You should read the following discussion of our financial condition and results of operations in conjunction with our consolidated financial statements included in "Appendix I — Accountant's Report", which contains our audited consolidated financial information as at and for the years ended 31 December 2010, 2011 and 2012 and as at and for the six months ended 30 June 2013 and unaudited comparative consolidated financial information for the six months ended 30 June 2012, together with the accompanying notes. Our consolidated financial statements have been prepared in accordance with HKFRSs, which may differ in certain material respects from generally accepted accounting principles in other jurisdictions. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results could differ materially from those anticipated in these forward-looking statements due to various factors, including those set forth in the sections headed "Forward-Looking Statements" and "Risk Factors".

Unless otherwise stated, all amounts relating to segment revenue are presented in this section after inter-segment eliminations.

OVERVIEW

We are a leading logistics service provider in Asia with extensive operations across Greater China and other countries in the region, as well as the largest Hong Kong-based international third-party logistics service provider.

We are principally engaged in (i) the integrated logistics business, which consists of logistics operations and Hong Kong warehouse, and (ii) the international freight forwarding business. We report and present our results of operations under three operating segments as follows:

- *Logistics operations*, which involve the provision of a wide range of logistics services, such as storage and value-added services, trucking and distribution, returns management and various ancillary services, primarily in Asia;
- *Hong Kong warehouse*, which involves the leasing of warehousing space in Hong Kong to our customers; and
- *International freight forwarding*, which involves the provision of air freight, ocean freight and cross-border road freight forwarding services to transport cargo internationally.

For the years ended 31 December 2010, 2011 and 2012, our revenue was HK$10,879.9 million, HK$16,034.3 million and HK$19,294.8 million, respectively, and our core net profit was HK$665.2 million, HK$740.7 million and HK$815.7 million, respectively. For the six months ended 30 June 2012 and 2013, our revenue was HK$8,954.2 million and HK$9,521.8 million, respectively, and our core net profit was HK$429.7 million and HK$455.1 million, respectively. For information on events which occurred after 30 June 2013, see the section headed "— Recent Developments" below.

FACTORS AFFECTING OUR RESULTS OF OPERATIONS

Service Scope

We offer a wide range of integrated logistics and international freight forwarding services. We have in recent years expanded, and intend to continue to expand, the scope of our services by launching new services or acquiring strategic businesses in selected markets. These include, for example, our establishment of KART, a cross-border road transportation network connecting ASEAN and China, our acquisition of a logistics company in Taiwan specialising in the pharmaceutical and healthcare industries, and our acquisitions of air freight consolidators and an NVOCC operating an ocean freight consolidation platform in China. Many of these businesses represent new ancillary service segments to complement our existing service offerings or other strategic businesses that present us with opportunities to leverage our experience and financial strength to become a market leader within those service segments or businesses. Our future results will therefore be affected by our ability to successfully broaden our service scope and create synergies from new services.

Our results of operations may also change as a result of variations in demand for our services in different businesses. In general, among our three operating segments, Hong Kong warehouse has the highest profit margin followed by logistics operations and international freight forwarding. Accordingly, our operating segments have very different contributions to revenue and segment results. For the six months ended 30 June 2013, logistics operations, Hong Kong warehouse and international freight forwarding accounted for 41.6%, 2.4% and 56.0%, respectively, of total revenue and 52.4%, 27.1% and 20.5%, respectively, of total segment results. Changes in our service mix year over year will therefore have a significant impact on our gross margin and segment results.

Trade Activities in Asia

We provide the vast majority of our international freight forwarding services intra-Asia as well as between Asia and Europe, and our major associates, CCT and AAT, operate freight terminals in Greater China. Accordingly, changes in trade activities in Asia, including both import and export trades for our major markets, such as China, Hong Kong and ASEAN countries, could have a significant impact on the demand for our international freight forwarding services, our overall business volume, as well as our share of results from associates.

Import and export trade for a country can be influenced by the general GDP growth of the key countries as well as general economic conditions, customs regulations, government policies, free trade agreements with other countries, local production cost and outsourcing trends, and infrastructural support in the country. In particular, member states of ASEAN have entered into the Agreement on the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (the "AFTA-CEPT Scheme"), pursuant to which imports originating within ASEAN will generally become tariff-free by 2015. With our early entry into the ASEAN market and our establishment of KART's cross-border road transportation network, we believe we are well positioned to seize future opportunities arising from the AFTA-CEPT Scheme. In addition, there are recent signs among U.S. and other multinational companies of shifting outsourced manufacturing activities from China to other regions or countries with lower production costs, such as South America. While the shifting of outsourced manufacturing activities away from China may have a negative impact on our outbound freight forwarding business, this trend may potentially create new demand for us to provide international freight forwarding services to and from those other regions or countries. As a result, changes in trade activities in Asia or other relevant markets could have a significant impact on our business and results of operations.

Domestic Consumption in China

We have a strong focus on our integrated logistics business in China. As at the Latest Practicable Date, we managed approximately 11 million sq.ft. of logistics facilities in China, supported by a network of more than 200 subsidiaries, branches and representative offices. As domestic consumption has been a key driver for China's GDP growth in recent years, our growth and results of operations are significantly affected by consumer demand for products manufactured, distributed or sold by our customers. In particular, the demand for international consumer brands by the growing middle class in China has been, and will continue to be, a significant factor affecting our results of operations as we provide integrated logistics services mainly to multinational companies in various consumer-related industries, such as the fashion and lifestyle, electronics and technology, food and beverage, fast-moving consumer goods, and automotive industries. Such demand, in turn, is affected by general economic conditions in China, such as GDP growth, income level and inflation, growth of middle-class population, urbanisation rate, import tax and other government policies, availability of consumer credit and consumer confidence level, among other factors. As a result, changes in domestic consumption in China will have a significant impact on the business of our customers and therefore on our business and results of operations.

Investments in Assets

As an asset-based logistics service provider in Asia, we have achieved significant growth by pursuing a strategy of prudent investments to expand our portfolio of self-owned logistics facilities in Asia. As at 31 December 2010, 2011 and 2012, 30 June 2013 and the Latest Practicable Date, the total GFA of completed self-owned logistics facilities managed by us was approximately 16 million sq.ft., 18 million sq.ft., 20 million sq.ft., 20 million sq.ft. and 22 million sq.ft., respectively. As investments generally result in higher depreciation expense and they may be financed by bank loans resulting in higher finance costs, we typically commit to new investments only after we secure actual customer demand for additional facilities. Future investments, if executed successfully, will enable us to further grow the scale of our integrated logistics business and generate additional revenue and profit. Our results of operations will therefore continue to be driven in part by the amount of investments we make to expand and upgrade our logistics facilities in the future.

Deployment of Information Technology

We have developed proprietary IT systems, including the Warehouse Management System and KerrierVISION, to enable efficient operational management and to better serve our customers' supply chain needs. We believe the successful deployment of IT systems is an important part of our supply chain solutions. We have a global IT team consisting of more than 250 IT personnel and we have made significant investments in IT. We believe our ability to continue to invest in and enhance our IT systems and introduce new IT applications at reasonable cost to customers will significantly affect the quality of our supply chain solutions and therefore our business and results of operations.

Acquisition Activities

We were actively engaged in business acquisitions during the period from 2010 to 2012. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, our capital expenditures on acquisition of subsidiaries and associates, including additional equity interests in existing non-wholly owned subsidiaries and associates, amounted to HK$359.0 million, HK$700.8 million, HK$1,039.7 million, HK$579.1 million and HK$518.2 million, respectively. Our results of operations are significantly affected by the consolidation of newly acquired businesses into our results and our success in integrating the acquired businesses. We believe the successful execution of our acquisition strategy will allow us to create synergies and strengthen our market position in strategic locations to capture growth opportunities. We will continue to consider and pursue acquisitions in a prudent manner and may adjust the pace of our activities in light of changes in economic conditions, trade volumes, costs of financing, and other factors.

CRITICAL ACCOUNTING POLICIES

We have identified certain accounting policies that are significant to the preparation of our consolidated financial statements. Some of our accounting policies involve subjective assumptions and estimates, as well as complex judgements relating to accounting items. In each case, the determination of these items requires management to make subjective and complex judgments based on information and financial data that may change in future periods. When reviewing our consolidated financial statements, you should consider (i) our critical accounting policies, (ii) the judgements and other uncertainties affecting the application of such policies, and (iii) the sensitivity of reported results to changes in conditions and assumptions. We set forth below those accounting policies that we believe are of critical importance to us or involve the most significant estimates and judgements used in the preparation of our financial statements. Our significant accounting policies, estimates and judgements, which are important for an understanding of our financial condition and results of operations, are set forth in detail in Note 2 and Note 4 to our consolidated financial statements included in "Appendix I — Accountant's Report".

Revenue Recognition

We recognise revenue for the delivery of services and sale of goods when (i) the amount of revenue and cost incurred or to be incurred in respect of a transaction can be reliably measured; (ii) neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold is retained; (iii) it is probable that future economic benefits will flow to us; and (iv) specific criteria have been met for each of our activities as described below:

- Revenue from integrated logistics services (other than the leasing of warehouses in Hong Kong) and international freight forwarding services is recognised in the period in which the services are rendered, by reference to the stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided;

- Revenue from the long-term leasing of warehouses in Hong Kong is recognised on a straight-line basis over the periods of the respective leases;

- Revenue from short-term leasing and related services in respect of warehouses in Hong Kong is recognised when the services are rendered; and

- Revenue from sale of goods is recognised upon the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to the customers and the title has passed.

We are required to make certain estimates for purposes of revenue recognition. We make the estimates based on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Fair Value of Investment Properties

Investment properties are properties held for long-term rental yields or for capital appreciation, or both, that are not occupied by us. We determine whether a property qualifies as an investment property by, among other things, making judgements as to whether the property generates cash flows largely independently of the other assets. Owner-occupied properties generate cash flows that are attributable to property and other assets used in the production or supply process and are instead classified as property, plant and equipment. If a property comprises a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the supply of goods or services or for administrative purposes and the portions cannot be sold or leased out separately, the property is accounted for as an investment property only if an insignificant portion is held for use in the supply of goods or services or for administrative purposes. Judgement is applied in such case in determining whether ancillary services are so significant that a property does not qualify as an investment property. We consider each property separately in making this judgement.

Investment properties are measured initially at cost, including related transaction costs and borrowing costs. After initial recognition, investment properties are carried at fair value. Valuations of our investment properties have been carried out by independent professional valuers, using mainly the investment approach by considering the capitalised rental incomes derived from the existing tenancies with due provision for any reversionary income potential of the property interests at appropriate capitalisation rates. Wherever deemed appropriate by the independent professional valuers, the direct comparison approach is also referenced and depreciated replacement cost is also used for the valuations of certain properties. The principal assumptions underlying management's estimation of fair value are those related to the receipt of contractual rentals, expected market rentals and appropriate capitalisation rates. These valuations are regularly compared to actual market yield data, as well as actual transactions by us and those reported by the market. The expected market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

Depreciation of Property, Plant and Equipment

Our property, plant and equipment are stated at historical cost less aggregate depreciation, except for freehold land, and accumulated impairment losses. Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost less residual values over estimated useful lives as follows:

Leasehold land	Over the remaining lease term ranging from 20 to 50 years
Port facilities	2.5% to 3.6%
Properties	Shorter of remaining lease term of 20 to 50 years or useful lives
Leasehold improvements	Shorter of remaining lease term of 20 to 50 years or useful lives
Warehouse operating equipment	5% to 25%
Motor vehicles, furniture, fixtures and office equipment	5% to 50%

Management determines the estimated useful lives and related depreciation charges for our property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. We will change the depreciation charge where useful lives are different from the previously estimated lives. We will also write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Impairment of Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of our share of the net identifiable assets of the acquired subsidiary or associate at the date of acquisition. Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of goodwill may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount exceeds its recoverable amount. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of estimates.

