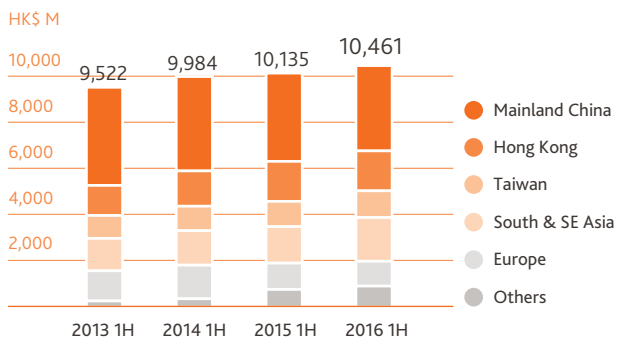


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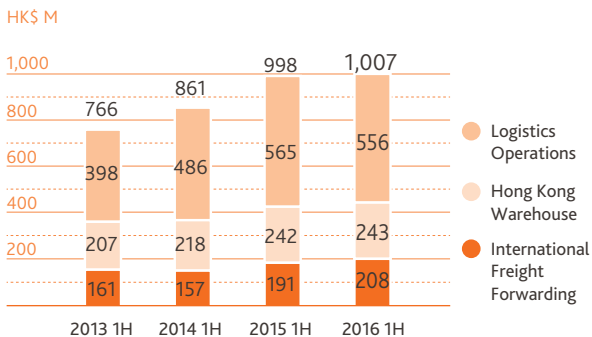
2.1 TURNOVER BY SEGMENT



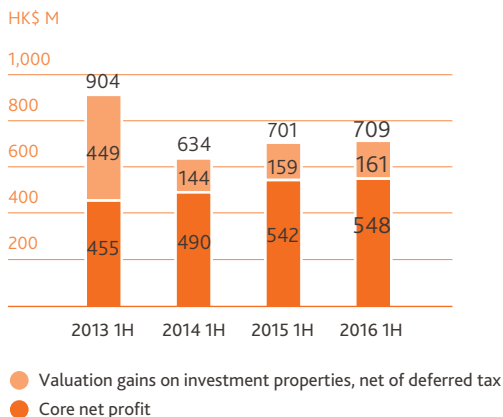
2.2 TURNOVER BY REGION



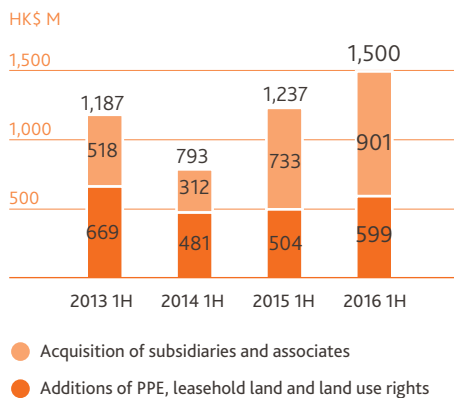
2.3 SEGMENT PROFIT



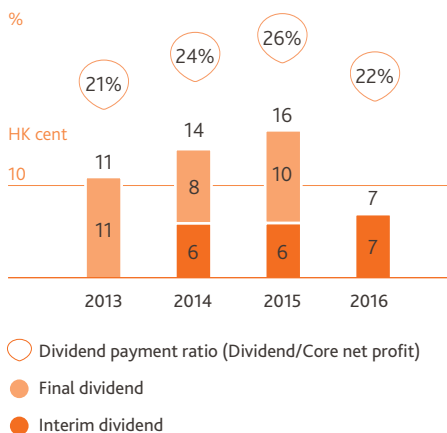
2.4 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



2.5 CAPEX



2.6 DIVIDEND PER SHARE & DIVIDEND PAYOUT RATIO



3 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 7 to 31, 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 2016 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the six-month period then ended, and

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

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 August 2016

4 INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Note	Unaudited 2016 HK\$'000	Unaudited 2015 HK\$'000
Turnover	3	10,460,893	10,134,594
Direct operating expenses	4	(8,753,449)	(8,450,862)
Gross profit		1,707,444	1,683,732
Other income and net gains	5	90,402	78,258
Administrative expenses	4	(856,879)	(823,575)
Operating profit before fair value change of investment properties		940,967	938,415
Change in fair value of investment properties		159,111	165,161
Operating profit		1,100,078	1,103,576
Finance costs	6	(74,337)	(68,040)
Share of results of associates		53,947	56,285
Profit before taxation		1,079,688	1,091,821
Taxation	7	(177,801)	(212,246)
Profit for the period		901,887	879,575
Profit attributable to:			
Company's shareholders	3	709,080	701,007
Non-controlling interests		192,807	178,568
		901,887	879,575
Earnings per share	9		
– Basic		HK\$0.42	HK\$0.41
– Diluted		HK\$0.42	HK\$0.41

CONDENSED CONSOLIDATED INTERIM
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited 2016 HK\$'000	Unaudited 2015 HK\$'000
Profit for the period	901,887	879,575
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(403)	(70,464)
Fair value change on available-for-sale investments	(1,373)	–
Other comprehensive loss for the period	(1,776)	(70,464)
Total comprehensive income for the period	900,111	809,111
Total comprehensive income attributable to:		
Company's shareholders	704,362	613,286
Non-controlling interests	195,749	195,825
	900,111	809,111

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	10	2,887,865	2,144,064
Investment properties	10	8,282,580	8,118,602
Leasehold land and land use rights	10	547,094	538,443
Property, plant and equipment	10	7,400,244	7,028,223
Associates		1,196,250	1,136,543
Available-for-sale investments		106,003	105,617
Investment in convertible bond		–	351,689
Long-term receivables		7,763	7,755
Deposits paid		205,824	–
		20,633,623	19,430,936
Current assets			
Inventories		291,693	317,381
Investment in convertible bond		347,807	–
Financial assets at fair value through profit or loss		104,544	–
Accounts receivable, prepayments and deposits	11	5,626,396	4,891,331
Tax recoverable		5,386	3,248
Amounts due from fellow subsidiaries		3,568	2,505
Restricted and pledged bank deposits		31,448	33,638
Cash and bank balances		4,012,887	3,733,357
		10,423,729	8,981,460
Current liabilities			
Accounts payable, deposits received and accrued charges	12	3,854,287	3,814,011
Amounts due to fellow subsidiaries		3,847	12,272
Amounts due to related companies		38,732	40,664
Taxation		156,959	158,374
Short-term bank loans and current portion of long-term bank loans	13	2,559,832	2,368,773
Bank overdrafts		55,194	46,613
		6,668,851	6,440,707

