

INTERIM REPORT

2015

Kerry Logistics Network Limited
Stock Code 636

KERRY
LOGISTICS

ASIA SPECIALIST

CHINA FOCUS

GLOBAL NETWORK



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1 CORPORATE INFORMATION & KEY DATES

BOARD OF DIRECTORS

Executive Directors

Mr YEO George Yong-boon (Chairman)

Mr MA Wing Kai William (Group Managing Director)

Mr ERNI Edwardo

Mr KUOK Khoon Hua

Non-executive Director

Mr QIAN Shaohua

Independent Non-executive Directors

Ms WONG Yu Pok Marina

Mr WAN Kam To

Mr YEO Philip Liat Kok

AUDIT AND COMPLIANCE COMMITTEE

Ms WONG Yu Pok Marina (Chairman)

Mr WAN Kam To

Mr QIAN Shaohua

REMUNERATION COMMITTEE

Mr WAN Kam To (Chairman)

Mr YEO George Yong-boon

Mr MA Wing Kai William

Ms WONG Yu Pok Marina

Mr YEO Philip Liat Kok

NOMINATION COMMITTEE

Mr YEO George Yong-boon (Chairman)

Ms WONG Yu Pok Marina

Mr YEO Philip Liat Kok

FINANCE COMMITTEE

Mr YEO George Yong-boon (Chairman)

Mr MA Wing Kai William

Mr ERNI Edwardo

COMPANY SECRETARY

Ms LEE Pui Nee

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Davis Polk & Wardwell

REGISTERED OFFICE

Canon's Court, 22 Victoria Street

Hamilton HM12, Bermuda

CORPORATE HEADQUARTER AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

16/F, Kerry Cargo Centre, 55 Wing Kei Road
Kwai Chung, New Territories, Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Appleby Management (Bermuda) Ltd.

Canon's Court, 22 Victoria Street

Hamilton HM12, Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Investor Services Limited

Level 22, Hopewell Centre

183 Queen's Road East, Hong Kong

INVESTOR RELATIONS

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KEY DATES

Closure of Registers of Members

10 September 2015

Proposed Payment of Interim Dividend

23 September 2015

2 FINANCIAL HIGHLIGHTS 2015 1H

CORE NET PROFIT (HK\$)

542
million
+11%

CORE OPERATING
PROFIT

+16%



IL
SEGMENT PROFIT

+15%

IFF
SEGMENT PROFIT

+22%

TURNOVER (HK\$)

10,135
million
+2%

PROFIT ATTRIBUTABLE TO
THE SHAREHOLDERS (HK\$)

701
million
+11%

INTERIM DIVIDEND
6 HK CENTS PER SHARE

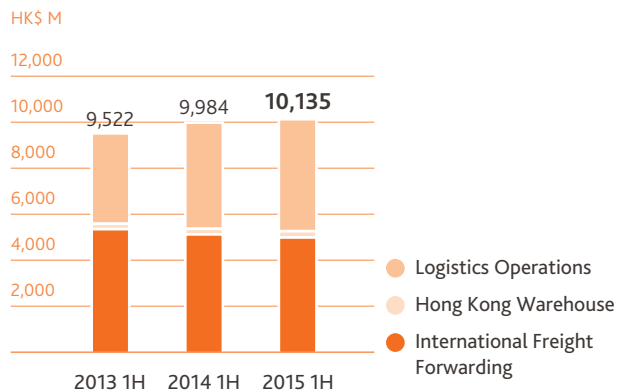
NET ASSET
VALUE PER
SHARE (HK\$)

8.90

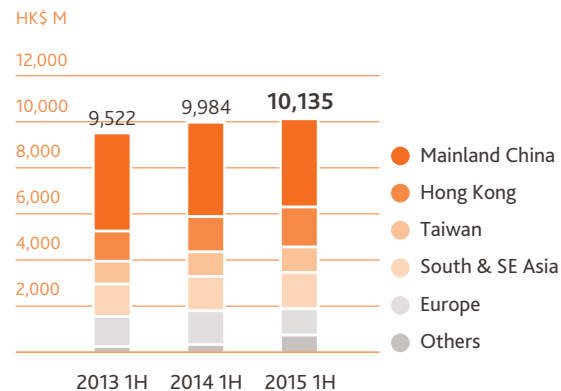
GROSS
GEARING

33.9%

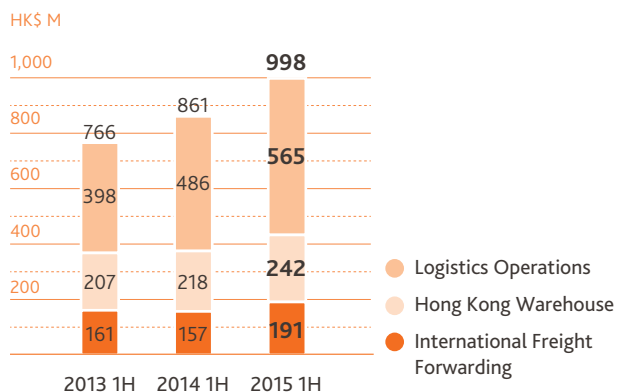
2.1 TURNOVER BY SEGMENT



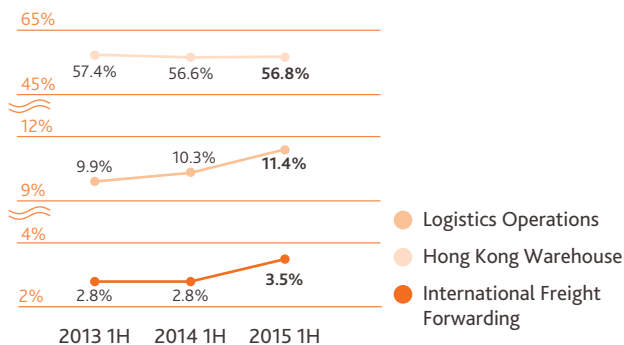
2.2 TURNOVER BY REGION



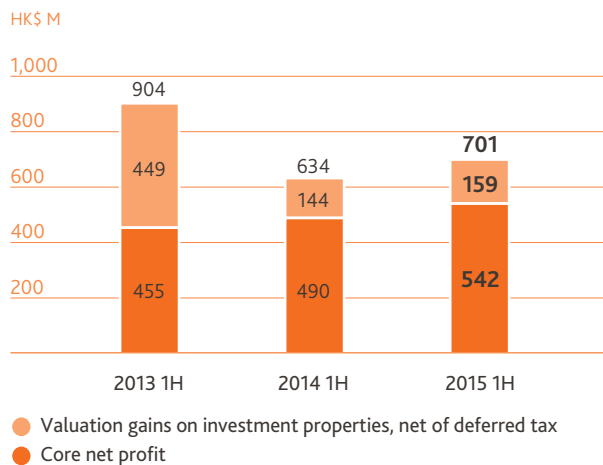
2.3 SEGMENT PROFIT



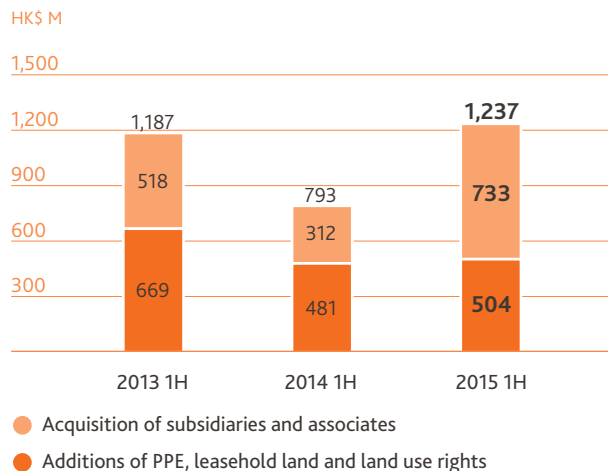
2.4 SEGMENT PROFIT MARGIN



2.5 PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS



2.6 CAPEX



3 INDEPENDENT AUDITOR'S REVIEW REPORT



羅兵咸永道

REPORT ON REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF KERRY LOGISTICS NETWORK LIMITED (incorporated in the British Virgin Islands and continued into Bermuda as an exempted company with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated interim financial statements set out on pages 7 to 30, which comprise the condensed consolidated interim statement of financial position of Kerry Logistics Network Limited (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2015 and the related condensed consolidated interim income statement, condensed consolidated interim statement of comprehensive income, condensed consolidated interim statement of cash flows and condensed consolidated interim statement of changes in equity for the six-month period then ended, and

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

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 August 2015

4 INTERIM FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Note	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000
Turnover	3	10,134,594	9,984,310
Direct operating expenses	4	(8,450,862)	(8,491,594)
Gross profit		1,683,732	1,492,716
Other income and net gains	5	78,258	50,799
Administrative expenses	4	(823,575)	(732,970)
Operating profit before fair value change of investment properties		938,415	810,545
Change in fair value of investment properties		165,161	149,730
Operating profit		1,103,576	960,275
Finance costs	6	(68,040)	(53,322)
Share of results of associates		56,285	44,484
Profit before taxation		1,091,821	951,437
Taxation	7	(212,246)	(165,022)
Profit for the period		879,575	786,415
Profit attributable to:			
Company's shareholders	3	701,007	634,497
Non-controlling interests		178,568	151,918
		879,575	786,415
Interim dividend	8	101,643	101,444
Interim dividend per share		6 HK cents	6 HK cents
Earnings per share	9		
– Basic		HK\$0.41	HK\$0.38
– Diluted		HK\$0.41	HK\$0.37