DESCRIPTION OF SELECTED COMPONENTS OF CONSOLIDATED INCOME STATEMENT

Revenue

Revenue represents income from our provision of services and sale of goods in the ordinary course of our businesses. Revenue is shown net of value-added tax, returns and discounts and after inter-segment eliminations. We organise our businesses into two principal businesses: (i) integrated logistics, which consists of logistics operations and Hong Kong warehouse, and (ii) international freight forwarding. Accordingly, we report segment revenue and results for each of the operating segments under logistics operations, Hong Kong warehouse and international freight forwarding. The following tables show our segment revenue by operating segment and geographic area for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Integrated logistics:										
Logistics operations	4,332,968	39.8	6,392,868	39.9	7,423,720	38.5	3,418,287	38.2	3,958,921	41.6
Hong Kong warehouse	477,605	4.4	496,966	3.1	474,242	2.4	233,686	2.6	234,067	2.4
	4,810,573	44.2	6,889,834	43.0	7,897,962	40.9	3,651,973	40.8	4,192,988	44.0
International freight forwarding	6,069,336	55.8	9,144,477	57.0	11,396,813	59.1	5,302,264	59.2	5,328,801	56.0
Total	10,879,909	100.0	16,034,311	100.0	19,294,775	100.0	8,954,237	100.0	9,521,789	100.0

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total	Revenue	Percentage of total
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
China	4,721,560	43.4	7,144,450	44.6	8,745,181	45.3	3,920,098	43.8	4,249,191	44.6
Hong Kong	2,016,799	18.6	2,300,557	14.3	2,469,115	12.8	1,190,783	13.3	1,304,359	13.7
Taiwan	847,453	7.8	1,871,936	11.7	1,978,659	10.3	916,179	10.2	972,602	10.2
South and Southeast Asia	1,320,696	12.1	2,298,332	14.3	2,395,398	12.4	1,168,927	13.1	1,404,041	14.7
Europe	1,623,177	14.9	1,917,370	12.0	3,083,974	16.0	1,478,356	16.5	1,308,470	13.8
Others	350,224	3.2	501,666	3.1	622,448	3.2	279,894	3.1	283,126	3.0
Total	10,879,909	100.0	16,034,311	100.0	19,294,775	100.0	8,954,237	100.0	9,521,789	100.0

Segment revenue from logistics operations consists principally of service fees for integrated logistics services (other than from the leasing of warehousing space in Hong Kong to our customers) and, to a small extent, sales of goods for our trading business. While logistics operations generated a smaller segment revenue than international freight forwarding during the Track Record Period, we relied on logistics operations as our largest source of profit due to its higher profit margins as compared to international freight forwarding. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, logistics operations accounted for 49.4%, 48.4%, 50.7%, 48.3% and 52.4% of our total segment results, respectively. We engage in logistics operations primarily in Asia and derive the majority of this segment revenue from our logistics operations in China, Hong Kong, Taiwan and Thailand. Segment revenue from logistics operations is primarily driven by the volume and prices of services delivered, the amount and location of logistics facilities managed, and the number and types of customers served, among other factors.

Segment revenue from Hong Kong warehouse consists of (i) rental fees for long-term leasing of general cargo warehouses in Hong Kong, (ii) storage and handling fees for short-term leasing of general cargo warehouses in Hong Kong, and (iii) storage and handling fees for specialty warehouses in Hong Kong. While Hong Kong warehouse contributed only 4.4%, 3.1%, 2.4%, 2.6% and 2.4% of our revenue for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively, this segment accounted for a significant proportion of our total segment results during these periods. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, Hong Kong warehouse accounted for 39.7%, 30.5%, 28.5%, 28.8% and 27.1% of our total segment results, respectively. Segment revenue from Hong Kong warehouse is primarily driven by the GFA and location of warehousing space held, the rates of fees and the occupancy rate, among other factors.

Segment revenue from international freight forwarding typically consists of freight charges and charges for cargo handling. While international freight forwarding represented the majority of our revenue during the Track Record Period, this segment contributed the smallest proportion of our total segment results as it had the lowest profit margin among the three segments. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, international freight forwarding accounted for 10.9%, 21.1%, 20.8%, 22.9% and 20.5% of our total segment results, respectively. Segment revenue from international freight forwarding is primarily driven by global cargo flow volume, the mode of freight services used, the rates and types of freight forwarding services delivered, the size and coverage of our freight office network, and the air routes or trade lanes served, among other factors. As at 31 December 2010, 2011 and 2012 and 30 June 2013, we had a presence in 26 countries and territories, 26 countries and territories, 30 countries and territories and 34 countries and territories, respectively.

While fluctuations in freight rates have a direct impact on segment revenue from international freight forwarding, such fluctuations generally do not significantly affect our gross margin as we generally determine our fees charged to our customers by reference to freight and transportation costs incurred by us, among other factors, and we generally pass on the freight and transportation costs incurred to our customers. The following table shows the breakdown of our segment revenue from international freight forwarding by mode of transportation before inter-segment eliminations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Ocean freight	3,415,218	5,985,352	6,811,161	3,151,313	3,015,431
Air freight	3,186,211	3,016,023	4,791,071	2,177,549	2,356,636
Others	52,461	587,834	306,256	142,196	192,322
	6,653,890	9,589,209	11,908,488	5,471,058	5,564,389
Eliminations	(584,554)	(444,732)	(511,675)	(168,794)	(235,588)
Total	6,069,336	9,144,477	11,396,813	5,302,264	5,328,801

We manage a variety of logistics facilities in connection with the delivery of services for our logistics operations and Hong Kong warehouse segments. As at 31 December 2010, 2011 and 2012, 30 June 2013 and the Latest Practicable Date, the total GFA of the logistics facilities managed by us was approximately 25 million sq.ft., 32 million sq.ft., 32 million sq.ft., 36 million sq.ft. and 39 million sq.ft., respectively.

Direct Operating Expenses

Direct operating expenses represent costs and expenses directly attributable to our revenue generating activities. Direct operating expenses principally include freight and transportation costs, such as cost of air or ocean cargo space, fuel surcharges, terminal handling fees and trucking-related expenses (including fuel charges and repair and maintenance costs for motor vehicles). For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, freight and transportation costs accounted for 78.4%, 78.0%, 78.9%, 78.4% and 78.1% of total direct operating expenses, respectively. Direct operating expenses also include (i) employee benefit expenses with respect to direct operational staff, (ii) cost of goods sold in connection with our trading business, (iii) depreciation of property, plant and equipment, and (iv) operating lease charges on land and buildings relating to our logistics facilities, among other expenses. The following table shows the breakdown of our direct operating expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Freight and transportation costs	7,234,152	10,606,536	13,102,393	6,007,065	6,319,737
Employee benefit expenses	902,015	1,405,143	1,750,567	817,669	944,912
Cost of goods sold	642,425	805,885	868,595	430,879	392,847
Depreciation of property, plant and equipment	205,838	284,915	321,355	155,164	191,662
Operating lease charges on land and buildings	98,349	256,568	250,339	116,002	122,846
Others	146,937	244,336	308,211	136,535	123,596
Total	9,229,716	13,603,383	16,601,460	7,663,314	8,095,600

We incur significant freight and transportation costs in connection with the provision of international freight forwarding services. We offer air freight, ocean freight and cross-border road freight forwarding services, which accounted for 26.7%, 42.5% and 0.2% of the amount of freight and transportation costs, respectively, for the year ended 31 December 2012 and 26.5%, 38.4% and 0.6%, respectively, for the six months ended 30 June 2013.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, direct operating expenses were HK$9,229.7 million, HK$13,603.4 million, HK$16,601.5 million, HK$7,663.3 million and HK$8,095.6 million, respectively, representing 84.8%, 84.8%, 86.0%, 85.6% and 85.0% of our revenue, respectively.

Other Income and Net Gains

Other income and net gains principally comprise (i) interest income on bank deposits, (ii) gain or loss on disposal of property, plant and equipment, (iii) impairment of goodwill, and (iv) deemed gain on revaluation of previously held equity interest in acquiree company.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, other income and net gains were HK$21.3 million, HK$7.4 million, HK$28.3 million, HK$5.8 million and HK$30.5 million, respectively.

Administrative Expenses

Administrative expenses principally comprise employee benefit expenses with respect to administrative, managerial, sales and marketing, accounting and IT staff, which accounted for the majority of administrative expenses during the Track Record Period. Administrative expenses also comprise (i) operating lease charges on land and buildings relating to offices and business centres, (ii) legal and professional fees, (iii) travelling and transportation expenses, and (iv) other miscellaneous expenses such as marketing expenses, communication expenses, auditor's remuneration and utilities expenses. The following table shows the breakdown of our administrative expenses for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Employee benefit expenses	521,406	739,740	846,814	392,861	456,063
Operating lease charges on land and buildings	34,303	95,393	99,485	48,220	76,290
Legal and professional fees	41,135	58,488	70,844	33,435	25,689
Travelling and transportation	25,864	32,666	41,933	19,049	21,087
Others	232,415	360,004	344,225	148,114	159,854
Total	855,123	1,286,291	1,403,301	641,679	738,983

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, administrative expenses were HK$855.1 million, HK$1,286.3 million, HK$1,403.3 million, HK$641.7 million and HK$739.0 million, respectively, representing 7.9%, 8.0%, 7.3%, 7.2% and 7.8% of our revenue, respectively.

Change in Fair Value of Investment Properties

Change in fair value of investment properties represents the increase or decrease in fair value of completed investment properties based on valuations carried out by independent professional valuers. As at 30 June 2013, we owned investment properties in Hong Kong, China, Vietnam and Singapore, and our investment properties in Hong Kong accounted for 83.4% of the net book value of all of our investment properties. Although any fluctuations in fair value of investment properties will have a direct impact on profit, any such fluctuations will not change our cash position as long as the relevant investment properties are retained by us and are not sold.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, change in fair value of investment properties was HK$176.0 million, HK$130.3 million, HK$265.2 million, nil and HK$458.3 million, respectively, representing 14.9%, 9.5%, 16.0%, nil and 38.1% of profit before taxation, respectively.

Finance Costs

Finance costs principally comprise interest expense on bank loans and overdrafts. During the Track Record Period, finance costs also comprised interest expense on loans from a fellow subsidiary controlled by KPL, which were fully repaid in June 2013.

For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, finance costs were HK$23.1 million, HK$55.4 million, HK$63.1 million, HK$27.4 million and HK$45.1 million, respectively.

Share of Results of Associates

Share of results of associates represents the aggregate share of our associates' net profits or losses attributable to our interests in those associates. Our associates are entities over which we have significant influence but have no control. During the Track Record Period, share of results of associates principally comprised (i) our share of results of CCT, in which we own a 25% equity interest, and (ii) our share of results of AAT, in which we own a 15% equity interest. The following table shows the composition of share of results of associates for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
CCT	150,017	110,380	99,518	51,224	55,358
AAT	40,511	35,849	41,665	20,397	18,432
Kerry TJ Logistics	17,739	–	–	–	–
Others	554	2,235	(4,762)	(2,498)	(2,164)
Total	208,821	148,464	136,421	69,123	71,626

Share of results of associates accounted for 21.4%, 13.2%, 10.1%, 12.7% and 6.8% of our profit for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, respectively. Share of results of associates fluctuated from period to period as it depends on the performance of individual associates, which is affected by, among other factors, trade volume for the relevant countries and territories such as China and Hong Kong, competition from other terminal facilities, the development of trade routes and global economic conditions.

Taxation

Taxation consists of current and deferred tax expenses for jurisdictions in which our Company and our subsidiaries are subject to tax. During the Track Record Period, the amount of taxation charged to our consolidated income statement comprised (i) PRC taxation, (ii) Hong Kong profits tax, and (iii) overseas taxation.

Pursuant to the Corporate Income Tax Law of the PRC, which became effective from 1 January 2008, certain of our PRC subsidiaries originally entitled to a lower tax rate of 15% were subject to a gradual increase in tax rate to 25% over the five years from 2008 to 2012. These PRC subsidiaries were subject to a tax rate of 22% in 2010, 24% in 2011, and 25% in 2012 and 2013. All of our other PRC subsidiaries were subject to a uniform tax rate of 25% during the Track Record Period. In addition, withholding tax is levied on profit distribution upon declaration or remittance at a rate of 10%, unless a lower rate is available pursuant to applicable treaties.

During the Track Record Period, Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit.

Income tax on our 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 our subsidiaries operate. In addition, withholding tax is levied on profit distribution upon declaration or remittance at the rates of taxation prevailing in the overseas countries in which our subsidiaries operate.

CORE NET PROFIT

We monitor core net profit, which is not a standard measure under HKFRSs, to provide additional information about our operating performance. Core net profit represents our profit attributable to the Company's shareholder before the after-tax effect of change in fair value of investment properties. We believe that core net profit is a key financial indicator of our operating performance and provides useful information regarding our ability to generate profit and cash from our principal business operations and related investments. We have chosen to subtract the after-tax effect of change in fair value of investment properties in our calculation of core net profit because management does not consider changes in fair value of investment properties when evaluating our operating performance, making planning decisions or allocating resources. We do not engage in selling investment properties during our normal course of business and, accordingly, management considers that changes in fair value of investment properties are unlikely to be realisable and therefore are less meaningful to our business operations.