	Note	Unaudited As at 30 June 2016 HK\$'000	Audited As at 31 December 2015 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		234,193	249,311
Long-term bank loans	13	4,300,230	2,801,152
Deferred taxation		589,291	560,369
Retirement benefit obligations		134,586	265,265
Other non-current liabilities		1,028,082	115,080
		6,286,382	3,991,177
ASSETS LESS LIABILITIES		18,102,119	17,980,512
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	847,403	847,207
Share premium and other reserves		2,676,004	2,566,845
Retained profits		12,653,577	12,118,669
		16,176,984	15,532,721
Put option written on non-controlling interests		(1,029,584)	(103,501)
		15,147,400	15,429,220
Non-controlling interests		2,954,719	2,551,292
TOTAL EQUITY		18,102,119	17,980,512

CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2016

	Unaudited 2016 HK\$'000	Unaudited 2015 HK\$'000
Operating activities		
Net cash generated from operations	648,233	768,031
Interest paid	(74,337)	(68,040)
Income tax paid	(173,923)	(173,216)
Net cash generated from operating activities	399,973	526,775
Investing activities		
Additions of property, plant and equipment	(596,203)	(502,392)
Purchase of available-for-sale investments	–	(21,172)
Purchase of convertible bond	–	(349,021)
Purchase of financial assets at fair value through profit or loss	(104,544)	–
Purchase of leasehold land and land use rights	(2,549)	(1,438)
Proceeds from sale of property, plant and equipment	76,693	122,317
Proceeds from disposal of subsidiaries	43,305	44,957
Dividend income from available-for-sale investments	–	339
Dividends received from associates	14,325	210,904
Net decrease/(increase) in balances with associates	641	(4,000)
Increase in deposits	(44,326)	(26,789)
Interest received	12,987	13,912
Interest income from investment in convertible bond	10,487	5,721
Acquisition of subsidiaries	(722,517)	(393,583)
Cash consideration paid for prior year's acquisition	(28,339)	–
Increase in investments in associates	(29,484)	(155,684)
Decrease/(increase) in restricted and pledged bank deposits	2,190	(13,821)
Net cash used in investing activities	(1,367,334)	(1,069,750)

Unaudited
2016
HK\$'000

Unaudited
2015
HK\$'000

Financing activities

Repayment of bank loans	(2,324,826)	(769,546)
Drawdown of bank loans	3,967,168	1,385,881
Dividends of subsidiaries paid to non-controlling interests	(75,948)	(83,301)
Capital injection from non-controlling interests	6,400	–
Drawdown of loans from non-controlling interests	15,916	7,976
Repayment of loans from non-controlling interests	(31,324)	(18,403)
Changes in ownership of interests in subsidiaries without change of control	246,313	(208,086)
Increase in deposits paid for additional interest in a subsidiary	(161,498)	–
Advance to non-controlling interests	(232,770)	–
Dividend paid	(169,472)	(135,401)
Proceeds from exercise of pre-IPO share option scheme allotment	3,989	26,321
Proceeds from exercise of post-IPO share option scheme allotment	–	1,226
Net cash from financing activities	1,243,948	206,667
Increase/(decrease) in cash and cash equivalents	276,587	(336,308)
Effect of exchange rate changes	(5,638)	(9,198)
Cash and cash equivalents at beginning of the period	3,686,744	3,768,341
Cash and cash equivalents at end of the period	3,957,693	3,422,835
Analysis of balances of cash and cash equivalents		
Cash and bank balances	4,012,887	3,464,668
Bank overdrafts	(55,194)	(41,833)
	3,957,693	3,422,835

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 2016	847,207	2,990,408	(423,563)	11,949,228	169,441	(103,501)	15,429,220	2,551,292	17,980,512
Profit for the period	-	-	-	709,080	-	-	709,080	192,807	901,887
Net translation differences on foreign operations	-	-	(3,640)	-	-	-	(3,640)	3,237	(403)
Fair value change on available-for-sale investments	-	-	(1,078)	-	-	-	(1,078)	(295)	(1,373)
Total comprehensive income for the six months ended 30 June 2016	-	-	(4,718)	709,080	-	-	704,362	195,749	900,111
Dividends paid	-	-	-	(31)	(169,441)	-	(169,472)	(75,948)	(245,420)
2016 proposed interim dividend	-	-	-	(118,672)	118,672	-	-	-	-
Transfers	-	-	4,878	(4,878)	-	-	-	-	-
Changes in ownership of interests in subsidiaries without change of control (note 15)	-	-	105,384	-	-	-	105,384	140,929	246,313
Acquisition of subsidiaries (note 16)	-	-	-	-	-	-	-	136,297	136,297
Capital injection from non-controlling interests	-	-	-	-	-	-	-	6,400	6,400
Put option written on non-controlling interests related to acquisition of subsidiaries	-	-	-	-	-	(926,083)	(926,083)	-	(926,083)
Exercise of pre-IPO share option scheme allotment	196	4,259	(466)	-	-	-	3,989	-	3,989
Share option lapsed	-	-	(178)	178	-	-	-	-	-
Total transactions with owners	196	4,259	109,618	(123,403)	(50,769)	(926,083)	(986,182)	207,678	(778,504)
Balance at 30 June 2016	847,403	2,994,667	(318,663)	12,534,905	118,672	(1,029,584)	15,147,400	2,954,719	18,102,119

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	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
(unaudited)								
Balance at 1 January 2015	845,620	2,955,547	311,401	10,422,922	135,299	14,670,789	2,681,987	17,352,776
Profit for the period	-	-	-	701,007	-	701,007	178,568	879,575
Net translation differences on foreign operations	-	-	(87,721)	-	-	(87,721)	17,257	(70,464)
Total comprehensive income for the six months ended 30 June 2015	-	-	(87,721)	701,007	-	613,286	195,825	809,111
Dividends paid	-	-	-	(102)	(135,299)	(135,401)	(83,301)	(218,702)
2015 proposed interim dividend	-	-	-	(101,643)	101,643	-	-	-
Transfers	-	-	3,426	(3,426)	-	-	-	-
Fair value change in available-for-sale investments	-	-	(3,584)	-	-	(3,584)	(1,173)	(4,757)
Acquisition of additional interest in subsidiaries	-	-	(104,885)	-	-	(104,885)	(103,201)	(208,086)
Acquisition of subsidiaries	-	-	-	-	-	-	6,009	6,009
Value of employee services under post-IPO share option scheme	-	-	4,242	-	-	4,242	-	4,242
Exercise of pre-IPO share option scheme allotment	1,290	28,110	(3,079)	-	-	26,321	-	26,321
Exercise of post-IPO share option scheme allotment	50	1,371	(195)	-	-	1,226	-	1,226
Total transactions with owners	1,340	29,481	(104,075)	(105,171)	(33,656)	(212,081)	(181,666)	(393,747)
Balance at 30 June 2015	846,960	2,985,028	119,605	11,018,758	101,643	15,071,994	2,696,146	17,768,140

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 2015, 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 2015.

