

INTERIM REPORT

2014

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 QIAN Shaohua

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 QIAN Shaohua

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

COMPANY SECRETARY

Ms LEE Pui Nee

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Davis Polk & Wardwell

COMPLIANCE ADVISER

Guotai Junan Capital Limited

REGISTERED OFFICE

Canon's Court, 22 Victoria Street

Hamilton HM12, Bermuda

CORPORATE HEADQUARTER 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 OFFICE

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

4 September 2014

Proposed Payment of Interim Dividend

18 September 2014

2 FINANCIAL HIGHLIGHTS 2014 1H

TURNOVER (HK\$)

9,984
million
+5%

CORE NET PROFIT (HK\$)

490
million
+8%



IL
SEGMENT PROFIT

+14%

IFF
SEGMENT PROFIT

+8%



INTERIM DIVIDEND
6 HK CENTS PER SHARE

NET VALUATION GAINS
ON INVESTMENT
PROPERTIES (HK\$)

144 million
-68%

SHARE OF RESULTS
OF ASSOCIATES (HK\$)

44 million
-39%

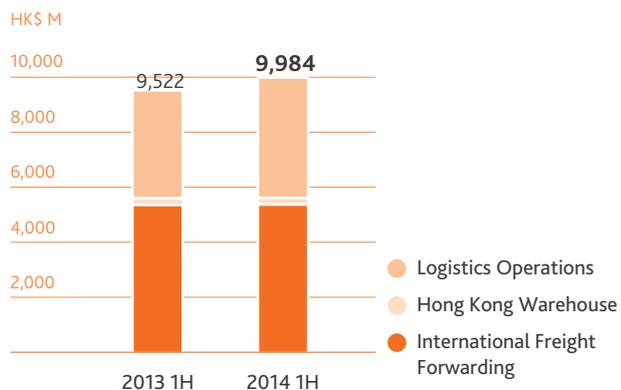
NET ASSET
VALUE PER
SHARE (HK\$)

8.25

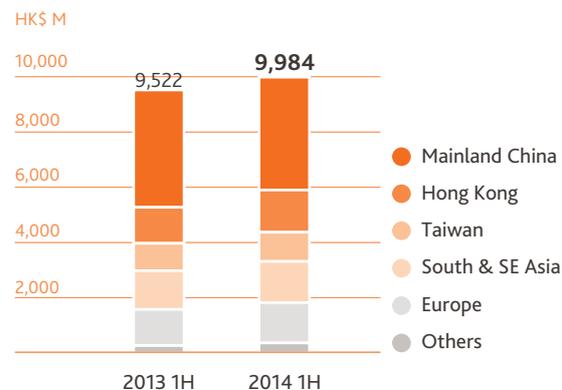
GEARING

24.7%

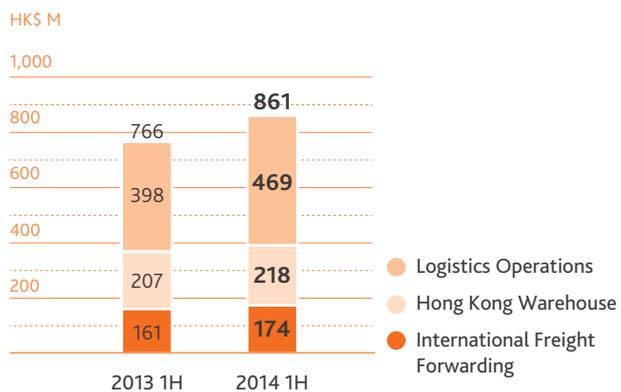
2.1 TURNOVER BY SEGMENT



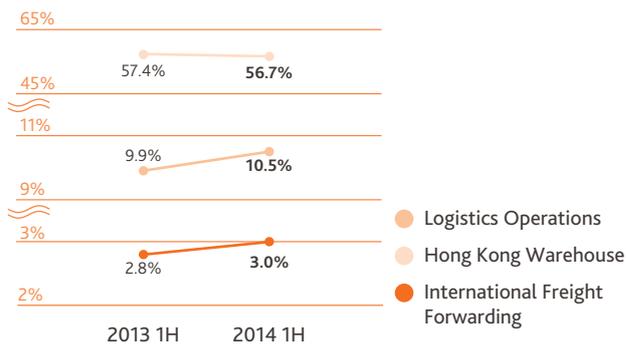
2.2 TURNOVER BY REGION



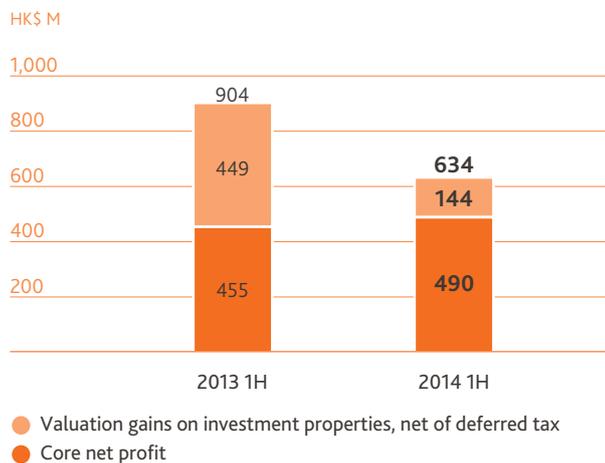
2.3 SEGMENT PROFIT



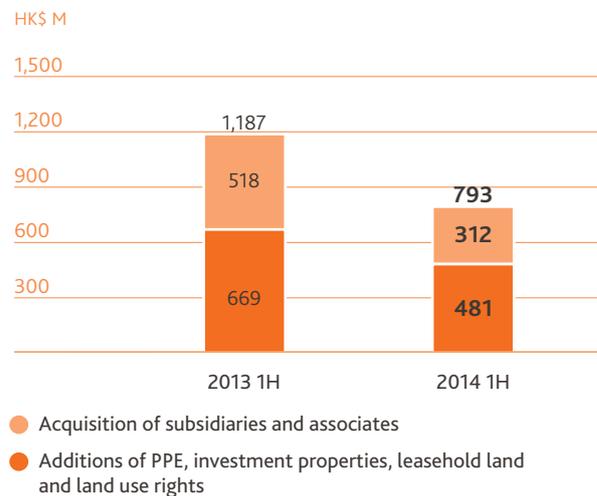
2.4 SEGMENT PROFIT MARGIN



2.5 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



2.6 CAPEX



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 29, 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 2014 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, 18 August 2014