As a measure of our operating performance, we believe that the most directly comparable HKFRS measure to core net profit is profit attributable to the Company's shareholder. The following table reconciles our profit attributable to the Company's shareholder under HKFRSs to our core net profit for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	**2011**	**2012**	**2012**	**2013**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000 (unaudited)**	**HK$'000**
Profit attributable to the Company's shareholder	833,257	870,744	1,069,376	429,717	903,555
Change in fair value of investment properties attributable to the Company's shareholder	(172,466)	(130,312)	(261,562)	–	(458,227)
Deferred tax[(1)]	4,391	316	7,906	–	9,756
Core net profit	665,182	740,748	815,720	429,717	455,084

Note:

(1) Represents the amount of deferred tax relating solely to change in fair value of investment properties attributable to the Company's shareholder

Core net profit should not be considered in isolation or construed as a substitute for analysis of HKFRS financial measures, such as operating profit before fair value change of investment properties, operating profit, profit attributable to the Company's shareholder or net cash generated from operating activities. We have included core net profit in this prospectus because we believe it provides useful supplemental information to help investors better understand underlying trends in our business. Our core net profit presented in this prospectus may not be comparable to similarly titled measures presented by other companies. Investors should not compare our core net profit to the same or similarly titled measures presented by other companies.

RESULTS OF OPERATIONS

The following table shows our consolidated results of operations for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Revenue	10,879,909	16,034,311	19,294,775	8,954,237	9,521,789
Direct operating expenses	(9,229,716)	(13,603,383)	(16,601,460)	(7,663,314)	(8,095,600)
Gross profit	1,650,193	2,430,928	2,693,315	1,290,923	1,426,189
Other income and net gains	21,340	7,352	28,334	5,760	30,486
Administrative expenses	(855,123)	(1,286,291)	(1,403,301)	(641,679)	(738,983)
Operating profit before fair value change of investment properties	816,410	1,151,989	1,318,348	655,004	717,692
Change in fair value of investment properties	175,990	130,312	265,155	–	458,303
Operating profit	992,400	1,282,301	1,583,503	655,004	1,175,995
Finance costs	(23,066)	(55,394)	(63,124)	(27,432)	(45,096)
Share of results of associates	208,821	148,464	136,421	69,123	71,626
Profit before taxation	1,178,155	1,375,371	1,656,800	696,695	1,202,525
Taxation	(200,074)	(253,939)	(304,928)	(150,859)	(146,511)
Profit for the years/periods	978,081	1,121,432	1,351,872	545,836	1,056,014
Profit attributable to:					
Company's shareholder	833,257	870,744	1,069,376	429,717	903,555
Non-controlling interests	144,824	250,688	282,496	116,119	152,459
	978,081	1,121,432	1,351,872	545,836	1,056,014

Six Months Ended 30 June 2013 Compared to Six Months Ended 30 June 2012

Revenue. Revenue increased by 6.3% to HK$9,521.8 million for the six months ended 30 June 2013 from HK$8,954.2 million for the six months ended 30 June 2012. This increase was mainly attributable to an increase in segment revenue from logistics operations, in particular in China and South and Southeast Asia, partially offset by a decrease in segment revenue from international freight forwarding in Europe.

An analysis of segment revenue from our operating segments is as follows:

- *Logistics operations*. Segment revenue from logistics operations increased by 15.8% to HK$3,958.9 million for the six months ended 30 June 2013 from HK$3,418.3 million for the six months ended 30 June 2012. This increase was mainly attributable to the continued growth of our logistics operations in Greater China as we (i) had an increase in business volume from existing customers and (ii) continued to manage a growing portfolio of logistics facilities across Greater China.

- *Hong Kong warehouse.* Segment revenue from Hong Kong warehouse increased slightly by 0.2% to HK$234.1 million for the six months ended 30 June 2013 from HK$233.7 million for the six months ended 30 June 2012. This increase was primarily due to (i) an increase in revenue contribution by our specialty warehouses which generally yielded higher margins than general cargo warehouses and (ii) an increase in rental rates for our new and renewal warehouse customers, partially offset by a larger amount of inter-segment eliminations as more warehouse units were used for our logistics operations during the six months ended 30 June 2013.

- *International freight forwarding.* Segment revenue from international freight forwarding increased slightly by 0.5% to HK$5,328.8 million for the six months ended 30 June 2013 from HK$5,302.3 million for the six months ended 30 June 2012. This increase was mainly attributable to (i) our acquisition of a freight forwarding company in Sweden in the second quarter of 2013 and (ii) the continued growth of our international freight forwarding operations in China and South and Southeast Asia, which was partially offset by a decrease in revenue from Europe due to the weak market conditions in Europe during the six months ended 30 June 2013.

An analysis of segment revenue from our main geographic areas is as follows:

- *China.* Segment revenue from China increased by 8.4% to HK$4,249.2 million for the six months ended 30 June 2013 from HK$3,920.1 million for the six months ended 30 June 2012. This increase was mainly attributable to the continued growth of our logistics operations in Greater China primarily driven by an increase in business volume from existing customers as our portfolio of logistics facilities in China continued to expand, notwithstanding that there had been signs of a slowdown in domestic consumption in China with a shift in consumer preference from luxury goods towards mid-range branded goods.

- *Hong Kong.* Segment revenue from Hong Kong increased by 9.5% to HK$1,304.4 million for the six months ended 30 June 2013 from HK$1,190.8 million for the six months ended 30 June 2012. This increase was primarily due to the addition of several major new customers, including in the food and beverage industry, during the six months ended 30 June 2013.

- *Taiwan.* Segment revenue from Taiwan increased by 6.2% to HK$972.6 million for the six months ended 30 June 2013 from HK$916.2 million for the six months ended 30 June 2012. We continued to grow our business in Taiwan steadily through leveraging our industry expertise, including expertise in logistics operations in the pharmaceutical and healthcare industries.

- *South and Southeast Asia.* Segment revenue from South and Southeast Asia increased by 20.1% to HK$1,404.0 million for the six months ended 30 June 2013 from HK$1,168.9 million for the six months ended 30 June 2012. This increase was mainly attributable to (i) our acquisition of a 70% equity interest in an express company in Vietnam in the first quarter of 2012, (ii) an increase in revenue from KART driven by its continued business development, and (iii) the opening of our regional logistics hub in Singapore during the first quarter of 2013.

- *Europe.* Segment revenue from Europe decreased by 11.5% to HK$1,308.5 million for the six months ended 30 June 2013 from HK$1,478.4 million for the six months ended 30 June 2012. This decrease was mainly attributable to a decline in our international freight forwarding business as a result of reduced demand for exports from Asia, which led to intense market competition, in particular for air freight, in Europe during the six months ended 30 June 2013.

Direct operating expenses. Direct operating expenses increased by 5.6% to HK$8,095.6 million for the six months ended 30 June 2013 from HK$7,663.3 million for the six months ended 30 June 2012. This increase was mainly attributable to (i) a 5.2% increase in freight and transportation costs, which was generally in line with the increase in revenue, and (ii) a 15.6% increase in employee benefit expenses for our direct staff, which was primarily due to our increased business scale during the six months ended 30 June 2013.

Gross profit and gross margin. As a result of the foregoing, gross profit increased by 10.5% to HK$1,426.2 million for the six months ended 30 June 2013 from HK$1,290.9 million for the six months ended 30 June 2012. Gross margin, which represents gross profit as a percentage of revenue, was 15.0% for the six months ended 30 June 2013 compared to 14.4% for the six months ended 30 June 2012. The slight increase in gross margin was primarily due to the increased revenue contribution by our logistics operations segment.

Other income and net gains. Other income and net gains increased significantly by HK$24.7 million to HK$30.5 million for the six months ended 30 June 2013 from HK$5.8 million for the six months ended 30 June 2012. This increase was mainly attributable to (i) an increase in interest income, which was primarily due to our higher average balance of short-term bank deposits during the six months ended 30 June 2013, and (ii) a one-off charge incurred for impairment of goodwill in the amount of HK$7.0 million for the six months ended 30 June 2012.

Administrative expenses. Administrative expenses increased by 15.2% to HK$739.0 million for the six months ended 30 June 2013 from HK$641.7 million for the six months ended 30 June 2012. This increase was mainly attributable to (i) an increase in employee benefit expenses, which was primarily due to our increased scale, and (ii) an increase in operating lease charges on land and buildings, which was primarily due to our increased business scale for the six months ended 30 June 2013.

Operating profit before fair value change of investment properties. As a result of the foregoing, operating profit before fair value change of investment properties increased by 9.6% to HK$717.7 million for the six months ended 30 June 2013 from HK$655.0 million for the six months ended 30 June 2012. Operating profit before fair value change of investment properties as a percentage of revenue was 7.5% for the six months ended 30 June 2013 compared to 7.3% for the six months ended 30 June 2012.

Change in fair value of investment properties. Change in fair value of investment properties was HK$458.3 million for the six months ended 30 June 2013 compared to nil for the six months ended 30 June 2012. The increase in fair value of investment properties during the six months ended 30 June 2013 was primarily due to the continued increase in the prices of industrial properties in Hong Kong since the second half of 2012.

Operating profit and operating margin. As a result of the foregoing, operating profit increased by 79.5% to HK$1,176.0 million for the six months ended 30 June 2013 from HK$655.0 million for the six months ended 30 June 2012. Operating margin, which represents operating profit as a percentage of revenue, was 12.4% for the six months ended 30 June 2013 compared to 7.3% for the six months ended 30 June 2012. The increase in operating margin was primarily due to the change in fair value of investment properties for the six months ended 30 June 2013.

Finance costs. Finance costs increased by 64.4% to HK$45.1 million for the six months ended 30 June 2013 from HK$27.4 million for the six months ended 30 June 2012. This increase was mainly attributable to the higher interest expense on bank loans and overdrafts for the six months ended 30 June 2013, which was primarily due to an increase in the average bank loan balance to finance our continued business expansion.

Share of results of associates. Share of results of associates increased by 3.6% to HK$71.6 million for the six months ended 30 June 2013 from HK$69.1 million for the six months ended 30 June 2012. This increase was due to the increase in profit for CCT, partially offset by a decrease in profit from AAT.

Profit before taxation. As a result of the foregoing, in particular the significant increase in fair value of investment properties, profit before taxation increased by 72.6% to HK$1,202.5 million for the six months ended 30 June 2013 from HK$696.7 million for the six months ended 30 June 2012.

Taxation. Taxation decreased by 2.9% to HK$146.5 million for the six months ended 30 June 2013 from HK$150.9 million for the six months ended 30 June 2012. This decrease was primarily due to the utilisation of previously unrecognised tax losses in Europe. The effective tax rate was 12.2% for the six months ended 30

June 2013 compared to 21.7% for the six months ended 30 June 2012. This decrease in effective tax rate was primarily due to (i) the smaller amount of taxation in Europe and (ii) the increase in fair value of investment properties in Hong Kong, which was not subject to tax, for the six months ended 30 June 2013.

Profit for the period and net margin. As a result of the foregoing, in particular the significant increase in fair value of investment properties, profit for the period increased by 93.5% to HK$1,056.0 million for the six months ended 30 June 2013 from HK$545.8 million for the six months ended 30 June 2012. Net margin, which represents profit for the year or period as a percentage of revenue, was 11.1% for the six months ended 30 June 2013 compared to 6.1% for the six months ended 30 June 2012.

Core net profit. As a result of the foregoing, core net profit increased by 5.9% to HK$455.1 million for the six months ended 30 June 2013 from HK$429.7 million for the six months ended 30 June 2012. Core net profit as a percentage of revenue remained stable at 4.8% for the six months ended 30 June 2012 and 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Revenue. Revenue increased by 20.3% to HK$19,294.8 million for the year ended 31 December 2012 from HK$16,034.3 million for the year ended 31 December 2011. This increase was attributable to increases in segment revenue from international freight forwarding, in particular in Europe, and integrated logistics, in particular in China, partially offset by a decrease in segment revenue from Hong Kong warehouse.

An analysis of segment revenue from our operating segments is as follows:

- *Logistics operations.* Segment revenue from logistics operations increased by 16.1% to HK$7,423.7 million for the year ended 31 December 2012 from HK$6,392.9 million for the year ended 31 December 2011. This increase was mainly attributable to our growing operations in China. We continued to generate an increasing amount of revenue from delivering integrated logistics services in China as domestic consumption, particularly for branded goods from overseas, drove increasing demand for logistics services in our target industries.

- *Hong Kong warehouse.* Segment revenue from Hong Kong warehouse decreased by 4.6% to HK$474.2 million for the year ended 31 December 2012 from HK$497.0 million for the year ended 31 December 2011. This decrease was primarily due to a larger amount of inter-segment eliminations relating to use of space for our logistics operations. Meanwhile, we recorded an increase in rental rates for our new and renewal warehouse customers and an increase in revenue for our specialty warehouses in 2012.