The following standard, amendments and improvements to existing standards that are effective for the accounting period of the Group beginning on 1 January 2016 have been published:

- HKAS 1 (amendment), 'Disclosure initiative'
- HKAS 27 (amendment), 'Equity method in separate financial statements'
- Amendments to HKAS 16 and HKAS 38, 'Clarification of acceptable methods of depreciation and amortisation'
- Amendments to HKAS 16 and HKAS 41, 'Bearer plants'
- Amendments to HKAS 28 (2011), HKFRS 10 and HKFRS 12, 'Investment entities: applying the consolidation exception'
- Amendments to HKFRS 11, 'Accounting for acquisitions of interests in joint operations'
- HKFRS 14, 'Regulatory deferral accounts'
- Annual improvements to 2012-2014 cycle

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

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

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

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

HKFRS 9	Financial instruments ¹
HKFRS 15	Revenue from contracts with customers ¹
HKFRS 16	Leases ²
Amendments to HKAS 28 (2011), and HKFRS 10	Sale or contribution of assets between an investor and its associate or joint venture ³

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

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

3 *Effective date to be determined*

The Group is in the process of assessing the impact of these new standards and amendments to existing standards, certain of which may be relevant to the Group's operations and may give rise to changes in disclosure and remeasurement of certain items in the condensed consolidated interim financial statements.

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 2015 except for the following.

CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

During the six months ended 30 June 2016, the Group entered into an acquisition agreement with third parties to purchase the 100% interests of KLN Investment (US) LLC, for the purpose of acquiring 51% of the shareholding in APEX, at a consideration of US\$88 million. The Group has granted put options to the non-controlling interests of APEX which entitle them to sell the remaining interests to the Group.

The Group recognises the written put option liabilities at their fair values which are determined in accordance with the terms under those relevant agreements and with reference to the estimated post-acquisition performance of the acquired subsidiaries/businesses. The fair value of the written put options over non-controlling interests in a subsidiary company is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period. Changes to key assumptions (such as growth rate, cash flow, margins and discount rate) can significantly affect the amounts of future liabilities.

2 FINANCIAL RISK MANAGEMENT

(a) FINANCIAL RISK FACTORS

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

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; and should be read in conjunction with the Group's annual financial statements as at 31 December 2015. 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 (2015: nil).

The following table presents the Group's financial instruments that are measured at fair value as at 30 June 2016 and 31 December 2015.

	Level1	Level2	Level3	Total
At 30 June 2016	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Investment in convertible bond	-	-	347,807	347,807
Available-for-sale investments	57,704	-	48,299	106,003
Financial assets at fair value through profit or loss	-	104,544	-	104,544
Total assets	57,704	104,544	396,106	558,354
Liability				
Put option written on non-controlling interests	-	-	1,028,082	1,028,082

	Level1	Level2	Level3	Total
At 31 December 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Assets				
Investment in convertible bond	-	-	351,689	351,689
Available-for-sale investments	57,467	-	48,150	105,617
Total assets	57,467	-	399,839	457,306
Liability				
Put option written on non-controlling interests	-	-	98,882	98,882

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FAIR VALUE ESTIMATION (CONTINUED)

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

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

As at 30 June 2015	Available-for-sale investments HK\$'000	Investment in convertible bond HK\$'000	Put option written on non-controlling interests HK\$'000
Opening balance	48,898	–	–
Additions	1,247	349,021	–
Exchange adjustment	538	–	–
Closing balance	50,683	349,021	–

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

VALUATION PROCESSES OF THE GROUP

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

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

INVESTMENT IN CONVERTIBLE BONDS

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

AVAILABLE -FOR-SALE INVESTMENTS

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

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 2016 and 31 December 2015:

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

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Integrated logistics		
Logistics operations	5,152,200	4,852,417
Hong Kong warehouse	255,421	271,866
International freight forwarding	5,053,272	5,010,311
	10,460,893	10,134,594

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

(b) An analysis of the Group's financial results by operating segment and geographical area for the six months ended 30 June:

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000	2016 HK\$'000	2015 HK\$'000
Turnover										
Turnover	5,152,200	4,852,417	255,421	271,866	5,053,272	5,010,311	-	-	10,460,893	10,134,594
Inter-segment turnover	85,905	110,051	182,341	154,273	451,333	420,594	(719,579)	(684,918)	-	-
	5,238,105	4,962,468	437,762	426,139	5,504,605	5,430,905	(719,579)	(684,918)	10,460,893	10,134,594
Turnover by geographical area:										
Hong Kong	1,168,954	1,224,823	437,762	426,139	338,504	265,337	(215,224)	(183,496)	1,729,996	1,732,803
Mainland China	1,857,620	1,680,060	-	-	2,140,636	2,443,960	(304,481)	(303,454)	3,693,775	3,820,566
Taiwan	1,093,919	1,079,812	-	-	65,562	24,054	(3,319)	(8,245)	1,156,162	1,095,621
South & South East Asia	1,050,624	907,713	-	-	932,474	769,474	(88,866)	(99,519)	1,894,232	1,577,668
Europe	-	-	-	-	1,104,352	1,163,999	(28,215)	(22,690)	1,076,137	1,141,309
Others	66,988	70,060	-	-	923,077	764,081	(79,474)	(67,514)	910,591	766,627
	5,238,105	4,962,468	437,762	426,139	5,504,605	5,430,905	(719,579)	(684,918)	10,460,893	10,134,594
Segment profit by geographical area:										
Hong Kong	86,779	79,386	243,391	241,560	11,626	13,940	-	-	341,796	334,886
Mainland China	129,383	127,666	-	-	114,020	115,595	-	-	243,403	243,261
Taiwan	208,629	210,170	-	-	2,555	899	-	-	211,184	211,069
South & South East Asia	126,520	142,225	-	-	39,660	23,409	-	-	166,180	165,634
Europe	-	-	-	-	15,225	13,114	-	-	15,225	13,114
Others	4,237	5,647	-	-	24,879	24,405	-	-	29,116	30,052
	555,548	565,094	243,391	241,560	207,965	191,362	-	-	1,006,904	998,016
Less: Unallocated administrative expenses									(78,924)	(73,513)
Core operating profit									927,980	924,503
Finance income									12,987	13,912
Finance costs									(74,337)	(68,040)
Share of results of associates									53,947	56,285
Profit before taxation*									920,577	926,660
Taxation*									(179,314)	(208,405)
Profit for the period*									741,263	718,255
Non-controlling interests*									(192,807)	(175,989)
Core net profit									548,456	542,266
Change in fair value of investment properties									159,111	165,161
Deferred tax on change in fair value of investment properties									1,513	(3,841)
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									-	(2,579)
Profit attributable to the Company's shareholders									709,080	701,007
Depreciation and amortisation	188,406	173,686	23,315	17,747	53,518	43,795			265,239	235,228

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

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

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

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

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

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

Segment turnover and profit derived from geographical areas are based on the geographical location of the operation.