CONDENSED CONSOLIDATED INTERIM
STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000
Profit for the period	879,575	786,415
Item that may be reclassified to consolidated income statement		
Net translation differences on foreign operations	(70,464)	(111,195)
Other comprehensive loss for the period	(70,464)	(111,195)
Total comprehensive income for the period	809,111	675,220
Total comprehensive income attributable to:		
Company's shareholders	613,286	547,418
Non-controlling interests	195,825	127,802
	809,111	675,220

CONDENSED CONSOLIDATED INTERIM STATEMENT OF FINANCIAL POSITION

	Note	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
ASSETS AND LIABILITIES			
Non-current assets			
Intangible assets	10	2,161,186	1,834,776
Investment properties	10	7,630,181	7,456,242
Leasehold land and land use rights	10	560,732	580,941
Property, plant and equipment	10	6,930,003	6,652,889
Associates		1,067,331	1,059,662
Available-for-sale investments		113,108	94,477
Investment in convertible bond		349,021	–
Long-term receivables		20,420	–
		18,831,982	17,678,987
Current assets			
Inventories		320,135	333,866
Accounts receivable, prepayments and deposits	11	4,864,973	4,734,507
Tax recoverable		20,822	21,963
Amounts due from fellow subsidiaries		3,828	2,117
Restricted and pledged bank deposits		39,243	25,422
Cash and bank balances		3,464,668	3,816,198
		8,713,669	8,934,073
Current liabilities			
Accounts payable, deposits received and accrued charges	12	3,311,683	3,659,485
Amounts due to fellow subsidiaries		9,916	8,581
Amounts due to related companies		55,516	14,646
Taxation		191,177	166,381
Short-term bank loans and current portion of long-term bank loans	13	1,236,859	1,245,442
Bank overdrafts		41,833	47,857
		4,846,984	5,142,392
Net current assets		3,866,685	3,791,681
Total assets less current liabilities		22,698,667	21,470,668

	Note	Unaudited As at 30 June 2015 HK\$'000	Audited As at 31 December 2014 HK\$'000
Non-current liabilities			
Loans from non-controlling interests		237,772	248,342
Long-term bank loans	13	3,830,603	3,010,101
Deferred taxation		549,541	541,527
Retirement benefit obligations		279,618	283,032
Other non-current liabilities		32,993	34,890
		4,930,527	4,117,892
ASSETS LESS LIABILITIES		17,768,140	17,352,776
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	14	846,960	845,620
Share premium		2,985,028	2,955,547
Retained profits			
– Proposed dividends		101,643	135,299
– Others		11,018,758	10,422,922
Other reserves		119,605	311,401
		15,071,994	14,670,789
Non-controlling interests		2,696,146	2,681,987
TOTAL EQUITY		17,768,140	17,352,776

CONDENSED CONSOLIDATED INTERIM
STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Unaudited 2015 HK\$'000	Unaudited 2014 HK\$'000
Operating activities		
Net cash generated from operations	768,031	700,037
Interest paid	(68,040)	(53,322)
Income tax paid	(173,216)	(135,602)
Net cash generated from operating activities	526,775	511,113
Investing activities		
Additions of property, plant and equipment	(502,392)	(451,914)
Purchase of available-for-sale investments	(21,172)	–
Purchase of convertible bond	(349,021)	–
Purchase of leasehold land and land use rights	(1,438)	(28,700)
Proceeds from sale of property, plant and equipment	122,317	58,151
Proceeds from disposal of a subsidiary	44,957	–
Proceeds from sale of investments in associates	–	5,950
Proceeds from sale of an available-for-sale investment	–	6,612
Dividend income from available-for-sale investments	339	1,706
Dividends received from associates	210,904	28,350
Increase in balances with associates	(4,179)	(219)
Decrease in balances with associates	179	1,559
Increase in deposits	(26,789)	(161,822)
Interest received	13,912	15,043
Interest income from investment in convertible bond	5,721	–
Acquisition of subsidiaries	(393,583)	–
Cash consideration paid for prior year's acquisition	–	(131,331)
Increase in investments in associates	(155,684)	–
(Increase)/decrease in restricted and pledged bank deposits	(13,821)	1,097
Net cash used in investing activities	(1,069,750)	(655,518)

Unaudited
2015
HK\$'000

Unaudited
 2014
 HK\$'000

Financing activities

Repayment of bank loans	(769,546)	(1,090,347)
Drawdown of bank loans	1,385,881	301,281
Dividends of subsidiaries paid to non-controlling interests	(83,301)	(3,543)
Capital injection from non-controlling interests	–	61
Drawdown of loans from non-controlling interests	7,976	70,123
Repayment of loans from non-controlling interests	(18,403)	(59,501)
Acquisition of additional interest in subsidiaries	(208,086)	(312,165)
Dividend paid	(135,401)	(185,930)
Proceeds from issuance of ordinary shares	–	323,122
Proceeds from pre-IPO share option scheme allotment	26,321	8,766
Proceeds from post-IPO share option scheme allotment	1,226	–
Net cash from/(used in) financing activities	206,667	(948,133)
Decrease in cash and cash equivalents	(336,308)	(1,092,538)
Effect of exchange rate changes	(9,198)	(17,466)
Cash and cash equivalents at beginning of the period	3,768,341	4,207,976
Cash and cash equivalents at end of the period	3,422,835	3,097,972
Analysis of balances of cash and cash equivalents		
Cash and bank balances	3,464,668	3,154,852
Bank overdrafts	(41,833)	(56,880)
	3,422,835	3,097,972

CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

	Attributable to shareholders of the Company						Non- controlling interests HK\$'000	Total equity HK\$'000
	Share capital HK\$'000	Share premium HK\$'000	Other reserves HK\$'000	Retained profits HK\$'000	Proposed dividend HK\$'000	Total HK\$'000		
(unaudited)								
Balance at 1 January 2015	845,620	2,955,547	311,401	10,422,922	135,299	14,670,789	2,681,987	17,352,776
Profit for the period	-	-	-	701,007	-	701,007	178,568	879,575
Net translation differences on foreign operations	-	-	(87,721)	-	-	(87,721)	17,257	(70,464)
Total comprehensive income for the six months ended 30 June 2015	-	-	(87,721)	701,007	-	613,286	195,825	809,111
Dividends paid	-	-	-	(102)	(135,299)	(135,401)	(83,301)	(218,702)
2015 proposed interim dividend	-	-	-	(101,643)	101,643	-	-	-
Transfers	-	-	3,426	(3,426)	-	-	-	-
Fair value change in available-for-sale investments	-	-	(3,584)	-	-	(3,584)	(1,173)	(4,757)
Acquisition of additional interest in subsidiaries (note 15)	-	-	(104,885)	-	-	(104,885)	(103,201)	(208,086)
Acquisition of subsidiaries (note 16)	-	-	-	-	-	-	6,009	6,009
Value of employee services under post-IPO share option scheme	-	-	4,242	-	-	4,242	-	4,242
Pre-IPO share option scheme allotment	1,290	28,110	(3,079)	-	-	26,321	-	26,321
Post-IPO share option scheme allotment	50	1,371	(195)	-	-	1,226	-	1,226
Total transactions with owners	1,340	29,481	(104,075)	(105,171)	(33,656)	(212,081)	(181,666)	(393,747)
Balance at 30 June 2015	846,960	2,985,028	119,605	11,018,758	101,643	15,071,994	2,696,146	17,768,140

Attributable to shareholders of the Company

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The Company was incorporated in the British Virgin Islands in 1991 and migrated to Bermuda to become an exempted company with limited liability in 2000. The address of its registered office is Canon's Court, 22 Victoria Street, Hamilton HM12, Bermuda.

The Company is an investment holding company and its subsidiaries are principally engaged in the provision of logistics, freight and warehouse leasing and operations services. The Company obtained its primary listing on the Stock Exchange on 19 December 2013.

These unaudited condensed consolidated interim financial statements are prepared in accordance with HKAS 34 'Interim Financial Reporting' issued by the HKICPA and the disclosure requirements of Appendix 16 to the Listing Rules.

These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with HKFRS. Except as described below, the accounting policies used in the preparation of these condensed consolidated interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2014.

The following amendments to standards and improvements to existing standards that are effective for the accounting period of the Group beginning on 1 January 2015 have been published:

- Amendments to HKAS 19 (2011), 'Employee benefits: defined benefit plans – employee contributions'
- Annual improvements to 2010 – 2012 cycle
- Annual improvements to 2011 – 2013 cycle

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

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

FINANCIAL ASSETS

During the six months ended 30 June 2015, the Group has acquired 15% interest in PT Puninar Saranaraya ("PTPS"), a logistics services company, together with a convertible bond that enables the Group to convert up to 40% interest in PTPS, for a consideration of US\$61 million. The acquisition was completed in March 2015, PTPS became an associate of the Group and the investment in convertible bond was recognised at the date of acquisition.

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

FINANCIAL ASSETS (CONTINUED)

The accounting policies on the investment in convertible bond are accounted for as financial assets at fair value through profit or loss as follows:

FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

RECOGNITION AND MEASUREMENT

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the group commits to purchase or sell the asset. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership.