- *International freight forwarding.* Segment revenue from international freight forwarding increased by 24.6% to HK$11,396.8 million for the year ended 31 December 2012 from HK$9,144.5 million for the year ended 31 December 2011. This increase was primarily due to (i) our acquisitions of regional or local freight forwarding companies in strategic markets, in particular in Europe, and (ii) our acquisitions of certain strategic businesses, including certain air freight consolidators in China, to strengthen our international freight forwarding capability.

An analysis of segment revenue from our main geographic areas is as follows:

- *China.* Segment revenue from China increased by 22.4% to HK$8,745.2 million for the year ended 31 December 2012 from HK$7,144.5 million for the year ended 31 December 2011. This increase was mainly attributable to (i) our acquisitions of certain strategic businesses operating major air freight consolidation platforms in China in the first quarter of 2012 and (ii) an increase in revenue from logistics operations in China driven by increased domestic consumption, despite any negative impact on our outbound freight forwarding business as a result of a slowdown in China's export growth in 2012.

- *Hong Kong.* Segment revenue from Hong Kong increased by 7.3% to HK$2,469.1 million for the year ended 31 December 2012 from HK$2,300.6 million for the year ended 31 December 2011. This increase was mainly attributable to (i) an increase in business for logistics operations resulting primarily from the strong local retail sector in Hong Kong and (ii) an increase in revenue for our specialty warehouses, which generally yielded higher margins than our general cargo warehouses.

- *Taiwan.* Segment revenue from Taiwan increased by 5.7% to HK$1,978.7 million for the year ended 31 December 2012 from HK$1,871.9 million for the year ended 31 December 2011. This increase was primarily due to (i) an increase in cargo volume handled and (ii) our increased focus on delivering higher value services to customers, including customers in the pharmaceutical and healthcare industries.

- *South and Southeast Asia.* Segment revenue from South and Southeast Asia increased by 4.2% to HK$2,395.4 million for the year ended 31 December 2012 from HK$2,298.3 million for the year ended 31 December 2011. This increase was mainly attributable to our business growth in Thailand and Vietnam as (i) we acquired a 70% equity interest in an express company in Vietnam in the first quarter of 2012 and (ii) the cargo throughput at Kerry Siam Seaport in Thailand continued to increase in 2012.

- *Europe.* Segment revenue from Europe increased by 60.8% to HK$3,084.0 million for the year ended 31 December 2012 from HK$1,917.4 million for the year ended 31 December 2011. This increase was primarily due to our acquisition of a freight forwarding company based in Germany, which has a business focus on sea freight to and from Asia, in the fourth quarter of 2011.

Direct operating expenses. Direct operating expenses increased by 22.0% to HK$16,601.5 million for the year ended 31 December 2012 from HK$13,603.4 million for the year ended 31 December 2011. This increase was mainly attributable to (i) a 23.5% increase in freight and transportation costs, which was generally in line with the increase in segment revenue from international freight forwarding, and (ii) a 24.6% increase in employee benefit expenses for our direct staff, which was primarily due to our increased business scale in 2012.

Gross profit and gross margin. As a result of the foregoing, gross profit increased by 10.8% to HK$2,693.3 million for the year ended 31 December 2012 from HK$2,430.9 million for the year ended 31 December 2011. Gross margin was 14.0% for the year ended 31 December 2012 compared to 15.2% for the year ended 31 December 2011. The decrease in gross margin was primarily due to the increased revenue contribution by our international freight forwarding segment.

Other income and net gains. Other income and net gains increased significantly by HK$20.9 million to HK$28.3 million for the year ended 31 December 2012 from HK$7.4 million for the year ended 31 December 2011. This increase was mainly attributable to an increase in interest income, which was primarily due to our higher average balance of short-term bank deposits in 2012.

Administrative expenses. Administrative expenses increased by 9.1% to HK$1,403.3 million for the year ended 31 December 2012 from HK$1,286.3 million for the year ended 31 December 2011. This increase was mainly attributable to (i) an increase in employee benefit expenses for our indirect staff, which was primarily due to our increased business scale in 2012, and (ii) an increase in amortisation of intangible assets.

Operating profit before fair value change of investment properties. As a result of the foregoing, operating profit before fair value change of investment properties increased by 14.4% to HK$1,318.3 million for the year ended 31 December 2012 from HK$1,152.0 million for the year ended 31 December 2011. Operating profit before fair value change of investment properties as a percentage of revenue was 6.8% for the year ended 31 December 2012 compared to 7.2% for the year ended 31 December 2011.

Change in fair value of investment properties. Change in fair value of investment properties was HK$265.2 million for the year ended 31 December 2012 compared to HK$130.3 million for the year ended 31 December 2011. These increases in fair value of investment properties were primarily due to the general increase in property prices in Hong Kong during the respective years. We had a larger increase in fair value of investment properties in 2012 as the prices of industrial properties increased sharply since the second half of 2012.

Operating profit and operating margin. As a result of the foregoing, operating profit increased by 23.5% to HK$1,583.5 million for the year ended 31 December 2012 from HK$1,282.3 million for the year ended 31 December 2011. Operating margin was 8.2% for the year ended 31 December 2012 compared to 8.0% for the year ended 31 December 2011.

Finance costs. Finance costs increased by 14.0% to HK$63.1 million for the year ended 31 December 2012 from HK$55.4 million for the year ended 31 December 2011. This increase was mainly attributable to the higher interest expense on bank loans and overdrafts in 2012, which was primarily due to an increase in the average bank loan balance to finance our continued business expansion.

Share of results of associates. Share of results of associates decreased by 8.1% to HK$136.4 million for the year ended 31 December 2012 from HK$148.5 million for the year ended 31 December 2011. This decrease was principally due to the weaker results of CCT in 2012 primarily as a result of the slowdown in China's exports.

Profit before taxation. As a result of the foregoing, in particular the significant increase in fair value of investment properties, profit before taxation increased by 20.5% to HK$1,656.8 million for the year ended 31 December 2012 from HK$1,375.4 million for the year ended 31 December 2011.

Taxation. Taxation increased by 20.1% to HK$304.9 million for the year ended 31 December 2012 from HK$253.9 million for the year ended 31 December 2011. This increase was mainly attributable to the increase in PRC taxation while the increase in fair value of investment properties in Hong Kong was not subject to tax. The effective tax rate was 18.4% for the year ended 31 December 2012 compared to 18.5% for the year ended 31 December 2011.

Profit for the year and net margin. As a result of the foregoing, in particular the significant increase in fair value of investment properties, profit for the year increased by 20.5% to HK$1,351.9 million for the year ended 31 December 2012 from HK$1,121.4 million for the year ended 31 December 2011. Net margin was 7.0% for each of the years ended 31 December 2011 and 2012 and remained stable because of the offsetting effect of (i) the increase in operating profit and the larger increase in fair value of investment properties in 2012 and (ii) the decrease in share of results of associates in 2012.

Core net profit. As a result of the foregoing, core net profit increased by 10.1% to HK$815.7 million for the year ended 31 December 2012 from HK$740.7 million for the year ended 31 December 2011. Core net profit as a percentage of revenue was 4.2% for the year ended 31 December 2012 compared to 4.6% for the year ended 31 December 2011. This decrease in core net profit as a percentage of revenue was mainly attributable to the decrease in operating profit before fair value change of investment properties as a percentage of revenue.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Revenue. Revenue increased by 47.4% to HK$16,034.3 million for the year ended 31 December 2011 from HK$10,879.9 million for the year ended 31 December 2010. This increase was mainly attributable to increases in segment revenue from international freight forwarding and integrated logistics, in particular in China, Taiwan, and South and Southeast Asia.

An analysis of segment revenue from our operating segments is as follows:

- *Logistics operations*. Segment revenue from logistics operations increased by 47.5% to HK$6,392.9 million for the year ended 31 December 2011 from HK$4,333.0 million for the year ended 31 December 2010. This increase was primarily due to our gain of management control of Kerry TJ Logistics, which became our subsidiary, in July 2010. Its revenue was therefore included in our consolidated results only for six months in 2010 while its revenue for the entire year of 2011 was included in our consolidated results for the year ended 31 December 2011. In addition, this increase in segment revenue from integrated logistics was in part due to (i) our growth in business volume in China as we continued to expand our portfolio of managed logistics facilities in China and (ii) our acquisition of a 70% equity interest in a third-party logistics company in China specialising in the chemicals, electromechanical and automotive industries in the first quarter of 2011.

- *Hong Kong warehouse.* Segment revenue from Hong Kong warehouse increased by 4.1% to HK$497.0 million for the year ended 31 December 2011 from HK$477.6 million for the year ended 31 December 2010. This increase was primarily due to an increase in rental rates for our new or renewal warehouse customers in 2011.

- *International freight forwarding.* Segment revenue from international freight forwarding increased by 50.7% to HK$9,144.5 million for the year ended 31 December 2011 from HK$6,069.3 million for the year ended 31 December 2010. This increase was primarily due to (i) our acquisition of a 70% equity interest in an NVOCC operating an ocean freight consolidation platform in China in the first quarter of 2011 and (ii) our acquisition of a controlling equity interest in an India-based company in the third quarter of 2010.

An analysis of segment revenue from our main geographic areas is as follows:

- *China.* Segment revenue from China increased by 51.3% to HK$7,144.5 million for the year ended 31 December 2011 from HK$4,721.6 million for the year ended 31 December 2010. This increase was mainly attributable to (i) our increased acquisition activities in both integrated logistics and international freight forwarding and (ii) our growth in logistics operations, including the opening of new logistics facilities in China in the first quarter of 2011.

- *Hong Kong.* Segment revenue from Hong Kong increased by 14.1% to HK$2,300.6 million for the year ended 31 December 2011 from HK$2,016.8 million for the year ended 31 December 2010. This increase was mainly attributable to the higher volume of logistics operations in Hong Kong in 2011, which was primarily due to (i) an increase in new customers and (ii) the opening of Tai Po Product Customisation and Consolidation Centre in the fourth quarter of 2010.

- *Taiwan.* Segment revenue from Taiwan increased significantly by HK$1,024.4 million to HK$1,871.9 million for the year ended 31 December 2011 from HK$847.5 million for the year ended 31 December 2010. This increase was primarily due to our gain of management control of Kerry TJ Logistics in July 2010, as a result of which the revenue of Kerry TJ Logistics was included in our consolidated results beginning in July 2010.

- *South and Southeast Asia.* Segment revenue from South and Southeast Asia increased by 74.0% to HK$2,298.3 million for the year ended 31 December 2011 from HK$1,320.7 million for the year ended 31 December 2010. This increase was mainly attributable to (i) our acquisition activity in India as part of our efforts to expand our international freight forwarding business in India and (ii) an increase in revenue for our port terminal logistics business in Thailand, which resulted primarily from a significant growth of cargo volume at Kerry Siam Seaport.

- *Europe.* Segment revenue from Europe increased by 18.1% to HK$1,917.4 million for the year ended 31 December 2011 from HK$1,623.2 million for the year ended 31 December 2010. This increase was primarily due to our increased acquisition activities in Europe, in particular our acquisitions of (i) a sea freight forwarding company based in the Netherlands in the third quarter of 2010 and (ii) a freight forwarding company based in Germany in 2011.

Direct operating expenses. Direct operating expenses increased by 47.4% to HK$13,603.4 million for the year ended 31 December 2011 from HK$9,229.7 million for the year ended 31 December 2010. This increase was mainly attributable to (i) a 46.6% increase in freight and transportation costs, which was generally in line with the increase in segment revenue from international freight forwarding, and (ii) a 55.8% increase in employee benefit expenses for our direct staff, which was primarily due to our increased business scale in 2011.

Gross profit and gross margin. As a result of the foregoing, gross profit increased by 47.3% to HK$2,430.9 million for the year ended 31 December 2011 from HK$1,650.2 million for the year ended 31 December 2010. Gross margin remained stable at 15.2% for each of the years ended 31 December 2011 and 2010.

Other income and net gains. Other income and net gains decreased by 65.5% to HK$7.4 million for the year ended 31 December 2011 from HK$21.3 million for the year ended 31 December 2010. This decrease was mainly attributable to a one-off deemed gain on revaluation of a previously held equity interest in Kerry TJ Logistics in the amount of HK$54.2 million in 2010 when Kerry TJ Logistics was reclassified from associate to subsidiary in July 2010. The decreases in other income and net gains in 2011 were partially offset by a decrease in impairment of goodwill relating to certain subsidiaries acquired prior to 2008.

Administrative expenses. Administrative expenses increased by 50.4% to HK$1,286.3 million for the year ended 31 December 2011 from HK$855.1 million for the year ended 31 December 2010. This increase was mainly attributable to an increase in employee benefit expenses for our indirect staff due to an increase in the number of indirect staff primarily as a result of our business expansion in 2011.