The executive directors assess the performance of the operating segments by geographical area based on segment profit.

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 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.

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

	Segment non-current assets#	
	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Hong Kong	8,099,298	7,929,859
Mainland China	4,147,384	4,077,344
Taiwan	2,688,334	2,592,104
South & South East Asia	3,722,686	3,277,902
Europe	419,520	431,422
Others	1,236,811	657,244
	20,314,033	18,965,875

Other than available-for-sale investments, investment in convertible bond, long-term receivables and deposits paid.

4 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Business tax and other taxes	7,779	10,088
Cost of goods sold	671,831	604,420
Freight and transportation costs	6,355,303	6,251,864
Depreciation of property, plant and equipment	239,828	221,117
Amortisation of leasehold land and land use rights	4,274	5,056
Amortisation of intangible assets	21,137	9,055
Provision for impairment of receivables	16,821	17,660
Reversal of provision for impairment of receivables	(1,946)	(7,732)
Operating lease charges on land and buildings	279,431	262,437
Employee benefit expenses	1,724,358	1,605,513

5 OTHER INCOME AND NET GAINS

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest income from investment in convertible bond	10,487	5,721
Interest income from banks	12,146	13,882
Gain on disposal of property, plant and equipment	24,025	46,980
Interest income from associates	841	30
Dividend income from available-for-sale investments	3,222	339
Gain on disposal of subsidiaries	39,681	11,306
	<u>90,402</u>	<u>78,258</u>

6 FINANCE COSTS

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Interest expenses on bank loans and overdrafts	74,337	68,040

7 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2015: 16.5%) for the period ended 30 June 2016 on the estimated assessable profit for the period. Income tax on the overseas profits has been calculated on the estimated assessable profit for the period with rates ranging from 17% to 40% (2015: 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% (2015: 25%) on the estimated assessable profit for the period.

WITHHOLDING TAX ON DISTRIBUTED/ UNDISTRIBUTED PROFITS

Withholding tax in the Group's subsidiaries and associates is levied on profit distribution upon declaration/remittance and in respect of the undistributed earnings for the period at the rates of taxation prevailing in the PRC and overseas countries.

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

	Six months ended 30 June	
	2016 HK\$'000	2015 HK\$'000
Hong Kong profits tax		
– Current	43,323	46,071
– (Over)/underprovision in prior years	(42)	158
– Deferred	6,632	4,483
	49,913	50,712
PRC taxation		
– Current	56,026	52,107
– Overprovision in prior years	(1,217)	(1,832)
– Deferred	4,515	7,061
	59,324	57,336
Overseas taxation		
– Current	66,546	103,317
– Underprovision in prior years	3,030	239
– Deferred	(1,012)	642
	68,564	104,198
	177,801	212,246

8 DIVIDENDS

A dividend in respect of the six months ended 30 June 2016 of 7 HK cents per share, amounting to a total dividend of HK\$118,672,000 is declared. The amount of interim dividend declared was calculated based on the number of ordinary shares in issue at the date of approval of the condensed consolidated interim financial statements. These financial statements do not reflect this dividend payable.

	Six months ended 30 June	
	2016	2015
	HK\$'000	HK\$'000
Proposed dividend of 7 HK cents (for the period ended 30 June 2015: 6 HK cents) per ordinary share	118,672	101,643

9 EARNINGS PER SHARE

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

BASIC

	Six months ended 30 June	
	2016	2015
Adjusted weighted average number of ordinary shares in issue ('000)	1,694,607	1,691,980
Profit attributable to the Company's shareholders (HK\$'000)	709,080	701,007
Basic earnings per share (HK\$)	0.42	0.41

DILUTED

	Six months ended 30 June	
	2016	2015
Adjusted weighted average number of ordinary shares in issue ('000)	1,694,607	1,691,980
Adjustment for share options ('000)	2,046	5,960
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,696,653	1,697,940
Profit attributable to the Company's shareholders (HK\$'000)	709,080	701,007
Diluted earnings per share (HK\$)	0.42	0.41

10 CAPITAL EXPENDITURE

	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 2015	6,652,889	7,456,242	580,941	1,834,776
Additions	1,242,582	944	13,119	–
Acquisition of subsidiaries	112,759	–	4,937	443,459
Change in fair value	–	744,306	–	–
Revaluation surplus	–	–	34,080	–
Disposals	(68,627)	–	–	–
Disposal of subsidiaries	(17,802)	(163,414)	(1,545)	–
Depreciation and amortisation	(457,615)	–	(7,684)	(22,154)
Transfer/reclassification	(88,407)	142,058	(53,651)	–
Exchange adjustment	(347,556)	(61,534)	(31,754)	(112,017)
Closing net book value at 31 December 2015	7,028,223	8,118,602	538,443	2,144,064
Opening net book value at 1 January 2016	7,028,223	8,118,602	538,443	2,144,064
Additions	596,203	–	2,549	–
Acquisition of subsidiaries (note 16)	17,081	–	–	754,310
Change in fair value	–	159,111	–	–
Disposals	(52,668)	–	–	–
Disposal of a subsidiary	(4,630)	–	–	–
Depreciation and amortisation	(239,828)	–	(4,274)	(21,137)
Transfer/reclassification	(15,914)	–	15,914	–
Exchange adjustment	71,777	4,867	(5,538)	10,628
Closing net book value at 30 June 2016	7,400,244	8,282,580	547,094	2,887,865

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 2015	6,004,250	1,012,309	439,683	7,456,242
Additions	–	944	–	944
Change in fair value	746,550	12,436	(14,680)	744,306
Disposal of a subsidiary	–	(163,414)	–	(163,414)
Transfer from property, plant and equipment and leasehold land and land use rights	–	–	142,058	142,058
Exchange adjustment	–	(46,982)	(14,552)	(61,534)
Closing balance as at 31 December 2015	6,750,800	815,293	552,509	8,118,602
Opening balance as at 1 January 2016	6,750,800	815,293	552,509	8,118,602
Change in fair value	167,100	2,327	(10,316)	159,111
Exchange adjustment	–	(11,399)	16,266	4,867
Closing balance as at 30 June 2016	6,917,900	806,221	558,459	8,282,580

10 CAPITAL EXPENDITURE (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 (2015: nil).

VALUATION PROCESSES OF THE GROUP

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

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

At each financial period end the finance department:

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

VALUATION TECHNIQUES

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

SIGNIFICANT UNOBSERVABLE INPUTS USED TO DETERMINE FAIR VALUE

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

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

11 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Below 1 month	2,297,647	2,173,408
Between 1 month and 3 months	1,318,592	1,186,080
Over 3 months	330,998	308,803
Total trade receivables, net	3,947,237	3,668,291
Prepayments, deposits and other receivables (note)	1,679,159	1,223,040
	5,626,396	4,891,331