4 INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

For the six months ended 30 June 2014

	Note	Unaudited 2014 HK\$'000	Audited 2013 HK\$'000
Turnover	3	9,984,310	9,521,789
Direct operating expenses	4	(8,491,594)	(8,095,600)
Gross profit		1,492,716	1,426,189
Other income and net gains	5	50,799	30,486
Administrative expenses	4	(732,970)	(738,983)
Operating profit before fair value change of investment properties		810,545	717,692
Change in fair value of investment properties		149,730	458,303
Operating profit		960,275	1,175,995
Finance costs	6	(53,322)	(45,096)
Share of results of associates		44,484	71,626
Profit before taxation		951,437	1,202,525
Taxation	7	(165,022)	(146,511)
Profit for the period		786,415	1,056,014
Profit attributable to:			
Company's shareholders	3	634,497	903,555
Non-controlling interests		151,918	152,459
		786,415	1,056,014
Interim dividend	8	101,444	–
Interim dividend per share		6 HK cents	–
Earnings per share	9		
– Basic		HK\$0.38	HK\$0.70
– Diluted		HK\$0.37	HK\$0.70

CONDENSED CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited 2014 HK\$'000	Audited 2013 HK\$'000
Profit for the period	786,415	1,056,014
Items that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(111,195)	(97,372)
Other comprehensive loss for the period	(111,195)	(97,372)
Total comprehensive income for the period	675,220	958,642
Total comprehensive income attributable to:		
Company's shareholders	547,418	844,638
Non-controlling interests	127,802	114,004
	675,220	958,642

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	10	1,933,756	1,968,950
Investment properties	10	6,517,107	6,379,282
Leasehold land and land use rights	10	550,837	541,348
Property, plant and equipment	10	6,750,006	6,531,990
Associates		1,113,237	1,122,576
Available-for-sale investments		52,256	59,052
		16,917,199	16,603,198
Current assets			
Inventories		294,357	164,016
Accounts receivable, prepayments and deposits	11	4,803,556	4,660,562
Tax recoverable		2,580	8,779
Amounts due from fellow subsidiaries		2,125	–
Restricted and pledged bank deposits		7,903	8,710
Cash and bank balances		3,154,852	4,228,367
		8,265,373	9,070,434
Current liabilities			
Accounts payable, deposits received and accrued charges	12	3,670,162	3,973,359
Amounts due to fellow subsidiaries		31,936	1,582
Amounts due to related companies		20,016	6,202
Taxation		179,726	156,983
Short-term bank loans and current portion of long-term bank loans	13	646,396	1,305,243
Bank overdrafts		56,880	20,391
		4,605,116	5,463,760
Net current assets		3,660,257	3,606,674
Total assets less current liabilities		20,577,456	20,209,872

	Note	Unaudited As at 30 June 2014 HK\$'000	Audited As at 31 December 2013 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		246,015	235,632
Long-term bank loans	13	2,736,882	2,864,332
Deferred taxation		515,188	508,138
Retirement benefit obligations		305,684	315,238
Other non-current liabilities		40,596	70,718
		3,844,365	3,994,058
ASSETS LESS LIABILITIES		16,733,091	16,215,814
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	845,272	828,682
Share premium		2,947,959	2,632,661
Retained profits			
– Proposed dividends		101,444	182,310
– Others		9,537,117	9,018,829
Other reserves		507,656	763,904
		13,939,448	13,426,386
Non-controlling interests		2,793,643	2,789,428
TOTAL EQUITY		16,733,091	16,215,814

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited 2014 HK\$'000	Audited 2013 HK\$'000
Operating activities		
Net cash generated from operations	700,037	844,401
Interest paid	(53,322)	(41,979)
Income tax paid	(135,602)	(114,984)
Net cash generated from operating activities	511,113	687,438
Investing activities		
Additions of property, plant and equipment	(451,914)	(669,332)
Purchase of available-for-sale investments	–	(1,295)
Purchase of leasehold land and land use rights	(28,700)	–
Proceeds from sale of property, plant and equipment	58,151	35,666
Proceeds from sale of investment in associates	5,950	–
Proceeds from sale of an available-for-sale investment	6,612	715
Dividend income from available-for-sale investments	1,706	838
Dividends received from associates	28,350	10,515
Increase in balances with associates	(219)	(1,905)
Decrease in balances with associates	1,559	63,266
Increase in deposit	(161,822)	–
Interest received	15,043	19,705
Acquisition of subsidiaries	–	(102,053)
Cash consideration paid for prior year's acquisition	(131,331)	(232,028)
Increase in investments in associates	–	(107,536)
Decrease/(increase) in restricted and pledged bank deposits	1,097	(2,712)
Net cash used in investing activities	(655,518)	(986,156)

Unaudited	Audited
2014	2013
HK\$'000	HK\$'000

Financing activities

Decrease in loans from fellow subsidiaries	–	(403,137)
Repayment of bank loans	(1,090,347)	(1,600,931)
Drawdown of bank loans	301,281	2,535,484
Dividends of subsidiaries paid to non-controlling interests	(3,543)	(21,733)
Capital injection from non-controlling interests	61	–
Drawdown of loans from non-controlling interests	70,123	4,923
Repayment of loans from non-controlling interests	(59,501)	–
Acquisition of additional interest in subsidiaries	(312,165)	(179,049)
Dividend paid	(185,930)	–
Proceeds from issuance of ordinary shares	323,122	–
Proceeds from pre-IPO share option scheme allotment	8,766	–
Net cash (used in)/from financing activities	(948,133)	335,557
(Decrease)/increase in cash and cash equivalents	(1,092,538)	36,839
Effect of exchange rate changes	(17,466)	(4,206)
Cash and cash equivalents at beginning of the period	4,207,976	2,913,556
Cash and cash equivalents at end of the period	3,097,972	2,946,189
Analysis of balances of cash and cash equivalents		
Cash and bank balances	3,154,852	2,972,988
Bank overdrafts	(56,880)	(26,799)
	3,097,972	2,946,189

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company						Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000		
(unaudited)								
Balance as at 1 January 2014	828,682	2,632,661	763,904	9,018,829	182,310	13,426,386	2,789,428	16,215,814
Profit for the period	-	-	-	634,497	-	634,497	151,918	786,415
Net translation differences on foreign operations	-	-	(87,079)	-	-	(87,079)	(24,116)	(111,195)
Total comprehensive income for the six months ended 30 June 2014	-	-	(87,079)	634,497	-	547,418	127,802	675,220
Dividends paid	-	-	-	(3,620)	(182,310)	(185,930)	(3,543)	(189,473)
2014 proposed interim dividend	-	-	-	(101,444)	101,444	-	-	-
Transfers	-	-	11,145	(11,145)	-	-	-	-
Capital injection from non-controlling interests	-	-	-	-	-	-	61	61
Acquisition of additional interest in subsidiaries (note 15)	-	-	(192,060)	-	-	(192,060)	(120,105)	(312,165)
Proceeds from issuance of ordinary shares under the exercise of the over-allotment option	16,205	306,917	-	-	-	323,122	-	323,122
Value of employee services under pre-IPO share option scheme	-	-	12,668	-	-	12,668	-	12,668
Pre-IPO shares option scheme allotment	385	8,381	(922)	-	-	7,844	-	7,844
Total transactions with owners	16,590	315,298	(169,169)	(116,209)	(80,866)	(34,356)	(123,587)	(157,943)
Balance as at 30 June 2014	845,272	2,947,959	507,656	9,537,117	101,444	13,939,448	2,793,643	16,733,091