Operating profit before fair value change of investment properties. As a result of the foregoing, operating profit before fair value change of investment properties increased significantly by 41.1% to HK$1,152.0 million for the year ended 31 December 2011 from HK$816.4 million for the year ended 31 December 2010. Operating profit before fair value change of investment properties as a percentage of revenue was 7.2% for the year ended 31 December 2011 compared to 7.5% for the year ended 31 December 2010.

Change in fair value of investment properties. Change in fair value of investment properties decreased by 26.0% to HK$130.3 million for the year ended 31 December 2011 from HK$176.0 million for the year ended 31 December 2010. This decrease was primarily due to a less rapid increase in market prices of industrial properties in Hong Kong in 2011 as compared to 2010.

Operating profit and operating margin. As a result of the foregoing, operating profit increased by 29.2% to HK$1,282.3 million for the year ended 31 December 2011 from HK$992.4 million for the year ended 31 December 2010. Operating margin was 8.0% for the year ended 31 December 2011 compared to 9.1% for the year ended 31 December 2010.

Finance costs. Finance costs increased significantly by HK$32.3 million to HK$55.4 million for the year ended 31 December 2011 from HK$23.1 million for the year ended 31 December 2010. This increase was mainly attributable to the higher interest expense on bank loans and overdrafts in 2011, which was primarily due to an increase in the average bank loan balance.

Share of results of associates. Share of results of associates decreased by 28.9% to HK$148.5 million for the year ended 31 December 2011 from HK$208.8 million for the year ended 31 December 2010. This decrease was mainly attributable to (i) the weaker results of CCT in 2011 primarily as a result of the slowdown in China's export market and (ii) the reclassification of Kerry TJ Logistics from associate to subsidiary beginning in July 2010 due to our gain of management control of this company.

Profit before taxation. As a result of the foregoing, profit before taxation increased by 16.7% to HK$1,375.4 million for the year ended 31 December 2011 from HK$1,178.2 million for the year ended 31 December 2010.

Taxation. Taxation increased by 26.9% to HK$253.9 million for the year ended 31 December 2011 from HK$200.1 million for the year ended 31 December 2010. This increase was mainly attributable to the increase in profit before taxation. The effective tax rate was 18.5% for the year ended 31 December 2011 compared to 17.0% for the year ended 31 December 2010. The increase in effective tax rate was primarily due to the impact of the higher tax rates of the businesses in Europe that we acquired during the second half of 2010 and during 2011.

Profit for the year and net margin. As a result of the foregoing, profit for the year increased by 14.7% to HK$1,121.4 million for the year ended 31 December 2011 from HK$978.1 million for the year ended 31 December 2010. Net margin was 7.0% for the year ended 31 December 2011 compared to 9.0% for the year ended 31 December 2010. The decrease in net margin was primarily due to our lower operating margin in 2011, coupled with the decrease in share of results of associates in 2011.

Core net profit. As a result of the foregoing, core net profit increased by 11.4% to HK$740.7 million for the year ended 31 December 2011 from HK$665.2 million for the year ended 31 December 2010. Core net profit as a percentage of revenue was 4.6% for the year ended 31 December 2011 compared to 6.1% for the year ended 31 December 2010. This decrease in core net profit as a percentage of revenue was primarily due to the decrease in operating profit before fair value change of investment properties as a percentage of revenue, coupled with the decrease in share of results of associates in 2011.

SEGMENT RESULTS

The following table shows the segment results for our operating segments for the periods indicated:

	Year ended 31 December						Six months ended 30 June			
	2010		2011		2012		2012		2013	
	Segment results	Percentage of total	Segment results	Percentage of total	Segment results	Percentage of total	Segment results	Percentage of total	Segment results	Percentage of total
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000 (unaudited)	%	HK$'000	%
Integrated logistics:										
Logistics operations	434,120	49.4	588,525	48.4	729,619	50.7	338,730	48.3	401,163	52.4
Hong Kong warehouse	349,157	39.7	370,852	30.5	411,055	28.5	201,672	28.8	207,487	27.1
	783,277	89.1	959,377	78.9	1,140,674	79.2	540,402	77.1	608,650	79.5
International freight forwarding	95,571	10.9	255,913	21.1	300,228	20.8	160,282	22.9	157,292	20.5
Total	878,848	100.0	1,215,290	100.0	1,440,902	100.0	700,684	100.0	765,942	100.0

Six Months Ended 30 June 2013 Compared to Six Months Ended 30 June 2012

Logistics operations. Segment results for logistics operations increased by 18.4% to HK$401.2 million for the six months ended 30 June 2013 from HK$338.7 million for the six months ended 30 June 2012. The increases in segment results and direct operating expenses for this segment were generally in line with the increase in segment revenue between the two periods.

Hong Kong warehouse. Segment results for Hong Kong warehouse increased by 2.9% to HK$207.5 million for the six months ended 30 June 2013 from HK$201.7 million for the six months ended 30 June 2012. The increase in segment results for Hong Kong warehouse was mainly attributable to the higher rental rates charged and the increased business volume of our specialty warehouses during the six months ended 30 June 2013. Direct operating expenses per square foot remained stable during the six months ended 30 June 2012 and 2013.

International freight forwarding. Segment results for international freight forwarding decreased by 1.9% to HK$157.3 million for the six months ended 30 June 2013 from HK$160.3 million for the six months ended 30 June 2012. The slight decrease in segment results for international freight forwarding, despite a slightly higher segment revenue, was primarily due to intense competition in Europe and generally in the air freight market during the six months ended 30 June 2013, which caused direct operating cost for this segment to increase in the six months ended 30 June 2013.

Year Ended 31 December 2012 Compared to Year Ended 31 December 2011

Logistics operations. Segment results for logistics operations increased by 24.0% to HK$729.6 million for the year ended 31 December 2012 from HK$588.5 million for the year ended 31 December 2011. The increases in segment results and direct operating expenses for this segment were generally in line with the increase in segment revenue.

Hong Kong warehouse. Segment results for Hong Kong warehouse increased by 10.8% to HK$411.1 million for the year ended 31 December 2012 from HK$370.9 million for the year ended 31 December 2011. The increase in segment results for Hong Kong warehouse was mainly attributable to the increase in revenue from our specialty warehouses which generally yielded higher margins than our general cargo warehouses. Direct operating expenses per square foot remained stable in 2011 and 2012.

International freight forwarding. Segment results for international freight forwarding increased by 17.3% to HK$300.2 million for the year ended 31 December 2012 from HK$255.9 million for the year ended 31 December 2011. The increase in segment results for international freight forwarding was primarily due to the increase in segment revenue. Direct operating expenses for this segment increased in 2012 generally in line with the increase in segment revenue.

Year Ended 31 December 2011 Compared to Year Ended 31 December 2010

Logistics operations. Segment results for logistics operations increased by 35.6% to HK$588.5 million for the year ended 31 December 2011 from HK$434.1 million for the year ended 31 December 2010. The increase in segment results for logistics operations was primarily due to the increase in segment revenue, partially offset by additional cost incurred in setting up new logistics centres and business units.

Hong Kong warehouse. Segment results for Hong Kong warehouse increased by 6.2% to HK$370.9 million for the year ended 31 December 2011 from HK$349.2 million for the year ended 31 December 2010. The increase in segment results for Hong Kong warehouse was primarily due to (i) the increase in segment revenue and (ii) the higher rental rates charged in 2011. Direct operating expenses per square foot remained stable in 2010 and 2011.

International freight forwarding. Segment results for international freight forwarding increased significantly by HK$160.3 million to HK$255.9 million for the year ended 31 December 2011 from HK$95.6 million for the year ended 31 December 2010. The increase in segment results for international freight forwarding was primarily due to the increase in segment revenue. The increase in segment results as a percentage of segment revenue was primarily due to our network expansion resulting in a higher overall operating margin for international freight forwarding.

ADJUSTED EBITDA

Adjusted EBITDA, as we present it, represents profit for the year or period before taxation, share of results of associates, finance costs, other income and net gains, change in fair value of investment properties, depreciation and amortisation. Adjusted EBITDA is not a standard measure under HKFRSs.

While adjusted EBITDA provides an additional financial measure for investors to assess our operating performance, the use of adjusted EBITDA has certain limitations because it does not reflect all items of income and expense that affect our operations. The items that are adjusted for may continue to be incurred in our business and should be considered in the overall understanding and assessment of our results. In addition, adjusted EBITDA does not reflect changes in working capital, capital expenditures and other investing and financing activities and should not be considered a measure of our liquidity.

As a measure of our operating performance, we believe that the most directly comparable HKFRSs measure to adjusted EBITDA is profit for the year or period. The following table reconciles profit for the year or period under HKFRSs to adjusted EBITDA for the periods indicated:

	Year ended 31 December			Six months ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Profit for the years/periods	978,081	1,121,432	1,351,872	545,836	1,056,014
Adjustments for:					
Taxation	200,074	253,939	304,928	150,859	146,511
Share of results of associates	(208,821)	(148,464)	(136,421)	(69,123)	(71,626)
Finance costs	23,066	55,394	63,124	27,432	45,096
Other income and net gains	(21,340)	(7,352)	(28,334)	(5,760)	(30,486)
Change in fair value of investment properties	(175,990)	(130,312)	(265,155)	–	(458,303)
Depreciation	205,838	284,915	321,355	155,164	191,662
Amortisation	4,578	11,115	45,997	15,885	24,135
Adjusted EBITDA	**1,005,486**	**1,440,667**	**1,657,366**	**820,293**	**903,003**

Adjusted EBITDA should not be considered in isolation or construed as a substitute for analysis of HKFRSs financial measures, such as operating profit before fair value change of investment properties, operating profit, or profit for the year or period. In addition, because adjusted EBITDA may not be calculated in the same manner by all companies, our adjusted EBITDA may not be comparable to the same or similarly titled measures presented by other companies.

CASH FLOW AND LIQUIDITY

Cash Flow

Our principal cash requirements are to pay for various operating and administrative expenses, interest expense and other working capital needs and to finance our capital expenditures in connection with the purchase of equipment, motor vehicles and other fixed assets, development or expansion of logistics facilities, and acquisition of subsidiaries. We meet these cash requirements by relying on our principal sources of funding, including cash flows from operations and bank loans, and we expect to continue to rely on these sources and may also rely on other forms of debt financing in the foreseeable future. We historically also obtained loans from fellow subsidiaries controlled by KPL, which will be fully settled through capitalisation of a portion of the loans prior to the Listing and repayment of the remaining portion promptly after the Listing. Our liquidity position is generally affected by changes in our cash requirements and sources of funding.

The following table shows our net cash flow for the periods indicated:

	Year ended 31 December			Six Months ended 30 June
	2010	**2011**	**2012**	**2013**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Net cash generated from operating activities	606,948	1,019,252	870,745	687,438
Net cash used in investing activities	(387,631)	(1,023,776)	(1,665,029)	(986,156)
Net cash generated from financing activities	410,031	680,639	782,634	335,557
Increase/(decrease) in cash and cash equivalents	629,348	676,115	(11,650)	36,839
Effect of exchange rate changes	62,525	26,148	33,090	(4,206)
Cash and cash equivalents at end of the years/periods	2,189,853	2,892,116	2,913,556	2,946,189

Cash Flow from Operating Activities

Net cash generated from operating activities was HK$687.4 million for the six months ended 30 June 2013, which primarily reflected operating profit before fair value change of investment properties of HK$717.7 million and the non-cash adjustments for depreciation and amortisation charges in the aggregate amount of HK$215.8 million. Cash from operating profit was negatively adjusted primarily for an increase in inventories and accounts receivable, prepayments and deposits in the amount of HK$26.1 million. We also had cash outflow due to income tax payment in the amount of HK$115.0 million.

Net cash generated from operating activities was HK$870.7 million for the year ended 31 December 2012, which primarily reflected operating profit before fair value change of investment properties of HK$1,318.3 million and the non-cash adjustments for depreciation and amortisation charges in the aggregate amount of HK$367.4 million. Cash from operating profit was negatively adjusted primarily for an increase in inventories and accounts receivable, prepayments and deposits in the amount of HK$703.2 million, which was due primarily to the increase in turnover and business scale. We also had cash outflow due to income tax payment in the amount of HK$250.3 million.

Net cash generated from operating activities was HK$1,019.3 million for the year ended 31 December 2011, which primarily reflected operating profit before fair value change of investment properties of HK$1,152.0 million and the non-cash adjustments for depreciation and amortisation charges in the aggregate amount of HK$296.0 million. Cash from operating profit was negatively adjusted primarily for an increase in inventories and accounts receivable, prepayments and deposits in the amount of HK$268.9 million, which was due primarily to the increase in turnover and business scale. We also had cash outflow due to income tax payment in the amount of HK$298.4 million.