Note:

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

12 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

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

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Trade payables	2,004,840	1,877,458
Deposits received, accrued charges and other payables (note a)	2,877,529	2,051,633
	4,882,369	3,929,091
Less: Non-current contingent consideration payable to acquisition of a subsidiary	-	(16,198)
Written put option liability (note b)	(1,028,082)	(98,882)
	3,854,287	3,814,011

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

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Below 1 month	949,724	797,217
Between 1 month and 3 months	576,308	617,413
Over 3 months	478,808	462,828
Total trade payables	2,004,840	1,877,458

Notes:

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

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

Notes: (Continued)

- (b) Pursuant to agreements entered into between the Group with Transpeed and APEX respectively, 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 Transpeed put option will be exercisable between 2018 and 2020 and the APEX put option will be exercisable between 2019 and 2021. The financial liability that may become payable under the put option is 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 put option liability shall be re-measured at its fair value resulting from the change in the expected performance of Transpeed and APEX at the end of each reporting date, with any resulting gain or loss recognised in the consolidated income statement. In the event that the put option lapses unexercised, the liability will be derecognised with a corresponding adjustment to equity.

13 BANK LOANS

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Non-current		
– unsecured	3,885,749	2,616,084
– secured	414,481	185,068
	4,300,230	2,801,152
Current		
– unsecured	2,389,345	2,114,499
– secured	170,487	254,274
	2,559,832	2,368,773
Total bank loans	6,860,062	5,169,925

14 SHARE CAPITAL

	As at 30 June 2016		As at 31 December 2015	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, authorised, issued and fully paid:				
At beginning of the period/year	1,694,414,612	847,207	1,691,240,112	845,620
Exercise of pre-IPO share option scheme allotment	391,000	196	3,074,500	1,537
Exercise of post-IPO share option scheme allotment	–	–	100,000	50
At end of the period/year	1,694,805,612	847,403	1,694,414,612	847,207

15 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

During the period, the Group disposed and acquired additional effective interests of several subsidiaries, the main one being a decrease in effective interest in Kerry TJ Logistics Company Limited.

The aggregate effect of these transactions is summarised as follows:

	HK\$'000
Net consideration received from non-controlling interests	246,313
Increase in non-controlling interest	<u>(140,929)</u>
Changes in equity attributable to the Company's shareholders arising from changes in ownership of interest in subsidiaries without change of control	<u>105,384</u>

16 BUSINESS COMBINATION

In January 2016, the Group acquired 75% interest in Transpeed which is engaged in freight forwarding, warehousing and trucking services.

In March 2016, the Group acquired the business of a group of freight forwarding companies which is focused on the trade between Hong Kong, Taiwan and Mainland China. The business was integrated into the Group's subsidiaries, namely, Kerry Speedy Logistics Co., Ltd. and Kerry Speedy Logistics (Hong Kong) Limited where the Group has interest of 55.3% upon integration.

In May 2016, the Group acquired 51% interest of APEX which is engaged in international freight forwarding.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid	861,676
Cash consideration to be paid	<u>6,924</u>
Total	<u>868,600</u>

16 BUSINESS COMBINATION (CONTINUED)

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

	HK\$'000
Property, plant and equipment (note 10)	17,081
Accounts receivable, prepayments and deposits	407,582
Cash and bank balances	139,159
Accounts payable, deposits received and accrued charges	(303,514)
Taxation	(1,176)
Deferred taxation	(8,545)
Total identifiable net assets	250,587
Intangible assets (note 10)	754,310
Non-controlling interests	(136,297)
Total	868,600

* As at 30 June 2016, 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\$754,310,000 arising from these acquisitions are attributable to the future profitability of the acquired businesses.

The acquired businesses contributed turnover of HK\$377,551,000 and net profit of HK\$7,423,000 to the Company's shareholders for the period from their respective acquisition dates up to 30 June 2016. If the acquisitions had occurred on 1 January 2016, the contributed turnover and profit attributable to the Company's shareholders for the period ended 30 June 2016 would have been HK\$1,501,124,000 and HK\$34,215,000 respectively.

17 COMMITMENTS

As at 30 June 2016, the Group had capital commitments in respect of property, plant and equipment, new investments and acquisition of subsidiaries not provided for in these financial statements as follows:

	As at 30 June 2016 HK\$'000	As at 31 December 2015 HK\$'000
Contracted but not provided for	1,125,874	1,092,942

18 PLEDGE OF ASSETS

As at 30 June 2016, the Group's total bank loans of HK\$6,860,062,000 (31 December 2015: HK\$5,169,925,000) included an aggregate amount of HK\$584,968,000 (31 December 2015: HK\$439,342,000) which are secured. The Group's total bank overdrafts of HK\$55,194,000 (31 December 2015: HK\$46,613,000) included an aggregate amount of HK\$43,979,000 (31 December 2015: HK\$44,878,000) 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\$2,693,083,000 (31 December 2015: HK\$2,606,333,000); and
- (ii) assignments of insurance proceeds of certain properties of the Group; and
- (iii) certain balances of restricted and pledged deposits of the Group.

5 MANAGEMENT DISCUSSION AND ANALYSIS

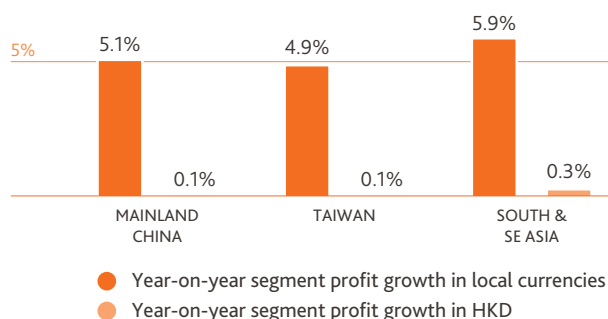
RESULTS OVERVIEW

The Group realised a slight increase in turnover of 3% to HK\$10,461 million in 2016 1H (2015 1H: HK\$10,135 million). Core operating profit went up slightly to HK\$928 million (2015 1H: HK\$925 million). Core net profit was HK\$548 million (2015 1H: HK\$542 million), which represents a growth of 1% year-on-year. Profit attributable to the Shareholders, after taking into account valuation gains on investment properties, also increased slightly to HK\$709 million (2015 1H: HK\$701 million).

	2016 1H HK\$ million	2015 1H HK\$ million	
Segment profit			
IL			
– Logistics operations	556	565	–2%
– Hong Kong warehouse	243	242	+0%
	799	807	
IFF	208	191	+9%
	1,007	998	
Unallocated administrative expenses	(79)	(73)	
Core operating profit	928	925	+0%
Core net profit	548	542	+1%
Valuation gains*	161	159	
Profit attributable to the Shareholders	709	701	+1%

* Valuation gains on investment properties, net of deferred tax

The Group's performance in Mainland China, Taiwan, Thailand and India, which, collectively contribute to approximately 60% of the Group's segment profit, was distorted by the appreciation of US dollar.