Gains or losses arising from changes in the fair value of the ‘financial assets at fair value through profit or loss’ category are presented in the income statement within ‘Other income and net gains’ in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group’s right to receive payments is established.

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

HKAS 1 (amendment)	Disclosure initiative ¹
HKAS 27 (amendment)	Equity method in separate financial statements ¹
HKFRS 9	Financial instruments ³
HKFRS 14	Regulatory deferral accounts ¹
HKFRS 15	Revenue from contracts with customers ²
Amendments to HKAS 16 and HKAS 38	Clarification of acceptable methods of depreciation and amortisation ¹
Amendments to HKAS 16 and HKAS 41	Bearer Plants ¹
Amendments to HKAS 28 (2011) and HKFRS 10	Sales or contribution assets between an investor and its associate or joint venture ¹
Amendments to HKAS 28 (2011), HKFRS 10 and HKFRS 12	Investment entities: applying the consolidation exception ¹
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations ¹
Annual improvements project	Annual improvements to 2012–2014 cycle ¹

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

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

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

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

1 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONTINUED)

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The preparation of condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the annual financial statements for the year ended 31 December 2014.

2 FINANCIAL RISK MANAGEMENT

(a) FINANCIAL RISK FACTORS

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

These condensed consolidated interim financial statements do not include all financial risk management information and disclosures required in the annual financial statements; and should be read in conjunction with the Group's annual financial statements as at 31 December 2014. There have been no changes in the Group's financial risk management structure and policies since the year end.

(b) FAIR VALUE ESTIMATION

The table below analyses financial instruments carried at fair value by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

There were no transfers between levels during the period (2014: nil).

The following table presents the Group's financial instruments that are measured at fair value as at 30 June 2015 and 31 December 2014.

	Level1	Level2	Level3	Total
At 30 June 2015	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Investment in convertible bond	-	-	349,021	349,021
Available-for-sale investments	62,425	-	50,683	113,108

	Level1	Level2	Level3	Total
At 31 December 2014	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Available-for-sale investments	45,579	-	48,898	94,477

2 FINANCIAL RISK MANAGEMENT (CONTINUED)

(b) FAIR VALUE ESTIMATION (CONTINUED)

LEVEL 3 FINANCIAL INSTRUMENTS

The following table presents the changes in level 3 instruments.

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

As at 30 June 2014	Available- for-sale investments HK\$'000
Opening balance	59,052
Disposals	(6,612)
Exchange adjustment	(184)
Closing balance	52,256

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

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

VALUATION PROCESSES OF THE GROUP

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

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES MEASURED AT AMORTISED COST

The fair value of the following financial assets and liabilities approximate their carrying amount as at 30 June 2015 and 31 December 2014:

- Accounts receivable, prepayments and deposits and amounts due from fellow subsidiaries
- Cash and bank balances
- Accounts payable, deposits received and accrued charges and amounts due to fellow subsidiaries and related companies
- Bank loans

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS

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

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000 (reclassified)
Integrated logistics		
Logistics operations	4,852,417	4,596,945
Hong Kong warehouse	271,866	241,186
International freight forwarding	5,010,311	5,146,179
	10,134,594	9,984,310

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

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

	For the six months ended 30 June									
	Integrated logistics				International freight forwarding		Elimination		Consolidation	
	Logistics operations		Hong Kong warehouse							
	2015 HK\$'000	2014 HK\$'000 (reclassified)	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000 (reclassified)	2014 HK\$'000 (reclassified)	2015 HK\$'000	2014 HK\$'000	2015 HK\$'000	2014 HK\$'000
Turnover										
Turnover	4,852,417	4,596,945	271,866	241,186	5,010,311	5,146,179	-	-	10,134,594	9,984,310
Inter-segment turnover	110,051	114,694	154,273	143,871	420,594	529,105	(684,918)	(787,670)	-	-
	4,962,468	4,711,639	426,139	385,057	5,430,905	5,675,284	(684,918)	(787,670)	10,134,594	9,984,310
Turnover by geographical area:										
Hong Kong	1,224,823	1,102,241	426,139	385,057	265,337	320,077	(183,496)	(279,304)	1,732,803	1,528,071
Mainland China	1,680,060	1,619,292	-	-	2,443,960	2,761,797	(303,454)	(295,552)	3,820,566	4,085,537
Taiwan	1,079,812	1,041,872	-	-	24,054	25,826	(8,245)	(8,735)	1,095,621	1,058,963
South & South East Asia	907,713	874,025	-	-	769,474	725,676	(99,519)	(107,450)	1,577,668	1,492,251
Europe	-	-	-	-	1,163,999	1,505,794	(22,690)	(46,847)	1,141,309	1,458,947
Others	70,060	74,209	-	-	764,081	336,114	(67,514)	(49,782)	766,627	360,541
	4,962,468	4,711,639	426,139	385,057	5,430,905	5,675,284	(684,918)	(787,670)	10,134,594	9,984,310
Segment profit by geographical area:										
Hong Kong	79,386	61,065	241,560	218,152	13,940	8,357	-	-	334,886	287,574
Mainland China	127,666	138,298	-	-	115,595	97,312	-	-	243,261	235,610
Taiwan	210,170	140,121	-	-	899	989	-	-	211,069	141,110
South & South East Asia	142,225	144,409	-	-	23,409	19,318	-	-	165,634	163,727
Europe	-	-	-	-	13,114	32,269	-	-	13,114	32,269
Others	5,647	2,302	-	-	24,405	(1,527)	-	-	30,052	775
	565,094	486,195	241,560	218,152	191,362	156,718	-	-	998,016	861,065
Less: Unallocated administrative expenses									(73,513)	(65,563)
Core operating profit									924,503	795,502
Finance income									13,912	15,043
Finance costs									(68,040)	(53,322)
Share of results of associates									56,285	44,484
Profit before taxation*									926,660	801,707
Taxation*									(208,405)	(162,540)
Profit for the period*									718,255	639,167
Non-controlling interests*									(175,989)	(149,202)
Core net profit									542,266	489,965
Change in fair value of investment properties									165,161	149,730
Deferred tax on change in fair value of investment properties									(3,841)	(2,482)
Less: Non-controlling interests' share of after-tax change in fair value of investment properties									(2,579)	(2,716)
Profit attributable to the Company's shareholders									701,007	634,497
Depreciation and amortisation	173,686	160,412	17,747	15,997	43,795	54,357			235,228	230,766

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

3 PRINCIPAL ACTIVITIES AND SEGMENTAL ANALYSIS OF OPERATIONS (CONTINUED)

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

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

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

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

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

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

Prior period corresponding segment information that is presented for comparative purposes has been reclassified to conform to reclassification of operations in South & South East Asia from international freight forwarding segment to logistics operations segment adopted in the current period.

The executive directors also assess the performance of the Group based on core operating profit, which is the profit before taxation excluding interest income, finance costs, share of results of associates and also core net profit, which is the profit attributable to Company's shareholders before the after-tax effect of change in fair value of investment properties.

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

	Segment non-current assets#	
	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Hong Kong	7,178,277	6,976,055
Mainland China	4,233,683	4,239,847
Taiwan	2,655,991	2,636,897
South & South East Asia	3,195,764	3,038,018
Europe	448,696	475,768
Others	637,022	217,925
	18,349,433	17,584,510

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

4 EXPENSES BY NATURE

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

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Business tax	10,088	16,538
Cost of goods sold	604,420	585,649
Freight and transportation costs	6,251,864	6,354,395
Depreciation of property, plant and equipment	221,117	202,802
Amortisation of leasehold land and land use rights	5,056	5,501
Amortisation of intangible assets	9,055	22,463
Provision for impairment of receivables	17,660	13,130
Reversal of provision for impairment of receivables	(7,732)	(12,639)
Operating lease charges on land and buildings	262,437	265,189
Employee benefit expenses	1,605,513	1,531,489

5 OTHER INCOME AND NET GAINS

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Interest income from investment in convertible bond	5,721	–
Interest income from banks	13,882	15,001
Gain on disposal of property, plant and equipment	46,980	33,106
Interest income from associates	30	42
Dividend income from available-for-sale investments	339	1,706
Gain on disposal of associates	–	944
Gain on disposal of a subsidiary	11,306	–
	78,258	50,799

6 FINANCE COSTS

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Interest expenses on bank loans and overdrafts	68,040	53,322

7 TAXATION

HONG KONG AND OVERSEAS PROFITS TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2014: 16.5%) for the period ended 30 June 2015 on the estimated assessable profit for the period. Income tax on the overseas profits has been calculated on the estimated assessable profit for the period with rates ranging from 17% to 40% (2014: 17% to 40%) in the overseas countries in which the Group operates.

PRC ENTERPRISE INCOME TAX

PRC enterprise income tax has been provided at the rate of 25% (2014: 25%) on the estimated assessable profit for the period.