Attributable to shareholder of the Company

	Share capital HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Total HK\$'000	Non- controlling interests HK\$'000	Total equity HK\$'000
(audited)						
Balance as at 1 January 2013	500	996,470	7,361,095	8,358,065	2,767,670	11,125,735
Profit for the period	–	–	903,555	903,555	152,459	1,056,014
Net translation differences on foreign operations	–	(58,917)	–	(58,917)	(38,455)	(97,372)
Total comprehensive income for the six months ended 30 June 2013	–	(58,917)	903,555	844,638	114,004	958,642
Dividends paid	–	–	–	–	(21,733)	(21,733)
Transfers	–	932	(932)	–	–	–
Acquisition of subsidiaries	–	–	–	–	1,061	1,061
Acquisition of additional interest in subsidiaries	–	(113,943)	–	(113,943)	(65,106)	(179,049)
Capital contribution from immediate holding company from share option scheme	–	13,607	–	13,607	–	13,607
Total transactions with owners	–	(99,404)	(932)	(100,336)	(85,778)	(186,114)
Balance as at 30 June 2013	500	838,149	8,263,718	9,102,367	2,795,896	11,898,263

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

Kerry Logistics Network Limited (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. Its registered office is at 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 has its primary listing on The Stock Exchange of Hong Kong Limited on 19 December 2013.

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard (“HKAS”) 34 ‘Interim Financial Reporting’ issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”) and the disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (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 2013, which have been prepared in accordance with Hong Kong Financial Reporting Standards (“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 2013.

The following amendments to standards and interpretation that are effective for the accounting period of the Group beginning on 1 January 2014 have been published:

Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-financial Assets
Amendments to HKAS 27 (2011), HKFRS 10 and HKFRS 12	Investment Entities
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) Interpretation 21	Levies

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

The adoption of the above amendments to standards and interpretation 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 and revised standards, amendments or interpretations that have been issued by the HKICPA but are not yet effective.

Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ²
Amendments to HKAS 19	Employee Benefits: Defined Benefit Plans – Employees Contributions ¹
Amendments to HKFRS 7 and HKFRS 9	Mandatory Effective Date of HKFRS 9 and Transition Disclosures ⁴
Amendments to HKFRS 11	Accounting for Acquisitions of Interests In Joint Operations ²
HKFRS 9	Financial Instruments ⁴
HKFRS 9	Financial Instruments (Hedge Accounting and Amendments to HKFRS 9, HKFRS 7 and HKAS 39) ⁴
HKFRS 14	Regulatory Deferral Accounts ²
HKFRS 15	Revenue from Contracts with Customers ³
Annual Improvements Project	Annual Improvements 2010 – 2012 Cycle ¹
Annual Improvements Project	Annual Improvements 2011 – 2013 Cycle ¹

¹ Effective for annual periods beginning on or after 1 July 2014

² Effective for annual periods beginning on or after 1 January 2016

³ Effective for annual periods beginning on or after 1 January 2017

⁴ Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised

The Group is in the process of assessing the impact of these new or revised standards, amendments and interpretations, 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 2013.

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 2013. 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).

All available-for-sale investments 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.

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

	Available-for-sale investments	
	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Opening balance	59,052	61,459
Additions	–	1,300
Disposals	(6,612)	(2,391)
Exchange adjustment	(184)	(1,316)
Closing balance	52,256	59,052

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

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FAIR VALUE ESTIMATION (CONTINUED)

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.

There were no changes in valuation techniques during the period.

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 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.

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:

- Accounts receivable, prepayments and deposits
- Cash and bank balances
- Accounts payable, deposits received and accrued charges
- Bank loans

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
		(reclassified)
Integrated Logistics		
Logistics Operations	4,355,819	3,915,391
Hong Kong Warehouse	241,186	234,067
International Freight		
Forwarding	5,387,305	5,372,331
	9,984,310	9,521,789

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							
	2014 HK\$'000	2013 HK\$'000 (Reclassified)	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000 (Reclassified)	2014 HK\$'000	2013 HK\$'000 (Reclassified)	2014 HK\$'000	2013 HK\$'000
Turnover										
Turnover	4,355,819	3,915,391	241,186	234,067	5,387,305	5,372,331	-	-	9,984,310	9,521,789
Inter-segment turnover	114,694	119,015	143,871	127,395	529,105	435,564	(787,670)	(681,974)	-	-
	4,470,513	4,034,406	385,057	361,462	5,916,410	5,807,895	(787,670)	(681,974)	9,984,310	9,521,789
Turnover by geographical area:										
Hong Kong	1,102,241	885,993	385,057	361,462	320,077	271,334	(279,304)	(214,430)	1,528,071	1,304,359
Mainland China	1,619,292	1,515,985	-	-	2,761,797	3,003,512	(295,552)	(270,306)	4,085,537	4,249,191
Taiwan	1,041,872	974,178	-	-	25,826	25,471	(8,735)	(9,674)	1,058,963	989,975
South & South East Asia	632,899	581,617	-	-	966,802	928,532	(107,450)	(106,108)	1,492,251	1,404,041
Europe	-	-	-	-	1,505,794	1,360,412	(46,847)	(51,942)	1,458,947	1,308,470
Others	74,209	76,633	-	-	336,114	218,634	(49,782)	(29,514)	360,541	265,753
	4,470,513	4,034,406	385,057	361,462	5,916,410	5,807,895	(787,670)	(681,974)	9,984,310	9,521,789
Segment profit by geographical area:										
Hong Kong	61,065	55,407	218,152	207,487	8,357	4,696	-	-	287,574	267,590
Mainland China	138,298	108,228	-	-	97,312	107,049	-	-	235,610	215,277
Taiwan	140,121	123,624	-	-	989	581	-	-	141,110	124,205
South & South East Asia	126,833	105,783	-	-	36,894	36,325	-	-	163,727	142,108
Europe	-	-	-	-	32,269	18,439	-	-	32,269	18,439
Others	2,302	4,527	-	-	(1,527)	(6,204)	-	-	775	(1,677)
	468,619	397,569	218,152	207,487	174,294	160,886	-	-	861,065	765,942
Less: Unallocated administrative expenses									(65,563)	(67,955)
Core operating profit									795,502	697,987
Finance income									15,043	19,705
Finance costs									(53,322)	(45,096)
Share of results of associates									44,484	71,626
Profit before taxation*									801,707	744,222
Taxation*									(162,540)	(136,736)
Profit for the period*									639,167	607,486
Non-controlling interests*									(149,202)	(152,402)
Core net profit									489,965	455,084
Change in fair value of investment properties									149,730	458,303
Deferred tax on change in fair value of investment properties									(2,482)	(9,775)
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									(2,716)	(57)
Profit attributable to the Company's shareholders									634,497	903,555
Depreciation and amortisation	154,719	145,055	15,997	14,998	60,050	55,744			230,766	215,797

* 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.