B U S I N E S S R E V I E W

REMAINING STEADY AGAINST STRONG HEADWINDS

In 2016 1H, macroeconomic slowdown and flat global demand resulted in stagnated trade flow in the logistics industry. Despite the tough operating environment, Kerry Logistics held on strong to its core competences and achieved sustainable results. Performance from the major markets where the Group operates recorded steady growth. Nonetheless, negative currency effects caused by the strong US dollar affected the overall performance in 2016 1H, leading to relatively flat results compared with 2015 1H.

In the IL division, flat global demand has led to decelerating trade activities and lower production volumes. Substantial amounts of key clients adjusted their production and sales target for 2016, resulting in decreasing volumes throughout the year. Kerry Logistics strived forward and managed to offset the declines with additions of new clients and contracts across various sectors in 2016 1H.

IL division in the Hong Kong market sustained growth as Kerry Logistics continues to leverage its leading position and diversified client portfolio to deepen market penetration. Both Mainland China and Taiwan markets maintained profit growth in spite of a slowing economy in the region. Although Thailand and Vietnam were affected by weak export demand, Asia's growth as a whole was supported by India's encouraging results as the Group continues to tap into the growing opportunities in the country.

The IFF division achieved a growth of 9% in segment profit despite a slight drop in the Mainland China market. The growth was mainly from South and Southeast Asia, in particular India, Singapore and the Philippines, through expanded network, strengthened capabilities and increased volumes.

CONTINUED PROGRESS ON KEY DEVELOPMENTS

In Mainland China, the next 12 months will see the completion in phases of three developing facilities in Xi'an, Wuxi and Shanghai. Together they will supplement over 1.5 million square feet of logistics facility to the Group's portfolio in the country.

All projects in Southeast Asia have progressed as planned. Construction of the 213,000 square feet warehouse in the Free Trade and Special Economic Zone in Phnom Penh, Cambodia will be completed by 2016 2H, focusing on import logistics services. Phase four expansion of Kerry Siam Seaport in Thailand has commenced. Together with the inland ports in Yangon and Mandalay, Myanmar, Kerry Logistics is well positioned to capture the increasing cross-border trade in the Greater Mekong Region ('GMR') and across ASEAN.

In addition, Kerry Logistics took further steps to strengthen its regional express capabilities in Asia for the increasing intra-ASEAN trade and booming e-commerce business. The Group plans to add Indonesia into its express network within this year.

Taking on an optimistic view of India's economic prospects, the Group increased its stake from 30% to 50% in Indev Logistics. Rebranding and integration are expected to complete in 2016 2H.

In June 2016, as part of Kerry Logistics' long-term IFF strategy, the Group completed the acquisition of a majority stake in APEX. Handling over 270,000 TEUs in 2015, APEX is among the top three players in the Asia to US trade lanes. This partnership will enable Kerry Logistics to reach a more diversified group of US-based customers and benefit from new opportunities in trans-Pacific trades and across the globe.

OUTLOOK

Although the outlook remains challenging, Kerry Logistics stays confident in its strengths and will strive to deliver better performance in 2016 2H. The Group aims to achieve growth organically, in part due to new customer wins and acquisitions which will bring volume growth as the year progresses.

The Belt and Road Initiative continues to guide Kerry Logistics' overall strategy. The GMR covering Thailand, Cambodia, Myanmar and Laos, is becoming a new strategic focus for the Group, as it leverages on its strong sea-land capabilities to further tap into the growing traffic in the region. Kerry Logistics is developing an overland transportation network for road, rail and intermodal freight services covering Central and West Asia. South Asia is also a growing bright spot.

The growth of the IFF division is expected to outpace that of the IL division in 2016. Riding on the complete integration of APEX in the US in the next 18 months, the IFF division will grow to be a more significant contributor to the Group's overall performance.

Adapting to the shifting business landscape, e-commerce maintains an important part of Kerry Logistics' strategic plans as the global e-commerce market grows steadily, with particularly strong cross-border logistics activities in emerging markets. The Group will continue to strengthen its express capabilities to provide cost-effective last-mile deliveries and regional e-fulfillment to an expanding client base.

Although the global demand is expected to remain stagnant, Kerry Logistics is confident to deliver solid results and growth in 2016 2H through further implementation of new contracts and projects in the pipelines as well as successful integration of new acquisitions.

FINANCIAL REVIEW

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

Most of the Group's assets and liabilities are denominated in different functional currencies of overseas subsidiaries in their respective countries. The Group generally does not enter into foreign exchange hedges in respect of its long-term equity investments in overseas subsidiaries and associates. 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 2016, total foreign currency borrowings amounted to the equivalence of HK\$2,927 million (including HK\$1,960 million denominated in New Taiwan Dollar and HK\$372 million denominated in Thai Baht), which represented approximately 43% of the Group's total bank loans of HK\$6,860 million.

Out of the Group's total bank loans as at 30 June 2016, HK\$2,560 million (representing approximately 37%) was repayable within one year, HK\$1,376 million (representing approximately 20%) in the second year, HK\$2,903 million (representing approximately 42%) in the third to fifth years and HK\$21 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounted for approximately 91% of total bank loans. In relation to the secured bank loans of HK\$585 million as at 30 June 2016, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,693 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 2016, the gearing ratio for the Group was 42.7% (31 December 2015: 33.6%). The ratio was calculated as total bank loans and overdrafts, divided by equity attributable to the Shareholders excluding put option written on non-controlling interests.

As at 30 June 2016, the Group had total undrawn bank loan and overdraft facilities of HK\$6,285 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 2016, the Group had no material contingent liabilities.

STAFF AND REMUNERATION POLICIES

As at 30 June 2016, the Group had approximately 23,600 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, share option schemes and RSU scheme.

6 CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2016, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(I) THE COMPANY⁽¹⁾

Directors	Ordinary Shares in the Company					Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests			
YEO George Yong-boon ⁽²⁾	3,000,000	5,000	–	–	–	3,005,000	0.18%
MA Wing Kai William ⁽³⁾	4,291,510	–	–	1,233,500	–	5,525,010	0.33%
ERNI Edwardo ⁽⁴⁾	2,500,500	8,000	–	–	–	2,508,500	0.15%
KUOK Khoon Hua ⁽⁵⁾	1,101,000	–	–	5,043,655	–	6,144,655	0.36%
CHIN Siu Wa Alfred ⁽⁶⁾	200,000	–	–	1,233,500	–	1,433,500	0.08%
WONG Yu Pok Marina ⁽⁷⁾	200,000	–	–	–	–	200,000	0.01%
WAN Kam To ⁽⁸⁾	200,000	–	–	–	–	200,000	0.01%
YEO Philip Liat Kok ⁽⁹⁾	200,000	–	–	–	–	200,000	0.01%

Notes:

- (1) All interests in Ordinary Shares in the Company were as at 30 June 2016.
- (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; and (iii) 5,000 Ordinary Shares held by 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) 1,233,500 Ordinary Shares held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (4) Mr Erni is interested in (i) 500 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 500,000 Ordinary Shares; and (iv) 8,000 Ordinary Shares held by his spouse.
- (5) Mr Kuok is interested in (i) 101,000 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 800,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (iv) 5,043,655 Ordinary Shares held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Chin is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (ii) 1,233,500 Ordinary Shares held through a discretionary trust of which Mr Chin is a contingent beneficiary.
- (7) Ms Wong is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (8) Mr Wan is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (9) Mr Philip Yeo is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.