WITHHOLDING TAX ON DISTRIBUTED/ UNDISTRIBUTED PROFITS

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

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

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Hong Kong profits tax		
– Current	46,071	40,803
– Underprovision in prior years	158	–
– Deferred	4,483	4,892
	50,712	45,695
PRC taxation		
– Current	52,107	50,042
– (Over)/underprovision in prior years	(1,832)	715
– Deferred	7,061	1,731
	57,336	52,488
Overseas taxation		
– Current	103,317	67,722
– Underprovision in prior years	239	2,771
– Deferred	642	(3,654)
	104,198	66,839
	212,246	165,022

8 DIVIDENDS

A dividend in respect of the six months ended 30 June 2015 of 6 HK cents per share, amounting to a total dividend of HK\$101,643,000 is declared. The amount of interim dividend declared was calculated based on the number of ordinary shares in issue at the date of approval of the condensed consolidated interim financial statements. These financial statements do not reflect this dividend payable.

	Six months ended 30 June	
	2015 HK\$'000	2014 HK\$'000
Proposed dividend of 6 HK cents (for the period ended 30 June 2014: 6 HK cents) per ordinary share	101,643	101,444

9 EARNINGS PER SHARE

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

BASIC

	Six months ended 30 June	
	2015	2014
Adjusted weighted average number of ordinary shares in issue ('000)	1,691,980	1,687,853
Profit attributable to the Company's shareholders (HK\$'000)	701,007	634,497
Basic earnings per share (HK\$)	0.41	0.38

DILUTED

	Six months ended 30 June	
	2015	2014
Adjusted weighted average number of ordinary shares in issue ('000)	1,691,980	1,687,853
Adjustment for share options ('000)	5,960	6,228
Weighted average number of shares for the purpose of calculating diluted earnings per share ('000)	1,697,940	1,694,081
Profit attributable to the Company's shareholders (HK\$'000)	701,007	634,497
Diluted earnings per share (HK\$)	0.41	0.37

10 CAPITAL EXPENDITURE

	Property, plant and equipment HK\$'000	Investment properties HK\$'000	Leasehold land and land use rights HK\$'000	Intangible assets HK\$'000
Opening net book value at 1 January 2014	6,531,990	6,379,282	541,348	1,968,950
Additions	1,023,237	1,494	71,194	–
Acquisition of subsidiaries	1,069	–	64,522	22,206
Change in fair value	–	686,523	–	–
Revaluation surplus	–	–	124,534	–
Disposals	(52,391)	(3,641)	–	–
Depreciation and amortisation	(416,088)	–	(10,127)	(44,268)
Impairment	–	–	–	(12,896)
Transfer/reclassification	(223,327)	418,908	(195,581)	–
Exchange adjustment	(211,601)	(26,324)	(14,949)	(99,216)
Closing net book value at 31 December 2014	6,652,889	7,456,242	580,941	1,834,776
Opening net book value at 1 January 2015	6,652,889	7,456,242	580,941	1,834,776
Additions	502,392	–	1,438	–
Acquisition of subsidiaries (note 16)	96,477	–	–	361,206
Change in fair value	–	165,161	–	–
Disposals	(75,337)	–	–	–
Disposal of a subsidiary	(385)	(28,500)	–	–
Depreciation and amortisation	(221,117)	–	(5,056)	(9,055)
Transfer/reclassification	(24,070)	39,588	(15,518)	–
Exchange adjustment	(846)	(2,310)	(1,073)	(25,741)
Closing net book value at 30 June 2015	6,930,003	7,630,181	560,732	2,161,186

VALUATION OF INVESTMENT PROPERTIES

FAIR VALUE MEASUREMENT USING SIGNIFICANT UNOBSERVABLE INPUTS

	Hong Kong HK\$'000	PRC HK\$'000	Overseas HK\$'000	Total HK\$'000
Opening balance as at 1 January 2014	5,330,200	594,594	454,488	6,379,282
Additions	–	1,467	27	1,494
Change in fair value	674,050	16,523	(4,050)	686,523
Disposals	–	(3,641)	–	(3,641)
Transfer from leasehold land and land use rights and property, plant and equipment	–	418,908	–	418,908
Exchange adjustment	–	(15,542)	(10,782)	(26,324)
Closing balance as at 31 December 2014	6,004,250	1,012,309	439,683	7,456,242
Opening balance as at 1 January 2015	6,004,250	1,012,309	439,683	7,456,242
Change in fair value	149,800	24,332	(8,971)	165,161
Disposal of a subsidiary	–	(28,500)	–	(28,500)
Transfer from property, plant and equipment and leasehold land and land use rights	–	–	39,588	39,588
Exchange adjustment	–	1,398	(3,708)	(2,310)
Closing balance as at 30 June 2015	6,154,050	1,009,539	466,592	7,630,181

10 CAPITAL EXPENDITURE (CONTINUED)

VALUATION OF INVESTMENT PROPERTIES (CONTINUED)

FAIR VALUE MEASUREMENT USING SIGNIFICANT UNOBSERVABLE INPUTS (CONTINUED)

All investment properties are included in level 3 category, which requires recurring fair value measurement at each period end. There were no transfers between levels during the period (2014: nil).

VALUATION PROCESSES OF THE GROUP

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

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

At each financial period end the finance department:

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

VALUATION TECHNIQUES

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

SIGNIFICANT UNOBSERVABLE INPUTS USED TO DETERMINE FAIR VALUE

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

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

11 ACCOUNTS RECEIVABLE, PREPAYMENTS AND DEPOSITS

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

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Below 1 month	2,031,834	2,204,590
Between 1 month and 3 months	1,265,765	1,278,167
Over 3 months	337,013	211,094
Total trade receivables, net	3,634,612	3,693,851
Prepayments, deposits and other receivables (note)	1,230,361	1,040,656
	4,864,973	4,734,507

Note:

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

12 ACCOUNTS PAYABLE, DEPOSITS RECEIVED AND ACCRUED CHARGES

Included in accounts payable, deposits received and accrued charges are trade payables. The ageing analysis of trade payables based on the date of the invoice is as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Below 1 month	553,328	849,706
Between 1 month and 3 months	517,352	628,866
Over 3 months	509,981	368,685
Total trade payables	1,580,661	1,847,257
Deposits received, accrued charges and other payables (note)	1,731,022	1,812,228
	3,311,683	3,659,485

Note:

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

13 BANK LOANS

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Non-current		
– unsecured	3,540,672	2,694,136
– secured	289,931	315,965
	3,830,603	3,010,101
Current		
– unsecured	1,044,323	1,039,828
– secured	192,536	205,614
	1,236,859	1,245,442
Total bank loans	5,067,462	4,255,543

14 SHARE CAPITAL

	As at 30 June 2015		As at 31 December 2014	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Ordinary shares, authorised, issued and fully paid:				
At beginning of the period/year	1,691,240,112	845,620	1,657,364,112	828,682
Proceeds from issuance of ordinary shares under the exercise of over-allotment option (note)	–	–	32,410,500	16,205
Pre-IPO share option scheme allotment	2,580,500	1,290	1,465,500	733
Post-IPO share option scheme allotment	100,000	50	–	–
At end of the period/year	1,693,920,612	846,960	1,691,240,112	845,620

Note:

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

15 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

During the period, the Group acquired additional effective interests of several subsidiaries, the main one being a further 3.47% in Kerry TJ Logistics Company Limited.

The aggregate effect of these transactions is summarised as follows:

	HK\$'000
Consideration paid to non-controlling interests	208,086
Decrease in non-controlling interests	(103,201)
Excess of consideration paid recognised in the other reserves within equity	(104,885)

Changes in equity attributable to the Company's shareholders arising from acquisition of additional interests in subsidiaries	(104,885)
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16 BUSINESS COMBINATION

In January 2015, the Group acquired 75% interest in Total Logistics Partner (TLP) Ocean Consolidators Inc. and Total Logistics Partner (TLP) Air Express Inc. (collectively "TLP"), two Canadian freight forwarding companies focused on the Asia-Canada trade.

In February 2015, the Group acquired 51% interest in Saison Food Service Limited which is engaged in the trading of chilled and frozen food products and beverages.

In March 2015, the Group acquired 70% interest in Able Logistics Group FZCO, an integrated services provider specialising in freight forwarding and cross-border land transportation.

In May 2015, the Group acquired 80% interest of Kerry Distribution (Singapore) Pte. Ltd. (Formerly known as Move Werkz Pte. Ltd.) which is engaged in local logistics service in Singapore.

Aggregate consideration of the above transactions is as follows:

	HK\$'000
Cash consideration paid	367,738
Cash consideration to be paid	1,124
Total	368,862

16 BUSINESS COMBINATION (CONTINUED)

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

	HK\$'000
Property, plant and equipment	96,477
Long-term receivables	20,251
Accounts receivable, prepayments and deposits	262,611
Amounts due to related companies	(42,509)
Cash and bank balances	49,183
Inventories	10,507
Tax recoverable	45
Accounts payable, deposits received and accrued charges	(126,181)
Bank loans	(181,475)
Bank overdrafts	(75,028)
Taxation	(292)
Deferred taxation	76
Total identifiable net assets	13,665
Intangible assets	361,206
Non-controlling interests	(6,009)
Total	368,862

* As at 30 June 2015, verification of individual assets/liabilities of the acquired businesses/subsidiaries is in progress and the Group has not finalised the fair value assessments. The relevant fair value of individual assets/liabilities stated as above are provisional.

The intangible assets of HK\$361,206,000 arising from these acquisitions are attributable to the future profitability of the acquired businesses.

