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 **Kerry Logistics Network Limited**
嘉里物流聯網有限公司

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

Stock Code 636

RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

The Board of the Company is pleased to announce the unaudited interim results of the Group for the six months ended 30 June 2016, together with comparative figures for the six months ended 30 June 2015.

GROUP'S FINANCIAL HIGHLIGHTS

- Turnover increased by 3% year-on-year to HK\$10,461 million (2015 1H: HK\$10,135 million)
- Core operating profit maintained at HK\$928 million (2015 1H: HK\$925 million)
- Core net profit increased by 1% year-on-year to HK\$548 million (2015 1H: HK\$542 million)
- Profit attributable to the Shareholders increased by 1% to HK\$709 million (2015 1H: HK\$701 million)
- IL business recorded a segment profit of HK\$799 million (2015 1H: HK\$807 million) and IFF business recorded HK\$208 million (2015 1H: HK\$191 million), which represent a slight drop of 1% and a growth of 9%, respectively
- Interim dividend of 7 HK cents per Share, to be payable on Wednesday, 21 September 2016

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2016

| | Note | Unaudited 2016 HK\$'000 | Unaudited 2015 HK\$'000 |
|---|------|-------------------------------|-------------------------------|
| Turnover | 2 | 10,460,893 | 10,134,594 |
| Direct operating expenses | 3 | (8,753,449) | (8,450,862) |
| Gross profit | | 1,707,444 | 1,683,732 |
| Other income and net gains | | 90,402 | 78,258 |
| Administrative expenses | 3 | (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 | 4 | (74,337) | (68,040) |
| Share of results of associates | | 53,947 | 56,285 |
| Profit before taxation | | 1,079,688 | 1,091,821 |
| Taxation | 5 | (177,801) | (212,246) |
| Profit for the period | | 901,887 | 879,575 |
| Profit attributable to: | | | |
| Company's shareholders | 2 | 709,080 | 701,007 |
| Non-controlling interests | | 192,807 | 178,568 |
| | | 901,887 | 879,575 |
| Earnings per share | 7 | | |
| – 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

| | | Unaudited As at 30 June 2016 HK\$'000 | Audited As at 31 December 2015 HK\$'000 |
|---|------|---|---|
| | Note | | |
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Intangible assets | | 2,887,865 | 2,144,064 |
| Investment properties | | 8,282,580 | 8,118,602 |
| Leasehold land and land use rights | | 547,094 | 538,443 |
| Property, plant and equipment | | 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 | 8 | 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 | 9 | 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 | 10 | 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 | 10 | 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 | | 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 |

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.

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 put option over a non-controlling interest 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 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

| | For the six months ended 30 June | | | | | | | | | |
|---|----------------------------------|-----------|---------------------|----------|--------------------|-----------|-------------|-----------|---------------|------------|
| | Integrated logistics | | | | International | | Elimination | | Consolidation | |
| | Logistics operations | | Hong Kong warehouse | | freight forwarding | | | | | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | 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

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.

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.

3 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 |

4 FINANCE COSTS

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

5 TAXATION

| | 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 |

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.

6 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 HK\$'000 | 2015 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 |

7 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 |

8 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 | 1,679,159 | 1,223,040 |
| | 5,626,396 | 4,891,331 |

9 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables based on the date of the invoice 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 |
| Deposits received, accrued charges and other payables | 1,849,447 | 1,936,553 |
| | 3,854,287 | 3,814,011 |

10 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 |

11 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 |

12 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.