Net cash generated from operating activities was HK$606.9 million for the year ended 31 December 2010, which primarily reflected operating profit before fair value change of investment properties of HK$816.4 million and the non-cash adjustments for depreciation and amortisation charges in the aggregate amount of HK$210.4 million. Cash from operating profit was negatively adjusted primarily for an increase in inventories and accounts receivable, prepayments and deposits in the amount of HK$425.3 million, which was due primarily to the increase in turnover and business scale. We also had cash outflow due to income tax payment in the amount of HK$140.3 million.

Cash Flow from Investing Activities

Net cash used in investing activities was HK$986.2 million for the six months ended 30 June 2013. This primarily reflected cash outflows from (i) additions of property, plant and equipment in the amount of HK$669.3 million, which was paid principally for the development of logistics facilities and expansion of our truck fleet during the six months ended 30 June 2013, (ii) acquisition of subsidiaries in the amount of HK$334.1 million, which was paid principally for acquiring a freight forwarding company in Sweden in the second quarter of 2013, and (iii) increase in investments in associates in the amount of HK$107.5 million, which was paid principally for our capital injection in an associate in China.

Net cash used in investing activities was HK$1,665.0 million for the year ended 31 December 2012. This primarily reflected cash outflows from (i) additions of property, plant and equipment in the amount of HK$1,468.0 million, which was paid principally for the development of logistics facilities in 2012, and (ii) acquisition of subsidiaries in the amount of HK$433.4 million, which was paid principally for acquiring certain strategic businesses operating major air freight consolidation platforms in China. These cash outflows were partially offset by cash inflows mainly attributable to dividends received from associates in the amount of HK$296.1 million which related principally to our investments in CCT, an associate based in Spain which is primarily engaged in international freight forwarding, and AAT.

Net cash used in investing activities was HK$1,023.8 million for the year ended 31 December 2011. This primarily reflected cash outflows from (i) additions of property, plant and equipment in the amount of HK$852.6 million, which was paid principally for the development of logistics facilities in 2011, and (ii) acquisition of subsidiaries in the amount of HK$193.7 million, which was paid principally for acquiring an NVOCC operating an ocean freight consolidation platform in China. These cash outflows were partially offset by cash inflows mainly attributable to proceeds from sale of property, plant and equipment in the amount of HK$100.9 million, which we received principally for the sale of properties in connection with the relocation of certain logistics facilities.

Net cash used in investing activities was HK$387.6 million for the year ended 31 December 2010. This primarily reflected cash outflow from additions of property, plant and equipment in the amount of HK$603.7 million, which was paid principally for the development of logistics facilities in 2011, partially offset by cash inflows mainly attributable to dividends received from associates in the amount of HK$158.6 million, which we received principally from CCT, Kerry TJ Logistics and AAT.

Cash Flow from Financing Activities

Net cash generated from financing activities was HK$335.6 million for the six months ended 30 June 2013. This primarily reflected cash inflow from drawdown of bank loans in the amount of HK$2,535.5 million, which were used principally to finance (i) our development of logistics facilities and (ii) certain business acquisitions in China and Europe for our international freight forwarding business. The cash inflows from financing activities were partially offset by cash outflows mainly attributable to (i) the repayment of bank loans in the amount of HK$1,600.9 million and (ii) the repayment of interest-bearing loans from a fellow subsidiary in the amount of HK$403.1 million.

Net cash generated from financing activities was HK$782.6 million for the year ended 31 December 2012. This primarily reflected cash inflow from drawdown of bank loans in the amount of HK$1,761.4 million, which were used principally to finance (i) our development of logistics facilities, (ii) certain business acquisitions in China and Europe for our international freight forwarding business, and (iii) our acquisition of an additional equity interest of approximately 4.77% in Kerry TJ Logistics. The cash inflows from financing activities were partially offset by cash outflows mainly attributable to (i) the repayment of bank loans in the amount of HK$926.8 million and (ii) the acquisition of additional interests in subsidiaries in the amount of HK$256.1 million, which were paid primarily for our additional equity interest in Kerry TJ Logistics acquired in 2012.

Net cash generated from financing activities was HK$680.6 million for the year ended 31 December 2011. This primarily reflected cash inflows from (i) drawdown of bank loans in the amount of HK$775.1 million, which were used principally to finance our development of logistics facilities and certain business acquisitions in China for our international freight forwarding business, and (ii) an increase in loans from fellow subsidiaries in the amount of HK$393.6 million, which principally included interest-free loans from a fellow subsidiary. These cash inflows were partially offset by cash outflows mainly attributable to (i) the repayment of bank loans in the amount of HK$350.7 million and (ii) the acquisition of additional interest in subsidiaries in the amount of HK$151.1 million.

Net cash generated from financing activities was HK$410.0 million for the year ended 31 December 2010. This primarily reflected cash inflows from (i) increase in loans from fellow subsidiaries in the amount of HK$298.8 million, which principally included interest-free loans from a fellow subsidiary, and (ii) drawdown of bank loans in the amount of HK$281.3 million, which were used principally to finance our development of logistics facilities and acquisitions of subsidiaries. These cash inflows were partially offset by cash outflows mainly attributable to the repayment of bank loans in the amount of HK$123.1 million.

Working Capital Sufficiency

The Directors have confirmed that we have sufficient working capital for our requirements for at least the next 12 months from the date of this prospectus, taking into account our cash flows from operations, our available bank facilities and the estimated net proceeds from the Global Offering.

CAPITAL EXPENDITURES

Our capital expenditures are used principally in connection with (i) additions of property, plant and equipment (such as purchases of equipment, motor vehicles and other fixed assets), additions of investment properties (such as development or expansion of logistics facilities) and additions of leasehold land and land use rights and (ii) acquisition of subsidiaries and associates. For the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2012 and 2013, our total capital expenditures amounted to HK$966.4 million, HK$1,659.1 million, HK$2,529.8 million, HK$1,217.8 million and HK$1,187.5 million, respectively.

The following table shows our capital expenditures for the periods indicated:

	Year Ended 31 December			Six Months Ended 30 June	
	2010	2011	2012	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)	HK$'000
Additions of property, plant and equipment, additions of investment properties and additions of leasehold land and land use rights	607,411	958,392	1,490,095	638,700	669,332
Acquisition of subsidiaries and associates	359,034	700,756	1,039,686	579,115	518,195
Total capital expenditures	966,445	1,659,148	2,529,781	1,217,815	1,187,527

During the Track Record Period, our capital expenditures on additions of property, plant and equipment, additions of investment properties and additions of leasehold land and land use rights were incurred principally for purchasing or adding (i) warehouse operating equipment, (ii) motor vehicles, furniture, fixtures and office equipment, (iii) warehouse and logistics centres, and (iv) land and buildings. We spent an increasing amount of capital expenditures on additions of property, plant and equipment and additions of investment properties from 2010 to 2012 as we continued to expand our asset-based operations in Asia.

During the Track Record Period, our capital expenditures on acquisition of subsidiaries and associates were incurred principally for acquiring freight forwarding companies in strategic geographic markets or with niche businesses that we believe will strengthen our market position and service offerings. We made an increasing amount of capital expenditures on acquisition of subsidiaries from 2010 to 2012 as we were actively engaged in acquisition activities during this period.

For more information on the uses of our capital expenditures during the Track Record Period, see "Cash Flow and Liquidity — Cash Flow — Cash flow from investing activities" above.

We expect to have total capital expenditures in the amount of approximately HK$1,700 million for the year ending 31 December 2013.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following table shows certain details of our contractual obligations as at 30 June 2013:

	Payments Due by Period			
	Total	Within one year	Second to fifth year inclusive	After fifth year
	HK$'000	HK$'000	HK$'000	HK$'000
Contracted amount for additions of property, plant and equipment and acquisition of subsidiaries[(1)]	362,740	253,500	109,240	–
Minimum lease payments under non-cancellable operating leases	1,043,677	352,560	478,431	212,686

Note:

(1) Based on estimated completion date.

As at 30 June 2013, we had contracted but not provided for an aggregate amount of HK$362.7 million as contractual obligations for additions of property, plant and equipment and acquisition of subsidiaries, of which HK$253.5 million, or 69.9%, was to be paid within one year. These contractual obligations consisted principally of payments to be made for the development of logistics facilities. In addition, we had authorised but not contracted for an additional aggregate amount of HK$98.6 million as commitments principally for the development of logistics facilities.

Certain of our land and buildings are held under operating leases. As at 30 June 2013, our future aggregate minimum lease payments under non-cancellable operating leases amounted to HK$1,043.7 million.

In addition, we have principal and interest payment obligations under the bank loan agreements for our outstanding bank loans. The following table shows the maturity profile of our bank loans outstanding as at 30 June 2013:

	As at 30 June
	2013
	HK$'000
Within one year	631,435
Between one and two years	278,678
Between three and five years	1,940,676
Repayable with five years	2,850,789
Over five years	65,016
Total	2,915,805

We plan to settle all outstanding loans from a fellow subsidiary controlled by KPL through capitalisation of a portion of the loans prior to the Listing and repayment of the remaining portion promptly after the Listing. For more information, see the section headed "— Recent Developments — Repayment and Capitalisation of Loans from Fellow Subsidiary".

ASSETS AND LIABILITIES

Net Current Liabilities

The following table shows our current assets and current liabilities as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2010	2011	2012	2013	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)
Current assets					
Inventories	130,594	110,325	109,913	128,010	170,512
Accounts receivable, prepayments and deposits	2,509,551	3,358,575	4,325,293	4,329,172	4,875,426
Amounts due from related companies	–	–	–	–	3,833
Tax recoverable	4,674	10,831	9,279	3,354	8,869
Restricted and pledged bank deposits	15,733	4,644	4,510	6,983	5,207
Cash and bank balances	2,210,554	2,907,628	2,939,645	2,972,988	3,290,568
	4,871,106	6,392,003	7,388,640	7,440,507	8,354,415
Current liabilities					
Accounts payable, deposits received and accrued charges	2,312,677	3,353,172	3,923,029	3,686,654	4,035,898
Loans from fellow subsidiaries	3,491,003	3,890,967	4,181,600	3,781,580	3,781,580
Amount due to immediate holding company	74,945	94,480	64,666	93,434	92,254
Amount due to a related company	5,454	6,639	3,706	1,611	–
Taxation	129,106	83,040	117,296	131,107	173,043
Short-term bank loans and current portion of long-term bank loans	417,286	693,613	600,524	631,435	374,604
Bank overdrafts	20,701	15,512	26,089	26,799	32,965
	6,451,172	8,137,423	8,916,910	8,352,620	8,490,344
Net current liabilities	1,580,066	1,745,420	1,528,270	912,113	135,929

We had net current liabilities as at each of 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013. Our net current liabilities position as at each of these dates was primarily due to our loans from fellow subsidiaries being recorded as current liabilities in accordance with HKFRSs. These loans mainly included interest-free loans granted by a fellow subsidiary controlled by KPL, which as our sole shareholder had structured the predominant part of its investments in our Company in the form of these interest-free loans. While we did not expect these interest-free loans to be due within one year from each of the foregoing balance sheet dates, these loans were classified as current liabilities in accordance with HKFRSs because they had no fixed terms of repayment. We plan to settle all outstanding loans from our fellow subsidiary through capitalisation of a portion of the loans prior to the Listing and repayment of the remaining portion promptly after the Listing. For more information, see the section headed "— Recent Developments — Repayment and Capitalisation of Loans from Fellow Subsidiary".

Our net current liabilities were HK$135.9 million as at 31 October 2013, compared to HK$912.1 million as at 30 June 2013. This decrease in net current liabilities was primarily due to an increase in current assets, in particular accounts receivable, prepayments and deposits, as we continued to expand our businesses.

Accounts Receivable, Prepayments and Deposits

Our accounts receivable, prepayments and deposits consist principally of net trade receivables and, to a lesser extent, various prepayments, deposits and other items. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our accounts receivable, prepayments and deposits were HK$2,509.6 million, HK$3,358.6 million, HK$4,325.3 million and HK$4,329.2 million, respectively. The general increase in accounts receivable, prepayments and deposits during the Track Record Period was mainly attributable to a general increase in net trade receivables, which amounted to HK$2,028.9 million, HK$2,405.2 million, HK$3,389.7 million and HK$3,472.2 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, as we continued to expand our businesses.