(II) ASSOCIATED CORPORATIONS

Kerry Group Limited⁽¹⁾

Directors	Ordinary shares in KGL					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 ⁽²⁾	1,810,620	–	–	–	–	1,810,620	0.12%
ERNI Edwardo ⁽³⁾	650,000	–	–	–	–	650,000	0.04%
KUOK Khoon Hua ⁽⁴⁾	2,000,000	–	–	178,062,851	–	180,062,851	11.81%
CHIN Siu Wa Alfred ⁽⁵⁾	1,500,000	–	500,000	–	–	2,000,000	0.13%

Notes:

- (1) All interests in ordinary shares in KGL were as at 30 June 2016.
- (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) 178,062,851 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Chin is interested in (i) 500,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,000,000 ordinary shares in KGL; and (iii) 500,000 ordinary shares in KGL held through his controlled corporation.

Kerry Properties Limited⁽¹⁾

Directors	Ordinary shares in KPL					Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests			
YEO George Yong-boon ⁽²⁾	–	10,000	–	–	–	10,000	0.00%
MA Wing Kai William ⁽³⁾	1,701,020	–	–	50,000	–	1,751,020	0.12%
ERNI Edwardo ⁽⁴⁾	630,000	16,000	–	–	–	646,000	0.04%
KUOK Khoon Hua ⁽⁵⁾	359,000	–	–	7,670,310	–	8,029,310	0.56%
CHIN Siu Wa Alfred ⁽⁶⁾	3,300,000	–	–	50,000	–	3,350,000	0.23%

Notes:

- (1) All interests in ordinary shares in KPL were as at 30 June 2016.
- (2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.
- (3) Mr Ma is interested in (i) 401,020 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 1,300,000 ordinary shares in KPL; and (iii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (4) Mr Erni is interested in (i) options granted under the share option scheme of KPL to subscribe for 630,000 ordinary shares in KPL; and (ii) 16,000 ordinary shares in KPL held by his spouse.
- (5) Mr Kuok is interested in (i) 59,000 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 300,000 ordinary shares in KPL; and (iii) 7,670,310 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Chin is interested in (i) options granted under the share option scheme of KPL to subscribe for 3,300,000 ordinary shares in KPL; and (ii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Chin is a contingent beneficiary.

Armada Holdings Limited (Formerly known as SCMP Group Limited)⁽¹⁾

Director	Ordinary shares in Armada				Other interests	Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)				
KUOK Khoon Hua	–	–	–	620,000 ⁽²⁾	620,000	0.04%	

Notes:

(1) All interests in ordinary shares in Armada were as at 30 June 2016.

(2) Mr Kuok is interested in 620,000 ordinary shares in Armada held through a discretionary trust of which Mr Kuok is a contingent beneficiary.

Vencedor Investments Limited⁽¹⁾

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

Notes:

(1) All interests in ordinary shares in Vencedor were as at 30 June 2016.

(2) Mr Kuok is interested in 5 ordinary shares in Vencedor as beneficial owner.

Medallion Corporate Limited⁽¹⁾

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

Notes:

(1) All interests in ordinary shares in Medallion were as at 30 June 2016.

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

INTEREST IN DEBENTURES OF ASSOCIATED CORPORATION

Wiseyear Holdings Limited⁽¹⁾

	Amount of debentures of Wiseyear					Approximate percentage of total debenture of Wiseyear
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests	Total amount of debenture	
Directors						
MA Wing Kai William ⁽²⁾	–	–	US\$1,000,000 5% Notes due 2017	–	US\$1,000,000 5% Notes due 2017	N/A
CHIN Siu Wa Alfred ⁽³⁾	US\$1,000,000 5% Notes due 2017	–	–	–	US\$1,000,000 5% Notes due 2017	N/A

Notes:

(1) All interests in amount of debentures in Wiseyear were as at 30 June 2016.

(2) Mr Ma is interested in debentures in Wiseyear in the amount of US\$1,000,000 5% Notes due 2017, held through his controlled corporation.

(3) Mr Chin is interested in debentures in Wiseyear in the amount of US\$1,000,000 5% Notes due 2017 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 2016.

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

As at 30 June 2016, the following are the persons, other than the Directors or the chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
Kerry Group Limited	Interest of controlled corporations	1,121,178,932 ⁽¹⁾	66.15%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684 ⁽¹⁾	64.36%
Kerry Properties Limited	Beneficial owner	718,340,998 ⁽¹⁾	42.38%
Caninco Investments Limited	Beneficial owner	156,124,097 ⁽¹⁾	9.21%
Darmex Holdings Limited	Beneficial owner	128,449,630 ⁽¹⁾	7.58%
GIC Private Limited	Investment manager	102,189,240	6.03%

Note:

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

Save as disclosed above, as at 30 June 2016, 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 2016, a total of 36,626,000 options granted under the Pre-IPO Share Option Scheme were outstanding.

Movement of the options, which were granted under the Pre-IPO Share Option Scheme, during the six months ended 30 June 2016 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 30/06/2016	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2016	Exercised (Notes a and b)	Lapsed			
1. Directors								
YEO George Yong-boon	02/12/2013	I	1,000,000	-	-	1,000,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	-	-	1,000,000	10.20	02/12/2014 – 01/12/2023
MA Wing Kai William	02/12/2013	I	1,500,000	-	-	1,500,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,500,000	-	-	1,500,000	10.20	02/12/2014 – 01/12/2023
ERNI Edwardo	02/12/2013	I	1,000,000	-	-	1,000,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	-	-	1,000,000	10.20	02/12/2014 – 01/12/2023
KUOK Khoon Hua	02/12/2013	I	400,000	-	-	400,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	400,000	-	-	400,000	10.20	02/12/2014 – 01/12/2023
CHIN Siu Wa Alfred	02/12/2013	I	100,000	-	-	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20	02/12/2014 – 01/12/2023
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
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
YEO Philip Liat Kok	02/12/2013	I	100,000	-	-	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	-	-	100,000	10.20	02/12/2014 – 01/12/2023
2. Continuous Contract Employees	02/12/2013	I	13,792,000	(191,000)	(75,000)	13,526,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	14,628,000	(200,000)	(78,000)	14,350,000	10.20	02/12/2014 – 01/12/2023
3. Others	02/12/2013	I	75,000	-	-	75,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	75,000	-	-	75,000	10.20	02/12/2014 – 01/12/2023
Total:			37,170,000	(391,000)	(153,000)	36,626,000		

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\$11.27.
- 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.