Prior period corresponding segment information that is presented for comparative purposes has been reclassified to conform to reclassification of operations in cross-border logistics business in Malaysia from logistics operations segment to international freight forwarding segment adopted in the current period.

(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 2014 HK\$'000	As at 31 December 2013 HK\$'000
Hong Kong	6,529,682	6,393,359
Mainland China	3,954,766	3,914,629
Taiwan	2,728,836	2,700,038
South & South East Asia	2,881,968	2,777,976
Europe	541,494	538,660
Others	228,197	219,484
	16,864,943	16,544,146

[#] Other than available-for-sale investments.

4 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Business tax	16,538	17,996
Cost of goods sold	585,649	392,847
Freight and transportation costs	6,354,395	6,319,737
Depreciation of property, plant and equipment	202,802	191,662
Amortisation of leasehold land and land use rights	5,501	4,632
Amortisation of intangible assets	22,463	19,503
Provision for impairment of receivables	13,130	9,402
Reversal of provision for impairment of receivables	(12,639)	(874)
Operating lease charges on land and buildings	265,189	199,136
Employee benefit expenses	1,531,489	1,400,975

5 OTHER INCOME AND NET GAINS

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interest income from banks	15,001	18,783
Gain on disposal of property, plant and equipment	33,106	9,943
Interest income from associates	42	922
Dividend income from available-for-sale investments	1,706	838
Gain on disposal of associates	944	–
	50,799	30,486

6 FINANCE COSTS

	Six months ended 30 June	
	2014 HK\$'000	2013 HK\$'000
Interest expenses on loans from fellow subsidiaries	–	3,117
Interest expenses on bank loans and overdrafts	53,322	41,979
	53,322	45,096

7 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2013: 16.5%) for the period ended 30 June 2014 on the estimated assessable profit for the period. Income tax on the overseas profits has been calculated on the estimated assessable profit for the period at the rates of taxation prevailing in the overseas countries in which the Group operates.

MAINLAND CHINA ENTERPRISE INCOME TAX

Mainland China enterprise income tax has been provided at the rate of 25% (2013: 25%) on the estimated assessable profit for the period.

WITHHOLDING TAX ON DISTRIBUTED/ UNDISTRIBUTED PROFITS

Withholding tax is levied on profit distribution upon declaration/remittance at the rates of taxation prevailing in Mainland China and overseas countries.

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

	Six months ended 30 June	
	2014	2013
	HK\$'000	HK\$'000
Hong Kong profits tax		
– Current	40,803	34,100
– Overprovision in prior years	–	(1,241)
– Deferred	4,892	7,238
	45,695	40,097
Mainland China taxation		
– Current	50,042	49,644
– Under/(over) provision in prior years	715	(57)
– Deferred	1,731	(450)
	52,488	49,137
Overseas taxation		
– Current	67,722	57,045
– Under/(over) provision in prior years	2,771	(2,972)
– Deferred	(3,654)	3,204
	66,839	57,277
	165,022	146,511

8 DIVIDENDS

A dividend in respect of the six months ended 30 June 2014 of 6 HK cents per share, amounting to a total dividend of HK\$101,444,000 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.

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Proposed dividend of 6 HK cents (for the year ended 31 December 2013: paid final dividend of 11 HK cents) per ordinary share	101,444	185,930

9 EARNINGS PER SHARE

BASIC

Basic earnings per share is calculated by dividing the profit attributable to the Company's shareholders by the adjusted weighted average number of ordinary shares in issue during the period.

	Six months ended 30 June	
	2014	2013
Adjusted weighted average number of ordinary shares in issue ('000)	1,687,853	1,295,048
Profit attributable to the Company's shareholders (HK\$'000)	634,497	903,555
Basic earnings per share (HK\$)	0.38	0.70

DILUTED

Diluted earnings per share is calculated by adjusting the profit attributable to the Company's shareholders and the weighted average number of shares outstanding for the effects of all dilutive potential shares.

	Six months ended 30 June	
	2014	2013
Adjusted weighted average number of ordinary shares in issue ('000)	1,687,853	1,295,048
Adjustment for share options ('000)	6,228	–
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,694,081	1,295,048
Profit attributable to the Company's shareholders (HK\$'000)	634,497	903,555
Diluted earnings per share (HK\$)	0.37	0.70

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 2013	5,998,517	5,767,637	538,883	1,773,804
Additions	1,113,121	–	12,825	–
Acquisition of subsidiaries	84,201	–	–	235,583
Change in fair value	–	600,210	–	–
Disposal of subsidiaries	(39,648)	–	–	–
Disposals	(74,653)	–	–	–
Depreciation and amortisation	(396,735)	–	(10,727)	(42,288)
Impairment	–	–	–	(10,520)
Exchange adjustment	(152,813)	11,435	367	12,371
Closing net book value at 31 December 2013	6,531,990	6,379,282	541,348	1,968,950
Opening net book value at 1 January 2014	6,531,990	6,379,282	541,348	1,968,950
Additions	451,914	–	28,700	–
Change in fair value	–	149,730	–	–
Disposals	(25,045)	–	–	–
Depreciation and amortisation	(202,802)	–	(5,501)	(22,463)
Exchange adjustment	(6,051)	(11,905)	(13,710)	(12,731)
Closing net book value at 30 June 2014	6,750,006	6,517,107	550,837	1,933,756

VALUATION OF INVESTMENT PROPERTIES

FAIR VALUE MEASUREMENT USING SIGNIFICANT UNOBSERVABLE INPUTS

	Hong Kong HK\$'000	Mainland China HK\$'000	Overseas HK\$'000	Total HK\$'000
Opening balance as at 1 January 2013	4,793,200	571,867	402,570	5,767,637
Change in fair value	537,000	5,760	57,450	600,210
Exchange adjustment	–	16,967	(5,532)	11,435
Closing balance as at 31 December 2013	5,330,200	594,594	454,488	6,379,282
Opening balance as at 1 January 2014	5,330,200	594,594	454,488	6,379,282
Change in fair value	139,800	28,995	(19,065)	149,730
Exchange adjustment	–	(14,715)	2,810	(11,905)
Closing balance as at 30 June 2014	5,470,000	608,874	438,233	6,517,107

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.