We maintain credit policies setting forth specific credit terms as appropriate to our businesses and customer types. We generally grant a credit period ranging from 30 to 90 days to customers using our integrated logistics services and a credit period of less than 30 days to our warehouse customers in Hong Kong. With respect to international freight forwarding, we generally grant a credit period ranging from 30 to 60 days. The following table shows an ageing analysis of our net trade receivables as at the dates indicated:

	As at 31 December			As at 30 June
	2010	**2011**	**2012**	**2013**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**
Below one month	1,163,936	1,500,308	2,050,915	2,024,833
Between one and three months	687,059	785,437	1,149,776	1,220,521
Over three months	177,893	119,450	189,023	226,796
Total	2,028,888	2,405,195	3,389,714	3,472,150
Average trade receivables turnover days	57.8	51.3	55.5	66.8

As at 30 June 2013, our net trade receivables were HK$3,472.2 million. Of this amount, HK$3,130.5 million, or 90.2%, had been settled as at 31 October 2013.

Our average trade receivables turnover days, which represents the average of opening and closing total trade receivables balances divided by revenue and multiplied by the number of days in the relevant period, were 57.8 days, 51.3 days, 55.5 days and 66.8 days for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The average trade receivables turnover days indicates the average time required for us to collect cash payments from sales. The fluctuations in average trade receivables turnover days during the Track Record Period were primarily due to (i) changes in the proportion of larger customers, to which we typically grant a longer credit period, and (ii) changes in revenue contributions by different segments.

Accounts Payable, Deposits Received and Accrued Charges

Our accounts payable, deposits received and accrued charges consist principally of trade payables and, to a lesser extent, various accrued charges, consideration payable for acquisition of subsidiaries, customer deposits and other items. As at 31 December 2010, 2011 and 2012 and 30 June 2013, our accounts payable, deposits received and accrued charges were HK$2,312.7 million, HK$3,353.2 million, HK$3,923.0 million and HK$3,686.7 million, respectively. The general increase in accounts payable, deposits received and accrued charges during the period from 2010 to 2012, coupled with a decline during the six months ended 30 June 2013, was mainly attributable to (i) a general increase in trade payables, which amounted to HK$788.5 million, HK$1,287.3 million, HK$1,663.3 million and HK$1,679.5 million as at 31 December 2010, 2011 and 2012 and 30 June 2013, respectively, as we continued to expand our businesses, and (ii) our acquisition activities during the Track Record Period, for which consideration payable for acquisition of subsidiaries increased from HK$36.7 million as at 31 December 2010 to HK$300.9 million as at 31 December 2011 and further to HK$424.8 million as at 31 December 2012. In 2013, consideration payable for acquisition of subsidiaries decreased to HK$241.9 million (excluding the non-current portion of HK$68.4 million) as at 30 June 2013 as we reduced our acquisition activities in 2013.

Our trade payables consist principally of payables to airlines and shipping lines for cargo space. We are typically granted a credit term of 15 to 30 days for procurement of air or ocean cargo space. In connection with our operation of air or ocean freight consolidation platforms, we are granted a longer credit term of 30 to 45 days. The following table shows an ageing analysis of our trade payables as at the dates indicated:

	As at 31 December			As at 30 June
	2010	2011	2012	2013
	HK$'000	HK$'000	HK$'000	HK$'000
Below one month	576,891	629,721	848,793	784,145
Between one and three months	133,194	405,425	511,014	512,939
Over three months	78,377	252,195	303,494	382,427
Total	788,462	1,287,341	1,663,301	1,679,511
Average trade payables turnover days	32.2	33.2	38.5	45.4

As at 30 June 2013, our trade payables were HK$1,679.5 million. Of this amount, HK$1,201.9 million, or 71.6%, had been settled as at 31 October 2013.

Our average trade payables turnover days, which represents the average of opening and closing trade payables balances divided by the sum of freight and transportation costs and cost of goods sold and multiplied by the number of days in the relevant period, were 32.2 days, 33.2 days, 38.5 days and 45.4 days for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013, respectively. The average trade payables turnover days indicates the average time we take to make cash payments to suppliers. Its general increase during the Track Record Period was primarily due to the increased revenue contribution by our air or ocean freight consolidation platform operations.

INDEBTEDNESS

Bank Loans

We obtain bank loans as one of our principal sources of funding. As at 31 December 2010, 2011 and 2012 and 30 June 2013, we had total bank loans in the amounts of HK$654.0 million, HK$1,098.6 million, HK$1,965.1 million and HK$2,915.8 million, respectively. The general increase in bank loans during the Track Record Period was primarily due to our increased capital needs in connection with our business expansion and acquisition activities. The following table shows a breakdown of our current and non-current bank loans as at the dates indicated:

	As at 31 December			As at 30 June	As at 31 October
	2010	2011	2012	2013	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000 (unaudited)
Current:					
Unsecured	341,733	518,650	470,791	502,737	250,563
Secured(1)	75,553	174,963	129,733	128,698	124,041
	417,286	693,613	600,524	631,435	374,604
Non-current:					
Unsecured	46,015	228,103	918,256	1,768,874	2,349,900
Secured(1)	190,712	176,851	446,306	515,496	539,988
	236,727	404,954	1,364,562	2,284,370	2,889,888
Total	654,013	1,098,567	1,965,086	2,915,805	3,264,492

Note:

(1) These bank loans were secured by (i) legal charges over certain investment properties, leasehold land and land use rights, construction in progress, and buildings and port facilities and (ii) assignments of insurance proceeds of certain properties.

Our bank loans are denominated principally in Hong Kong dollars, as well as in Thai baht, Renminbi, Singapore dollars, New Taiwan dollars and other currencies. As at 30 June 2013, the effective annual interest rates of our major bank loans ranged between 1.32% (for loans denominated in New Taiwan dollars) and 5.82% (for loans denominated in Renminbi).

As at the Latest Practicable Date, none of our bank loans were guaranteed by any of our Controlling Shareholders or their associates (excluding our Group).

For information on the maturity profile of our bank loans as at 30 June 2013, see the section headed "— Contractual Obligations and Commitments" above.

For each bank loan, either our Company or one of our subsidiaries entered into the loan agreement as borrower. Our Company also acts as guarantor for certain of the bank loans borrowed by our subsidiaries. The bank loan agreements contain covenants that impose certain restrictions or maintenance requirements on our Company or our subsidiaries. Some typical covenants relating to bank loans obtained by our Company are as follows:

- The Company may not change the general nature of its business;
- The Company may not sell, transfer or otherwise dispose of all or a material part of its assets;

- The Company may not create encumbrances on any part of its property or assets or deal with its assets in a way that may adversely affect its ability to repay the loan; and

- The Company must comply with certain financial covenants, including but not limited to (i) consolidated tangible net worth, (ii) ratio of consolidated total financial indebtedness to aggregate consolidated tangible net worth and minority interests, and (iii) ratio of consolidated total liabilities to aggregate consolidated tangible net worth and minority interests.

As at 31 October 2013, we had total bank loan and overdraft facilities in the amount of approximately HK$7.1 billion, of which approximately HK$3.8 billion remained unutilised and available. Of such unutilised amount, approximately HK$1.7 billion was available for unrestricted use. None of these bank loan and overdraft facilities are supported by any financial assistance or credit support from any of our Controlling Shareholders or their associates (excluding our Group), and we have no intention to seek financial assistance or credit support from any of them in obtaining bank loan and overdraft facilities in the future after the Listing.

We expect to draw down approximately HK$800.0 million under certain of our unutilised revolving bank facilities promptly after the Listing to repay a portion of outstanding interest-free loans from our fellow subsidiary. For more information, see the section headed "— Recent Developments — Repayment and Capitalisation of Loans from Fellow Subsidiary". These facilities are denominated in Hong Kong dollars and the applicable interest rates are not more than 1.65% above the Hong Kong Interbank Offer Rate. The term of these facilities will end between 2016 and 2018. Except as disclosed in the foregoing, we currently do not have any plans to raise material external debt in the foreseeable future.

Loans from Fellow Subsidiaries

As at 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013, our Company and certain of our wholly-owned subsidiaries had obtained loans from two fellow subsidiaries controlled by KPL with aggregate carrying amounts of HK$3,491.0 million, HK$3,891.0 million, HK$4,181.6 million, HK$3,781.6 million and HK$3,781.6 million, respectively. These included (i) interest-free loans from a fellow subsidiary with carrying amounts of HK$3,090.9 million, HK$3,691.0 million, HK$3,781.6 million, HK$3,781.6 million and HK$3,781.6 million as at 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013, respectively, and (ii) interest-bearing loans from another fellow subsidiary with carrying amounts of HK$400.1 million, HK$200.0 million, HK$400.0 million, nil and nil as at 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013, respectively. All of these loans from fellow subsidiaries were unsecured Hong Kong dollar-denominated loans without fixed terms of repayment. The interest-bearing loans bore interest at prevailing market rates.

We had fully repaid all interest-bearing loans from our fellow subsidiary in June 2013. We plan to settle all outstanding interest-free loans from our fellow subsidiary through capitalisation of a portion of the loans prior to the Listing and repayment of the remaining portion promptly after the Listing. For more information, see the section headed "— Recent Developments — Repayment and Capitalisation of Loans from Fellow Subsidiary".

Loans from Non-controlling Interests

Certain of our non-wholly owned subsidiaries have obtained long-term loans from their non-controlling shareholders. These loans from non-controlling interests are unsecured and not repayable within twelve months. They are interest-free and are denominated in Renminbi, Hong Kong dollars, Malaysian Ringgit and other currencies. As at 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013, these loans from non-controlling interests had a carrying amount of HK$83.2 million, HK$131.1 million, HK$222.4 million, HK$225.1 million and HK$238.3 million, respectively.

Bank Overdrafts

As at 31 December 2010, 2011 and 2012 and 30 June and 31 October 2013, we had bank overdrafts in the amounts of HK$20.7 million, HK$15.5 million, HK$26.1 million, HK$26.8 million and HK$33.0 million, respectively. A portion of these bank overdrafts in the amounts of nil, HK$15.2 million, HK$24.0 million, HK$19.5 million and HK$20.7 million, respectively, was secured by our assets.

Directors' Confirmation

Our Directors confirm that we had no material defaults in the payment of trade and non-trade payables and bank borrowings, nor any material breaches of the finance covenants during the Track Record Period.

Indebtedness as at 31 October 2013

As at 31 October 2013, except as disclosed in this prospectus, and apart from intra-group liabilities, we did not have any other debt securities, term-loan borrowings, indebtedness, acceptance credits, hire purchase commitments, mortgages, charges, contingent liabilities, or guarantees outstanding.

We confirm that there had not been any material adverse change in our indebtedness and contingent liabilities since 30 June 2013 and up to the date of this prospectus.

KEY FINANCIAL RATIOS

The following table shows certain financial ratios as at the dates or for the periods indicated:

	As at or for the year ended 31 December			As at or for the six months ended 30 June
	2010	2011	2012	2013
Current ratio[1]	0.76	0.79	0.83	0.89
Debt to equity ratio[2]	10.3%	15.1%	23.8%	32.3%
Return on assets[3]	5.9%	5.8%	6.0%	8.9%

Notes:

(1) Current ratio is calculated by dividing total current assets by total current liabilities.

(2) Debt to equity ratio is calculated by dividing total bank loans and bank overdrafts by capital and reserves attributable to the Company's shareholder.

(3) Return on assets is calculated by dividing profit for the year or annualised period by total assets.

Current ratio

Our current ratio as at 31 December 2010, 2011 and 2012 and 30 June 2013 was 0.76, 0.79, 0.83 and 0.89, respectively. The general increase in current ratio during the Track Record Period was primarily due to the scheduled repayment of our interest-bearing loans from a fellow subsidiary controlled by KPL. Those loans were fully repaid in June 2013.

Debt to equity ratio

Our debt to equity ratio as at 31 December 2010, 2011 and 2012 and 30 June 2013 was 10.3%, 15.1%, 23.8% and 32.3%, respectively. The general increase in net debt to equity ratio during the Track Record Period was primarily due to the increase in our bank loans to finance our continued business expansion during the Track Record Period.

Return on assets

Our return on assets for the years ended 31 December 2010, 2011 and 2012 and the six months ended 30 June 2013 was 5.9%, 5.8%, 6.0% and 8.9%, respectively. Our return on assets remained relatively stable during the three years ended 31 December 2012. Our return on assets increased significantly for the six months ended 30 June 2013 primarily as a result of the significant increase in annualised profit.

RELATED PARTY TRANSACTIONS

During the Track Record Period, we had certain related party transactions in the normal course of business. These transactions were conducted in accordance with terms as agreed between us and the respective related parties. The Directors have confirmed that all related party transactions during the Track Record Period were conducted on normal commercial terms that are reasonable and in the interest of the Group as a whole. The Directors have further confirmed that these related party transactions would not distort our results of operations for the Track Record Period or make our historical results not reflective of our future performance.

For more information on our related party transactions, see the section headed "Connected Transactions" and note 37 to our consolidated financial statements included in "Appendix I — Accountant's Report".