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

Notes:

- During the period, no option was granted/granted for adjustment, transferred from/to other category, exercised, lapsed or cancelled under the Post-IPO Share Option Scheme.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.

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 ongoing 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 2016, a total of 36,626,000 options granted under the Pre-IPO Share Option Scheme were outstanding, representing approximately 2.16% and 2.16% of the issued share capital of the Company as at 30 June 2016 and the date of this interim report, respectively. No further option could be granted under the Pre-IPO Share Option Scheme	<p>As at 30 June 2016, a total of 4,150,000 options granted under the Post-IPO Share Option Scheme were outstanding</p> <p>As at 30 June 2016, 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 7.26% and 7.25% of the issued share capital of the Company as at 30 June 2016 and the date of this interim report, respectively</p> <p>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</p>

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
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	
5. Option period	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	
	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	
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	The exercise price of the 4,350,000 options granted on 9 January 2015 is HK\$12.26
		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
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

RSU SCHEME

The Company has approved and adopted the RSU Scheme by a resolution of its Shareholder on 25 November 2013 and a resolution of the Board on 25 November 2013. The RSU Scheme is not subject to the provisions of Chapter 17 of the Listing Rules as the RSU Scheme does not involve the grant of options by the Company to subscribe for new Shares.

The RSUs do not carry any right to vote at general meetings of the Company. No RSU grantee shall enjoy any of the rights of a Shareholder by virtue of the grant of an award of RSUs (the “Award”) pursuant to the RSU Scheme. Notwithstanding the foregoing, if so specified by the Board in its entire discretion, the RSU may include rights to cash or non-cash income, scrip dividends or distributions and/or the sale proceeds of non-cash and non-scrip distributions from any Shares underlying the RSU from the date the Award is granted to the date of exercise of the RSU.

On 19 December 2013, the Company had allotted and issued an aggregate of 815,000 Shares to the RSU trustee, Lion Trust (Hong Kong) Limited. On 24 December 2013, 815,000 Awards representing 815,000 underlying Shares were granted to 815 grantees pursuant to the RSU Scheme. None of the RSU grantees are Directors or connected persons of the Company.

As at 30 June 2016, a total of 270,000 RSUs remained unexercised under the RSU Scheme.

Movement of the RSUs under the RSU Scheme during the six months ended 30 June 2016 are listed below:

Date of grant	Number of RSUs			Outstanding as at 30/06/2016	Exercise period
	Outstanding as at 01/01/2016	Exercised	Cancelled		
24/12/2013	310,000	(39,000)	(1,000)	270,000	24/12/2013 – 18/12/2016

For further details of the RSU Scheme, please refer to the section headed “Statutory and General Information” of the Prospectus.

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 2016, 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 2016 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, have also subjected to the Model Code for securities transactions. No incident of non-compliance with 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 2016.

REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The unaudited condensed consolidated interim financial statements have been reviewed by the Company's independent auditor, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" and by the audit and compliance committee of the Company. The review report of the independent auditor is set out on page 5.

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">retired as a deputy chairman and a director of KGL from July 2016appointed as a director of KHL from July 2016became a member of the Harvard Business School Board of Dean's Advisors from April 2016became a member of the International Advisory Council of Eco Forum Global Guiyang from June 2016
ERNI Edwardo	<ul style="list-style-type: none">resigned as a director of Kerry TJ Logistics Company Limited (a company listed on Taiwan Stock Exchange Corporation with stock code 2608), a deemed subsidiary of the Company since June 2016
KUOK Khoon Hua	<ul style="list-style-type: none">appointed as a non-independent non-executive director of Wilmar International Limited (a company listed on the Singapore Stock Exchange with stock code F34) from July 2016
YEO Philip Liat Kok	<ul style="list-style-type: none">resigned as the chairman and independent director of Ascendas India Trust (a trust listed on the Singapore Stock Exchange with stock code CY6U) since July 2016

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Wednesday, 7 September 2016 in order to determine the entitlement of the Shareholders to the interim dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Tuesday, 6 September 2016. The interim dividend is payable on Wednesday, 21 September 2016 to the Shareholders whose names appear on the Registers of Members on Wednesday, 7 September 2016.

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 23 August 2016

7 DEFINITIONS

“1H” or “2H”	first half or second half
“APEX”	a group of 51%-owned US subsidiaries of KLN Investment (US) LLC
“Armada”	Armada Holdings Limited, formerly known as SCMP Group 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: 583)
“ASEAN”	the Association of Southeast Asian Nations
“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
“Group” or “Kerry Logistics”	the Company and its subsidiaries
“HKD” or “HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards

“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of Mainland China
“Hong Kong Warehouse”	Hong Kong warehousing business
“IFF”	international freight forwarding
“IL”	integrated logistics
“Indev Logistics”	Indev Logistics Private Limited, incorporated under laws of India with limited liabilities
“KGL”	Kerry Group Limited, one of the Controlling Shareholders
“KHL”	Kerry Holdings Limited, a wholly-owned subsidiary of KGL
“KLN Investment (US) LLC”	a limited liability company incorporated in Delaware, US, a wholly-owned subsidiary of the Company
“KPL”	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	Macao Special Administrative Region of Mainland China
“Mainland China” or “PRC”	The People’s Republic of China and, for the purpose of this interim report only, excludes Hong Kong, Macau and Taiwan
“Medallion”	Medallion Corporate Limited, a subsidiary of KHL
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules

“Ordinary Share(s)” or “Share(s)”	share(s) of nominal value of HK\$0.50 each of the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company
“Post-IPO Share Option Scheme”	post-IPO share option scheme of the Company
“PPE”	property, plant and equipment
“Pre-IPO Share Option Scheme”	pre-IPO share option scheme of the Company
“Prospectus”	prospectus of the Company dated 6 December 2013
“Registers of Members”	registers of members of the Company
“RSU(s)”	restricted share unit(s)
“RSU Scheme”	restricted share unit scheme of the Company
“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
“TEU”	twenty-foot equivalent unit
“Transpeed”	Transpeed Cargo (S) Pte. Ltd., a private company limited by shares incorporated in Singapore, a subsidiary of the Company
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“US\$”	US dollar, the lawful currency of the US
“Vencedor”	Vencedor Investments Limited, a subsidiary of KHL
“Wiseyear”	Wiseyear Holdings Limited, a wholly-owned subsidiary of KPL



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