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, Mainland China 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, Mainland China 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 were as follows:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Below 1 month	2,067,721	2,218,348
Between 1 month and 3 months	1,272,665	1,282,114
Over 3 months	257,695	179,569
Total trade receivables, net	3,598,081	3,680,031
Prepayments, deposits and other receivables (note)	1,205,475	980,531
	4,803,556	4,660,562

Note:

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

12 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 were as follows:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Below 1 month	695,519	889,652
Between 1 month and 3 months	565,477	535,522
Over 3 months	403,835	285,371
Total trade payables	1,664,831	1,710,545
Deposits received, accrued charges and other payables (note)	2,005,331	2,262,814
	3,670,162	3,973,359

Note:

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

13 BANK LOANS

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Non-current		
– unsecured	2,391,212	2,408,697
– secured	345,670	455,635
	2,736,882	2,864,332
Current		
– unsecured	468,296	1,106,351
– secured	178,100	198,892
	646,396	1,305,243
Total bank loans	3,383,278	4,169,575

14 SHARE CAPITAL

	As at 30 June 2014		As at 31 December 2013	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, authorised, issued and fully paid:				
At beginning of the period/year	1,657,364,112	828,682	500,000	500
Share split	–	–	500,000	–
Shares issued pursuant to the capitalisation issue	–	–	1,439,477,612	719,739
Proceeds from issuance of ordinary shares under the exercise of over-allotment option (note)	32,410,500	16,205	–	–
Proceeds from issuance of ordinary shares under the Global Offering	–	–	216,071,500	108,036
Proceeds from issuance of ordinary shares under restricted share units scheme	–	–	815,000	407
Pre-IPO share option scheme allotment	769,000	385	–	–
At end of the period/year	1,690,543,612	845,272	1,657,364,112	828,682

Note:

Upon the full exercise of the over-allotment option granted by the Company in the initial public offering of the shares whereby the shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 19 December 2013 ("Global Offering"), a total of 32,410,500 additional new shares of the Company were allotted and issued by the Company on 14 January 2014.

15 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

During the period, the Group acquired additional effective interests of 45.0% in KART (Thailand) Limited, 45.0% in EAE Logistics Sdn. Bhd., 3.7% in Kerry TJ Logistics Company Limited and 26.0% in Kerry TTC Express Joint Stock Company.

The aggregate effect of these transactions is summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests	312,165
Decrease in non-controlling interests	(120,105)
Excess of consideration paid recognised in the other reserves within equity	192,060

	HK\$'000
Changes in equity attributable to the Company's shareholders arising from acquisition of additional interests in subsidiaries	(192,060)

16 COMMITMENTS

As at 30 June 2014, the Group had capital commitments in respect of interests in leasehold land and property, plant and equipment not provided for in these financial statements as follows:

	As at 30 June 2014 HK\$'000	As at 31 December 2013 HK\$'000
Contracted but not provided for	236,757	142,982
Authorised but not contracted for	146,069	175,736
	382,826	318,718

17 PLEDGE OF ASSETS

As at 30 June 2014, the Group's total bank loans and overdrafts of HK\$3,440,158,000 (31 December 2013: HK\$4,189,966,000) included an aggregate amount of HK\$2,896,946,000 (31 December 2013: HK\$3,516,458,000) which is unsecured and an aggregate amount of HK\$543,212,000 (31 December 2013: HK\$673,508,000) which is 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\$2,628,569,000 (31 December 2013: HK\$2,471,311,000); and
- (ii) assignments of insurance proceeds of certain properties of the Group.

18 CONTINGENT LIABILITIES

The Company has executed guarantees for banking and other facilities granted to certain subsidiaries. The utilised amount of such facilities covered by the guarantees of the Company which also represented the financial exposure of the Company as at 30 June 2014 amounted to approximately HK\$1,342,543,000 (31 December 2013: HK\$1,171,462,000). The total amount of such facilities covered by the Company's guarantees as at 30 June 2014 amounted to approximately HK\$2,416,091,000 (31 December 2013: HK\$1,715,449,000).

Apart from the above, there are no material changes in contingent liabilities of the Group since 31 December 2013.

5 MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL REVIEW

Despite flat global demand in products, Kerry Logistics recorded a turnover of HK\$9,984 million in 2014 1H (2013 1H: HK\$9,522 million), an increase of 5% year-on-year. The Group has been successful in improving its profit margin and its core net profit rose 8% to HK\$490 million (2013 1H: HK\$455 million). Valuation gains on investment properties, net of deferred tax, amounted to HK\$144 million (2013 1H: HK\$449 million).

During the period, the Group's IL business recorded a solid growth in both its segment turnover and segment profit, mainly driven by its expansion in Greater China and ASEAN countries. IL segment turnover was HK\$4,856 million (2013 1H: HK\$4,395 million), up 10% year-on-year. Of this, HK\$4,471 million (2013 1H: HK\$4,034 million) came from logistics operations while HK\$385 million (2013 1H: HK\$361 million) came from Hong Kong warehouse operations. With double-digit growth in the major geographical segments, IL segment profit grew strongly by 14% to HK\$687 million (2013 1H: HK\$605 million), of which HK\$469 million (2013 1H: HK\$398 million) came from logistics operations and HK\$218 million (2013 1H: HK\$207 million) came from Hong Kong warehouse operations.

The IFF segment reported turnover of HK\$5,916 million (2013 1H: HK\$5,808 million) and profit of HK\$174 million (2013 1H: HK\$161 million). With the continuous expansion of its IFF network and the strengthening of business in Europe and Americas, the Group successfully achieved an increase in IFF segment profit by 8% year-on-year.

BUSINESS REVIEW

A GOOD START FOR 2014 – DELIVERING ON THE GROUP'S PROMISES

2014 was a year of growth and consolidation for Kerry Logistics. The Group is actively enhancing its service capabilities in IL businesses in Greater China and ASEAN countries, while restructuring its IFF businesses in Europe and the Americas for greater operational efficiencies. The Group continues to seek development and acquisition opportunities across the globe.

During the period, the Group has maintained strong growth with improved segment profit and margin. The IL business achieved double-digit growth, attesting to the Group's buoyant prospects.

PROVEN BUSINESS MODEL

The Group's business focuses on two major segments: IL and IFF, and offers its customers total supply chain solutions comprising both elements. The IL segment consists of logistics operations and Hong Kong warehouse. The Group also holds strategic investments in several associates.

IL – EXPANDING NETWORK AND SCOPE

Kerry Logistics' IL segment provides a wide range of highly customised solutions to enhance customers' supply chain efficiency. It operates with an asset ownership model which differentiates its offerings with unparalleled flexibility and reliability to customers. As at 30 June 2014, the Group managed a logistics facility portfolio of 42 million square feet, of which 22 million square feet are self-owned.