CONTINGENT LIABILITIES

As at the Latest Practicable Date, we did not have any material contingent liabilities or outstanding guarantees in respect of payment obligations of any third parties. For more information, see note 38 to our consolidated financial statements included in "Appendix I — Accountant's Report".

RECENT DEVELOPMENTS

Repayment and Capitalisation of Loans from Fellow Subsidiary

As at the Latest Practicable Date, we had outstanding loans from a fellow subsidiary controlled by KPL in the amount of HK$3,781.6 million. These loans are interest-free and have no fixed terms of repayment. We plan to settle the entire outstanding amount through capitalisation of a portion of the loans prior to the Listing and repayment of the remaining portion promptly after the Listing:

- Repaying HK$400.0 million upon or immediately after the Listing by applying the consideration receivable from the transfer of our 100% equity interest in the holding company of Kerry D.G. Warehouse (Kowloon Bay) to the KPL Group in the amount of HK$400.0 million, which has been determined based on an independent valuation obtained by KPL, pursuant to a sale and purchase agreement dated 29 November 2013;

- Repaying HK$2,000.0 million promptly after the Listing by:

  (i) using part of the net proceeds from the Global Offering intended for repayment purposes, which are estimated to be approximately HK$763.2 million (approximately 40% of our total estimated net proceeds) before any exercise of the Over-allotment Option, assuming an Offer Price of HK$9.50 per Share, being the mid-point of the stated Offer Price range of HK$8.80 to HK$10.20 per Share;

(ii) refinancing approximately HK$800.0 million with new loans to be drawn down from existing unutilised revolving bank loan facilities, as further described in the section headed "— Indebtedness — Bank Loans" above; and

(iii) using our own cash reserves for the remainder.

- Capitalising HK$1,381.6 million so that 1,439,477,612 Shares were issued to KPL with the remaining balance to be credited to our share premium account prior to the Listing.

Acquisitions in Mexico

In July 2013, we acquired a 70% equity interest in each of Cargo Master's Internacional S.A. de C.V. and Servicios Corporativos Cargo Master's S.A. de C.V. (collectively, the "Cargo Master's Group") for a total cash consideration of US$5,055,000 and a contingent consideration of up to a maximum of US$3,355,000 based on a multiple of their earnings before interest and tax. The Cargo Master's Group is a Mexico-based logistics and freight forwarding company with a nationwide network of six offices. For the year ended 31 December 2012 and the six months ended 30 June 2013, the Cargo Master's Group had revenue in the amounts of HK$274.1 million and HK$107.7 million, respectively, and profit for the year or period in the amounts of HK$9.7 million and HK$0.5 million, respectively. As at 30 June 2013, the Cargo Master's Group had total assets in the amount of HK$63.2 million and net assets in the amount of HK$16.2 million. For more information, see note 40 to our consolidated financial statements included in "Appendix I — Accountant's Report".

OFF-BALANCE SHEET ARRANGEMENTS

During the Track Record Period, we did not have any material off-balance sheet arrangements or any variable interest in any uncombined entity that provides financing, liquidity, market risk or credit support to us or engages in leasing, hedging or research and development services with us.

MARKET AND OTHER FINANCIAL RISKS

We are exposed to various types of financial risks in the ordinary course of business, including market risks such as foreign currency exchange risk and interest rate risk, credit risk and liquidity risk. Risk management is carried out by management under the supervision of the Board. Management identifies, evaluates and manages significant financial risks in our individual operating units. The Board provides guidance for overall risk management.

Market Risks

Foreign exchange risk

We have certain investments in foreign operations, whose net assets are exposed to foreign exchange risk. Income in foreign currencies is generated from our investments outside Hong Kong and cash in these foreign currencies is maintained for operational needs. We seek to minimise our exposure to fluctuations in foreign exchange rates by using the foreign currency generated from each foreign operation to settle its operating expenses payable in the same foreign currency. In connection with the pricing of our international freight forwarding fees for shipments involving expenses payable in multiple currencies, we take into account the prevailing foreign exchange rates for the relevant foreign currencies with a view to shifting any increased cost due to foreign exchange rate fluctuations to our customers and thereby controlling our exposure.

Major financial instruments under foreign currencies that are exposed to foreign exchange risk are denominated in U.S. dollars, which is pegged to Hong Kong dollars. We will consider hedging significant foreign currency exposure by using foreign exchange forward contracts if and when the need arises.

Interest rate risk

We are primarily exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rate on bank deposits and bank borrowings bearing floating interest rates. We have not entered into any interest rate swap contracts to hedge the exposure as the Board considers the risk is not significant. As at 30 June 2013, if interest rates had increased, or decreased, by 25 basis points and all other variables were held constant, our profit for the six months ended 30 June 2013 would have decreased, or increased, by approximately HK$3.1 million as a result of the change in interest income on bank deposits and the borrowing costs of bank borrowings.

Credit Risk

The carrying amounts of cash and bank balances, restricted and pledged bank deposits, accounts receivable and amounts due from associates represent our maximum exposure to credit risk in relation to financial assets.

The credit risk on bank balances and restricted and pledged bank deposits is limited because the counterparties are banks with high credit rankings.

We review the recoverable amount of accounts receivable and amounts due from associates on a regular basis and an allowance for doubtful debts is made when there is objective evidence that we will not be able to collect all amounts due according to the original terms of receivables. We consider that there is no concentration of credit risk with respect to accounts receivable from third-party customers as we have a large number of customers which are internationally dispersed.

Liquidity Risk

We are exposed to liquidity risk. We measure and monitor our liquidity through seeking to maintain prudent ratios regarding the liquidity structure of our overall assets, liabilities, loans and commitments. Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. We seek to maintain flexibility in funding by keeping committed credit lines available.

PROPERTY INTEREST AND PROPERTY VALUATION

Particulars of our investment property interests are in "Appendix V — Property Valuation". DTZ Debenham Tie Leung Limited has valued our investment property interests as at 30 September 2013. A summary of values and valuation certificates issued by DTZ Debenham Tie Leung Limited are included in "Appendix V — Property Valuation".

A reconciliation of the appraised value of our investment property interests as at 30 September 2013 and such investment property interests in our consolidated financial statements as at 30 June 2013 as required under Rule 5.07 of the Listing Rules is set forth below:

	HK$'000
Net book value of investment properties as at 30 June 2013	6,228,866
Change in fair value of investment properties from 1 July 2013 to 30 September 2013 (unaudited)	–
Net book value of investment properties as at 30 September 2013 (unaudited) and valuation of investment properties as at 30 September 2013 with reference to the valuation report included in "Appendix V — Property Valuation"	6,228,866

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2013

On the bases and assumptions set out in "Appendix III — Profit Forecast" and, in the absence of unforeseen circumstances, certain profit forecast data of the Group for the year ending 31 December 2013 has been prepared by our Directors and is set out below:

Forecast profit attributable to the Company's shareholders excluding (1) the after-tax effect of change in fair value of investment properties and (2) gain on disposal of Kerry D.G. Warehouse (Kowloon Bay) [(1)(2)]	not less than HK$880 million
Forecast profit attributable to the Company's shareholders [(1)(2)]	not less than HK$1,829 million

Notes:

(1) The Directors have prepared the above forecast profit attributable to the Company's shareholders based on our audited consolidated results for the six months ended 30 June 2013, our unaudited management accounts for the three months ended 30 September 2013 and a forecast of our consolidated results for the remaining three months ending 31 December 2013. The forecast has been prepared on a basis consistent in all material respects with the accounting policies presently adopted by us as set out in note 2 to our consolidated financial statements included in "Appendix I — Accountant's Report".

(2) We will transfer Kerry D.G. Warehouse (Kowloon Bay) to the KPL Group upon the Listing for a consideration of HK$400.0 million pursuant to a sale and purchase agreement dated 29 November 2013. See the section headed "History and Corporate Structure — No Reorganisation".

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

We may distribute dividends by way of cash or by other means that our Board considers appropriate. Any proposed distribution of dividends is subject to the discretion of our Board and the approval of our Shareholders. Our Board may recommend a distribution of dividends in the future after taking into account our results of operations, financial condition, operating requirements, capital requirements, Shareholders' interests and any other conditions that our Board may deem relevant.

Subject to the Bye-laws, the Companies Act and other applicable laws and regulations, we currently target to distribute to our Shareholders approximately 20% of our core net profit for the year ending 31 December 2013.

We cannot assure you that we will be able to distribute dividends of the above amount or any amount, or at all, in any year. The declaration and payment of dividends may also be limited by legal restrictions and by loan or other agreements that our Company and our subsidiaries have entered into or may enter into in the future.

During the Track Record Period, we did not declare any dividends to KPL as our sole shareholder.

Our distributable reserves as at 30 June 2013, representing the amount of retained profits of our Company as at the same date, amounted to HK$1,233.3 million.

LISTING EXPENSES

We had not incurred significant listing expenses up to 30 June 2013. The total estimated listing expenses (excluding underwriting commission) in connection with the Global Offering are approximately HK$98.6 million, of which approximately HK$16.3 million is expected to be charged to our consolidated income statement and approximately HK$82.3 million is expected to be capitalised as deferred expenses and charged against equity upon the Listing under the relevant accounting standards.

Unaudited Pro Forma Adjusted Consolidated Net Tangible Assets

The following unaudited pro forma data relating to our consolidated net tangible assets attributable to the Company's shareholder prepared in accordance with Rule 4.29 of the Listing Rules is for illustrative purposes only and is set forth below to illustrate the effect of the Global Offering on our consolidated net tangible assets attributable to the Company's shareholder as at 30 June 2013 as if the Global Offering had taken place on that date. Because of its hypothetical nature, the following unaudited pro forma data may not give a true picture of our consolidated net tangible assets attributable to the Company's shareholder as at 30 June 2013 or as at any subsequent date.

	Audited consolidated net tangible assets attributable to the Company's shareholder as at 30 June 2013[(1)]	Estimated net proceeds from the Global Offering[(2)]	Unaudited pro forma adjusted consolidated net tangible assets attributable to the Company's shareholder	Unaudited pro forma adjusted net tangible assets per Share[(3)(4)]
	HK$'000	HK$'000	HK$'000	HK$
Based on an Offer Price of HK$8.80 per Offer Share . . .	7,179,924	1,760,032	8,939,956	5.39
Based on an Offer Price of HK$10.20 per Offer Share . .	7,179,924	2,055,725	9,235,649	5.57

Notes:

(1) Our audited consolidated net tangible assets attributable to the Company's shareholder as at 30 June 2013 are based on our audited consolidated net assets attributable to the Company's shareholder in the amount of HK$9,102.4 million, as extracted from our consolidated financial statements included in "Appendix I — Accountant's Report", less intangible assets in the amount of HK$1,922.4 million.

(2) The estimated net proceeds from the Global Offering are based on the indicative Offer Prices of HK$8.80 and HK$10.20 per Offer Share, respectively, after deduction of underwriting commissions and fees and other related expenses payable by the Company and without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option.

(3) No adjustment has been made to our audited consolidated net tangible assets attributable to the Company's shareholder as at 30 June 2013 to reflect any of our trading results or other transactions entered into subsequent to 30 June 2013. In particular, the unaudited pro forma adjusted net tangible assets have not been adjusted for the effect of capitalisation of a portion of the outstanding loans from a fellow subsidiary controlled by KPL in the amount of HK$1,381.6 million. Had the capitalisation of loans from the fellow subsidiary been taken into account, the unaudited pro forma adjusted net tangible assets per Share would be HK$6.23 (based on an Offer Price of HK$8.80 per Offer Share) and HK$6.41 (based on an Offer Price of HK$10.20 per Offer Share).

(4) Our unaudited pro forma adjusted net tangible assets per Share is arrived at after the adjustment referred to in note (2) above and on the basis that 1,657,364,112 Shares were in issue assuming that the Spin-off had been completed and the Shares pursuant to the RSU Scheme had been issued on 30 June 2013 and the Over-allotment Option was not exercised, without taking into account any Shares to be issued upon the exercise of the Pre-IPO Share Options or the Post-IPO Share Options.

NO ADDITIONAL DISCLOSURE REQUIRED UNDER THE LISTING RULES

Our Directors have confirmed that, as at the Latest Practicable Date, there were no circumstances which would have given rise to any disclosure requirement under Rules 13.13 to 13.19 of the Listing Rules had the Shares been listed on the Hong Kong Stock Exchange on that date.

NO MATERIAL ADVERSE CHANGE

Our Directors have confirmed that, since 30 June 2013 and up to the date of this prospectus, there has been no material adverse change in our financial or trading position or prospects and no event has occurred that would materially and adversely affect the information shown in our consolidated financial statements included in "Appendix I — Accountants' Report".