The acquired businesses contributed turnover of HK\$433,398,000 and net profit of HK\$6,848,000 to the Company's shareholders for the period from their respective acquisition dates up to 30 June 2015. If the acquisitions had occurred on 1 January 2015, the contributed turnover and profit attributable to the Company's shareholders for the period ended 30 June 2015 would have been HK\$445,223,000 and HK\$7,191,000 respectively.

17 COMMITMENTS

As at 30 June 2015, the Group had capital commitments in respect of property, plant and equipment and acquisition of a subsidiary not provided for in these financial statements as follows:

	As at 30 June 2015 HK\$'000	As at 31 December 2014 HK\$'000
Contracted but not provided for	384,355	693,246
Authorised but not contracted for	350,715	895,537
	735,070	1,588,783

18 PLEDGE OF ASSETS

As at 30 June 2015, the Group's total bank loans of HK\$5,067,462,000 (31 December 2014: HK\$4,255,543,000) included an aggregate amount of HK\$482,467,000 (31 December 2014: HK\$521,579,000) which are secured. The Group's total bank overdrafts of HK\$41,833,000 (31 December 2014: HK\$47,857,000) included an aggregate amount of HK\$28,226,000 (31 December 2014: HK\$13,592,000) which are secured. The securities provided for the secured banking facilities available to the Group are as follows:

- (i) legal charges over certain investment properties, leasehold land and land use rights, construction in progress and buildings and port facilities of the Group with an aggregate net book value of HK\$2,701,570,000 (31 December 2014: HK\$2,726,652,000); and
- (ii) assignments of insurance proceeds of certain properties of the Group.

19 CONTINGENT LIABILITIES

The Company has executed guarantees to banks for facilities granted to certain subsidiaries. The utilised amount of such facilities covered by the guarantees of the Company which also represented the financial exposure of the Company as at 30 June 2015 amounted to approximately HK\$2,111,485,000 (31 December 2014: HK\$1,711,159,000). The total amount of such facilities covered by the Company's guarantees as at 30 June 2015 amounted to approximately HK\$3,716,676,000 (31 December 2014: HK\$2,508,858,000).

5 MANAGEMENT DISCUSSION AND ANALYSIS

OVERALL RESULTS

The Group recorded an increase in turnover of 2% to HK\$10,135 million in 2015 1H (2014 1H: HK\$9,984 million). Core operating profit increased by 16% to HK\$925 million (2014 1H: HK\$796 million). Core net profit was HK\$542 million (2014 1H: HK\$490 million), which represents an increase of 11% year-on-year. Valuation gains on investment properties, net of deferred tax and non-controlling interests' share, amounted to HK\$159 million (2014 1H: HK\$144 million).

Segment turnover generated from IL in the period amounted to HK\$5,388 million (2014 1H: HK\$5,097 million), representing an increase of 6% from 2014 1H. The amount comprises HK\$426 million (2014 1H: HK\$385 million) contributed by Hong Kong Warehouse and HK\$4,962 million (2014 1H: HK\$4,712 million) by logistics operations. Segment profit for the period was HK\$807 million (2014 1H: HK\$704 million), of which HK\$242 million (2014 1H: HK\$218 million) was from Hong Kong Warehouse and HK\$565 million (2014 1H: HK\$486 million) from logistics operations. In terms of segment profit margin, Hong Kong Warehouse recorded an increase to 56.8% (2014 1H: 56.6%) and logistics operations reached 11.4% (2014 1H: 10.3%). The growth was mainly attributable to the expansion of the Group's IL business in Greater China and ASEAN countries.

IFF segment reported turnover of HK\$5,431 million (2014 1H: HK\$5,675 million) and profit of HK\$191 million (2014 1H: HK\$157 million) for 2015 1H. With the strengthening of IFF network and improvement in operation efficiency, the Group achieved an increase in IFF segment profit by 22% year-on-year despite the slight drop in turnover during the period. Segment profit margin reached 3.5% (2014 1H: 2.8%).

The following table reconciles core net profit to profit attributable to the Shareholders for the six months ended 30 June 2015:

	2015 1H HK\$ million	2014 1H HK\$ million
Core net profit	542	490
Valuation gains on investment properties, net of deferred tax	159	144
Profit attributable to the Shareholders	701	634

BUSINESS REVIEW

SETTING SIGHTS ON LONG-TERM GROWTH

The global economy continued to be plagued with volatilities in 2015 1H. The slowing economy in Mainland China and the instability in Europe, casted by the Greece debt crisis, have brought continued low consumption sentiments to two of the world's largest markets. In face of these challenges, Kerry Logistics focused on honing its core competence in delivering customised supply chain solutions to expanding industry clusters with growth potential, thereby achieving strengthened profitability and sustained double-digit growth in its core earnings. Despite the economic challenges, the Group was able to achieve steady growth in overall operating profits, while businesses in the Greater China region remained relatively stable, driven by strong performances in Hong Kong and Taiwan.

The Group has taken the opportunity, during this economic slowdown, to integrate its businesses, improve the operational efficiency of its lower return projects, and strengthen its core competence by further expanding into newly developed markets such as the pharmaceutical sector in Hong Kong and Taiwan, and the automotive sector in Hong Kong and Mainland China. These initiatives are driven towards making full preparations for sustained growth when the economy improves.

A DIVERSIFIED REGIONAL FACILITY PORTFOLIO

As at 30 June 2015, the Group managed a logistics facility portfolio of 43 million square feet, of which 23 million square feet were self-owned. Additionally, the Group operates with an asset ownership model which enables it to offer greater reliability and flexibility to customers.

The Group continued to enrich its logistics facility portfolio during the period. In Mainland China, two facilities in Chengdu and Xi'an are undergoing construction. Upon completion, these two facilities will add 870,000 square feet of logistics facilities to the Group's portfolio in Mainland China. In Shanghai, the Group purchased a land parcel in November 2014 for the development of a 1.1 million square feet logistics facility. It will be the largest facility of the Group in Mainland China upon completion.

In Thailand, Phase 1 of the Kerry Bangna Logistics Centre has been completed in 2015 Q2. It will serve as a new sorting centre for Kerry Express and a fulfilment centre for e-commerce customers. The Group added a new warehouse and a new Inland Container Depot in Kerry Siam Seaport, Thailand to strengthen its operations and thus its foothold in the country for ASEAN trade.

In Cambodia, the Group held a groundbreaking ceremony in July 2015 for the construction of a 160,000 square feet bonded warehouse at a Free Trade and Special Economic Zone located in Khan Dangkor, Phnom Penh.

Meanwhile, as part of the Group's long-term strategy to enhance the asset quality and productivity of its facility portfolio, the Group disposed one of its facilities, the Fuzhou Logistics Centre, in Fujian province of Mainland China in May 2015.

EXPANSION VIA INVESTMENTS AND ACQUISITIONS

GREATER CHINA

Riding on the national "Going Out" development strategy and the new growth opportunities brought forth by the "One Belt One Road" initiative, Kerry Logistics (China) Investment Limited, a subsidiary of the Group, signed a strategic cooperation agreement with China Railway Import and Export Company ("China Railway") in April 2015 in Beijing. The agreement will leverage China Railway's extensive railway network and experience in undertaking key domestic and international projects, and effectively integrate them with Kerry Logistics' strong network in Southeast Asia and its logistics service expertise.

ASEAN

In March 2015, the Group expanded its business in Indonesia by investing in PT Puninar Saranaraya, one of Indonesia's largest logistics companies. As an archipelago, Indonesia has a high demand for quality inter-island logistics services, which translates into immense growth opportunities. By enabling customers to optimise their supply chains with its integrated logistics services and highly customised solutions, the Group is well-positioned to capture opportunities in the rapidly growing Indonesian logistics market.

In addition, to ride on the success of Kerry Express in Thailand, the Group took further steps to build an ASEAN-wide regional express platform to tap into the increasing intra-ASEAN trade driven by free movement of goods under the AEC to be established in December 2015 and the growing e-commerce market arising from increasing manufacturing activities in Asia.

Following the acquisition of a local express company in Cambodia in 2015, Kerry Logistics targets to complete the expansion into Laos and Malaysia in 2015 2H as well as into the Philippines, Indonesia, Myanmar and Singapore in the near future. The proposed investment shall be financed by the Group's internal resources and/or bank borrowing.

MIDDLE EAST

Kerry Logistics strengthened its IFF capacity and network through acquiring a controlling stake in Able Logistics Group FZCO, an established international freight forwarder headquartered in Dubai with a leading position in the region and offices across UAE, Saudi Arabia, Oman and Greater China. The investment expands Kerry Logistics' capabilities in the Middle East and enables it to offer global connections through a round-the-clock transit hub linking Asia to the Middle East, Europe and Africa. It also strengthens the Group's service offerings to global customers with comprehensive IFF solutions in the Gulf Cooperation Council region and enhanced supply chain efficiency.

CANADA

Kerry Logistics extended its geographic reach via acquiring majority stakes in Total Logistics Partner (TLP) Ocean Consolidators Inc. and Total Logistics Partner (TLP) Air Express Inc. (collectively, "TLP"), two Canadian freight forwarding companies focused on Asia-Canada trade. The acquisition has added Montreal and Toronto to Kerry Logistics' worldwide network. With the addition of TLP, the Group now operates in four countries in the Americas, comprising US, Canada, Mexico and Brazil.