In 2014 1H, the IL segment maintained solid growth on the back of expanding network and coverage in Greater China and ASEAN countries, and with more higher-margin value-added services and new customer wins.

HK\$M	2014 1H	2013 1H	
Turnover*			
– Logistics operations	4,471	4,034	11%
– Hong Kong warehouse	385	361	7%
Total	4,856	4,395	10%
Segment profit			
– Logistics operations	469	398	18%
– Hong Kong warehouse	218	207	5%
Total	687	605	14%

* Includes inter-segment turnover

IL IN GREATER CHINA – EXTENDING GEOGRAPHICAL COVERAGE

As at 30 June 2014, Kerry Logistics managed 14 million square feet of logistics facilities in Mainland China, which are supported by a network of more than 200 subsidiaries, branches and representative offices, serving more than 2,600 delivery zones.

As a leading international 3PL service provider in Greater China, the Group is currently serving a wide range of industries with tailored supply chain solutions. Leveraging its extensive network and proven track record in the region, Kerry Logistics is able to extend the existing services to its customers from one location to multiple cities. During the period, it improved its margin significantly by fulfilling the stringent requirements of highly complex supply chains of various industries.

Concurrent with the rise in economic activity signalled by the pick-up in Mainland China’s PMI, the Group completed two new logistics centres in 2014 1H in Zhengzhou and Kunshan. It has also kicked off construction for another logistics centre in Chengdu and will start to build a new logistics facility in Xian in 2014 Q4.

A new consumer protection law in Mainland China, passed in March 2014, features a “buyer’s remorse” provision for returns within seven days of goods receipt with no questions asked. This will generate opportunities for reverse logistics through the increase in merchandise returns cargo for the Group’s B2B customers, driving demand for related value-added services such as testing, repairs, repacks and re-positioning.

ZHENGZHOU

The new Kerry Zhengzhou Logistics Centre has a total area of 366,000 square feet and targets to commence operations in 2014 2H. Located in Mainland China’s central region, Zhengzhou serves as the country’s road, rail and air transport hubs. It has gradually been developed as a manufacturing base with its neighbouring cities. The Group’s new facility in Zhengzhou is built to meet the growing demand of logistics services for the consumer electronics, automotive parts and fashion industries.

KUNSHAN

Kerry Kunshan Logistics Centre (Phase 2) is designed to capture the fast-growing demand in Mainland China’s automotive industry. It includes a purpose-built 363,000 square feet automotive parts logistics facility for Daimler and Mercedes-Benz. The facility provides the customer with a hub for regional automotive parts distribution throughout the country.

CHENGDU

Kerry Logistics is also expanding its business in western part of Mainland China by building another new logistics centre in Chengdu. In March 2013, the Group purchased a parcel of land in Longquanyi District, in the southeastern region of Chengdu. Construction of the new 592,000 square feet facility began in March 2014, with completion scheduled in 2015 Q1. The new facility will provide IL, regional distribution and value-added services to meet the growing demands of the automotive industry in the region.

XIAN

In March 2014, the Group purchased a parcel of land in Xixian New District of Xian. Construction of the new 273,000 square feet facility is scheduled to begin in 2014 Q4. This new facility will strengthen the Group's comprehensive logistics network in the western region of Mainland China.

HONG KONG

Turnover generated by the logistics operations in Hong Kong increased by 24% in 2014 1H, compared with the year-ago period. In January 2014, the Group launched Kerry Pharma in Hong Kong to tap into the ever-growing pharmaceutical and healthcare market, covering representation and distribution, regulatory intelligence, registration and delivery of healthcare products. Apart from obtaining the wholesales poison licence from the Department of Health, the Group also set up a brand-new GMP-compliant secondary packaging facility for special pharmaceutical products.

In 2014 1H, Kerry Logistics also expanded into the automotive sector by being appointed to provide automotive parts logistics services to several renowned automotive brands in Hong Kong, covering warehousing and delivery to their service centres. Other new customers included international brands from the fashion and lifestyle, food and beverage, as well as the FMCG sectors.

TAIWAN

The Group made further inroads in reforming its organisational structure and business model, to strengthen its operations and improve profit margins. It also enhanced its logistics capabilities in the pharmaceutical and healthcare sector by attaining the GDP from the Taiwan Food and Drug Administration through its subsidiary, as well as by upgrading its facilities to offer customers cost-effective and reliable delivery of medical supplies.

IL IN ASEAN – STRENGTHENING PRESENCE TO FUEL GROWTH

Over the years, Kerry Logistics has developed into a leading 3PL service provider in the ASEAN region, with a particularly strong presence in Thailand and Vietnam which have been driving its growth in the region.

THAILAND

The political instability in Thailand had a short-term effect on the Group's operations and its business resumed to normal towards the end of 2014 1H. During the period, Kerry Express (Thailand) was one of the fastest-growing businesses with a network of over 80 distribution centres and depots. Phase 1 of the Kerry Bangna Logistics Centre is under construction and will serve as a new sorting centre for Kerry Express and a fulfillment centre for the e-commerce customers upon its completion.

The second phase of the new logistics centre in Rayong was completed in 2014 Q1, bringing the total GFA to 381,000 square feet.

To develop Kerry Siam Seaport into a key cargo gateway for the growing trade in ASEAN, a new warehouse and a new Inland Container Depot were added.

VIETNAM

In June 2014, Kerry Logistics proceeded to increase its controlled interest in its express arm in Vietnam to 96%. The Group will continue to strengthen its service capabilities by expanding into new market sectors and into third-tier townships and villages with more service locations, as well as by optimising its local delivery network to tap into the growing e-commerce business.

SINGAPORE

Serving as the regional headquarters for Kerry Logistics' Southeast Asian operations, the Group's regional logistics hub in Singapore commenced operations in 2013. It now provides IL and a wide range of value-added services to several luxury fashion brands and an electronics customer.

OTHER COUNTRIES

In other parts of ASEAN, the Group has been actively pursuing development opportunities in Cambodia, Indonesia, Malaysia, Myanmar and The Philippines.

HONG KONG WAREHOUSING BUSINESS – SUSTAINING LEADERSHIP

Kerry Logistics' Hong Kong warehouse portfolio comprised nine warehouses with a combined GFA of 5.1 million square feet. It maintained nearly full occupancy and achieved double-digit growth in rentals for successful contract renewals. Its contribution is expected to grow steadily.

IFF – CONSOLIDATING AMID RECOVERY

Kerry Logistics' IFF business transports cargo globally through air, ocean and cross-border road and rail freight. During the period, the Group restructured its business in Europe which has helped to deliver satisfactory results in tandem with the gradual economic recovery in the region.

While the Group's IFF business recorded volume growth in 2014 1H, its segment profit margin rose to about 3%, bringing it closer to the international standard.