MANAGEMENT DISCUSSION AND ANALYSIS

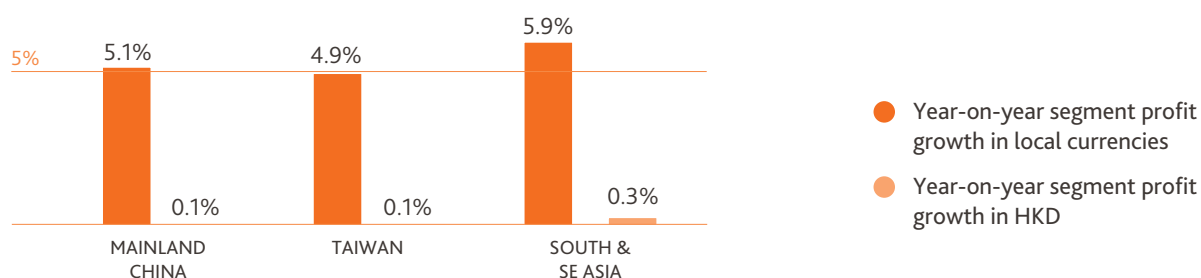
RESULTS OVERVIEW

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.



BUSINESS REVIEW

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.

CORPORATE GOVERNANCE AND OTHER INFORMATION

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code and its corporate governance practices are based on such principles and code provisions as set out in the CG Code. The Directors consider that 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.

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.

SHARE OPTIONS AND RSU

The Company has adopted the Pre-IPO Share Option Scheme, the Post-IPO Share Option Scheme and the RSU Scheme on 25 November 2013. The aforesaid schemes are designed to motivate executives and key employees and other persons who may make a contribution to the Group, and enables the Group to attract and retain individuals with experience and ability and to reward them for their contributions.

As at 30 June 2016, a total of 36,626,000 and 4,150,000 options granted under the Pre-IPO Share Option Scheme and the Post-IPO Share Option Scheme were outstanding.

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 of RSUs representing 815,000 underlying Shares were granted to 815 grantees pursuant to the RSU Scheme. As at 30 June 2016, a total of 270,000 RSUs remained unexercised under the RSU Scheme.

REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

EVENTS AFTER THE 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 announcement.

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.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This announcement is published on the websites of the Stock Exchange (www.hkexnews.hk) and the Company (www.kerrylogistics.com).

The interim report for the six months period containing all the information required by Appendix 16 to the Listing Rules will be despatched to the Shareholders and published on the websites of the Stock Exchange and the Company in due course.

DEFINITIONS

| | |
|---------------------------------|---|
| "1H" or "2H" | first half or second half |
| "APEX" | a group of 51%-owned US subsidiaries of KLN Investment (US) LLC |
| "ASEAN" | the Association of Southeast Asian Nations |
| "Board" | the board of Directors |
| "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 |
| "Directors" | directors of the Company |
| "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 |
| "IFF" | international freight forwarding |
| "IL" | integrated logistics |

| | |
|--------------------------------|---|
| “Indev Logistics” | Indev Logistics Private Limited, incorporated under laws of India with limited liabilities |
| “KLN Investment (US) LLC” | a limited liability company incorporated in Delaware, US, a wholly-owned subsidiary of the Company |
| “Listing Rules” | the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time |
| “Macau” | Macao Special Administrative Region of Mainland China |
| “Mainland China” or “PRC” | The People’s Republic of China and, for the purpose of this announcement only, excludes Hong Kong, Macau and Taiwan |
| “Model Code” | the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules |
| “Post-IPO Share Option Scheme” | post-IPO share option scheme of the Company |
| “Pre-IPO Share Option Scheme” | pre-IPO share option scheme of the Company |
| “Registers of Members” | registers of members of the Company |
| “RSU(s)” | restricted share unit(s) |
| “RSU Scheme” | restricted share unit scheme of the Company |
| “Share(s)” | share(s) of nominal value of HK\$0.50 each of the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company |
| “Shareholders” | the holders of the Shares |
| “Stock Exchange” | The Stock Exchange of Hong Kong Limited |
| “TEU” | twenty-foot equivalent unit |
| “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 |

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 23 August 2016

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

Executive Directors:

Mr YEO George Yong-boon, Mr MA Wing Kai William, Mr ERNI Edwardo and 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 and Mr YEO Philip Liat Kok