UNITED STATES

As part of its long-term IFF strategy, the Group further expanded its global network by signing a memorandum of understanding with a major NVOCC in the US, focusing on ocean freight from Asia to the US, to acquire a majority interest in the company. Specialising in trans-Pacific trade lanes, the company offers a full suite of services from ocean and air freight, customs brokerage, to logistics, warehousing and trucking services in the US. Further updates regarding the progress of this strategic alliance will be made available in 2015 2H.

HONG KONG WAREHOUSE

The Group's Hong Kong warehouse portfolio comprises nine warehouses with a combined GFA of 5.1 million square feet. It maintained nearly full occupancy and achieved double-digit growth in rentals for successful contract renewals during the period. The Group expects to see continuous stable growth from this business.

Unleashing the potential of its facility portfolio has been one of the key objectives of the Group's Hong Kong Warehouse. The Group has submitted an application to the Town Planning Board of Hong Kong during 2015 Q1 to convert one of its warehouse facilities in Chai Wan into a columbarium. The proposed investment, excluding any additional land premium to be paid to the government, is estimated to be around HK\$2 billion, which shall be financed by the Group's internal resources and/or bank borrowing. It is one of the Group's long-term initiatives to enhance efficiency and productivity, thereby unlocking the values of its assets and improving its return.

CONTRIBUTIONS FROM ASSOCIATES

Contributions from the Group's investments in two associates posted encouraging year-on-year growth in 2015 1H. The investments included mainly a 25% interest in Chiwan Container Terminal in Mainland China, and a 15% interest in the Asia Airfreight Terminal in Hong Kong.

OUTLOOK

The Group views current market conditions with considerable concern. The overall economic outlook in the near term is bleak, and likely to lead to flattish demand for products and logistics services globally. Mainland China's economic slowdown and Europe and Japan's weak economies have dampened regional growth in ASEAN. While the US is gradually recovering, its growth is uneven and not yet strong. Faced with these challenges, the Group adopts a cautious and disciplined strategy to future operation and investment.

Despite challenges in the near term, the Group maintains a positive outlook for the industry in the medium to long term. The share of investment in Mainland China's GDP will continue to be strong, driven by the 'One Belt One Road' policy. Within the country, infrastructure development has already reached a certain level. Significant investment in better connections with Mainland China's neighbours will give a strong boost to the economy. The new Silk Road, both overland and maritime, will need trillions of dollars' worth of investment. We see Mainland China continuing to deepen its capital market. The clear trend towards liberalisation of the RMB will lead to better use of capital and be good for economic development. The logistics industry in the mainland will become more sophisticated, playing to Kerry Logistics' strengths of providing highly customised solutions tailored to industries with growth potential.

The connectivity between ASEAN and Greater China has been improving dramatically and the growth of the two regions will increasingly be tied with one another. Kerry Logistics sees ASEAN as its next strategic area of growth and will benefit directly from being a local player in both regions.

Internationally, Kerry Logistics has set its sights on delivering long-term sustainable growth, both by organic growth and through selective mergers and acquisitions. Despite the current slowdown, the Group sees South Asia, Middle East and Latin America as sources of growth driven by a Chinese economy that will continue to expand. The US and Japan remain very important because of the size of their economies. The Group will continue to work towards its strategic objective of strengthening trans-Pacific coverage. Despite continued weakness in Europe, Kerry Logistics will continue to expand into niche markets, especially in the fashion business, and rationalise overall European operations.

Kerry Logistics will move deeper into the e-commerce by joining hands with strategic partners across sectors. E-commerce is disintermediating traditional distribution channels in a dramatic way. Taking advantage of our core strengths, we are increasing the scope and scale of integrated cross-border e-commerce logistics solutions for strategic partners. We expect this to become an important growth driver in the coming years.

FINANCIAL REVIEW

On 19 December 2013, the Company was listed on the Stock Exchange. The net proceeds from the Global Offering, including the over-allotment option exercised subsequently, was approximately HK\$2,378 million, after deducting underwriting fees and relevant listing expenses. The net proceeds were fully utilised as of 30 June 2015 based on the original planned allocation.

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

Most of the Group's assets and liabilities are denominated in different functional currencies of overseas subsidiaries in their respective countries. The Group generally does not enter into foreign exchange hedges in respect of its long-term equity investments

in overseas subsidiaries and associates. In respect of the recent devaluation of Renminbi, the net exposure in terms of its potential impact on both profitability and financial position of the Group is considered not material. For the foreign currency exposure arising from business activities, certain subsidiaries used forward contracts to hedge their foreign exchange exposure from trading transactions during the period, the amount of which was insignificant to the Group. The Group will continue to closely monitor its foreign exchange position and if necessary, hedge its foreign exchange exposure by entering into appropriate hedging instruments. As at 30 June 2015, total foreign currency borrowings amounted to the equivalence of HK\$1,993 million (including HK\$1,372 million denominated in New Taiwan Dollar and HK\$270 million denominated in Thai Baht), which represented approximately 39% of the Group's total bank loans of HK\$5,067 million.

Out of the Group's total bank loans as at 30 June 2015, HK\$1,237 million (representing approximately 24%) was repayable within one year, HK\$1,960 million (representing approximately 39%) in the second year, HK\$1,836 million (representing approximately 36%) in the third to fifth years and HK\$34 million (representing approximately 1%) over five years. The Group maintains most of its bank loans on an unsecured basis, with unsecured debt accounted for approximately 90% of total bank loans. In relation to the secured bank loans of HK\$482 million as at 30 June 2015, the securities provided include legal charges over certain non-current assets with aggregate net book value of HK\$2,702 million and assignments of insurance proceeds of certain properties. A majority of the bank loans were borrowed at floating interest rates and were not held for hedging purposes.

As at 30 June 2015, the gearing ratio for the Group was 33.9% (31 December 2014: 29.3%). The ratio was calculated as total bank loans and overdrafts, divided by equity attributable to the Shareholders.

As at 30 June 2015, the Group had total undrawn bank loan and overdraft facilities of HK\$4,109 million. The Group will continue to secure financing as and when the need arises.

STAFF AND REMUNERATION POLICIES

As at 30 June 2015, the Group had approximately 20,800 employees. The remuneration to employees includes salaries maintained at competitive levels while bonuses are granted on a discretionary basis. The Group provides training to its staff to enhance technical and product knowledge. The Group's remuneration policies are formulated based on the performance of individual employees and are reviewed by both the remuneration committee of the Company and independent remuneration consultants. Other employee benefits include provident fund, insurance, medical, sponsorship for educational or training programmes, share option schemes and RSU scheme.

6 CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2015, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares or debentures of the Company or any of the associated corporations of the Company (within the meaning of Part XV of the SFO), which were required (a) to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (b) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (c) to be notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

SHARES AND UNDERLYING SHARES OF THE COMPANY AND ASSOCIATED CORPORATIONS

(I) THE COMPANY

Directors	Ordinary Shares in the Company					Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests			
YEO George Yong-boon ⁽¹⁾	3,000,000	5,000	–	–	3,005,000	0.18%	
MA Wing Kai William ⁽²⁾	4,291,510	–	–	675,000	4,966,510	0.29%	
ERNI Edwardo ⁽³⁾	2,500,500	8,000	–	–	2,508,500	0.15%	
KUOK Khoon Hua ⁽⁴⁾	1,101,000	–	–	4,485,155	5,586,155	0.33%	
QIAN Shaohua ⁽⁵⁾	200,000	–	–	675,000	875,000	0.05%	
WONG Yu Pok Marina ⁽⁶⁾	200,000	–	–	–	200,000	0.01%	
WAN Kam To ⁽⁷⁾	200,000	–	–	–	200,000	0.01%	
YEO Philip Liat Kok ⁽⁸⁾	200,000	–	–	–	200,000	0.01%	

Notes:

- (1) Mr Yeo is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (ii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; and (iii) 5,000 Ordinary Shares held by his spouse.
- (2) Mr Ma is interested in (i) 291,510 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 3,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 1,000,000 Ordinary Shares; and (iv) 675,000 Ordinary Shares held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (3) Mr Erni is interested in (i) 500 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 2,000,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 500,000 Ordinary Shares; and (iv) 8,000 Ordinary Shares held by his spouse.
- (4) Mr Kuok is interested in (i) 101,000 Ordinary Shares as beneficial owner; (ii) options granted under the Pre-IPO Share Option Scheme to subscribe for 800,000 Ordinary Shares; (iii) options granted under the Post-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (iv) 4,485,155 Ordinary Shares held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Qian is interested in (i) options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares; and (ii) 675,000 Ordinary Shares held through a discretionary trust of which Mr Qian is a contingent beneficiary.
- (6) Ms Wong is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (7) Mr Wan is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.
- (8) Mr Philip Yeo is interested in the options granted under the Pre-IPO Share Option Scheme to subscribe for 200,000 Ordinary Shares.