HK\$M	2014 1H	2013 1H	
Turnover*	5,916	5,808	2%
Segment profit	174	161	8%

* Includes inter-segment turnover

Kerry Logistics took full control of the KART business in Malaysia and Thailand by increasing its controlled interests to 100% in May 2014, six years after the business was acquired. Turning the Thai and Malay legs under KART as wholly-owned subsidiaries enabled the Group to further integrate the operations in the two countries into its global network. KART is a cross-border road transportation network connecting ASEAN countries and Mainland China, providing customers with effective long-haul trucking as well as sea-land and air-land services.

On the other hand, Kerry Logistics expanded its IFF operation in Australia and New Zealand by confirming to form new JVs as well as in West Africa by setting up a new office in Senegal.

While the Group intensely strengthened its business and operations and identified expansion opportunities in Europe and the Americas, the United Kingdom, Spain and Sweden were among the top three countries outside Asia which achieved outstanding performance.

PERFORMANCE OF ASSOCIATES NOT IN SYNC WITH THE GROUP'S

The Group recorded a profit drop of HK\$28 million to HK\$44 million from its investments in associates (2013 1H: HK\$72 million), which largely dragged down the Group's overall results. The investments include mainly the Group's 25% interest in Chiwan Container Terminal in Mainland China, and 15% interest in the Asia Airfreight Terminal in Hong Kong.

LOGISTICS INDUSTRY OUTLOOK TO REMAIN POSITIVE

In 2014 1H, the global demand remained flat and this trend is likely to extend to 2015.

Nevertheless, Kerry Logistics' extensive network and exposure in a wide spectrum of industries will enable it to explore new business opportunities for further service enhancement and market penetration. The Group expects to maintain its growth, buoyed by the continued rise of Asia's middle-class consumption. Looking ahead, Kerry Logistics will further strengthen its IL and IFF businesses through continuous improvement, developing its network and securing acquisition opportunities.

Kerry Logistics' positioning as "Asia Specialist, China Focus, Global Network" gives it a strong foothold in the region, as well as a robust platform for IL and IFF growth across the world. This will help Kerry Logistics consolidate its position as a leading Asia-based logistics service provider, to deliver solid growth and returns to the Shareholders.

FINANCIAL REVIEW

On 19 December 2013, the Company was listed on the Stock Exchange. The net proceeds from the Global Offering, including the over-allotment option exercised subsequently, was approximately HK\$2,378 million, after deducting underwriting fee and relevant listing expenses. The proceeds were and will be used in accordance with the purposes as disclosed in the Prospectus.

The Group has centralised financing policies and control over all its operations which enables the Group having a tight control of treasury operations and lower average cost of funds.

The Group closely reviews and monitors its foreign exchange exposure. As at 30 June 2014, total foreign currency borrowings amounted to the equivalence of HK\$1,788 million, which represented 53% of the Group's total bank loans of HK\$3,383 million as at 30 June 2014.

Out of the Group's total bank loans as at 30 June 2014, HK\$646 million (representing approximately 19%) was repayable within one year, HK\$186million (representing approximately 5%) was repayable in the second year, HK\$2,499 million (representing approximately 74%) was repayable in the third to fifth years and HK\$52 million (representing approximately 2%) was repayable over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounted for approximately 85% of total bank loans. Majority of the bank loans were at floating interest rates and were not held for hedging purposes.

As at 30 June 2014, the gearing ratio of the Group was 24.7% (31 December 2013: 31.2%). The ratio was calculated as total bank loans and bank overdrafts, divided by equity attributable to the Shareholders.

As at 30 June 2014, the Group had total undrawn bank loan and overdraft facilities of HK\$4,358 million. The Group will continue to secure financing as and when the need arises.

STAFF AND REMUNERATION POLICIES

As at 30 June 2014, the Group had approximately 19,500 employees. The remuneration to employees includes salaries, which is 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 and are reviewed regularly. 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2014, the interests and short positions of the Directors and chief executives 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

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 ⁽¹⁾	2,000,000	5,000	–	–	–	2,005,000	0.12%
MA Wing Kai William ⁽²⁾	3,291,510	–	–	675,000	–	3,966,510	0.23%
ERNI Edwardo ⁽³⁾	2,000,500	8,000	–	–	–	2,008,500	0.12%
KUOK Khoon Hua ⁽⁴⁾	1,397,344	–	–	4,485,155	–	5,882,499	0.35%
QIAN Shaohua ⁽⁵⁾	200,000	–	–	675,000	–	875,000	0.05%
WONG Yu Pok Marina ⁽⁶⁾	200,000	–	–	–	–	200,000	0.01%
WAN Kam To ⁽⁷⁾	200,000	–	–	–	–	200,000	0.01%
YEO Philip Liat Kok ⁽⁸⁾	200,000	–	–	–	–	200,000	0.01%

Notes:

- (1) Mr Yeo is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; and (ii) 5,000 Ordinary Shares held by his spouse.
- (2) 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; and (iii) 675,000 Ordinary Shares held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (3) 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; and (iii) 8,000 Ordinary Shares held by his spouse.
- (4) 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) 496,344 Ordinary Shares jointly held with another person as beneficial owner; and (iv) 4,485,155 Ordinary Shares held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Qian is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (ii) 675,000 Ordinary Shares held through a discretionary trust of which Mr Qian is a contingent beneficiary.
- (6) Ms Wong is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (7) Mr Wan is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (8) 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	–	–	–	178,262,262	180,262,262	11.80%
QIAN Shaohua ⁽⁵⁾	2,000,000	–	500,000	–	–	2,500,000	0.16%

Notes:

- (1) All interests in ordinary shares in KGL were as at 30 June 2014.
- (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) 178,262,262 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Qian is interested in (i) 1,000,000 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					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	Total interests	
YEO George Yong-boon ⁽²⁾	–	10,000	–	–	10,000	0.00%
MA Wing Kai William ⁽³⁾	1,731,020	–	–	50,000	1,781,020	0.12%
ERNI Edwardo ⁽⁴⁾	630,000	16,000	–	–	646,000	0.04%
KUOK Khoon Hua ⁽⁵⁾	1,459,688	–	–	7,670,310	9,129,998	0.63%
QIAN Shaohua ⁽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 2014.
- (2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.
- (3) Mr Ma is interested in (i) 431,020 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) 167,000 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; (iii) 992,688 ordinary shares in KPL jointly held with another person as beneficial owner; and (iv) 7,670,310 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Qian 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 Qian is a contingent beneficiary.

SCMP Group Limited⁽¹⁾

Director	Ordinary shares in SCMP					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	Total interests	
KUOK Khoon Hua	–	–	–	620,000 ⁽²⁾	620,000	0.04%

Notes:

- (1) All interests in ordinary shares in SCMP were as at 30 June 2014.
- (2) Mr Kuok is interested in 620,000 ordinary shares in SCMP held through a discretionary trust of which Mr Kuok is a contingent beneficiary.