(II) ASSOCIATED CORPORATIONS

Kerry Group Limited⁽¹⁾

Directors	Ordinary shares in KGL					Total interests	Approximate percentage of issued share capital
	Personal interests (held as beneficial owner)	Family interests (interests of spouse and child under 18)	Corporate interests (interests of controlled corporations)	Other interests			
MA Wing Kai William ⁽²⁾	1,810,620	–	–	–	–	1,810,620	0.12%
ERNI Edwardo ⁽³⁾	650,000	–	–	–	–	650,000	0.04%
KUOK Khoon Hua ⁽⁴⁾	2,000,000	–	–	180,284,982	–	182,284,982	11.96%
QIAN Shaohua ⁽⁵⁾	1,500,000	–	500,000	–	–	2,000,000	0.13%

Notes:

- (1) All interests in ordinary shares in KGL were as at 30 June 2015.
- (2) Mr Ma is interested in (i) 1,310,620 ordinary shares in KGL as beneficial owner; and (ii) options granted under the share option scheme of KGL to subscribe for 500,000 ordinary shares in KGL.
- (3) Mr Erni is interested in (i) 350,000 ordinary shares in KGL as beneficial owner; and (ii) options granted under the share option scheme of KGL to subscribe for 300,000 ordinary shares in KGL.
- (4) Mr Kuok is interested in (i) 5,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,995,000 ordinary shares in KGL; and (iii) 180,284,982 ordinary shares in KGL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (5) Mr Qian is interested in (i) 500,000 ordinary shares in KGL as beneficial owner; (ii) options granted under the share option scheme of KGL to subscribe for 1,000,000 ordinary shares in KGL; and (iii) 500,000 ordinary shares in KGL held through his controlled corporation.

Kerry Properties Limited⁽¹⁾

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

Notes:

- (1) All interests in ordinary shares in KPL were as at 30 June 2015.
- (2) Mr Yeo is interested in 10,000 ordinary shares in KPL held by his spouse.
- (3) Mr Ma is interested in (i) 401,020 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 1,300,000 ordinary shares in KPL; and (iii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Ma is a contingent beneficiary.
- (4) Mr Erni is interested in (i) options granted under the share option scheme of KPL to subscribe for 630,000 ordinary shares in KPL; and (ii) 16,000 ordinary shares in KPL held by his spouse.
- (5) Mr Kuok is interested in (i) 59,000 ordinary shares in KPL as beneficial owner; (ii) options granted under the share option scheme of KPL to subscribe for 300,000 ordinary shares in KPL; and (iii) 7,670,310 ordinary shares in KPL held through discretionary trusts of which Mr Kuok is a contingent beneficiary.
- (6) Mr Qian is interested in (i) options granted under the share option scheme of KPL to subscribe for 3,300,000 ordinary shares in KPL; and (ii) 50,000 ordinary shares in KPL held through a discretionary trust of which Mr Qian is a contingent beneficiary.

SCMP Group Limited⁽¹⁾

Ordinary shares in SCMP

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

Notes:

(1) All interests in ordinary shares in SCMP were as at 30 June 2015.

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

Vencedor Investments Limited⁽¹⁾

Ordinary shares in Vencedor

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

Notes:

(1) All interests in ordinary shares in Vencedor were as at 30 June 2015.

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

Medallion Corporate Limited⁽¹⁾

Ordinary shares in Medallion

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

Notes:

(1) All interests in ordinary shares in Medallion were as at 30 June 2015.

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

INTEREST IN DEBENTURES OF ASSOCIATED CORPORATION

Wiseyear Holdings Limited⁽¹⁾

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

Notes:

(1) All interests in amount of debentures of Wiseyear were as at 30 June 2015.

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

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

Save as disclosed above, none of the Directors or the chief executive of the Company has or is deemed to have any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations as at 30 June 2015.

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

As at 30 June 2015, the following are the persons, other than the Directors or the chief executive of the Company, who had interests or short positions in the Shares and underlying Shares as recorded in the register of interests required to be kept by the Company pursuant to Section 336 of Part XV of the SFO:

Name	Capacity/nature of interest	Number of Ordinary Shares	Approximate percentage of shareholding in the total issued share capital
Kerry Group Limited	Interest of controlled corporations	1,121,178,932 ⁽¹⁾	66.19%
Kerry Holdings Limited	Interest of controlled corporations	1,090,758,684 ⁽¹⁾	64.39%
Kerry Properties Limited	Beneficial owner	718,340,998 ⁽¹⁾	42.41%
Caninco Investments Limited	Beneficial owner	156,124,097 ⁽¹⁾	9.22%
Darmex Holdings Limited	Beneficial owner	128,449,630 ⁽¹⁾	7.58%
GIC Private Limited	Investment manager	102,189,240	6.03%

Note:

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

Save as disclosed above, as at 30 June 2015, the Company is not aware of any other person (other than the Directors or the chief executive of the Company) who had an interest or short position in the Shares or underlying Shares as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO.

PRE-IPO SHARE OPTION SCHEME

The Company has adopted the Pre-IPO Share Option Scheme by a resolution of its Shareholder on 25 November 2013 and an ordinary resolution of the shareholders of KPL on 1 November 2013. No further options will be granted under the Pre-IPO Share Option Scheme.

On 2 December 2013, pursuant to the Pre-IPO Share Option Scheme, the Company had granted options to subscribe for 42,770,000 Shares to directors, executives and employees of the Group, representing 2.58% of the issued share capital as at 19 December 2013.

As at 30 June 2015, a total of 37,794,000 options granted under the Pre-IPO Share Option Scheme were outstanding.

Movement of the options, which were granted under the Pre-IPO Share Option Scheme, during the six months ended 30 June 2015 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note c)	Tranche	Number of options			Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2015	Exercised (Notes a and b)	Outstanding as at 30/06/2015		
1. Directors							
YEO George Yong-boon	02/12/2013	I	1,000,000	–	1,000,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	–	1,000,000	10.20	02/12/2014 – 01/12/2023
MA Wing Kai William	02/12/2013	I	1,500,000	–	1,500,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,500,000	–	1,500,000	10.20	02/12/2014 – 01/12/2023
ERNI Edwardo	02/12/2013	I	1,000,000	–	1,000,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	1,000,000	–	1,000,000	10.20	02/12/2014 – 01/12/2023
KUOK Khoon Hua	02/12/2013	I	400,000	–	400,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	400,000	–	400,000	10.20	02/12/2014 – 01/12/2023
QIAN Shaohua	02/12/2013	I	100,000	–	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	–	100,000	10.20	02/12/2014 – 01/12/2023
WONG Yu Pok Marina	02/12/2013	I	100,000	–	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	–	100,000	10.20	02/12/2014 – 01/12/2023
WAN Kam To	02/12/2013	I	100,000	–	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	–	100,000	10.20	02/12/2014 – 01/12/2023
YEO Philip Liat Kok	02/12/2013	I	100,000	–	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	–	100,000	10.20	02/12/2014 – 01/12/2023
2. Continuous Contract Employees	02/12/2013	I	15,584,500	(1,475,500)	14,109,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	15,990,000	(1,105,000)	14,885,000	10.20	02/12/2014 – 01/12/2023
3. Others	02/12/2013	I	100,000	–	100,000	10.20	19/12/2013 – 01/12/2023
	02/12/2013	II	100,000	–	100,000	10.20	02/12/2014 – 01/12/2023
Total:			40,374,500	(2,580,500)	37,794,000		

Notes:

- The weighted average closing price of the Ordinary Shares of the Company immediately before the dates on which the options were exercised was HK\$12.20.
- During the period, no option was granted/granted for adjustment, transferred from/to other category, cancelled or lapsed under the Pre-IPO Share Option Scheme.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.

POST-IPO SHARE OPTION SCHEME

The Company has approved and adopted the Post-IPO Share Option Scheme by a resolution of its Shareholder on 25 November 2013 and an ordinary resolution of the shareholders of KPL on 1 November 2013. The Post-IPO Share Option Scheme is subject to the requirements under Chapter 17 of the Listing Rules.

On 9 January 2015, a total of 4,350,000 options were granted under the Post-IPO Share Option Scheme.

As at 30 June 2015, a total of 4,150,000 options granted under the Post-IPO Share Option Scheme were outstanding.

Movement of the options, which were granted under the Post-IPO Share Option Scheme, during the six months ended 30 June 2015 are listed below in accordance with Rule 17.07 of the Listing Rules:

Category	Date of grant (Note c)	Tranche	Number of options				Outstanding as at 30/06/2015	Exercise price HK\$	Exercise period
			Outstanding as at 01/01/2015	Granted during the period	Exercised (Notes a and b)	Lapsed			
1. Directors									
YEO George Yong-boon	09/01/2015	I	-	500,000	-	-	500,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	-	500,000	-	-	500,000	12.26	09/01/2016 – 08/01/2020
MA Wing Kai William	09/01/2015	I	-	500,000	-	-	500,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	-	500,000	-	-	500,000	12.26	09/01/2016 – 08/01/2020
ERNI Edwardo	09/01/2015	I	-	250,000	-	-	250,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	-	250,000	-	-	250,000	12.26	09/01/2016 – 08/01/2020
KUOK Khoon Hua	09/01/2015	I	-	100,000	-	-	100,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	-	100,000	-	-	100,000	12.26	09/01/2016 – 08/01/2020
2. Continuous Contract Employees	09/01/2015	I	-	825,000	(100,000)	-	725,000	12.26	09/01/2015 – 08/01/2020
	09/01/2015	II	-	825,000	-	(100,000)	725,000	12.26	09/01/2016 – 08/01/2020
Total:			-	4,350,000	(100,000)	(100,000)	4,150,000		

Notes:

- The weighted average closing price of the Ordinary Shares of the Company immediately before the dates on which the options were exercised was HK\$12.34.
- During the period, no option was granted for adjustment, transferred from/to other category or cancelled under the Post-IPO Share Option Scheme.
- The vesting period of the options is from the date of grant until the commencement of the exercise period.

SUMMARY OF THE SHARE OPTION SCHEMES

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
1. Purpose	To motivate eligible persons to optimise their future contributions to the Group and/or to reward them for their past contributions, to attract and retain or otherwise maintain ongoing relationships with participants who are significant to and/or whose contributions are or will be beneficial to the performance, growth or success of the Group	
2. Participants	Eligible persons include (i) any executive director of, manager of, or other employee holding an executive, managerial, supervisory or similar position in, any member of the Group (an "Employee"), any proposed Employee, any full-time or part-time Employee, or a person for the time being seconded to work full-time or part-time for any member of the Group; (ii) a director or proposed director (including an independent non-executive director) of any member of the Group; (iii) a consultant, business or joint venture partner, franchisee, contractor, agent or representative of any member of the Group; (iv) a person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group; (v) an associate (as defined under the Listing Rules) of any of the foregoing persons	
3. Maximum number of Shares	As at 30 June 2015, a total of 37,794,000 options were outstanding, representing approximately 2.23% of the issued share capital of the Company as at 30 June 2015. No further options could be granted under the Pre-IPO Share Option Scheme	As at 30 June 2015, the maximum number of Shares in respect of which options may be granted under the Post-IPO Share Option Scheme is 122,966,411 Shares, representing approximately 7.26% and 7.26% of the issued share capital of the Company as at 30 June 2015 and the date of this interim report, respectively. 4,350,000 options have been granted under the Post-IPO Share Option Scheme on 9 January 2015 The maximum number of the Shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Post-IPO Share Option Scheme and any other scheme of the Company must not in aggregate exceed 30% of the total number of Shares in issue from time to time

Details	Pre-IPO Share Option Scheme	Post-IPO Share Option Scheme
4. Maximum entitlement of each participant	1% of the issued share capital of the Company from time to time within any 12-month period up to the date of the latest grant	
5. Option period	The option period is determined by the Board provided that it is not longer than 10 years commencing on the date of grant. There is no minimum period for which an option must be held before it can be exercised	
	The Board may in its absolute discretion specify any conditions, restrictions or limitations, including continuing eligibility criteria, conditions, restrictions or limitations relating to the achievement of performance, operating or financial targets by the Company and/or the grantee, the satisfactory performance or maintenance by the grantee of certain conditions or obligations or the time or period when the right to exercise the option in respect of all or some of the Shares to which the option relates	
6. Acceptance of offer	Options granted must be accepted within the period as stated in the offer of the grant, upon payment of HK\$1.0 per grant	
7. Exercise price	Exercise price is HK\$10.2, the offer price of the Shares for the IPO	Exercise price shall be at least the highest of (i) the nominal value of Share; (ii) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of the grant; and (iii) the average closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange for the five trading days immediately preceding the date of the grant
8. Remaining life of the scheme	It expired on 19 December 2013	It shall be valid and effective for a period of ten years commencing on 19 December 2013

RSU SCHEME

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

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

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

As at 30 June 2015, a total of 339,000 RSUs remained unexercised under the RSU Scheme.

Movement of the RSUs under the RSU Scheme during the six months ended 30 June 2015 are listed below:

Date of grant	Number of RSUs			Outstanding as at 30/06/2015	Exercise period
	Outstanding as at 01/01/2015	Exercised	Cancelled		
24/12/2013	406,000	(65,000)	(2,000)	339,000	24/12/2013 – 18/12/2016

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

COMPLIANCE WITH THE CG CODE

The Company has applied the principles and code provisions as set out in the CG Code. During the six months ended 30 June 2015, the Company has complied with the code provisions as set out in the CG Code.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code. Specific enquiries have been made to all the Directors and the Directors have confirmed that they have complied with the Model Code during the six months ended 30 June 2015.

The Company’s employees, who are likely to be in possession of inside information of the Company, are also subject to the Model Code for securities transactions. No incident of non-compliance with the Model Code by the employees was noted by the Company.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2015.

REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

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

EVENTS AFTER THE LATEST ANNUAL REPORT

There were no significant events affecting the Company nor any of its subsidiaries after the latest annual report requiring disclosure in this interim report.

CHANGES IN THE INFORMATION OF THE DIRECTORS SINCE LAST ANNUAL REPORT

The changes in the information of the Directors as required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules are set out below:

Directors	Details of Changes
YEO George Yong-boon	<ul style="list-style-type: none">became Chancellor of Nalanda University in July 2015
MA Wing Kai William	<ul style="list-style-type: none">appointed as a member of the Aviation Development and Three-runway System Advisory Committee of the Hong Kong Government for a period of two years with effect from August 2015
ERNI Edwardo	<ul style="list-style-type: none">completed a joint Tsinghua and University of North Carolina E-commerce & Informatization on the Logistic Industry Programme in 2015
KUOK Khoon Hua	<ul style="list-style-type: none">appointed as a non-executive director of KPL from June 2015
WONG Yu Pok Marina	<ul style="list-style-type: none">appointed as the chairman of the audit and corporate governance committee and the remuneration committee of KPL from May 2015

CLOSURE OF REGISTERS OF MEMBERS

The Registers of Members will be closed on Thursday, 10 September 2015 in order to determine the entitlement of the Shareholders to the interim dividend. All share transfers accompanied by the relevant share certificates and transfer forms must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Investor Services Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:30 p.m. on Wednesday, 9 September 2015. The interim dividend is payable on Wednesday, 23 September 2015 to the Shareholders whose names appear on the Registers of Members on Thursday, 10 September 2015.

By Order of the Board
YEO George Yong-boon
Chairman

Hong Kong, 25 August 2015

7 DEFINITIONS

“1H” or “2H”	first half or second half
“AEC”	the ASEAN Economic Community
“ASEAN”	the Association of Southeast Asian Nations
“Board”	the board of Directors
“Caninco”	Caninco Investments Limited, a wholly-owned subsidiary of KHL
“CAPEX”	capital expenditure
“CG Code”	the Corporate Governance Code contained in Appendix 14 to the Listing Rules
“Company”	Kerry Logistics Network Limited, incorporated in the British Virgin Islands and continued into Bermuda to become an exempted company with limited liability, the Shares of which are listed on the Main Board of the Stock Exchange
“Controlling Shareholder(s)”	shall have the meaning ascribed to it under the Listing Rules
“Darmex”	Darmex Holdings Limited, a wholly-owned subsidiary of KHL
“Directors”	directors of the Company
“GDP”	gross domestic product
“GFA”	gross floor area
“Global Offering”	the initial public offering of the Shares whereby the Shares were listed on the Main Board of the Stock Exchange on 19 December 2013
“Greater China”	Mainland China, Hong Kong, Macau and Taiwan
“Group” or “Kerry Logistics”	the Company and its subsidiaries
“HK\$”	Hong Kong dollars, the lawful currency of Hong Kong
“HKAS”	Hong Kong Accounting Standards

“HKFRS”	Hong Kong Financial Reporting Standards
“HKICPA”	Hong Kong Institute of Certified Public Accountants
“Hong Kong”	Hong Kong Special Administrative Region of Mainland China
“Hong Kong Warehouse”	Hong Kong warehousing business
“IFF”	international freight forwarding
“IL”	integrated logistics
“KGL”	Kerry Group Limited, one of the Controlling Shareholders
“KHL”	Kerry Holdings Limited, a wholly-owned subsidiary of KGL
“KPL”	Kerry Properties Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 683), and is one of the Controlling Shareholders
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange, as amended from time to time
“Macau”	Macao Special Administrative Region of Mainland China
“Mainland China” or “PRC”	The People’s Republic of China and, for the purpose of this interim report only, excludes Hong Kong, Macau and Taiwan
“Medallion”	Medallion Corporate Limited, a subsidiary of KHL
“Model Code”	the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules
“NVOCC”	non-vessel operating common carrier
“Ordinary Share(s)” or “Share(s)”	share(s) of nominal value of HK\$0.50 each of the Company, or, if there has been a subdivision, consolidation, reclassification or reconstruction of the share capital of the Company, shares forming part of the ordinary share capital of the Company
“Post-IPO Share Option Scheme”	post-IPO share option scheme of the Company

“PPE”	property, plant and equipment
“Pre-IPO Share Option Scheme”	pre-IPO share option scheme of the Company
“Prospectus”	prospectus of the Company dated 6 December 2013
“Q1” or “Q2”	first quarter or second quarter
“Registers of Members”	registers of members of the Company
“Renminbi” or “RMB”	Renminbi, the lawful currency of Mainland China
“RSU(s)”	restricted share unit(s)
“RSU Scheme”	restricted share unit scheme of the Company
“SCMP”	SCMP Group Limited, incorporated under the laws of Bermuda as an exempted company with limited liability, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 583)
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Shareholders”	the holders of the Shares
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“UAE”	United Arab Emirates
“United States” or “US”	the United States of America, its territories and possessions, any State of the United States, and the District of Columbia
“Vencedor”	Vencedor Investments Limited, a subsidiary of KHL
“Wiseyear”	Wiseyear Holdings Limited, a wholly-owned subsidiary of KPL

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