Vencedor Investments Limited⁽¹⁾

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

Notes:

(1) All interests in ordinary shares in Vencedor were as at 30 June 2014.

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

INTEREST IN DEBENTURES OF ASSOCIATED CORPORATION

Wiseyear Holdings Limited⁽¹⁾

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

Notes:

(1) Wiseyear is a wholly-owned subsidiary of KPL and is therefore an associated corporation of the Company. All interests in shares in Wiseyear were as at 30 June 2014.

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

(3) Mr Qian is interested in a debenture in the amount of US\$1,000,000 5% Notes due 2017 as beneficial owner.

Save as disclosed above, none of the Directors or chief executives 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 2014.

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

As at 30 June 2014, the following are the persons, other than the Directors or chief executives 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 corporation	1,121,178,932 ⁽¹⁾	66.32%
Kerry Holdings Limited	Interest of controlled corporation	1,090,758,684 ⁽¹⁾	64.52%
Kerry Properties Limited	Beneficial owner	718,340,998 ⁽¹⁾	42.49%
Caninco Investments Limited	Beneficial owner	156,124,097 ⁽¹⁾	9.24%
Darmex Holdings Limited	Beneficial owner	128,449,630 ⁽¹⁾	7.60%

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 2014, the Company is not aware of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company 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 2014, a total of 41,576,000 options were outstanding under the Pre-IPO Share Option Scheme.

Movement of the options, which were granted under the Pre-IPO Share Option Scheme, during the six months ended 30 June 2014 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note c)	Tranche	Number of options					Lapsed	Outstanding as at 30/06/2014	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2014	Transfer from other category during the period	Transfer to other category during the period	Exercised (Notes a and b)					
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	
QIAN Shaohua	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	16,935,000	50,000	-	(769,000)	(85,000)	16,131,000	10.20	19/12/2013 – 01/12/2023	
	02/12/2013	II	16,935,000	50,000	-	-	(340,000)	16,645,000	10.20	02/12/2014 – 01/12/2023	
3. Others	02/12/2013	I	150,000	-	(50,000)	-	-	100,000	10.20	19/12/2013 – 01/12/2023	
	02/12/2013	II	150,000	-	(50,000)	-	-	100,000	10.20	02/12/2014 – 01/12/2023	
Total:			42,770,000	100,000	(100,000)	(769,000)	(425,000)	41,576,000			

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\$12.40.
- During the period, no option was granted/granted for adjustment 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. No options had been granted under the Post-IPO Share Option Scheme from the date of its adoption to the date of this Interim Report.

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 6 December 2013, options to subscribe for an aggregate of 42,770,000 Shares were outstanding, representing approximately 2.58% of the issued share capital of the Company as at 19 December 2013. No further option could be granted under the Pre-IPO Share Option Scheme	As at 6 December 2013, 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 7.42% and 7.27% of the issued share capital of the Company as at 19 December 2013 and the date of this interim report, respectively. No option has been granted under the Post-IPO Share Option Scheme 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

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	<p>The option period is determined by the Board provided that it is not longer than 10 years commencing on the date of grant. There is no minimum period for which an option must be held before it can be exercised</p> <p>The Board may in its absolute discretion specify any conditions, restrictions or limitations, including continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the Shares to which the option relates</p>	
6. Acceptance of offer	Options granted must be accepted within the period as stated in the offer of the grant, upon payment of HK\$1.0 per grant	
7. Exercise price	Exercise price is HK\$10.2, the offer price of the Shares for the IPO	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 2014, a total of 524,000 RSUs remained unexercised under the RSU Scheme.

Movement of the RSUs under the RSU Scheme during the six months ended 30 June 2014 are listed below:

Date of grant	Number of RSUs			Outstanding as at 30/06/2014	Exercise period
	Outstanding as at 01/01/2014	Exercised	Cancelled		
24/12/2013	781,000	(253,000)	(4,000)	524,000	24/12/2013 – 18/12/2016

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has applied the principles and code provisions as set out in the CG Code. During the six months ended 30 June 2014, 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 2014.

The Company's employees, who are likely to be in possession of inside information of the Company, are also subject 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 2014.

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">• chairs the International Advisory Panel of the Nalanda University Governing Board• appointed as a member of the International Advisory Committee of National Graduate Institute for Policy Studies• appointed as a member of the International Advisory Committee of Mitsubishi Corporation (a company listed on the Tokyo Stock Exchange with stock code 80580)
MA Wing Kai William	<ul style="list-style-type: none">• appointed as a member of the Mainland Business Advisory Committee and the Hong Kong-Taiwan Business Cooperation Committee of the Hong Kong Trade Development Council respectively• appointed as a member of the Nanyang Business School Advisory Board at Nanyang Technological University, Singapore
WAN Kam To	<ul style="list-style-type: none">• serves as an independent non-executive director of Harbin Bank Co., Ltd. (a company listed on the Stock Exchange on 31 March 2014 with stock code 6138) since October 2013• resigned as independent director of RDA Microelectronics, Inc. (a company listed on NASDAQ with stock code RDA) since July 2014

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 4 September 2014 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 Wednesday, 3 September 2014. The interim dividend is payable on Thursday, 18 September 2014 to the Shareholders whose names appear on the Registers of Members on 4 September 2014.

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 18 August 2014

7 D E F I N I T I O N S

“1H” or “2H”	first half or second half
“3PL”	third-party logistics
“ASEAN”	the Association of Southeast Asia Nations
“B2B”	business to business
“Board”	the board of Directors
“Caninco”	Caninco Investments Limited, a wholly-owned subsidiary of KHL
“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
“FMCG”	fast-moving consumer goods
“GDP”	good distribution practice
“GFA”	gross floor area
“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
“GMP”	good manufacturing practice
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan

“Group” or “Kerry Logistics”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards
“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of Mainland China
“IFF”	international freight forwarding
“IL”	integrated logistics
“JV”	joint venture
“KART”	Kerry Asia Road Transport
“KGL”	Kerry Group Limited, one of the Controlling Shareholders
“KHL”	Kerry Holdings Limited, a wholly-owned subsidiary of KGL
“KPL”	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Mainland China”	The People’s Republic of China and, for the purpose of this interim report 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
“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

“PMI”	purchasing managers’ index
“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
“Prospectus”	prospectus of the Company dated 6 December 2013
“Q1” or “Q4”	first quarter or fourth quarter
“Registers of Members”	registers of members of the Company
“RSU”	restricted share unit
“SCMP”	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)
“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
“Vencedor”	Vencedor Investments Limited
“Wiseyear”	Wiseyear Holdings Limited



